

REGISTRATION STATEMENT NO. 333-41449

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1 TO FORM S-11
REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933
OF SECURITIES OF CERTAIN REAL ESTATE COMPANIES

BOSTON PROPERTIES, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS GOVERNING INSTRUMENTS)

8 ARLINGTON STREET
BOSTON, MASSACHUSETTS 02116
(617) 859-2600
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

MORTIMER B. ZUCKERMAN, CHAIRMAN
EDWARD H. LINDE, PRESIDENT AND CHIEF EXECUTIVE OFFICER
BOSTON PROPERTIES, INC.
8 ARLINGTON STREET
BOSTON, MASSACHUSETTS 02116
(617) 859-2600
(NAME AND ADDRESS OF AGENT FOR SERVICE)

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APPROXIMATE DATE OF COMMENCEMENT OF THE PROPOSED SALE OF THE SECURITIES TO
THE PUBLIC: As soon as practicable after this Registration Statement becomes
effective.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR
DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT
SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS
REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH
SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT
SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID
SECTION 8(A), MAY DETERMINE.

EXPLANATORY NOTE

This Registration Statement contains a Prospectus relating to a public offering in the United States and Canada (the "U.S. Offering") of an aggregate of 11,200,000 shares of common stock (the "Common Stock") of Boston Properties, Inc., a Delaware corporation, together with separate Prospectus pages relating to a concurrent offering outside the United States and Canada of an aggregate of 2,800,000 shares of Common Stock (the "International Offering"). The complete Prospectus for the U.S. Offering follows immediately. After such Prospectus are the following alternate pages for the International Offering: a front cover page; an "Underwriting" section; and a back cover page. All other pages of the Prospectus for the U.S. Offering are to be used for both the U.S. Offering and the International Offering.

+-----+
 +INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A +
 +REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE +
 +SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY +
 +OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT +
 +BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL NOR +
 +THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE +
 +SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE +
 +UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF +
 +ANY SUCH STATE. +
 +-----+

SUBJECT TO COMPLETION, DATED DECEMBER 16, 1997

PROSPECTUS

14,000,000 SHARES
 BOSTON PROPERTIES, INC.

LOGO

COMMON STOCK

Boston Properties, Inc. is one of the largest owners and developers of office properties in the United States, with a significant presence in Greater Boston, Greater Washington, D.C., midtown Manhattan and Baltimore, Maryland. Since the Company's initial public offering in June 1997 (the "Initial Offering"), the Company has acquired three office properties; entered into contracts to acquire ten office properties expected to close in January and February 1998; and is currently developing six properties, consisting of five office properties and one 221 room hotel. The aggregate anticipated investment since the Initial Offering for these acquisitions and developments is approximately \$1.2 billion. The Company owns 92 properties (including the six properties under development and the ten office properties under contract) aggregating approximately 18.1 million square feet. In addition, the Company owns, has under contract or has options to acquire twelve parcels of land that will support approximately 1.5 million square feet of development.

The Company was formed to succeed to the real estate development, redevelopment, acquisition, management, operating and leasing businesses associated with the predecessor company founded by Mortimer B. Zuckerman and Edward H. Linde in 1970. Upon completion of this Offering the Company's management and Board of Directors will own a 24.1% economic interest in the Company, equal to approximately \$570.5 million as of December 1, 1997. The Company is a fully integrated, self-administered and self-managed real estate company and expects to qualify as a real estate investment trust ("REIT") for federal income tax purposes for the year ending December 31, 1997.

All of the shares of the Common Stock offered hereby are being sold by the Company. Of the 14,000,000 shares of Common Stock being offered hereby, 11,200,000 shares are being offered initially in the United States and Canada by the U.S. Underwriters and 2,800,000 shares are being offered initially outside the United States and Canada by the International Managers. See "Underwriting."

The Common Stock is listed on the New York Stock Exchange (the "NYSE") under the symbol "BXP." On December 1, 1997, the reported last sale price of the Common Stock on the NYSE was \$33.25 per share.

SEE "RISK FACTORS" BEGINNING ON PAGE 12 FOR CERTAIN FACTORS RELEVANT TO AN INVESTMENT IN THE COMMON STOCK, INCLUDING:

- . The Company intends to acquire portfolios and individual properties; such acquisitions may not achieve intended returns;
- . The Company intends to develop commercial properties and its return on such investments can be lower than anticipated because properties can cost more to develop, take longer to develop or lease, or lease for lower rent than anticipated;
- . Conflicts of interest exist between the Company and Messrs. Zuckerman and Linde in connection with the Company's operations, including with respect to certain restrictions on the Company's ability to sell or transfer four properties until June 23, 2007 without the consent of Messrs. Zuckerman and Linde; five other properties are subject to similar restrictions for the benefit of others;
- . The Company relies on key personnel whose continued service is not guaranteed, including Messrs. Zuckerman and Linde;
- . Real estate investment and property management are risky as rents can fluctuate and operating costs can increase; and
- . The Company may not be able to refinance indebtedness on favorable terms, and interest rates might increase on amounts drawn under the Company's line of credit.

 THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

PRICE TO UNDERWRITING PROCEEDS TO
 PUBLIC DISCOUNT(1) COMPANY(2)

 Per Share..... \$ \$ \$

Total(3)..... \$ \$ \$

- (1) The Company has agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended. See "Underwriting."
- (2) Before deducting estimated expenses of \$ payable by the Company.
- (3) The Company has granted the U.S. Underwriters a 30-day option to purchase up to an additional 1,680,000 shares of Common Stock, and has granted the International Managers a 30-day option to purchase up to an additional 420,000 shares of Common Stock, on the same terms and conditions as set forth above solely to cover overallotments, if any. If such options are exercised in full, the total Price to Public, Underwriting Discount and Proceeds to Company will be \$, \$ and \$, respectively. See "Underwriting."

The shares of Common Stock are offered by the several Underwriters, subject to prior sale, when, as and if issued and accepted by them, subject to approval of certain legal matters by counsel for the Underwriters. The Underwriters reserve the right to withdraw, cancel or modify such offer and to reject orders in whole or in part. It is expected that delivery of the shares will be made in New York, New York on or about , 1998.

Joint Lead Managers and Joint Bookrunners

GOLDMAN, SACHS & CO. MERRILL LYNCH & CO.

BEAR, STEARNS & CO. INC.
MORGAN STANLEY DEAN WITTER
PAINWEBBER INCORPORATED
PRUDENTIAL SECURITIES INCORPORATED
SALOMON SMITH BARNEY
CHASE SECURITIES INC.

The date of this Prospectus is , 1998.

[ART WORK]

[MAP(S) SHOWING LOCATION OF THE COMPANY'S PROPERTIES]

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE COMMON STOCK. SUCH TRANSACTIONS MAY INCLUDE STABILIZING THE PURCHASE OF COMMON STOCK TO COVER SYNDICATE SHORT POSITIONS AND THE IMPOSITION OF PENALTY BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING."

[ART WORK]

Properties Acquired or Developed Since the Company's Initial Public Offering

[Picture of 280 Park Avenue, New York, NY]

[Picture of 875 Third Avenue, New York, New York]

[Picture of 100 East Pratt Street, Baltimore, Maryland]

[Picture of Riverfront Plaza, Richmond, Virginia]

[Picture of Sugarland Building Two, Herndon, Virginia]

Not illustrated: Sugarland Building One, Herndon, Virginia
7700 Boston Boulevard, Building Twelve, Springfield Virginia,
7501 Boston Boulevard, Building Seven, Springfield, Virginia

For a summary of property, property type, operating and ownership data regarding the Properties see the "Summary Property Data" table contained herein.

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PROSPECTUS SUMMARY

This summary is qualified in its entirety by the more detailed information included elsewhere in this Prospectus. Boston Properties Limited Partnership, a Delaware limited partnership of which Boston Properties, Inc. is the sole general partner, is referred to as the "Operating Partnership." Unless otherwise indicated, the information contained in this Prospectus assumes that (i) the Underwriters' overallotment option is not exercised, (ii) that the market price per share of Common Stock is equal to \$33.25 (the reported closing sale price of the Common Stock on the NYSE on December 1, 1997), and (iii) none of the units of limited partnership of the Operating Partnership ("OP Units"), which are redeemable for cash or, at the election of the Company, exchangeable for Common Stock, are so redeemed or exchanged. All references in this Prospectus to the "Company" refer to Boston Properties, Inc. and its subsidiaries, including the Operating Partnership, collectively, unless the context otherwise requires. The Company's initial public offering of Common Stock (the "Initial Offering") closed on June 23, 1997. All references in this Prospectus to the historical activities of the Company prior to the Initial Offering refer to the activities of the Boston Properties Predecessor Group. See "Glossary" for the definitions of certain terms used in this Prospectus.

THE COMPANY

GENERAL

Boston Properties, Inc. is one of the largest owners and developers of office properties in the United States, with a significant presence in six submarkets in Greater Boston, five submarkets in Greater Washington, D.C., two submarkets in midtown Manhattan, and the downtown submarket of Baltimore, Maryland. The Company owns 92 properties ("Properties"), including six properties under development and ten properties expected to be acquired in January and February 1998. The Properties aggregate approximately 18.1 million square feet.

Since the Company's initial public offering in June 1997 (the "Initial Offering"), the Company has acquired three office properties; entered into contracts to acquire ten office properties expected to close in January and February 1998; and is currently developing six properties, consisting of five office properties aggregating approximately 1.0 million net rentable square feet and one 221 room hotel. The total anticipated investment for the 13 properties acquired or to be acquired is approximately \$1.13 billion and the total anticipated investment for the six development properties is approximately \$101.1 million (of which \$3.9 million was incurred prior to the Initial Offering). In addition, the Company has delivered five office properties that were under development at the time of the Initial Offering, for a total anticipated investment of approximately \$50.8 million (of which \$28.8 million was incurred prior to the Initial Offering). The Company will use a portion of the proceeds of this Offering to purchase the ten office properties (the "Acquisition Properties") that are currently under contract and expected to close in January and February 1998, which properties are located in Richmond, Virginia, Montgomery County, Maryland and Fairfax County, Virginia and aggregate approximately 2.2 million net rentable square feet; fund ongoing development, including with respect to six properties currently under development (the "Development Properties"); and repay outstanding balances under the Company's unsecured line of credit. As of December 1, 1997 the Company had \$233.0 million outstanding under its unsecured line of credit, which amounts had been incurred primarily to support the Company's acquisition and development activity.

The Company was formed to succeed to the real estate development, redevelopment, acquisition, management, operating and leasing businesses associated with the predecessor company founded by Mortimer B. Zuckerman and Edward H. Linde in 1970. The Company expects to qualify as a REIT for federal income tax purposes for the year ending December 31, 1997. Following the Offering, Messrs. Zuckerman and Linde will beneficially own in the aggregate a 22.4% economic interest in the Company and the other senior officers of the Company will beneficially own in the aggregate a 1.7% economic interest in the Company (in each case assuming the exchange of all OP Units for Common Stock).

The Company's portfolio consists of 92 Properties, including the ten Acquisition Properties expected to be acquired in January and February 1998 and the six Development Properties. The Properties consist of 79 office properties ("Office Properties"), including 48 Class A office buildings ("Class A Office Buildings") and 31 properties that support both office and technical uses ("R&D Properties"); nine industrial properties ("Industrial Properties"); three hotels ("Hotel Properties"); and one parking garage (the "Garage Property"). Five of the Office Properties are Development Properties and are referred to as the "Office Development Properties." One Hotel Property is a Development Property and is referred to as the "Hotel Development Property." The Company considers Class A office buildings to be centrally located buildings that are professionally managed and maintained, attract high-quality tenants and command upper-tier rental rates, and are modern structures or have been modernized to compete with newer buildings.

Over its 27 year history, the Company has developed 83 properties totaling 15.3 million square feet, including properties developed for third parties and the six properties currently under development. The Company's current portfolio of 92 properties includes 60 of these Company-developed properties.

The following chart shows the geographic location of the Company's Office and Industrial Properties (including the five Office Development Properties and the ten Acquisition Properties that are expected to close in January and February 1998) by net rentable square feet and Annualized Rent on a pro forma basis as of September 30, 1997:

| NET RENTABLE SQUARE FEET OF OFFICE AND INDUSTRIAL PROPERTIES | | | | | |
|---|--------------------------------|-------------------|--------------------------|---------------|------------------------|
| MARKET | CLASS A OFFICE BUILDINGS | R&D PROPERTIES | INDUSTRIAL PROPERTIES | TOTAL | PERCENT OF TOTAL |
| GREATER BOSTON.. | 2,281,457 | 545,206 | 247,318 | 3,073,981 | 22.0% |
| GREATER WASHINGTON, D.C.(2)..... | 4,352,050 | 1,322,905 | 236,743 | 5,911,698 | 42.3 |
| BALTIMORE, MD... | 633,482 | -- | -- | 633,482 | 4.5 |
| RICHMOND, VA (2)..... | 899,720 | -- | -- | 899,720 | 6.4 |
| MIDTOWN MANHATTAN..... | 2,880,508 | -- | -- | 2,880,508 | 20.6 |
| GREATER SAN FRANCISCO..... | -- | 144,479 | 281,000 | 425,479 | 3.0 |
| BUCKS COUNTY, PA..... | -- | -- | 161,000 | 161,000 | 1.2 |
| TOTAL..... | 11,047,217 | 2,012,590 | 926,061 | 13,985,868 | 100.0% |
| PERCENT OF TOTAL..... | 79.0% | 14.4% | 6.6% | 100.0% | |
| NUMBER OF PROPERTIES..... | 48 | 31 | 9 | 88 | |
| ANNUALIZED RENT OF OFFICE AND INDUSTRIAL PROPERTIES (1) | | | | | |
| MARKET | CLASS A OFFICE BUILDINGS | R&D PROPERTIES | INDUSTRIAL PROPERTIES | TOTAL | PERCENT OF TOTAL |
| GREATER BOSTON.. | \$ 43,760,880 | \$ 6,022,906 | \$1,649,144 | \$ 51,432,930 | 15.3% |
| GREATER WASHINGTON, D.C.(2)..... | 112,427,318 | 12,288,008 | 1,524,927 | 126,240,253 | 37.6 |
| BALTIMORE, MD... | 15,224,424 | -- | -- | 15,224,424 | 4.6 |
| RICHMOND, VA (2)..... | 17,563,259 | -- | -- | 17,563,259 | 5.2 |
| MIDTOWN MANHATTAN..... | 122,178,265 | -- | -- | 122,178,265 | 36.4 |
| GREATER SAN FRANCISCO..... | -- | 1,061,181 | 1,029,027 | 2,090,208 | 0.6 |
| BUCKS COUNTY, PA..... | -- | -- | 868,699 | 868,699 | 0.3 |
| TOTAL..... | \$311,154,146 | \$19,372,095 | \$5,071,797 | \$335,598,038 | 100.0% |
| PERCENT OF TOTAL..... | 92.7% | 5.8% | 1.5% | 100.0% | |
| NUMBER OF PROPERTIES..... | 48 | 31 | 9 | 88 | |

(1) Annualized Rent is the monthly contractual rent under existing leases as of September 30, 1997 multiplied by twelve. This amount reflects total rent before any rent abatements and includes expense reimbursements, which may be estimates as of such date. Total rent abatements for leases in effect as of September 30, 1997 were, on an annualized basis, approximately \$12.9 million.

(2) Includes 1,277,454 and 899,720 net rentable square feet of Office Properties in Greater Washington, D.C. and Richmond, Virginia, respectively that are under contract and expected to close in January and February 1998.

The table above excludes (i) the Company's three Hotel Properties totaling 937,874 square feet (representing approximately \$21.1 million of annualized seasonally adjusted triple net rent based on the quarter ended September 30, 1997) and (ii) the Company's Garage Property and structured parking related to the Company's Office Properties totaling 3,212,972 square feet (representing approximately \$1.5 million of annualized triple net rent based on the quarter ended September 30, 1997).

The Company believes that the Properties are well positioned to provide a base for continued growth. The Properties are leased to high quality tenants and, in general, located in submarkets with low vacancy rates and rising rents and room rates. With the value added by the Company's in-house marketing, leasing, construction of tenant improvements and property management programs, the Company has historically achieved high occupancy rates and efficient re-leasing of vacated space.

As of September 30, 1997, the Office Properties (excluding the Office Development Properties) and the Industrial Properties had an occupancy rate of 96% and the Hotel Properties (excluding the Hotel Development Property) had an average occupancy rate for the nine months ended September 30, 1997 of 88%. Leases with respect to 2.4% of the leased square footage of the Office and Industrial Properties expire in the fourth quarter of 1997, and 7.5% and 6.3% expire in calendar years 1998 and 1999, respectively.

The Company has a \$300 million unsecured revolving line of credit (the "Unsecured Line of Credit") with BankBoston, N.A., as agent ("BankBoston") that expires in June 2000. The Company uses the Unsecured Line of Credit principally to facilitate its development and acquisition activities and for working capital purposes and, as of December 1, 1997, had \$233.0 million outstanding thereunder. See "Unsecured Line of Credit." As of December 1, 1997, the Company had a debt to total market capitalization ratio of approximately 41.8%. At the completion of this Offering and upon the application of the net proceeds therefrom, the Company expects to have a debt to total market capitalization ratio of approximately 36.0%. The Company does not have a specific policy limiting the amount of leverage that it expects to use as a whole or with respect to individual properties.

The Company is a full-service real estate company, with substantial in-house expertise and resources in acquisitions, development, financing, construction management, property management, marketing, leasing, accounting, tax and legal services. As of September 30, 1997, the Company had 312 employees, including 94 professionals. The Company's 16 senior officers, together with Mr. Zuckerman, Chairman of the Board, have an average of 24 years experience in the real estate industry and an average of 16 years tenure with the Company. The Company's headquarters are located at 8 Arlington Street, Boston, Massachusetts 02116 and its telephone number is (617) 859-2600. In addition, the Company has regional offices at the U.S. International Trade Commission Building at 500 E Street, SW, Washington, D.C. 20024 and at 599 Lexington Avenue, New York, New York 10002.

RECENT EVENTS

Since the Company's Initial Offering in June 1997, the Company has acquired three Class A Office Buildings, entered into contracts to acquire ten Office Properties expected to close in January and February 1998, and is developing five Class A Office Buildings and one 221 room hotel for a total anticipated investment of approximately \$1.23 billion. The following describes the 13 properties acquired or expected to be acquired:

RECENT ACQUISITIONS

| PROPERTY | DATE ACQUIRED/ TO BE ACQUIRED | NET RENTABLE SQUARE FEET | INITIAL INVESTMENT | ANTICIPATED FUTURE INVESTMENT | TOTAL INVESTMENT | CURRENT OCCUPANCY | ANNUALIZED RENT PER LEASED SQ. FT. AT 9/30/97(/1/) |
|---|----------------------------------|-----------------------------|--------------------|-------------------------------|------------------|-------------------|--|
| 280 Park Avenue, New York, NY..... | 9/97 | 1,198,769 | \$322,650,000 | \$28,986,652 | \$351,636,652 | 88% | \$41.95 |
| 100 East Pratt Street, Baltimore, MD..... | 10/97 | 633,482 | 137,516,000 | -- | 137,516,000 | 97 | 24.53 |
| 875 Third Avenue, New York, NY..... | 11/97 | 681,669 | 206,500,000 | 2,400,000 | 208,900,000 | 100 | 42.37 |
| Riverfront Plaza, Richmond, VA..... | 1/98 | 899,720 | 174,361,000 | -- | 174,361,000 | 97 | 20.16 |
| Mulligan/Griffin Portfolio, MD & VA..... | 2/98 | 1,277,454 | 252,900,892 | -- | 252,900,892 | 96 | 27.64(2) |
| TOTAL/WEIGHTED AVERAGE.. | | 4,691,094 | \$1,093,927,892 | \$31,386,652 | \$1,125,314,544 | 95% | \$31.58 |

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(1) At September 30, 1997 total rent abatements with respect to these properties, on an annualized basis, were equal to \$1.91 per leased square foot.

(2) The Mulligan/Griffin Portfolio consists of nine Office Properties and six parcels of land. Two of the Properties in the Mulligan/Griffin Portfolio were designed and built to serve certain specialized business purposes of the tenants at such Properties, resulting in rents that are presently higher than average market rents for office properties in these submarkets for tenants not requiring similarly customized properties.

280 Park Avenue. This Class A Office Building is located in the Park Avenue submarket of midtown Manhattan. According to Insignia/Edward S. Gordon Co., Inc. ("Insignia/ESG"), at September 30, 1997, this submarket had an availability rate of 7.6% and an average asking rent of \$46.31 per square foot. The Company anticipates investing approximately \$29.0 million in tenant improvements, leasing commissions and building system improvements. The Property consists of two linked towers of 30 stories and 42 stories. Principal tenants at this Property include Bankers Trust Company, Furman Selz LLC and the National Football League.

100 East Pratt Street. This Class A Office Building is located in downtown Baltimore, Maryland. According to Colliers Pinkard, at June 30, 1997, the first tier of the downtown Baltimore Class A office market (which includes this Property) had an availability rate of 8.6% and average asking rents of \$24.83 per square foot. The largest tenant at this Property is T. Rowe Price.

875 Third Avenue. This Class A Office Building is located in the East Side submarket of midtown Manhattan on Third Avenue between 52nd and 53rd Streets. According to Insignia/ESG, at September 30, 1997, the East Side submarket had an availability rate of 12.6% and an average asking rent of \$36.95 per square foot. Principal tenants at this Property include Debevoise & Plimpton and Instinet Corporation.

Riverfront Plaza. The Company has entered into a purchase and sale agreement to acquire this Class A Office Building in Richmond, Virginia. According to Harrison & Bates, at September 30, 1997, the Richmond Class A office market had an availability rate of 5.0% and an average asking rent of \$20.84 per square foot. Primary tenants at this Property include Hunton & Williams and Wheat First Butcher Singer, Inc. While the Company anticipates closing on this acquisition in January 1998, there can be no assurances that the Company will acquire this property in January 1998, or at all.

Mulligan/Griffin Portfolio. The Company has entered into agreements to acquire this portfolio of nine office buildings aggregating approximately 1.3 million net rentable square feet and six parcels of land aggregating 30.7 acres located in the Gaithersburg I-270 and I-270 Rockville submarkets of Montgomery County, Maryland and the Springfield and Reston submarkets of Fairfax County, Virginia. According to Spaulding & Slye, at September 30, 1997, these submarkets had availability rates of 13.7%, 8.4%, 6.1% and 4.8% and average asking rents of \$19.50, \$20.26, \$10.04 and \$21.86 per square foot, respectively. Principal tenants at these properties include Lockheed Martin Corporation and the United States of America. While the Company anticipates completing its acquisition of these properties in February 1998, there can be no assurances that the Company will acquire these properties in February 1998, or at all.

The Company regularly pursues the acquisition of income producing properties and sites for development and may from time to time enter into letters of intent, contribution agreements and purchase and sale agreements with respect to the same. In addition to the contracts to acquire the Acquisition Properties, the Company is currently a party to two purchase and sale agreements with respect to sites located in Greater Washington, D.C. and Greater Boston. The Company is conducting its due diligence review under both agreements and currently has the right to terminate each agreement without payment of a termination fee to the seller. There can be no assurance that either of such land acquisitions will be consummated.

Since the Company's Initial Offering, the Company has completed the development or redevelopment of the following Properties for its own account:

DEVELOPMENT PROPERTIES DELIVERED SINCE THE INITIAL OFFERING

| PROPERTY | DATE PLACED IN SERVICE | LOCATION | NO. OF BUILDINGS | NET RENTABLE SQUARE FEET | ANTICIPATED TOTAL INVESTMENT+ | CURRENT OCCUPANCY |
|--|------------------------|-----------------|------------------|--------------------------|-------------------------------|-------------------|
| Sugarland Building One.. | 6/97 | Herndon, VA | 1 | 52,797 | \$ 5,962,348 | 82% |
| Sugarland Building Two.. | 6/97 | Herndon, VA | 1 | 59,423 | 5,256,692 | 46 |
| 7700 Boston Boulevard, Building Twelve..... | 10/97 | Springfield, VA | 1 | 82,224 | 10,427,128 | 100 |
| 7501 Boston Boulevard, Building Seven..... | 11/97 | Springfield, VA | 1 | 75,756 | 11,469,620 | 100 |
| 201 Spring Street..... | 11/97 | Lexington, MA | 1 | 102,000 | 17,689,442 | 100 |
| TOTAL/WEIGHTED AVERAGE.. | | | 5 | 372,200 | \$50,805,230 | 89% |

+ As of November 30, 1997, the Company had invested \$45.2 million, of which \$28.8 million was invested at or prior to the completion of the Initial Offering.

Sugarland Buildings One and Two. These single story office/flex buildings on extensively landscaped sites are located in the Sugarland Office Complex in Herndon, Virginia. The Company purchased the buildings vacant in 1996 and completed improvements to them in June 1997. As of December 1, 1997 approximately 70% of the total of 112,220 net rentable square feet of these buildings was committed under signed leases or letters of intent with leases in negotiation.

7700 Boston Boulevard, Building Twelve and 7501 Boston Boulevard, Building Seven. These R&D Properties are located on land owned by the Company in its Virginia-95 Office Park and are currently 100% leased to Autometric, Inc. and the General Services Administration for terms of 15 and 10 years, respectively.

201 Spring Street. This Class A Office Building is located in the Route 128 Northwest submarket of Greater Boston and is adjacent to the Company's existing Class A Office Building at 191 Spring Street. The building is currently 100% leased to MediaOne of Delaware, Inc. ("MediaOne"), formerly Continental Cablevision, Inc. MediaOne has notified the Company that it intends to relocate its headquarters to another state and sublease this building.

The Company is currently developing the following Properties for its own account:

PROPERTIES CURRENTLY UNDER DEVELOPMENT

| DEVELOPMENT PROPERTIES | ANTICIPATED COMPLETION | LOCATION | NO. OF BUILDINGS | NET RENTABLE SQUARE FEET | ANTICIPATED TOTAL INVESTMENT+ |
|---|------------------------|---------------|------------------|--------------------------|-------------------------------|
| Class A Office Buildings | | | | | |
| Reston Overlook (25% ownership)..... | Q1 1999 | Reston, VA | 2 | 444,000 | \$18,100,000(/1/) |
| Eight Cambridge Center..... | Q2 1999 | Cambridge, MA | 1 | 134,054 | 21,000,000 |
| 181 Spring Street..... | Q2 1999 | Lexington, MA | 1 | 52,000 | 10,871,085 |
| One Freedom Square (25% ownership)..... | Q4 1999 | Reston, VA | 1 | 406,980 | 19,150,000(/1/) |
| Total Class A Office Buildings..... | | | 5 | 1,037,034 | \$ 69,121,085 |
| Hotel | | | | | |
| Residence Inn by Marriott(R)..... | Q1 1999 | Cambridge, MA | 1 | 187,474 | \$32,000,000 |
| TOTAL DEVELOPMENT PROPERTIES..... | | | 6 | 1,224,508 | \$101,121,085 |

+ As of November 30, 1997, the Company had invested \$6.9 million, of which

\$3.9 million was invested at or prior to the completion of the Initial Offering.

(1) Represents 25% of the total anticipated project-level investment.

One and Two Reston Overlook. One Reston Overlook is an approximately 312,000 square foot, 12-story, Class A Office Building located in Reston, Virginia. The Company is developing this property through its joint venture with Westbrook Partners ("Westbrook"). Completion of One Reston Overlook is scheduled for February 1999. Approximately 309,000 square feet of development is pre-leased to BDM International ("BDM") for a term of twelve years (the building's remaining 3,000 square feet are ground-floor retail space). The Company is also constructing Two Reston Overlook, a six-story building on the site totaling approximately 132,000 square feet. Two Reston Overlook is being developed without a pre-leasing commitment in response to the significant unsatisfied demand for office space in the Reston, Virginia market. Delivery of Two Reston Overlook is scheduled for December 1998.

Eight Cambridge Center. This seven-story Class A Office Building is located in the Cambridge Center development in East Cambridge, Massachusetts. Completion of this Class A Office Building is scheduled for April 1999.

181 Spring Street. This Class A Office Building is adjacent to the Company's 201 Spring Street Property in the Route 128 Northwest submarket of Greater Boston. This property is being developed without a pre-leasing commitment in response to the significant unsatisfied demand for office space in the Route 128 Northwest submarket. Completion of 181 Spring Street is scheduled for May 1999.

One Freedom Square. This Class A Office Building is currently being developed by the Company in Reston, Virginia. This building is 59.0% pre-committed to Andersen Consulting. Completion of the building is scheduled for the fourth quarter of 1999.

Residence Inn by Marriott(R). The Company is currently developing this 221-room limited service extended stay hotel on land owned by the Company in the Company's Cambridge Center development. The hotel will be managed by the Residence Inn division of Marriott International, Inc. and is scheduled to open in January 1999. As with the Company's other Hotel Properties, the Company will lease this hotel and will have a participation in the gross receipts of the hotel.

RISK FACTORS

An investment in the Common Stock involves various risks, and prospective investors should carefully consider the matters discussed under "Risk Factors" prior to an investment in the Company. Such risks include, among others:

- . the Company may acquire large properties or portfolios of properties that would substantially increase the size of the Company, and the Company's ability to assimilate such acquisitions and achieve the intended return on investment cannot be assured;
- . the development of commercial properties is subject to risks such as the availability and timely receipt of regulatory approvals, the cost and timely completion of construction, the availability of construction financing on favorable terms, the timely leasing of the property, and the leasing of the property at lower rental rates than anticipated, any of which could have an adverse effect on the financial condition of the Company;
- . conflicts of interest between the Company and Messrs. Zuckerman and Linde, including conflicts associated with the sale of any of the Properties or with the repayment of indebtedness because of possible adverse tax consequences which may influence them to not act in the best interests of the stockholders; in particular the Company will, in general, be restricted from selling or transferring in a taxable transaction any of four Designated Properties until June 23, 2007 without the consent of Messrs. Zuckerman and Linde; for the benefit of certain other holders of OP Units the Company has agreed to restrictions on selling any of five other Properties in taxable transactions for specified periods of time and, in general, from repaying certain indebtedness with respect to these and certain other Properties;
- . dependence on key personnel whose continued service is not guaranteed, particularly Messrs. Zuckerman and Linde;
- . real estate investment and property management risks such as the need to renew leases or relet space upon lease expirations and, at times, to pay renovation and reletting costs in connection therewith, the effect of economic conditions on property cash flows and values, the ability of tenants to make lease payments, the ability of a property to generate revenue sufficient to meet operating expenses and debt service, all of which may adversely affect the Company's ability to make expected distributions to stockholders;
- . the possibility that the Company may not be able to refinance outstanding indebtedness upon maturity or acceleration, that such indebtedness might be refinanced at higher interest rates or otherwise on terms less favorable to the Company than existing indebtedness, and the lack of limitations in the Company's organizational documents on the amount of indebtedness the Company may incur;
- . taxation of the Company as a corporation if it fails to qualify as a REIT for federal income tax purposes, the Company's liability for certain federal, state and local income taxes in such event, and the resulting decrease in cash available for distribution; and
- . anti-takeover effect of limiting actual or constructive ownership of Common Stock of the Company by a single person other than Mr. Zuckerman and Mr. Linde (and certain associated parties) to 6.6% of the outstanding capital stock, subject to certain specified exceptions, and certain other provisions contained in the organizational documents of the Company and the Operating Partnership, and of a shareholder rights plan adopted by the Company, any of which may have the effect of delaying or preventing a transaction or change in control of the Company that might involve a premium price for the Common Stock or otherwise be in the best interests of the Company's stockholders.

BUSINESS AND GROWTH STRATEGIES

BUSINESS STRATEGY

The Company's primary objective is to maximize growth in cash flow and total return to stockholders. The Company's strategy to achieve this objective is: (i) to selectively acquire and develop properties in the Company's existing markets, adjacent markets and in new markets that present favorable opportunities; (ii) to maintain high occupancy rates at rents that are at the high end of the markets in which the Properties are located, and to continue to achieve high room and occupancy rates in the Hotel Properties; and (iii) to selectively provide comprehensive, project-level development and management services to third parties. See "Business and Growth Strategies."

GROWTH STRATEGIES

External Growth

The Company will continue to pursue the following four areas of development and acquisition activities, which the Company believes present significant opportunities for external growth:

- .Acquire assets and portfolios of assets from institutions or individuals.
- .Acquire existing underperforming assets and portfolios of assets.
- .Pursue development and land acquisitions in selected submarkets.
- .Provide third-party development management services.

When desirable, the Company will offer OP Units or Common Stock to sellers of properties to finance an acquisition and enable a tax deferred contribution of a property to the Company.

Internal Growth

The Company believes there are significant opportunities to increase cash flow from many of its existing Properties because they are high quality properties in desirable locations in submarkets that are experiencing rising rents and room rates, low vacancy rates and increasing demand for office, R&D and industrial space and for hotel accommodations. The Company intends to:

- .Directly manage properties to maximize the potential for tenant retention.
- .Replace tenants quickly at best available market terms and lowest possible transaction costs.

THE PROPERTIES

The Company's portfolio consists of 92 Properties, including the Acquisition Properties expected to be acquired by the Company in January and February 1998 and six Development Properties. The Properties include 79 Office Properties, consisting of 48 Class A Office Buildings and 31 R&D Properties; nine Industrial Properties; three Hotel Properties; and the Garage Property.

The two Hotel Properties are located in Boston and Cambridge, Massachusetts. For the nine months ended September 30, 1997, the Hotel Properties had a weighted average occupancy rate of 88.0%, a weighted average ADR of \$189.27 and a weighted average REVPAR of \$167.60. Management believes that REVPAR (as defined more fully in the Glossary) is an industry standard measure used to present hotel operating data.

To assist the Company in maintaining its status as a REIT, the Company leases the two completed Hotel Properties, pursuant to a lease with a participation in the gross receipts of the Hotel Properties, to a lessee ("ZL Hotel LLC") in which Messrs. Zuckerman and Linde are the sole member-managers. Messrs. Zuckerman and Linde have a 9.8% economic interest in such lessee and one or more unaffiliated public charities have a 90.2% economic interest. Marriott International, Inc. manages these Hotel Properties under the Marriott (R) name pursuant to a management agreement with the lessee. Under the REIT requirements, revenues from a hotel are not considered to be rental income for purposes of certain income tests which a REIT must meet. See "Federal Income Tax Consequences--Requirements for Qualification." Accordingly, in order to maintain its qualification as a REIT, the Company has entered into the participating leases described above to provide revenue which qualifies as rental income under the REIT requirements. The Company intends to make similar arrangements with respect to the Hotel Development Property.

The following chart shows the geographic location of the Company's Office and Industrial Properties, including the Office Development Properties, by net rentable square feet (excluding storage space) and Annualized Rent as of September 30, 1997:

| NET RENTABLE SQUARE FEET OF OFFICE AND INDUSTRIAL PROPERTIES | | | | | | |
|---|----------------------------|--------------------------------|-------------------|--------------------------|------------|------------------------|
| MARKET/SUBMARKET | NUMBER OF PROPERTIES | CLASS A OFFICE BUILDINGS | R&D PROPERTIES | INDUSTRIAL PROPERTIES | TOTAL | PERCENT OF TOTAL |
| GREATER BOSTON | | | | | | |
| East Cambridge (2) | 6 | 689,203 | 67,362 | -- | 756,565 | 5.4% |
| Route 128 NW Bedford, MA..... | 3 | 90,000 | 383,704 | -- | 473,704 | 3.4 |
| Billerica, MA... | 1 | -- | 64,140 | -- | 64,140 | 0.5 |
| Burlington, MA.. | 2 | 152,552 | -- | -- | 152,552 | 1.1 |
| Lexington, MA (3)..... | 11 | 842,957 | 30,000 | -- | 872,957 | 6.2 |
| Route 128/MA Turnpike Waltham, MA..... | 6 | 307,390 | -- | -- | 307,390 | 2.2 |
| Route 128 SW Westwood, MA.... | 2 | -- | -- | 247,318 | 247,318 | 1.8 |
| Route 128 South Quincy, MA..... | 1 | 168,829 | -- | -- | 168,829 | 1.2 |
| Boston..... | 1 | 30,526 | -- | -- | 30,526 | 0.2 |
| Subtotal..... | 33 | 2,281,457 | 545,206 | 247,318 | 3,073,981 | 22.0% |
| GREATER WASHINGTON, D.C. | | | | | | |
| SW Washington, D.C.(4)..... | 4 | 1,560,941 | -- | -- | 1,560,941 | 11.2% |
| West End Washington, D.C. | 1 | 280,065 | -- | -- | 280,065 | 2.0 |
| Montgomery County, MD Bethesda, MD.... | 3 | 680,000 | -- | -- | 680,000 | 4.9 |
| Gaithersburg, MD (5)..... | 3 | 122,157 | 240,706 | -- | 362,863 | 2.6 |
| Rockville, MD(6)..... | 1 | 77,747 | -- | -- | 77,747 | 0.8 |
| Fairfax County, VA Herndon, VA.... | 2 | -- | 112,220 | -- | 112,220 | 0.8 |
| Reston, VA (7).. | 7 | 1,631,140 | -- | -- | 1,631,140 | 11.6 |
| Springfield, VA (4)(8)..... | 13 | -- | 969,979 | -- | 969,979 | 6.9 |
| Prince George's County, MD Landover, MD.... | 3 | -- | -- | 236,743 | 236,743 | 1.7 |
| Subtotal..... | 37 | 4,352,050 | 1,322,905 | 236,743 | 5,911,698 | 42.3% |
| BALTIMORE, MD | 1 | 633,482 | -- | -- | 633,482 | 4.5% |
| RICHMOND, VA(6) | 1 | 899,720 | -- | -- | 899,720 | 6.4% |
| MIDTOWN MANHATTAN | | | | | | |
| Park Avenue..... | 2 | 2,198,839 | -- | -- | 2,198,839 | 15.7% |
| East side..... | 1 | 681,669 | -- | -- | 681,669 | 4.9 |
| Subtotal..... | 3 | 2,880,508 | -- | -- | 2,880,508 | 20.6% |
| GREATER SAN FRANCISCO | | | | | | |
| Hayward, CA.... | 1 | -- | -- | 221,000 | 221,000 | 1.6% |
| San Francisco, CA (9)..... | 11 | -- | 144,479 | 60,000 | 204,479 | 1.4 |
| Subtotal..... | 12 | -- | 144,479 | 281,000 | 425,479 | 3.0% |
| BUCKS COUNTY, PA | | | | | | |
| | 1 | -- | -- | 161,000 | 161,000 | 1.2% |
| TOTAL..... | 88 | 11,047,217 | 2,012,590 | 926,061 | 13,985,868 | 100.0% |
| PERCENT OF TOTAL..... | | 79.0% | 14.4% | 6.6% | 100.0% | |
| NUMBER OF OFFICE AND INDUSTRIAL PROPERTIES..... | | 48 | 31 | 9 | 88 | |

| ANNUALIZED RENT OF OFFICE AND INDUSTRIAL PROPERTIES (1) | | | | | |
|--|--------------------------------|-------------------|--------------------------|---------------|------------------------|
| MARKET/SUBMARKET | CLASS A OFFICE BUILDINGS | R&D PROPERTIES | INDUSTRIAL PROPERTIES | TOTAL | PERCENT OF TOTAL |
| GREATER BOSTON | | | | | |
| East Cambridge (2) | \$ 13,789,950 | \$ 1,366,714 | \$ -- | \$ 15,156,664 | 4.5% |
| Route 128 NW Bedford, MA..... | 1,590,814 | 3,780,214 | -- | 5,371,028 | 1.6 |
| Billerica, MA... | -- | 598,478 | -- | 598,478 | 0.2 |

| | | | | | |
|----------------------------|---------------|--------------|--------------|---------------|--------|
| Burlington, MA.. | 3,257,655 | -- | -- | 3,257,655 | 1.0 |
| Lexington, MA | | | | | |
| (3)..... | 14,083,118 | 277,500 | -- | 14,360,618 | 4.2 |
| Route 128/MA | | | | | |
| Turnpike | | | | | |
| Waltham, MA..... | 6,691,931 | -- | -- | 6,691,931 | 2.0 |
| Route 128 SW | | | | | |
| Westwood, MA.... | -- | -- | 1,649,144 | 1,649,144 | 0.5 |
| Route 128 South | | | | | |
| Quincy, MA..... | 3,267,240 | -- | -- | 3,267,240 | 1.0 |
| Boston..... | 1,080,172 | -- | -- | 1,080,172 | 0.3 |
| Subtotal..... | \$ 43,760,880 | \$ 6,022,906 | \$ 1,649,144 | \$ 51,432,930 | 15.3% |
| GREATER | | | | | |
| WASHINGTON, D.C. | | | | | |
| SW Washington, | | | | | |
| D.C.(4)..... | \$ 53,174,273 | \$ -- | \$ -- | \$ 53,174,273 | 15.8% |
| West End | | | | | |
| Washington, | | | | | |
| D.C. | 12,911,442 | -- | -- | 12,911,442 | 3.8 |
| Montgomery | | | | | |
| County, MD | | | | | |
| Bethesda, MD.... | 14,669,523 | -- | -- | 14,669,523 | 4.4 |
| Gaithersburg, MD | | | | | |
| (5)..... | 2,156,064 | 3,243,660 | -- | 5,399,724 | 1.6 |
| Rockville, | | | | | |
| MD(6)..... | 1,500,756 | -- | -- | 1,500,756 | 0.4 |
| Fairfax County, | | | | | |
| VA | | | | | |
| Herndon, VA.... | -- | 1,157,431 | -- | 1,157,431 | 0.3 |
| Reston, VA (7).. | 28,015,260 | -- | -- | 28,015,260 | 8.4 |
| Springfield, VA | | | | | |
| (4)(8)..... | -- | 7,886,917 | -- | 7,886,917 | 2.4 |
| Prince George's | | | | | |
| County, MD | | | | | |
| Landover, MD.... | -- | -- | 1,524,927 | 1,524,927 | 0.5 |
| Subtotal..... | \$112,427,318 | \$12,288,008 | \$1,524,927 | \$126,240,253 | 37.6% |
| BALTIMORE, MD | \$ 15,224,424 | \$ -- | \$ -- | \$ 15,224,424 | 4.5% |
| RICHMOND, VA(6) | \$ 17,563,259 | \$ -- | \$ -- | \$ 17,563,259 | 5.3% |
| MIDTOWN MANHATTAN | | | | | |
| Park Avenue..... | \$ 93,303,877 | \$ -- | \$ -- | \$ 93,303,877 | 27.8% |
| East side..... | 28,874,388 | -- | -- | 28,874,388 | 8.6 |
| Subtotal..... | \$122,178,265 | \$ -- | \$ -- | \$122,178,265 | 36.4% |
| GREATER SAN | | | | | |
| FRANCISCO | | | | | |
| Hayward, CA.... | \$ -- | \$ -- | \$ 676,188 | \$ 676,188 | 0.2% |
| San Francisco, | | | | | |
| CA (9)..... | -- | 1,061,181 | 352,839 | 1,414,020 | 0.4 |
| Subtotal..... | \$ -- | \$ 1,061,181 | \$1,029,027 | \$ 2,090,208 | 0.6% |
| BUCKS COUNTY, | | | | | |
| PA..... | \$ -- | \$ -- | \$ 868,699 | \$ 868,699 | 0.3% |
| TOTAL..... | \$311,154,146 | \$19,372,095 | \$5,071,797 | \$335,598,038 | 100.0% |
| PERCENT OF TOTAL..... | | 92.7% | 5.8% | 1.5% | 100.0% |
| NUMBER OF OFFICE AND | | | | | |
| INDUSTRIAL PROPERTIES..... | | 48 | 31 | 9 | 88 |

(1) Annualized Rent is the monthly contractual rent under existing leases as of September 30, 1997 multiplied by twelve. This amount reflects total rent before any rent abatements and includes expense reimbursements, which may be estimates as of such date. Total rent abatements for leases in effect as of September 30, 1997, on an annualized basis, were approximately \$12.9 million.

(2) Does not include 1997 Annualized Rent for one Development Property.

(3) Does not include 1997 Annualized Rent for one Development Property and one Property developed and placed in service in November 1997.

(4) Certain of such Properties are leased on the basis of net usable square feet (which have been converted to net rentable square feet for purposes of this table) due to the requirements of the General Services Administration.

(5) Includes two Acquisition Properties. The Company owns a 75.0% general partner interest in the limited partnership that owns the Class A Office Building in this submarket. Because of the priority of the Company's partnership interest, the Company expects to receive any partnership distributions that are made with respect to this Class A Office Building.

(6) This Property is an Acquisition Property.

(7) Includes four Acquisition Properties. Does not include 1997 Annualized Rent for three Development Properties. The Company is acting as development manager of, and is a 25.0% member of, a limited liability company that owns these Development Properties. The Company's economic interest may increase above 25.0% depending upon the achievement of certain performance goals.

(8) Includes two Acquisition Properties. Does not include 1997 Annualized Rent for two Properties developed and placed in service in October and November 1997.

(9) The Company owns a 35.7% controlling general partnership interest in the nine R&D Properties and two Industrial Properties located in Greater San Francisco, California.

THE OFFERING

All of the shares of Common Stock offered hereby are being sold by the Company.

| | |
|--|--|
| Common Stock Offered..... | 14,000,000 Shares |
| U.S. Offering..... | 11,200,000 |
| International Offering..... | 2,800,000 |
| Common Stock Outstanding After the Offering(1)..... | 52,694,041 |
| Common Stock and OP Units Outstanding After the Offering(1)(2)..... | 71,155,128 |
| Use of Proceeds..... | To reduce indebtedness, to fund the acquisitions of Riverfront Plaza and the Mulligan/Griffin Portfolio, to fund ongoing development and for general corporate and working capital purposes |
| NYSE Symbol..... | "BXP" |

- - - - -
(1) Excludes 2,297,600 shares reserved for issuance upon exercise of outstanding options.

(2) Includes 18,461,087 OP Units. This number assumes that the Company will issue 1,503,759 restricted OP Units in connection with the acquisition of the Mulligan/Griffin Portfolio. See "The Company--Recent Events." In general, after August 23, 1998, or such later date as an OP Unit holder has agreed, OP Units are redeemable by the holders for cash or, at the election of the Company, shares of Common Stock on a one-for-one basis.

DISTRIBUTIONS

In respect of the period from June 23, 1997 (the completion of the Initial Offering) through September 30, 1997, the Company paid on November 21, 1997 a distribution of \$0.44 per share of Common Stock, which represents \$0.405 per share on a quarterly basis or \$1.62 per share on an annualized basis. Future distributions by the Company will be at the discretion of the Board of Directors and will depend on the actual cash available for distribution, its financial condition, capital requirements, the annual distribution requirement under the REIT provisions of the code (see "Federal Income Tax Consequences--Requirements for Qualification"), and such other factors as the Board of Directors deems relevant. See "Risk Factors--Changes in Policies Without Shareholder Approval." The Company has declared, in respect of the quarter ended December 31, 1997, a dividend of \$0.405 per share payable on January 28, 1998 to shareholders of record on December 28, 1997.

TAX STATUS OF THE COMPANY

The Company intends to elect to be taxed as a REIT under Sections 856 through 860 of the Code, commencing with its taxable year ending December 31, 1997. The Company believes, and has obtained an opinion of Goodwin, Procter & Hoar llp, tax counsel to the Company ("Tax Counsel"), to the effect that, commencing with its taxable year ending December 31, 1997, the Company will be organized in conformity with the requirements for qualification as a REIT under the Code, and that the Company's proposed manner of operation, including the lease of the Hotel Properties and Garage Properties, will enable it to meet the requirements for taxation as a REIT for federal income tax purposes. To maintain REIT status, the Company must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 95% of its taxable income to its stockholders. As a REIT, the Company generally will not be subject to federal income tax on net income it distributes currently to its stockholders. If the Company fails to qualify as a REIT in any taxable year, it will be subject to federal income tax at regular corporate rates. See "Federal Income Tax Consequences--Failure to Qualify" and "Risk Factors--Failure to Qualify as a REIT." Even if the Company qualifies for taxation as a REIT, the Company may be subject to certain federal, state and local taxes on its income and property.

SUMMARY SELECTED FINANCIAL INFORMATION

The following table sets forth unaudited pro forma financial and other information for the Company and combined historical financial information for the Boston Properties Predecessor Group. The following summary selected financial information should be read in conjunction with the financial statements and notes thereto included elsewhere in this Prospectus.

The combined historical balance sheets as of December 31, 1996 and 1995 and the combined historical statements of operations for the years ended December 31, 1996, 1995 and 1994 of the Boston Properties Predecessor Group have been derived from the historical combined financial statements audited by Coopers & Lybrand L.L.P., independent accountants, whose report with respect thereto is included elsewhere in this Prospectus.

The selected financial data at and for the nine months ended September 30, 1997 (which includes the Company and the Boston Properties Predecessor Group) and for the nine months ended September 30, 1996 are derived from unaudited financial statements. The unaudited financial information includes all adjustments (consisting of normal recurring adjustments) that management considers necessary for fair presentation of the consolidated and combined financial position and results of operations for these periods. Consolidated and combined operating results for the nine months ended September 30, 1997 are not necessarily indicative of the results to be expected for the entire year ending December 31, 1997.

Unaudited pro forma adjustments and operating information for the nine months ended September 30, 1997 and for the year ended December 31, 1996 are presented as if the completion of the Initial Offering and the Formation Transactions, the Offering, and the properties acquired and pending acquisitions subsequent to September 30, 1997 and the acquisitions subsequent to December 31, 1996, had occurred at January 1, 1996, and the effect thereof was carried forward through the nine months ended September 30, 1997. By necessity, such pro forma operating information incorporates certain assumptions which are described in the notes to the Pro Forma Condensed Consolidated Statements of Income included elsewhere in this Prospectus. The unaudited pro forma balance sheet data is presented as if the aforementioned transactions had occurred on September 30, 1997.

The pro forma information does not purport to represent what the Company's financial position or results of operations would actually have been if these transactions had, in fact, occurred on such date or at the beginning of the period indicated, or to project the Company's financial position or results of operations at any future date or for any future period.

THE COMPANY AND THE BOSTON PROPERTIES PREDECESSOR GROUP
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

| | THE COMPANY | | THE PREDECESSOR GROUP | | THE COMPANY |
|--|---|---|--|--|--|
| | HISTORICAL | | | | |
| | PRO FORMA NINE MONTHS ENDED SEPTEMBER 30, 1997 (UNAUDITED) | JUNE 23, 1997 TO SEPTEMBER 30, 1997 (UNAUDITED) | JANUARY 1, 1997 TO JUNE 22, 1997 (UNAUDITED) | NINE MONTHS ENDED SEPTEMBER 30, 1996 (UNAUDITED) | PRO FORMA YEAR ENDED DECEMBER 31, 1996 (UNAUDITED) |
| OPERATING DATA: | | | | | |
| Revenues(1)..... | \$ 277,006 | \$ 68,353 | \$129,818 | \$202,319 | \$355,642 |
| Income (loss) before extraordinary items..... | 48,218 | 14,854 | 4,605 | 8,160 | 52,422 |
| Net income (loss)..... | | 22,779 | 4,605 | 8,160 | |
| Per Share of Common Stock Data: | | | | | |
| Income before extraordinary items | \$.92 | \$.38 | -- | -- | \$.99 |
| Net income..... | -- | \$.59 | -- | -- | -- |
| Weighted average number of shares outstanding.... | 52,694 | 38,694 | -- | -- | 52,694 |
| Weighted average number of shares and OP Units outstanding.... | 71,155 | 54,760 | -- | -- | 71,155 |
| BALANCE SHEET DATA, AT PERIOD END: | | | | | |
| Real estate, before accumulated depreciation... | \$2,212,643 | \$1,433,376 | -- | -- | -- |
| Real estate, after accumulated depreciation... | 1,927,138 | 1,147,871 | -- | -- | -- |
| Cash and cash equivalents.... | 113,115 | 25,989 | -- | -- | -- |
| Total assets.... | 2,164,889 | 1,295,638 | -- | -- | -- |
| Total indebtedness... | 1,334,665 | 985,614 | -- | -- | -- |
| Stockholders' or owners' equity (deficiency)... | 636,558 | 195,481 | -- | -- | -- |
| OTHER DATA: | | | | | |
| Funds from Operations(2) (unaudited).... | \$ 105,064 | \$ 30,879 | \$21,450 | \$ 34,652 | \$117,116 |
| Company's Funds from Operations (unaudited).... | 77,810 | 21,818 | -- | -- | 86,736 |
| EBITDA(3)(unaudited).. | 180,626 | 47,106 | 74,838 | 117,525 | 228,015 |
| Company's EBITDA (unaudited).... | 133,772 | 33,284 | -- | -- | 168,869 |
| Cash flow provided by operating activities(4).. | -- | \$ 25,930 | \$ 25,226 | \$ 31,109 | -- |
| Cash flow used in investing activities(4).. | -- | (356,794) | (32,844) | (42,952) | -- |
| Cash flow provided by (used in) financing activities(4).. | -- | 356,853 | 9,130 | (1,555) | -- |
| | ----- | | | | |
| | THE PREDECESSOR GROUP | | | | |
| | ----- | | | | |
| | HISTORICAL | | | | |
| | YEAR ENDED DECEMBER 31, | | | | |
| | ----- | | | | |
| | 1996 | 1995 | 1994 | 1993 | 1992 |
| | ----- | | | | |
| OPERATING DATA: | | | | | |
| Revenues(1)..... | \$ 269,933 | \$ 248,725 | \$ 244,083 | \$ 245,561 | \$ 241,212 |
| Income (loss) before extraordinary | | | | | |

| | | | | | |
|--|-------------|-------------|------------|------------|------------|
| items..... | 8,273 | (3,983) | 7,171 | 17,086 | 16,010 |
| Net income | | | | | |
| (loss)..... | 7,279 | (3,983) | 7,171 | 17,086 | 16,010 |
| Per Share of Common Stock Data: | | | | | |
| Income before extraordinary items | -- | -- | -- | -- | -- |
| Net income..... | -- | -- | -- | -- | -- |
| Weighted average number of shares outstanding.... | -- | -- | -- | -- | -- |
| Weighted average number of shares and OP Units outstanding.... | -- | -- | -- | -- | -- |
| BALANCE SHEET DATA, AT PERIOD END: | | | | | |
| Real estate, before accumulated depreciation... | \$1,035,571 | \$1,012,324 | \$ 984,853 | \$ 983,751 | \$ 982,348 |
| Real estate, after accumulated depreciation... | 771,660 | 773,810 | 770,763 | 789,234 | 811,815 |
| Cash and cash equivalents.... | 8,998 | 25,867 | 46,289 | 50,697 | 28,841 |
| Total assets.... | 896,511 | 922,786 | 940,155 | 961,715 | 971,648 |
| Total indebtedness... | 1,442,476 | 1,401,408 | 1,413,331 | 1,426,882 | 1,417,940 |
| Stockholders' or owners' equity (deficiency)... | (576,632) | (506,653) | (502,230) | (495,104) | (480,398) |
| OTHER DATA: | | | | | |
| Funds from Operations(2) (unaudited).... | \$ 36,318 | \$ 29,151 | \$ 39,568 | \$ 49,240 | \$ 50,097 |
| Company's Funds from Operations (unaudited).... | -- | -- | -- | -- | -- |
| EBITDA(3)(unaudited).. | 153,566 | 138,321 | 137,269 | 140,261 | 142,627 |
| Company's EBITDA (unaudited).... | -- | -- | -- | -- | -- |
| Cash flow provided by operating activities(4).. | \$ 51,531 | \$ 29,092 | \$ 45,624 | \$ 59,834 | \$ 50,468 |
| Cash flow used in investing activities(4).. | (23,689) | (36,844) | (18,424) | (9,437) | (48,257) |
| Cash flow provided by (used in) financing activities(4).. | (44,711) | (12,670) | (31,608) | (28,540) | 1,365 |

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- (1) Pro forma revenue for the nine month period ended September 30, 1997 and the year ended December 31, 1996 includes the lease revenue that the Company has/will receive under the lease for the two Hotel Properties. After entering into such lease, the Company has not/will not recognize direct hotel revenues and expenses.
- (2) The White Paper on Funds from Operations approved by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT") in March 1995 defines Funds from Operations as net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from debt restructuring and sales of properties, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. The Company believes that Funds from Operations 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 ability of the Company to incur and service debt, to make capital expenditures and to fund other cash needs. The Company computes Funds from Operations in accordance with standards established by NAREIT which may not be comparable to Funds from Operations reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than the Company. Funds from Operations does not represent cash generated from operating activities determined in accordance with GAAP and should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of the Company's financial performance or to cash flow from operating activities (determined in accordance with GAAP) 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.
- (3) EBITDA means operating income before mortgage and other interest, income taxes, depreciation and amortization. The Company believes EBITDA is useful to investors as an indicator of the Company's ability to service debt or pay cash distributions. EBITDA, as calculated by the Company, is not comparable to EBITDA reported by other REITs that do not define EBITDA exactly as the Company defines that term. EBITDA should not be considered as an alternative to operating income or net income (determined in accordance with GAAP) as an indicator of operating performance or as an

alternative to cash flows from operating activities (determined in accordance with GAAP) as an indicator of liquidity and other combined or consolidated income or cash flow statement data (determined in accordance with GAAP).

- (4) Pro forma information relating to cash flow from operating, investing and financing activities has not been included because the Company believes that the information would not be meaningful due to the number of assumptions required in order to calculate this information.

RISK FACTORS

Prospective investors should carefully consider the following matters before purchasing shares of Common Stock in this Offering.

This Prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are inherently subject to risks and uncertainties, many of which cannot be predicted with accuracy and some of which might not even be anticipated. Future events and actual results, financial and otherwise, may differ materially from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" herein.

THE COMPANY MAY NOT ACHIEVE EXPECTED RETURNS ON PROPERTY ACQUISITIONS

The Company intends to continue to investigate and pursue acquisitions of properties and portfolios of properties, including large portfolios that could significantly increase the size of the Company and alter its capital structure. There can be no assurance that the Company will be able to assimilate acquisitions of properties, and in particular acquisitions of portfolios of properties, or achieve the Company's intended return on investment.

THE COMPANY'S INVESTMENTS IN PROPERTY DEVELOPMENT MAY NOT YIELD EXPECTED RETURNS

The Company intends to continue to pursue the development of office, industrial and hotel properties. See "Business and Growth Strategies." To the extent that the Company engages in such development activities, it will be subject to the risks normally associated with such activities. Such risks include, without limitation, risks relating to the availability and timely receipt of zoning, land use, building, occupancy, and other regulatory approvals, the cost and timely completion of construction (including risks from causes beyond the Company's control, such as weather, labor conditions or material shortages) and the availability of construction financing on favorable terms. These risks could result in substantial unanticipated delays or expense and, under certain circumstances, could prevent completion of development activities once undertaken, any of which could have an adverse effect on the financial condition and results of operations of the Company and on the amount of funds available for distribution to stockholders.

CONFLICTS OF INTEREST EXIST BETWEEN THE COMPANY AND CERTAIN OP UNIT HOLDERS, INCLUDING MESSRS. ZUCKERMAN AND LINDE, IN CONNECTION WITH THE OPERATION OF THE COMPANY

For a period of time, sales of properties and repayment of indebtedness will have different effects on holders of OP Units than on stockholders. Certain holders of OP Units, including Messrs. Zuckerman and Linde, will incur adverse tax consequences upon the sale of certain of the Properties owned by the Company and on the repayment of indebtedness which are different from the tax consequences to the Company and persons who purchase shares of Common Stock in the Offering. Consequently, such holders may have different objectives regarding the appropriate pricing and timing of any such sale or repayment of indebtedness. While the Company has the exclusive authority under the Operating Partnership Agreement to determine whether, when, and on what terms to sell a Property (other than a Designated Property) or when to refinance or repay indebtedness, any such decision would require the approval of the Board of Directors. As Directors of the Company, Messrs. Zuckerman and Linde have substantial influence with respect to any such decision, and such influence could be exercised in a manner inconsistent with the interests of some, or a majority, of the Company's stockholders, including in a manner which could prevent completion of a Property sale or the repayment of indebtedness.

In this connection, the Operating Partnership Agreement provides that, until June 23, 2007, the Operating Partnership may not sell or otherwise transfer a Designated Property (defined as One and Two Independence Square, 599 Lexington Avenue and Capital Gallery) in a taxable transaction without the prior consent of Messrs. Zuckerman and Linde. The Operating Partnership is not, however, required to obtain the aforementioned consent from Messrs. Zuckerman or Linde if, at any time during this period, each of Messrs. Zuckerman and Linde do

not continue to hold at least 30% of his original OP Units. Similar restrictions apply for varying time periods with respect to five other properties. The Designated Properties and such five other Properties account for approximately 34.6% of the Company's pro forma funds from Operations for the nine months ended September 30, 1997. The Operating Partnership has also entered into agreements providing Messrs. Zuckerman, Linde and others with the right to guarantee additional and/or substitute indebtedness of the Company in the event that certain other indebtedness is repaid or reduced. See "Business and Properties--Certain Agreements Relating to the Properties."

Messrs. Zuckerman and Linde will continue to engage in other activities. Messrs. Zuckerman and Linde have a broad and varied range of investment interests. It is possible that companies in which one or both of Messrs. Zuckerman and Linde has or may acquire an interest, and which are not directly involved in real estate investment activities, will be owners of real property and will acquire real property in the future. However, pursuant to Mr. Linde's employment agreement and Mr. Zuckerman's non-compete agreement with the Company, Messrs. Zuckerman and Linde will not, in general, have management control over such companies and, therefore, they may not be able to prevent one or more such companies from engaging in activities that are in competition with activities of the Company. See "Management--Employment and Noncompetition Agreements."

THE COMPANY RELIES ON KEY PERSONNEL WHOSE CONTINUED SERVICE IS NOT GUARANTEED

The Company is dependent on the efforts of Messrs. Zuckerman and Linde and other senior management personnel. Messrs. Zuckerman and Linde in particular have national reputations which aid the Company in negotiations with lenders and in having investment opportunities brought to the Company. The other executive officers of the Company who serve as managers of the Company's offices (Messrs. Burke, Ritchey, Barrett and Selsam) have strong regional reputations which aid the Company in identifying opportunities, or having opportunities brought to the Company, and in negotiating with tenants or build-to-suit prospects. While the Company believes that it could find replacements for these key executives, the loss of their services could have a material adverse effect on the operations of the Company in that the extent and nature of the Company's relationships with lenders and prospective tenants and with persons in the industry who may have access to investment opportunities would be diminished. While Mr. Linde and the other executive officers have employment agreements with the Company pursuant to which they have agreed to devote substantially all of their business time to the business and affairs of the Company and to not have substantial outside business interests, this can serve as no guarantee that they will remain with the Company for any specified term. Mr. Zuckerman, who has significant outside business interests, including serving as Chairman of the Board of Directors of U.S. News & World Report, The Atlantic Monthly magazine, the New York Daily News and Applied Graphics Technologies and as a member of the Board of Directors of Snyder Communications, does not have an employment agreement with the Company and serves as a non-executive officer of the Company with the title "Chairman of the Board of Directors." Mr. Zuckerman has historically devoted a significant portion of his business time to the affairs of the Company, although over the last twenty years less than a majority of his business time, in the aggregate, has been spent on the Company's affairs. Although Mr. Zuckerman cannot assure the Company that he will continue to devote any specific portion of his time to the Company and has therefore declined to enter into an employment agreement with the Company, Mr. Zuckerman has no present commitments inconsistent with his current level of involvement with the Company. See "Management--Employment and Noncompetition Agreements."

THE COMPANY'S PERFORMANCE AND VALUE ARE SUBJECT TO RISKS ASSOCIATED WITH THE REAL ESTATE INDUSTRY

Lease expirations could adversely affect the Company's cash flow. The Company will be subject to the risks that, upon expiration, leases for space in the Office Properties or the Industrial Properties may not be renewed, the space may not be re-leased, or the terms of renewal or re-lease (including the cost of required renovations or concessions to tenants) may be less favorable than current lease terms. Leases on a total of 7.5% and 6.3% of the aggregate net rentable area of the Office Properties and the Industrial Properties expire during 1998 and 1999, respectively. If the Company were unable to re-lease substantial amounts of vacant space promptly, if the rental rates upon such re-lease were significantly lower than expected, or if reserves for costs of re-leasing proved inadequate, the cash flow to the Company would be decreased and the Company's ability to make distributions to stockholders would be adversely affected.

Hotel operating risks could adversely affect the Company's cash flow. The Hotel Properties are subject to all operating risks common to the hotel industry. These risks include, among other things: (i) competition for

guests from other hotels, a number of which may have greater marketing and financial resources than the Company and Marriott(R); (ii) increases in operating costs due to inflation and other factors, which increases may not have been offset in recent years, and may not be offset in the future by increased room rates; (iii) dependence on business and commercial travelers and tourism, which business may fluctuate and be seasonal; (iv) increases in energy costs and other expenses of travel, which may deter travelers; and (v) adverse effects of general and local economic conditions. These factors could adversely affect the ability of Marriott(R) to generate revenues and for ZL Hotel LLC to make lease payments and, therefore, the Company's ability to make expected distributions to stockholders. Because the lease payments to the Company from ZL Hotel LLC are based on a participation in the gross receipts of the Hotel Properties, the actual lease payments will increase or decrease over the term of the lease in response to fluctuations in the gross receipts of the Hotel Properties.

Acquisition risks could adversely affect the Company. There can be no assurance that the Company will be able to implement its investment strategies successfully or that its property portfolio will expand at all, or at any specified rate or to any specified size. In addition, investment in additional real estate assets is subject to a number of risks. In particular, investments are expected to be financed with funds drawn under the Unsecured Line of Credit, which would subject the Company to the risks described under "The Company's Use of Debt to Finance Acquisitions and Developments Could Adversely Affect the Company." The Company does not intend to limit its investments to the markets in which the Properties are currently primarily located. Consequently, to the extent that it elects to invest in additional markets, the Company also will be subject to the risks associated with investment in new markets, with which management may have relatively little experience and familiarity. Investment in additional real estate assets also entails the other risks associated with real estate investment generally.

Uncontrollable factors affecting the Properties' performance and value could produce lower returns. The economic performance and value of the Company's real estate assets is subject to all of the risks incident to the ownership and operation of real estate. These include the risks normally associated with changes in national, regional and local economic and market conditions. The Properties are primarily located in four markets, Greater Boston, Greater Washington, D.C., midtown Manhattan and Baltimore, Maryland. The economic condition of each of such markets may be dependent on one or more industries. An economic downturn in one of these industry sectors may have an adverse effect on the Company's performance in such market. Local real estate market conditions may include a large supply of competing space and competition for tenants, including competition based on rental rates, attractiveness and location of the Property and quality of maintenance, insurance and management services. Economic and market conditions may impact the ability of tenants to make lease payments. In addition, other factors may adversely affect the performance and value of a Property, including changes in laws and governmental regulations (including those governing usage, zoning and taxes), changes in interest rates and the availability of financing. If the Properties do not generate sufficient income to meet operating expenses, including future debt service, the Company's income and ability to make distributions to its stockholders will be adversely affected.

Illiquidity of real estate investments could adversely affect the Company's financial condition. Because real estate investments are relatively illiquid, the Company's ability to vary its portfolio promptly in response to economic or other conditions will be limited. In addition, certain significant expenditures, such as debt service (if any), real estate taxes, and operating and maintenance costs, generally are not reduced in circumstances resulting in a reduction in income from the investment. The foregoing and any other factor or event that would impede the ability of the Company to respond to adverse changes in the performance of its investments could have an adverse effect on the Company's financial condition and results of operations.

Liability for environmental matters could adversely affect the Company's financial condition. Under various federal, state and local laws, ordinances and regulations, an owner or operator of real property may become liable for the costs of removal or remediation of certain hazardous or toxic substances released on or in its property, as well as certain other costs relating to hazardous or toxic substances. Such liability may be imposed without regard to whether the owner or operator knew of, or was responsible for, the release of such substances. The presence of, or the failure to remediate properly, such substances, when released, may adversely affect the owner's ability to sell the affected real estate or to borrow using such real estate as collateral. Such costs or liabilities could exceed the value of the affected real estate. The Company has not been notified by any governmental authority of any noncompliance, liability or other claim in connection with any of the Properties

and the Company is not aware of any other environmental condition with respect to any of the Properties that management believes would have a material adverse effect on the Company's business, assets or results of operations.

Some of the Properties are located in urban and industrial areas where fill or current or historic 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. However, the Company is aware of environmental conditions at two of the Properties that may require remediation. With respect to 17 Hartwell Avenue in Lexington, Massachusetts, the Company received a Notice of Potential Responsibility from the state regulatory authority on January 9, 1997, related to groundwater contamination, as well as Notices of Downgradient Property Status Submittals from third parties concerning contamination at two downgradient properties. On January 15, 1997, the Company notified the state regulatory authority that it would cooperate with and monitor the tenant at the Property which is investigating this matter. That investigation is underway and has identified the presence of hazardous substances in a catch basin along the property line. It is expected that the tenant will take any necessary response actions. The 91 Hartwell Avenue Property in Lexington, 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. Downgradient Property Status eliminates certain deadlines for conducting response actions at a site. 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. See "Business and Properties--Environmental Matters."

No assurance can be given that the environmental assessments and updates identified all potential environmental liabilities, that no prior owner created any material environmental condition not known to the Company or the independent consultants preparing the assessments, that no environmental liabilities may have developed since such environmental assessments were prepared, or that future uses or conditions (including, without limitation, changes in applicable environmental laws and regulations) will not result in imposition of environmental liability.

The cost of complying with the Americans with Disabilities Act could adversely affect the Company's cash flow. The Properties are subject to the requirements of the Americans with Disabilities Act (the "ADA"), which generally requires that public accommodations, including office buildings, be made accessible to disabled persons. The Company believes that the Properties are in substantial compliance with the ADA and that it will not be required to make substantial capital expenditures to address the requirements of the ADA. However, compliance with the ADA could require removal of access barriers and noncompliance could result in imposition of fines by the federal government or the award of damages to private litigants. If, pursuant to the ADA, the Company were required to make substantial alterations in one or more of the Properties, the Company's financial condition and results of operations, as well as the amount of funds available for distribution to stockholders, could be adversely affected.

Uninsured losses could adversely affect the Company's cash flow. The Company carries comprehensive liability, fire, flood, extended coverage and rental loss insurance, as applicable, with respect to the Properties, with policy specification and insured limits customarily carried for similar properties. In the opinion of management, all of the Properties are adequately insured. There are, however, certain types of losses (such as from wars or catastrophic acts of nature) that may be either uninsurable or not economically insurable. Any uninsured loss could result in both loss of cash flow from, and asset value of, the affected property.

New owner's title insurance policies were not obtained in connection with the Formation Transactions. Prior to the Initial Offering, each of the Properties was insured by title insurance policies insuring the interests of the Property-owning entities. Certain of these title insurance policies may continue to benefit those Property-owning entities which remained after the completion of the Formation Transactions. Nevertheless, each such title insurance policy may be in an amount less than the current value of the applicable Property. In the event of a loss with respect to a Property relating to a title defect, the Company could lose both its capital invested in and anticipated profits from such Property.

Changes in tax and environmental laws could adversely affect the Company's financial condition. Costs resulting from changes in real estate taxes generally may be passed through to tenants and will not affect the Company. Increases in income, service or transfer taxes, however, generally are not passed through to tenants and may adversely affect the Company's results of operations and the amount of funds available to make distributions to stockholders. Similarly, changes in laws increasing the potential liability for environmental conditions existing on properties or increasing the restrictions on discharges or other conditions may result in significant unanticipated expenditures, which would adversely affect the Company's financial condition and results of operations and the amount of funds available for distribution to stockholders.

THE COMPANY'S USE OF DEBT TO FINANCE ACQUISITIONS AND DEVELOPMENTS COULD ADVERSELY AFFECT THE COMPANY

The required repayment of debt or of interest thereon can adversely affect the Company. Upon completion of the Offering, the Company expects to have approximately \$1.33 billion of outstanding indebtedness. As of December 1, 1997, the Company also had an outstanding balance of \$233.0 million under the Unsecured Line of Credit. Advances under the Unsecured Line of Credit bear interest at a variable rate. In addition, the Company may incur other variable rate indebtedness in the future. Increases in interest rates on such indebtedness would increase the Company's interest expense (e.g., assuming the entire \$300.0 million available under the Unsecured Line of Credit is outstanding, the Company would incur an additional \$750,000 in interest expense per year for each 0.25% increase in interest rates), which could adversely affect the Company's cash flow and its ability to pay expected distributions to stockholders. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources." The Company is subject to risks normally associated with debt financing, including the risk that the Company's cash flow will be insufficient to meet required payments of principal and interest, the risk that any indebtedness will not be able to be refinanced or that the terms of any such refinancing will not be as favorable as the terms of such indebtedness. The mortgage loans secured by the One Independence Square and Two Independence Square properties are cross-defaulted as to each other. If an event of default were to occur under either of the loans, the Company could be required to repay approximately \$199.3 million, together with any applicable prepayment charges, prior to the scheduled maturity dates of the loans. In addition, the Unsecured Line of Credit is cross-defaulted with respect to future recourse indebtedness of the Company if the Company is in default with respect to an aggregate of \$50.0 million or more of such recourse indebtedness.

The Company's policy of no limitation on debt could adversely affect the Company's cash flow. Upon completion of the Offering and the application of the net proceeds therefrom, the Company's debt to total market capitalization ratio will be approximately 36.0% (35.3% if the Underwriters' over-allotment options are exercised in full). The Company does not have a policy limiting the amount of debt that the Company may incur. Accordingly, the Company could become more highly leveraged, resulting in an increase in debt service that could adversely affect the Company's cash flow and, consequently, the amount available for distribution to stockholders, and could increase the risk of default on the Company's indebtedness.

FAILURE TO QUALIFY AS A REIT WOULD CAUSE THE COMPANY TO BE TAXED AS A CORPORATION

The Company will be taxed as a corporation if it fails to qualify as a REIT. The Company intends to operate so as to qualify as a REIT under the Code, commencing with its taxable year ending December 31, 1997. Although management of the Company believes that it is organized and will continue to operate in such a manner, no assurance can be given that it will so qualify or that it will continue to qualify in the future. In this regard, the Company has received an opinion of Goodwin, Procter & Hoar llp, tax counsel to the Company ("Tax Counsel"), to the effect that, commencing with its taxable year ending December 31, 1997, the Company will be organized in conformity with the requirements for qualification as a REIT under the Code, and that the Company's manner of operation, including the lease of the Hotel Properties and Garage Properties, will enable it

to meet the requirements for taxation as a REIT for federal income tax purposes. Qualification as a REIT, however, involves the application of highly technical and complex Code provisions as to which there are only limited judicial and administrative interpretations. Certain facts and circumstances which may be wholly or partially beyond the Company's control may affect its ability to qualify as a REIT. In addition, no assurance can be given that future legislation, new regulations, administrative interpretations or court decisions will not significantly change the tax laws (or the application thereof) with respect to qualification as a REIT for federal income tax purposes or the federal income tax consequences of such qualification. Recently enacted legislation has liberalized certain of the requirements for REIT qualification for tax years beginning after August 5, 1997 and the Company is not aware of any proposal to amend the tax laws that would significantly and adversely affect the Company's ability to qualify as a REIT. The opinion of Tax Counsel is not binding on the Internal Revenue Service (the "IRS") or the courts.

If, in any taxable year, the Company were to fail to qualify as a REIT for federal income tax purposes, it would not be allowed a deduction for distributions to stockholders in computing taxable income and would be subject to federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate rates. In addition, unless entitled to relief under certain statutory provisions, the Company would be disqualified from treatment as a REIT for federal income tax purposes for the four taxable years following the year during which qualification is lost. The additional tax liability resulting from the failure to qualify as a REIT would significantly reduce the amount of funds available for distribution to stockholders. In addition, the Company would no longer be required to make distributions to shareholders. Although the Company intends to continue to operate in a manner designed to permit it to qualify as a REIT for federal income tax purposes, it is possible that future economic, market, legal, tax or other events or circumstances could cause it to fail to so qualify. See "Federal Income Tax Consequences--Requirements for Qualification."

To qualify as a REIT the Company will need to maintain a certain level of distributions. To obtain and maintain its status as a REIT for federal income tax purposes, the Company generally will be required each year to distribute to its stockholders at least 95% of its taxable income. In addition, the Company will be subject to a 4% nondeductible excise tax on the amount, if any, by which certain distributions paid by it with respect to any calendar year are less than the sum of 85% of its ordinary income for such calendar year, 95% of its capital gain net income other than such capital gain net income which the REIT elects to retain and pay tax on for the calendar year and any amount of such income that was not distributed in prior years. The Company may be required, under certain circumstances, to accrue as income for tax purposes interest, rent and other items treated as earned for tax purposes but not yet received. In addition, the Company may be required not to accrue as expenses for tax purposes certain items which actually have been paid. It is also possible that the Company could realize income, such as income from cancellation of indebtedness, which is not accompanied by cash proceeds. Furthermore, the Company's depreciation deductions with respect to the Properties acquired by the Operating Partnership by contribution from or merger with the Property Partnership may be less than if the Company had acquired its interests in the Properties directly for cash. In any such event, the Company could have taxable income in excess of cash available for distribution. In such circumstances, the Company could be required to borrow funds or liquidate investments on unfavorable terms in order to meet the distribution requirement applicable to a REIT. See "Federal Income Tax Consequences--Requirements for Qualification."

The Company intends to make distributions to stockholders sufficient to comply with the 95% distribution requirement and to avoid the 4% nondeductible excise tax described above. No assurances can be given, however, that the Company will satisfy these requirements.

Other Tax Liabilities. Even if it qualifies as a REIT for federal income tax purposes, the Company may, and certain of its subsidiaries will, be subject to certain federal, state and local taxes on their income and property. See "Federal Income Tax Consequences--State and Local Tax."

THE ABILITY OF STOCKHOLDERS TO CONTROL THE POLICIES OF THE COMPANY AND EFFECT A CHANGE OF CONTROL OF THE COMPANY IS LIMITED

Stockholder approval is not required to change policies of the Company. The Company's operating and financial policies, including its policies with respect to acquisitions, growth, operations, indebtedness, capitalization and distributions, are determined by the Company's Board of Directors. Accordingly, stockholders have little direct control over the Company's policies.

Stockholder approval is not required to engage in investment activity. The Company expects to continue to acquire additional real estate assets pursuant to its investment strategies and consistent with its investment policies. See "Business and Growth Strategies--Growth Strategies--External Growth" and "Policies with Respect to Certain Activities--Investment Policies." The stockholders of the Company will generally not be entitled to receive historical financial statements regarding, or to vote on, any such acquisition and, instead, will be required to rely entirely on the decisions of management (although in the case of acquisitions that are material, the Company will, as required by federal securities law, provide financial information regarding the acquisition in public filings.)

Stock ownership limit in the Certificate could inhibit changes in control. In order to maintain its qualification as a REIT for federal income tax purposes, not more than 50% in value of the outstanding stock of the Company may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities). See "Federal Income Tax Consequences--Requirements for Qualification." In order to facilitate maintenance of its qualification as a REIT for federal income tax purposes, and to otherwise address concerns relating to concentration of capital stock ownership, the Company generally has prohibited ownership, directly or by virtue of the attribution provisions of the Code, by any single stockholder (which does not include certain pension plans or mutual funds) of more than 6.6% of the issued and outstanding shares of the Company's Common Stock (the "Ownership Limit"). The Board of Directors may waive or modify the Ownership Limit with respect to one or more persons if it is satisfied, based upon the advice of tax counsel, that ownership in excess of this limit will not jeopardize the Company's status as a REIT for federal income tax purposes. Notwithstanding the above, the Company's Certificate provides that each of Messrs. Zuckerman and Linde, along with certain family members and affiliates of each of Messrs. Zuckerman and Linde, respectively, as well as, in general, pension plans and mutual funds, may actually and beneficially own up to 15% of the outstanding shares of Common Stock. The Ownership Limit may have the effect of inhibiting or impeding a change in control and, therefore, could adversely affect the stockholders' ability to realize a premium over the then-prevailing market price for the Common Stock in connection with such a transaction.

Provisions in the Certificate and Bylaws and in the Operating Partnership Agreement could prevent acquisitions and changes in control. Certain provisions of the Company's Certificate and Bylaws (the "Bylaws") and of the Operating Partnership Agreement may have the effect of inhibiting a third party from making an acquisition proposal for the Company or of impeding a change in control of the Company under circumstances that could otherwise provide the holders of shares of Common Stock with the opportunity to realize a premium over the then-prevailing market price of such shares. The Ownership Limit described in the preceding paragraph also may have the effect of precluding acquisition of control of the Company even if such a change in control were in the best interests of some, or a majority, of the Company's stockholders. In addition, the Board of Directors has been divided into three classes, the initial terms of which expire in 1998, 1999 and 2000, with directors of a given class chosen for three-year terms upon expiration of the terms of the members of that class. The staggered terms of the members of the Board of Directors may adversely affect the stockholders' ability to effect a change in control of the Company, even if such a change in control were in the best interests of some, or a majority, of the Company's stockholders. See "Management--Directors and Executive Officers." The Certificate authorizes the Board of Directors to issue shares of preferred stock ("Preferred Stock") in series and to establish the rights and preferences of any series of Preferred Stock so issued. See "Description of Capital Stock--Preferred Stock" and "Certain Provisions of Delaware Law and the Company's Certificate and Bylaws--The Board of Directors." The issuance of Preferred Stock also could have the effect of delaying or preventing a change in control of the Company, even if such a change in control were in the best interests of some, or a majority, of the Company's stockholders. No shares of Preferred Stock will be issued or outstanding immediately subsequent to the Offering and the Company has no present intention to issue any such shares. Prior to the completion of the Initial Offering, the Company authorized the issuance of a series of preferred stock in connection with the adoption of a shareholder rights plan. See "Description of Capital Stock--Shareholder Rights Agreement."

The Operating Partnership Agreement provides that the Company may not generally engage in any merger, consolidation or other combination with or into another person or sale of all or substantially all of its assets, or any reclassification, or any recapitalization or change of outstanding shares of Common Stock (a "Business Combination"), unless the holders of OP Units will receive, or have the opportunity to receive, the same consideration per OP Unit as holders of Common Stock receive per share of Common Stock in the transaction;

if holders of OP Units will not be treated in such manner in connection with a proposed Business Combination, the Company may not engage in such transaction unless limited partners (other than the Company) holding at least 75% of the OP Units held by limited partners vote to approve the Business Combination. In addition, the Company, as general partner of the Operating Partnership, has agreed in the Operating Partnership Agreement with the limited partners that the Company will not consummate a Business Combination in which the Company conducted a vote of the stockholders unless the matter would have been approved had holders of OP Units been able to vote together with the stockholders on the transaction. The foregoing provision of the Operating Partnership Agreement would under no circumstances enable or require the Company to engage in a Business Combination which required the approval of the Company's stockholders if the Company's stockholders did not in fact give the requisite approval. Rather, if the Company's stockholders did approve a Business Combination, the Company would not consummate the transaction unless (i) the Company as general partner first conducts a vote of holders of OP Units (including the Company) on the matter, (ii) the Company votes the OP Units held by it in the same proportion as the stockholders of the Company voted on the matter at the stockholder vote, and (iii) the result of such vote of the OP Unit holders (including the proportionate vote of the Company's OP Units) is that had such vote been a vote of stockholders, the Business Combination would have been approved by the stockholders. As a result of these provisions of the Operating Partnership, a third party may be inhibited from making an acquisition proposal that it would otherwise make, or the Company, despite having the requisite authority under its Certificate of Incorporation, may be prohibited from engaging in a proposed business combination.

Shareholder Rights Agreement could inhibit changes in control. The Company has adopted a Shareholder Rights Agreement. Under the terms of the Shareholder Rights Agreement, in general, if a person or group acquires more than 15% of the outstanding shares of Common Stock (an "Acquiring Person"), all other Stockholders will have the right to purchase securities from the Company at a discount to such securities' fair market value, thus causing substantial dilution to the Acquiring Person. The Shareholder Rights Agreement may have the effect of inhibiting or impeding a change in control and, therefore, could adversely affect the stockholders' ability to realize a premium over the then-prevailing market price for the Common Stock in connection with such a transaction. In addition, since the Board of Directors of the Company can prevent the Shareholder Rights Agreement from operating in the event the Board approves of an Acquiring Person, the Shareholder Rights Agreement gives the Board significant discretion over whether a potential acquiror's efforts to acquire a large interest in the Company will be successful. Because the Shareholder Rights Agreement contains provisions that are designed to assure that Messrs. Zuckerman and Linde and their affiliates will never, alone, be considered a group that is an Acquiring Person, and because the Shareholder Rights Agreement contains provisions to assure that persons with an interest in the Operating Partnership at the completion of the Offering can maintain their percentage interest in the Company (assuming exchange of all OP Units for Common Stock) without becoming an Acquiring Person, the Shareholder Rights Agreement provides Messrs. Zuckerman and Linde with certain advantages under the Shareholder Rights Agreement that are not available to other stockholders. See "Description of Capital Stock--Shareholder Rights Agreement."

Certain provisions of Delaware law could inhibit acquisitions and changes in control. Certain provisions of the Delaware General Corporation Law (the "DGCL") also may have the effect of inhibiting a third party from making an acquisition proposal for the Company or of impeding a change in control of the Company under circumstances that otherwise could provide the holders of shares of Common Stock with the opportunity to realize a premium over the then-prevailing market price of such shares. See "Certain Provisions of Delaware Law and the Company's Certificate and Bylaws."

Provisions of debt instruments. Certain provisions of agreements relating to indebtedness on the 599 Lexington Avenue and Bedford Business Park Properties provide that it is a default thereunder if Messrs. Zuckerman or Linde cease to serve as a director of the Company or, in the case of 599 Lexington Avenue, to control the management of such Property.

INTEREST RATES, EQUITY MARKET CONDITIONS, AND SHARES AVAILABLE FOR FUTURE SALE COULD ADVERSELY IMPACT THE TRADING PRICE OF THE COMMON STOCK

Interest rates and trading levels of equity markets could change. One of the factors that may be expected to influence the prevailing market price of the Common Stock is the annual yield on the stock price from distributions by the Company. Accordingly, an increase in market interest rates may lead purchasers of shares of

Common Stock in the secondary market to demand a higher annual yield, which could adversely affect the market price of the Common Stock. In addition, the market price of the Common Stock could be adversely affected by changes in general market conditions or fluctuations in the market for equity securities in general or REIT securities in particular. Moreover, in the future, numerous other factors, including governmental regulatory actions and proposed or actual modifications in the tax laws, could have a significant impact on the market price of the Common Stock.

Availability of shares for future sale could adversely affect the market price. Sales of substantial amounts of Common Stock (including shares issued upon the exercise of options), or the perception that such sales could occur, could adversely affect the prevailing market price for the Common Stock. In addition, officers of the Company other than Messrs. Zuckerman and Linde own an aggregate of 1,186,298 OP Units. OP Units may, after August 23, 1998, be exchanged for cash or, at the option of the Company, for shares of Common Stock on a one-for-one basis. See "Structure and Formation of the Company--Formation Transactions" and "Operating Partnership Agreement--Redemption of OP Units." Messrs. Zuckerman and Linde and the other executive and senior officers of the Company have agreed, subject to certain limited exceptions, not to offer, sell, contract to sell or otherwise dispose of any Common Stock for a period of two years (one year in the case of senior officers who are not executive officers) from June 23, 1997 without the prior written consent of Goldman, Sachs & Co. and Merrill Lynch, Pierce, Fenner & Smith Incorporated. At the conclusion of the two year restriction period (or earlier with the consent of Goldman, Sachs & Co. and Merrill Lynch, Pierce, Fenner & Smith Incorporated), all shares of Common Stock owned by Messrs. Zuckerman and Linde and such other individuals, including shares of Common Stock acquired in exchange for OP Units, may be sold in the public market pursuant to registration rights or any available exemptions from registration. See "Shares Available for Future Sale." In addition, after the completion of the Offering, 6,616,880 shares of Common Stock will be reserved for issuance pursuant to the Company's Stock Option Plan, of which 2,297,600 shares will be subject to outstanding options. Shares of Common Stock purchased pursuant to options granted under the Stock Option Plan will generally be available for sale in the public market. See "Management--Stock Option Plan" and "Shares Available for Future Sale." No prediction can be made as to the effect of future sales of Common Stock on the market price of shares of Common Stock.

THE COMPANY HAS HAD HISTORICAL ACCOUNTING LOSSES AND HAS A DEFICIT IN OWNERS' EQUITY; THE COMPANY MAY EXPERIENCE FUTURE LOSSES

After depreciation and amortization, the Company has had historical accounting losses for certain fiscal years and there can be no assurances that the Company will not have similar losses in the future. The Boston Properties Predecessor Group had a net loss of approximately \$4.0 million in the aggregate in 1995 and had cumulative aggregate deficits in owners' equity of approximately \$576.6 million and approximately \$506.7 million at December 31, 1996 and 1995, respectively. Net losses reflect the effect of certain non-cash charges such as depreciation and amortization. The aggregate deficits reflect the effects of depreciation and amortization described above plus the effects of distributions in excess of earnings or of mortgage proceeds upon the refinancing of properties.

THE COMPANY

GENERAL

Boston Properties, Inc. is one of the largest owners and developers of office properties in the United States, with a significant presence in six submarkets in Greater Boston, five submarkets in Greater Washington, D.C., two submarkets in midtown Manhattan, and the downtown submarket of Baltimore, Maryland. The Company owns 92 Properties, including six Properties under development and ten Properties expected to be acquired in January and February 1998. The Properties aggregate approximately 18.1 million square feet.

Since the Company's Initial Offering in June 1997, the Company has acquired three office properties; entered into a contract to acquire ten office properties expected to close in January and February 1998; and is currently developing six properties, consisting of five office properties aggregating approximately 1.0 million net rentable square feet and one 221 room hotel. The aggregate anticipated investment for the 13 properties acquired or to be acquired is approximately \$1.13 billion and the total anticipated investment for the six development properties is approximately \$101.1 million (of which \$3.9 million was incurred prior to the Initial Offering). In addition, the Company has delivered five office properties that were under development at the time of the Initial Offering, for a total anticipated investment of approximately \$50.8 million (of which \$28.8 million was incurred prior to the Initial Offering). The Company will use a portion of the proceeds of this Offering to purchase the ten Acquisition Properties that are currently under contract and expected to close in January and February 1998, which Properties are located in Richmond, Virginia, Montgomery County, Maryland and Fairfax County, Virginia and aggregate approximately 2.2 million net rentable square feet; and fund ongoing development, including with respect to the six Development Properties currently under development; and repay outstanding balances under the Company's Unsecured Line of Credit. As of December 1, 1997 the Company had \$233.0 million outstanding under the Unsecured Line of Credit, which amounts had been incurred primarily to support the Company's acquisition and development activity.

The Company was formed to succeed to the real estate development, redevelopment, acquisition, management, operating and leasing businesses associated with the predecessor company founded by Mortimer B. Zuckerman and Edward H. Linde in 1970. The Company expects to qualify as a REIT for federal income tax purposes for the year ending December 31, 1997. See "Federal Income Tax Consequences--Federal Income Taxation of the Company." Following the completion of this Offering, Messrs. Zuckerman and Linde will beneficially own in the aggregate a 22.4% economic interest in the Company and the other senior officers of the Company will beneficially own in the aggregate a 1.7% economic interest in the Company.

The Company's portfolio consists of 79 Office Properties with approximately 13.1 million net rentable square feet (including five Office Development Properties totaling approximately 1.0 million net rentable square feet and ten Acquisition Properties expected to be acquired in January and February 1998 with approximately 2.2 million net rentable square feet) that have approximately 2.9 million square feet of structured parking for 8,119 vehicles; nine Industrial Properties with approximately 925,000 net rentable square feet; three hotels, including one limited service extended stay hotel under development, totaling 1,054 rooms and approximately 940,000 square feet; and a 1,170 space parking garage of approximately 330,000 square feet. The Company owns a 100% fee interest in 77 of the Properties that account for 99% of the Company's rental revenues. The Company also owns, has under contract or has options to acquire twelve undeveloped parcels of land totaling 69.7 acres, located primarily in Greater Boston and Greater Washington, D.C., which will support approximately 1.5 million square feet of development.

Over its 27 year history, the Company has developed 83 properties totaling 15.3 million square feet, including properties developed for third parties and the six properties currently under development. The Company's current portfolio of 92 properties includes 60 of these Company-developed properties. The Company believes that it has created significant value in its properties by developing well located properties that meet the demands of today's office tenants, redeveloping underperforming assets, and improving the management of under-managed assets it has acquired.

As of September 30, 1997, the Office Properties (excluding the Office Development Properties) and the Industrial Properties had an occupancy rate of 96% and the Hotel Properties (excluding the Hotel Development Property) had an average occupancy rate for the nine month period ended September 30, 1997 of 88%. Leases with respect to 2.4% of the leased square footage of the Office and Industrial Properties expire in the fourth quarter of 1997, and 7.5% and 6.3% expire in calendar years 1998 and 1999, respectively.

The Company currently manages all of the Properties except the two completed Hotel Properties, which are managed by Marriott International, Inc., the Garage Property, and parking garages that are a part of certain of the Office Properties. The Company has long-established, full-service offices in Boston, midtown Manhattan and Washington, D.C. and achieves efficiencies of scale by operating a centralized financial control and data center at its Boston headquarters that is responsible for processing of all operating budgets, billing and payments for all of its completed and development properties. As a result, the Company believes that it has the capacity to increase the number of properties it owns and manages with less than a proportional increase in overhead costs.

The Company believes it has superior access to potential development and acquisition opportunities by virtue of its long-standing reputation and relationships, both nationally and in its primary markets, with brokers, tenants, financial institutions, development agencies, and contractors. The Company intends to utilize its experience with, and understanding of, the development and management of a range of commercial property types to opportunistically pursue developments and acquisitions within its existing and new markets. The Company's extensive development experience includes suburban and downtown office buildings, downtown hotels, mixed-use projects, R&D and research laboratory buildings, suburban office/flex buildings, suburban office and industrial parks, warehouse and distribution buildings, and special purpose facilities, as well as both new construction and substantial renovation for re-use or repositioning. The properties that the Company has developed have won numerous awards.

The Company believes that the Properties are well positioned to provide a base for continued growth. The Office and Industrial Properties are leased to high quality tenants and, in general, are located in submarkets with low vacancy rates and rising rents and room rates. With the value added by the Company's in-house marketing, leasing, tenant construction and property management programs, the Company has historically achieved high occupancy rates and efficient re-leasing of vacated space.

The Company believes that its capacity for growth will be enhanced by combining its experienced personnel, established market position and relationships, hands-on approach to development and management, substantial portfolio of existing properties and buildings under development, and existing acquisition opportunities with the advantages that are available to it as a public company. These advantages include improved access to debt and equity financing and the ability to acquire properties and sites through the issuance of stock and OP Units, which can be of particular value to potential tax-sensitive sellers. The Company also believes that because of its size and reputation it will be a desirable buyer for those institutions or individuals wishing to sell individual properties or portfolios of properties in exchange for an equity position in a public real estate company.

The Company will continue to supplement its revenues, leverage the experience of its personnel and strengthen its market position by providing comprehensive, project level development and management services on a selective basis to private sector companies and government agencies. Between 1989 and September 30, 1997, the Company completed eight third-party development projects comprising approximately 2.4 million net rentable square feet. In addition to enhancing revenues without significantly increasing overhead the Company has achieved significant recognition and experience through this work, which has led to enhanced opportunities for the Company to obtain build-to-suit development projects.

The Company has a \$300 million unsecured revolving line of credit (the "Unsecured Line of Credit") led by BankBoston, as agent, that expires in June 2000. The Company uses the Unsecured Line of Credit principally to facilitate its development and acquisition activities and for working capital purposes. As of December 1, 1997, the Company had outstanding under the Unsecured Line of Credit \$233.0 million, all of which will be repaid upon the completion of this Offering. As of December 1, 1997, the Company had a debt to total market capitalization ratio of approximately 41.8%. At the completion of this Offering and the application of the net proceeds therefrom, the Company expects to have a debt to total market capitalization ratio of approximately 36.0%. See "Unsecured Line of Credit."

The Company is a full-service real estate company, with substantial in-house expertise and resources in acquisitions, development, financing, construction management, property management, marketing, leasing, accounting, tax and legal services. As of September 30, 1997, the Company had 312 employees, including 94 professionals. The Company's 16 senior officers, together with Mr. Zuckerman, Chairman of the Board, have an average of 24 years experience in the real estate industry and an average of 16 years tenure with the Company.

HISTORY

The Company was founded in Boston, Massachusetts in 1970 by Messrs. Zuckerman and Linde to acquire and develop first-class commercial real estate for long-term ownership and management. Over its 27 year history, the Company has established a successful record of focusing on submarkets where the Company can achieve leadership positions. The following paragraphs describe the Company's development and evolution.

Growth in Boston

In the early 1970's, Messrs. Zuckerman and Linde identified the area of suburban Boston along Route 128 as ready for the development of modern office buildings, and they selected the quadrant west/northwest of Boston between the Massachusetts Turnpike and US 93 as the most desirable area in which to concentrate their efforts. Between 1978 and 1988, the Company acquired 13 key sites in that area, and completed development of 17 office buildings on those sites, containing more than 2.0 million net rentable square feet. The Company also built on its growing reputation for quality development in the Boston area by successfully competing for control of sites available through public competitions. In total for Greater Boston, the Company has developed, acquired or redeveloped, for its own account or for third parties, 42 buildings containing approximately 5.1 million square feet, of which the Company still owns approximately 3.8 million square feet.

Expansion to Washington, D.C. and its Suburban Markets

The Company opened its Washington, D.C. regional office in November 1979 to pursue development and acquisitions and to provide real estate development services in Greater Washington, D.C., including the Northern Virginia and suburban Maryland real estate markets. Within this region, the Company has concentrated its efforts in those submarkets that it believes to be the strongest, including Southwest Washington, D.C., Montgomery County, Maryland, Fairfax County, Virginia and Prince George's County, Maryland. During the past 18 years, the Company, for its own account and for third parties, has developed 34 buildings in Greater Washington, D.C., totaling approximately 6.1 million square feet. The Company continues to own 25 of these properties consisting of approximately 3.8 million square feet.

Expansion to Midtown Manhattan

In the early 1980's, Messrs. Zuckerman and Linde decided to explore opportunities to expand the Company's operations to New York City and focused on midtown Manhattan as desirable for new development. The Company identified a key block-front site at 599 Lexington Avenue, and based on the Company's assessment of the strengths of the site and the building design (including larger floors than were generally available in the market area), proceeded in 1984 with construction of a 1.0 million net rentable square foot office tower. The building, which the Company still owns, has had an occupancy rate in excess of 97% for the past seven years. The building has continued to command premium rents within its submarket.

Response to Market Conditions

In the late 1980's, in response to market conditions, the Company decided not to undertake any new speculative development or land or property acquisitions based on its assessment of a growing oversupply and weakening real estate fundamentals in the markets in which it operated. The Company was able to continue to prosper by operating the portfolio of properties it had acquired and developed since 1970, by finding opportunities for build-to-suit development, and by expanding the scope of its third-party development management activities. Between 1989 and September 30, 1997, the Company completed eight third party development projects on a fee basis. The Company is currently the development manager on projects for, among others, the National Institutes of Health and Acacia Mutual Life Insurance Company in Washington, D.C., the United States Postal Service in New York City and Boston and the Hyatt Development Corporation in Boston.

RECENT EVENTS

Since the Company's Initial Offering in June 1997, the Company has acquired three Class A Office Buildings, entered into contracts to acquire ten Office Properties expected to close in January and February 1998, and is developing five Class A Office Buildings and one 221 room hotel for a total anticipated investment of approximately \$1.23 billion. The following describes the 13 properties acquired or to be acquired:

RECENT ACQUISITIONS

| PROPERTY | DATE ACQUIRED/ TO BE ACQUIRED | NET RENTABLE SQUARE FEET | INITIAL INVESTMENT | ANTICIPATED FUTURE INVESTMENT | TOTAL INVESTMENT | CURRENT OCCUPANCY | ANNUALIZED RENT PER LEASED SQ. FT. AT 9/30/97(/1/) |
|---|----------------------------------|-----------------------------|-----------------------|----------------------------------|---------------------|----------------------|---|
| 280 Park Avenue, New York, NY..... | 9/97 | 1,198,769 | \$322,650,000 | \$28,986,652 | \$351,636,652 | 88% | \$41.95 |
| 100 East Pratt Street, Baltimore, MD..... | 10/97 | 633,482 | 137,516,000 | -- | 137,516,000 | 97 | 24.53 |
| 875 Third Avenue, New York, NY..... | 11/97 | 681,669 | 206,500,000 | 2,400,000 | 208,900,000 | 100 | 42.37 |
| Riverfront Plaza, Richmond, VA..... | 1/98 | 899,720 | 174,361,000 | -- | 174,361,000 | 97 | 20.16 |
| Mulligan/Griffin Portfolio, MD & VA..... | 2/98 | 1,277,454 | 252,900,892 | -- | 252,900,892 | 96 | 27.64(2) |
| TOTAL/WEIGHTED AVERAGE.. | | 4,691,094 | \$1,093,927,892 | \$31,386,652 | \$1,125,314,544 | 95% | \$31.58 |

(1) At September 30, 1997 total rent abatements with respect to these properties, on an annualized basis, were equal to \$1.91 per leased square foot.

(2) The Mulligan/Griffin Portfolio consists of nine Office Properties and six parcels of land. Two of the Properties were designed and built to serve certain specialized business purposes of the tenants at these Properties, resulting in rents that are presently higher than average market rents for office properties in these submarkets for tenants not requiring similarly customized properties.

280 Park Avenue. This Class A Office Building is located in the Park Avenue submarket of midtown Manhattan. According to Insignia/ESG, at September 30, 1997, this submarket had an availability rate of 7.6% and an average asking rent of \$46.31 per square foot. The Company anticipates investing approximately \$29.0 million in tenant improvements, leasing commissions and building system improvements. The Property consists of two linked towers of 30 stories and 42 stories. Principal tenants at this Property include Bankers Trust Company, Furman Selz LLC and the National Football League.

100 East Pratt Street. This Class A Office Building is located in downtown Baltimore, Maryland. According to Colliers Pinkard, at June 30, 1997, the first tier of the downtown Baltimore Class A office market (which includes this Property) had an availability rate of 8.6% and average asking rents of \$24.83 per square foot. The largest tenant at this Property is T. Rowe Price.

875 Third Avenue. This Class A Office Building is located in the East Side submarket of midtown Manhattan on Third Avenue between 52nd and 53rd Streets. According to Insignia/ESG, at September 30, 1997, the East Side submarket had an availability rate of 12.6% and an average asking rent of \$36.95 per square foot. Principal tenants at this Property include Debevoise & Plimpton and Instinet Corporation. The Company satisfied \$25 million of the purchase price through the issuance of 890,869 restricted OP Units.

Riverfront Plaza. The Company has entered into a purchase and sale agreement to acquire this Class A Office Building in Richmond, Virginia. According to Harrison & Bates, at September 30, 1997, the Richmond Class A office market had an availability rate of 5.0% and an average asking rent of \$20.84 per square foot. Primary tenants at this Property include Hunton & Williams and Wheat First Butcher Singer, Inc. While the Company anticipates closing on this acquisition in January 1998, there can be no assurances that the Company will acquire this property in January 1998, or at all.

Mulligan/Griffin Portfolio. The Company has entered into agreements to acquire this portfolio of nine office buildings aggregating approximately 1.3 million net rentable square feet and six parcels of land aggregating 30.7 acres located in the Gaithersburg I-270 and I-270 Rockville submarkets of Montgomery County, Maryland and the Springfield and Reston submarkets of Fairfax County, Virginia. According to Spaulding & Slye, at September 30, 1997, these submarkets had availability rates of 13.7%, 8.4%, 6.1% and 4.8% and average asking rents of \$19.50, \$20.26, \$10.04 and \$21.86 per square foot, respectively. Principal

tenants at these properties include Lockheed Martin Corporation and the United States of America. The \$252.9 million acquisition price for the Mulligan/Griffin Portfolio will be satisfied by acquiring the portfolio subject to \$113.3 million of mortgage debt (or substituting such indebtedness); issuing \$50 million of restricted OP Units, valued based on the ten day daily trading average of Common Stock at the time of closing; and paying the balance in cash or, at the election of the contributors, through the issuance of additional restricted OP Units. While the Company anticipates closing on these acquisitions in February 1998, there can be no assurances that the Company will acquire these properties in February 1998, or at all.

The Company regularly pursues the acquisition of income producing properties and sites for development and may from time to time enter into letters of intent, contribution agreements and purchase and sale agreements with respect to the same. In addition to the Acquisition Properties, the Company is currently a party to two purchase and sale agreements with respect to sites located in Greater Washington D.C. and Greater Boston. The Company is conducting its due diligence review under both agreements and currently has the right to terminate each agreement without payment of a termination fee to the seller. There can be no assurance that either of such land acquisitions will be consummated.

Since the Company's Initial Offering, the Company has completed the development or redevelopment of the following Properties for its own account:

DEVELOPMENT PROPERTIES DELIVERED SINCE THE INITIAL OFFERING

| PROPERTY | DATE PLACED IN SERVICE | LOCATION | NO. OF BUILDINGS | NET RENTABLE SQUARE FEET | ANTICIPATED TOTAL INVESTMENT+ | CURRENT OCCUPANCY |
|---|------------------------|-----------------|------------------|--------------------------|-------------------------------|-------------------|
| Sugarland Building One.. | 6/97 | Herndon, VA | 1 | 52,797 | \$ 5,962,348 | 82% |
| Sugarland Building Two.. | 6/97 | Herndon, VA | 1 | 59,423 | 5,256,692 | 46 |
| 7700 Boston Boulevard, Building Twelve..... | 10/97 | Springfield, VA | 1 | 82,224 | 10,427,128 | 100 |
| 7501 Boston Boulevard, Building Seven..... | 11/97 | Springfield, VA | 1 | 75,756 | 11,469,620 | 100 |
| 201 Spring Street..... | 11/97 | Lexington, MA | 1 | 102,000 | 17,689,442 | 100 |
| TOTAL/WEIGHTED AVERAGE.. | | | 5 | 372,200 | \$50,805,230 | 89% |
| | | | === | ===== | ===== | === |

+ As of November 30, 1997, the Company had invested \$45.2 million, of which \$28.8 million was invested at or prior to the completion of the Initial Offering.

Sugarland Buildings One and Two. These single story office/flex buildings on extensively landscaped sites are located in the Sugarland Office Complex in Herndon, Virginia. The Company purchased the buildings vacant in 1996 and completed improvements to them in June 1997. As of December 1, 1997 approximately 70% of the total of 112,220 net rentable square feet of these buildings was committed under signed leases or letters of intent with leases in negotiation.

7700 Boston Boulevard, Building Twelve and 7501 Boston Boulevard, Building Seven. These R&D Properties are located on land owned by the Company in its Virginia-95 Office Park and are currently 100% leased to Autometric, Inc. and the General Services Administration for terms of 15 and 10 years, respectively.

201 Spring Street. This Class A Office Building is located in the Route 128 Northwest submarket of Greater Boston and is adjacent to the Company's existing Class A Office Building at 191 Spring Street. The building is currently 100% leased to MediaOne. MediaOne has notified the Company that it intends to relocate its headquarters to another state and sublease this building.

The Company is currently developing the following Properties for its own account:

PROPERTIES CURRENTLY UNDER DEVELOPMENT

| DEVELOPMENT PROPERTIES | ANTICIPATED COMPLETION | LOCATION | NO. OF BUILDINGS | NET RENTABLE SQUARE FEET | ANTICIPATED TOTAL INVESTMENT+ |
|---|------------------------|---------------|------------------|--------------------------|-------------------------------|
| Class A Office Buildings | | | | | |
| Reston Overlook (25% ownership)..... | Q1 1999 | Reston, VA | 2 | 444,000 | \$18,100,000/(1)/ |
| Eight Cambridge Center..... | Q2 1999 | Cambridge, MA | 1 | 134,054 | 21,000,000 |
| 181 Spring Street..... | Q2 1999 | Lexington, MA | 1 | 52,000 | 10,871,085 |
| One Freedom Square (25% ownership)..... | Q4 1999 | Reston, VA | 1 | 406,980 | 19,150,000/(1)/ |
| ----- | | | | | |
| Total Class A Office Buildings..... | | | 5 | 1,037,034 | \$ 69,121,085 |
| Hotel | | | | | |
| Residence Inn by Marriott(R)..... | Q1 1999 | Cambridge, MA | 1 | 187,474 | \$32,000,000 |
| ----- | | | | | |
| TOTAL DEVELOPMENT PROPERTIES..... | | | 6 | 1,224,508 | \$101,121,085 |
| ==== | | | | | |

+ As of November 30, 1997, the Company had invested \$6.9 million, of which \$3.9 million was invested at or prior to the completion of the Initial Offering.

(1) Represents 25% of the total anticipated project-level investment.

One and Two Reston Overlook. One Reston Overlook is an approximately 312,000 square foot, 12-story, Class A Office Building located in Reston, Virginia. The Company is developing this property through its joint venture with Westbrook. Completion of One Reston Overlook is scheduled for February 1999. Approximately 309,000 square feet of development is pre-leased to BDM for a term of twelve years (the building's remaining 3,000 square feet are ground-floor retail space). The Company is also constructing Two Reston Overlook, a six-story building on the site totaling approximately 132,000 square feet. Two Reston Overlook is being developed without a pre-leasing commitment in response to the significant unsatisfied demand for office space in the Reston, Virginia market. Delivery of Two Reston Overlook is scheduled for December 1998.

Eight Cambridge Center. This seven-story Class A Office Building is located in the Cambridge Center development in East Cambridge, Massachusetts. Completion of this Class A Office Building is scheduled for April 1999.

181 Spring Street. This Class A Office Building is adjacent to the Company's 201 Spring Street Property in the Route 128 Northwest submarket of Greater Boston. This property is being developed without a pre-leasing commitment in response to the significant unsatisfied demand for office space in the Route 128 Northwest submarket. Completion of 181 Spring Street is scheduled for May 1999.

One Freedom Square. This Class A Office Building is currently being developed by the Company in Reston, Virginia. This building is 59.0% pre-committed to Andersen Consulting. Completion of the building is scheduled for the fourth quarter of 1999.

Residence Inn by Marriott(R). The Company is currently developing this 221-room limited service extended stay hotel on land owned by the Company in the Company's Cambridge Center development. The hotel will be managed by the Residence Inn division of Marriott International, Inc. and is scheduled to open in January 1999. As with the Company's other Hotel Properties, the Company will lease this hotel and will have a participation in the gross receipts of the hotel.

BUSINESS AND GROWTH STRATEGIES

BUSINESS STRATEGY

The Company's primary business objective is to maximize growth in net available cash for distribution and to enhance the value of its portfolio in order to maximize total return to stockholders. The Company's strategy to achieve this objective is: (i) to selectively acquire and develop properties in the Company's existing markets, adjacent suburban markets and in new markets that present favorable opportunities; (ii) to maintain high lease renewal rates at rents that are at the high end of the markets in which the Properties are located, and to continue to achieve high room rates and occupancy rates in the Hotel Properties; and (iii) to selectively provide fee-based development consulting and project management services to third parties.

GROWTH STRATEGIES

External Growth

The Company believes that it is well positioned to realize significant growth through external asset development and acquisition. During its 27 year history, the Company has developed and acquired 125 properties for itself and third parties (including properties currently under contract to acquire). The Company believes that this development experience and the Company's organizational depth positions the Company to continue to develop a range of property types, from single-story suburban properties to high-rise urban developments, within budget and on schedule. Other factors that contribute to the Company's competitive position include: (i) the significant increase in demand for new, high quality office and industrial space in the Company's core market areas; (ii) the Company's control of sites (including sites under contract or option to acquire) in its core markets that will support approximately 1.5 million square feet of new development through fee ownership, contract ownership, and joint venture relationships; (iii) the Company's reputation gained through the stability and strength of its existing portfolio of properties; (iv) the Company's relationships with leading national corporations and public institutions seeking new facilities and development services; (v) the Company's relationships with nationally recognized financial institutions that provide capital to the real estate industry; and (vi) the substantial amount of commercial real estate owned by domestic and foreign institutions, private investors, and corporations who are seeking to sell such assets in the Company's market areas.

The Company has targeted four areas of development and acquisition as significant opportunities to execute the Company's external growth strategy:

Acquire assets and portfolios of assets from institutions or individuals. The Company believes that due to its size, management strength and reputation it will be in an advantageous position to acquire portfolios of assets or individual properties from institutions or individuals. Some of these properties may be acquired for cash but the Company believes that it is particularly well positioned to appeal to sellers wishing to convert on a tax deferred basis their ownership of property to the ownership of equity in a diversified real estate operating company that offers liquidity through access to the public equity markets. In addition, the Company may pursue mergers with and acquisitions of compatible real estate firms. The ability to offer OP Units to sellers who would otherwise recognize a gain upon a sale of assets for cash or Common Stock may facilitate this type of transaction on a tax-efficient basis. The Company is currently in discussions with certain institutional investors to acquire certain of their portfolio properties, but no assurances can be given that the Company will purchase any of such properties.

Acquire existing underperforming assets and portfolios of assets. The Company has actively pursued and continues to pursue opportunities to acquire existing buildings that, while currently generating income, are either underperforming the market due to poor management or are currently leased below market with anticipated roll-over of space. These opportunities may include the acquisition of entire portfolios of properties. The Company believes that because of its in-depth market knowledge and development experience in each market in which it currently operates, its national reputation with brokers, financial institutions and others involved in the real estate market and its access to competitively-priced capital, the Company is well-positioned to identify and acquire existing, underperforming properties for competitive prices and to add significant additional value to such properties through its effective marketing strategies and responsive property management program.

The Company's development capabilities enable the Company to purchase properties that have significant redevelopment potential, and to redevelop and re-position such properties in the market. Examples of the Company's implementation of this strategy include the Company's redevelopment of an approximately 163,000 net rentable square foot office building at 191 Spring Street in Lexington, Massachusetts in 1995. The Company acquired the property on a sale and short-term leaseback. When the existing tenant vacated, the Company redeveloped the property, adding a new facade, elevator and stair tower and creating an atrium, and leased the property in its entirety as first-class office space to The Stride Rite Corporation for its corporate headquarters.

Another example of the Company's implementation of this strategy was the acquisition of the Sugarland Office Park in Herndon, Virginia. After the major tenant of this two-building, 112,220 square foot, single story office project moved out, the institutional owner decided to sell the property rather than undertake a redevelopment or remarketing effort. The property was substantially vacant when the Company acquired it in November of 1996. As of December 1, 1997, 70% of the available space was committed to new tenants.

Similarly, the Company has been successful at acquiring properties that have more land available for development. When the Company acquired Bedford Business Park in Bedford, Massachusetts, the property had 203,000 square feet of buildings. The Company used additional zoning capacity to build an additional 270,000 square feet on the site.

Pursue development and land acquisitions in selected submarkets. The Company believes that development of well-positioned office buildings and R&D properties is currently or will be justified in many of the submarkets in which the Company has a presence. The Company believes in acquiring land in response to market conditions that allow for the development of such land in the relatively near term. Over its 27 year history, the Company has established a successful record of carefully timing land acquisitions in submarkets where the Company can become one of the market leaders in establishing rent and other business terms. The Company believes that there are opportunities in its existing and other markets to acquire land with development potential at key locations in markets which are experiencing growth.

In the past, the Company has been particularly successful at acquiring sites or options to purchase sites that need governmental approvals before the commencement of development. Because of the Company's development expertise, knowledge of the governmental approval process and reputation for quality development with local government approval bodies, the Company generally has been able to secure the permits necessary to allow development, thereby enabling the Company to profit from the increase in their value once the necessary permits have been obtained.

In accordance with its belief that future development will provide significant growth opportunities, the Company controls several major parcels of land in its core submarkets which are positioned for near term development. These sites are either (i) owned outright by the Company, (ii) subject to options at prices that the Company believes are less than the value of the land once developed, or (iii) owned by a third party with whom the Company has established a joint venture relationship with respect to such site.

The Company has entered into two joint ventures with Westbrook, a major investment fund that owns the Mobil Land Corporation national portfolio including Reston Town Center, which is currently zoned for the development of several office buildings in Reston, Virginia. The Company's first joint venture with Westbrook is for the construction of Reston Overlook, a two-building, approximately 444,000 net rentable square foot project. BDM has committed to lease the first 309,000 square feet and is expected to occupy such space in February 1999. The Company's second joint venture with Westbrook is for the construction of One Freedom Square, an approximately 407,000 square foot office building, of which 240,000 square feet are pre-committed to Andersen Consulting. The Company expects to complete this building in the fourth quarter of 1999. The Company expects that its relationship with Westbrook with respect to properties in Reston, Virginia will continue. The Reston market is one of the most active areas of expansion for the rapidly growing Northern Virginia computer technology and telecommunications industries. See "Business and Properties--Proposed Developments."

In addition, the Company is pursuing a number of proposed development projects.

The Company believes that, in many cases, land owners with limited development expertise and/or limited financial resources wish to align their property with an experienced, stable development team who can secure financing and lead tenants. The Company has historically been very successful at securing lead tenants and favorable financing terms for its major projects, and therefore is routinely sought as a joint venture partner. Examples of the Company's successful joint ventures with land owners include One and Two Independence Square in Southwest Washington, D.C., which are the headquarters for the Office of the Comptroller of the Currency and the National Aeronautics and Space Administration, respectively, and the United States International Trade Commission Building, which is the headquarters of the United States International Trade Commission.

Provide third-party development management services. While the primary objective of the Company has been, and will continue to be, the development and acquisition of quality, income producing buildings to be held for long term ownership, a select amount of comprehensive project-level development management services for third parties will be an element of the continued growth and strategy of the Company. The Company believes that third-party development projects permit the Company to: (i) create relationships with major institutions and corporations that lead to new development opportunities; (ii) continue to enhance the Company's reputation in its core markets; (iii) create opportunities to enter new markets; and (iv) leverage its operating overhead.

The Company's previous third-party development management projects include the Thurgood Marshall Federal Judiciary Building in Washington, D.C. and the Health Care Financing Administration Building in Woodlawn, Maryland, laboratory facilities for Biogen and Beth Israel Hospital in Cambridge and Boston, Massachusetts, and the New York Daily News headquarters and printing plant in New York City and Jersey City, New Jersey, respectively. The high quality of the Company's development management projects is evidenced by the numerous awards bestowed upon the Federal Judiciary Building, the Health Care Financing Administration Building and the New York Daily News headquarters. Current third-party development management projects that the Company is engaged in include the development of a new \$330 million Clinical Research Center for the National Institutes of Health, the redevelopment of 90 Church Street in New York City for the U.S. Postal Service, and the redevelopment of the Acacia Mutual Life Insurance Company building in Washington, D.C. which has been leased in its entirety to the law firm of Jones, Day, Reavis & Pogue.

Internal Growth

The Company believes that significant opportunities exist to increase cash flow from its existing Properties because they are high quality properties in desirable locations in submarkets that, in general, are experiencing rising rents, low vacancy rates and increasing demand for office and industrial space. In addition, the Company's Properties are in markets where, in general, supply is limited by the lack of available sites and the difficulty of receiving the necessary approvals for development on vacant land. The Company's strategy for maximizing the benefits from these opportunities is (i) to provide high quality property management services using its own employees in order to enhance tenant preferences for renewal, expansion and relocation in the Company's properties, and (ii) to achieve speed and transaction cost efficiency in replacing departing tenants through the use of in-house services for marketing, lease negotiation, and design and construction of tenant improvements. In addition, the Company believes that the Hotel Properties will add to the Company's internal growth because of their desirable locations in the downtown Boston and East Cambridge submarkets, which are experiencing high occupancy rates and continued growth in room rates, and their effective management by Marriott(R), which has achieved high guest satisfaction and limitations on increases in operating costs.

Cultivate existing submarkets. In choosing locations for its properties, the Company has paid particular attention to transportation and commuting patterns, physical environment, adjacency to established business centers, proximity to sources of business growth and other local factors. Substantially all of the Company's square footage of Office Properties are located in fourteen submarkets in Greater Boston; Greater Washington, D.C.; midtown Manhattan and Baltimore, Maryland.

Many of these submarkets are experiencing increasing rents and as a result current market rates often exceed the rents being paid by current tenants in the Properties. The Company expects that leases expiring over the next three years in these submarkets will be renewed, or space relet, at higher rents. Leases with

respect to 2.4% of the leased square footage of the Office and Industrial Properties expires in the fourth quarter of 1997, and 7.5% and 6.3% expire in calendar years 1998 and 1999, respectively. The actual rental rates at which available space will be re-let will depend on prevailing market factors at the time. There can be no assurance that the Company will re-let such space at an increased, or even at the then current, rental rate.

Directly manage properties to maximize the potential for tenant retention. The Company itself provides property management services, rather than contracting for this service, to achieve awareness of and responsiveness to tenant needs. The Company and the Properties also benefit from cost efficiencies produced by an experienced work force attentive to preventive maintenance and energy management and from the Company's continuing programs to assure that its property management personnel at all levels remain aware of their important role in tenant relations. The Company has long recognized that renewal of existing tenant leases, as opposed to tenant replacement, often provides the best operating results, because renewals minimize transaction costs associated with marketing, leasing and tenant improvements and avoid interruptions in rental income during periods of vacancy and renovation of space.

Replace tenants quickly at best available market terms and lowest possible transaction costs. The Company believes that it has a competitive advantage in attracting new tenants and achieving rental rates at the higher end of its markets as a result of its well-located, well-designed and well-maintained properties, its reputation for high quality building services and responsiveness to tenants, and its ability to offer expansion and relocation alternatives within its submarkets. The Company's objective throughout this process is to obtain the highest possible rental terms and to achieve rent commencement for new tenancies as quickly as possible, and the Company believes that its use of in-house resources for marketing, leasing and tenant improvements continues to result in lower than average transaction costs.

USE OF PROCEEDS

The net proceeds to the Company from the Offering, after deducting the underwriting discount and estimated expenses of the Offering, are estimated to be approximately \$441.1 million (approximately \$507.2 million if the Underwriters' over-allotment option is exercised in full). The net proceeds of the Offering are expected to be used by the Company to (a) pay down \$233.0 million of indebtedness under the Unsecured Line of Credit, (b) pay \$52.6 million in connection with the acquisition of Riverfront Plaza, (c) pay \$88.5 million in connection with the acquisition of the Mulligan/Griffin Portfolio (which amount may be reduced upon the election of the sellers of these Properties to receive a greater portion of the purchase price in restricted OP Units), (d) to fund acquisition opportunities currently under contract if the Company's due diligence with respect thereto is satisfactorily completed and a closing thereon is consummated, and to fund other acquisition opportunities that may arise, (e) fund property developments currently in process, including \$99.8 million that the Company has committed or budgeted to invest, and (f) for general corporate and working capital purposes, including the possible repayment of additional indebtedness and related prepayment penalties (see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources--Mortgage Indebtedness"). The outstanding balance under the Unsecured Line of Credit, which as of December 1, 1997 bore interest at a rate equal to LIBOR plus 125 basis points, or 7.125%, was incurred to (i) acquire Newport Office Park, (ii) acquire 100 East Pratt Street, (iii) repay indebtedness incurred in connection with development and acquisition activity prior to the Initial Offering, and (iv) for general corporate purposes. This Offering is not contingent upon the consummation of the acquisitions described in clauses (b) and (c) above.

If the Underwriters' over-allotment options are exercised in full, the Company expects to use the additional net proceeds (which will be approximately \$66.1 million) for general corporate purposes.

Pending application of cash proceeds, the Company will invest such portion of the net proceeds in interest-bearing accounts and short-term, interest-bearing securities, which are consistent with the Company's intention to qualify for taxation as a REIT.

PRICE RANGE OF SHARES AND DISTRIBUTION HISTORY

The Company's Common Stock began trading on the New York Stock Exchange on June 18, 1997, under the symbol "BXP". The following table sets forth the high and low closing prices per share of the Common Stock on the NYSE for the periods indicated, as reported by the NYSE. The Initial Offering of the Company's Common Stock at a price to the public of \$25.00 per share was completed on June 23, 1997.

| QUARTER ENDED ----- | HIGH ----- | LOW ----- | DISTRIBUTIONS ----- |
|--|---------------|--------------|------------------------|
| June 30, 1997 (from June 18, 1997)..... | \$27 1/4 | \$26 1/8 | \$0.035(1) |
| Third Quarter..... | 33 1/4 | 26 5/8 | 0.405(2) |
| Fourth Quarter (through December 1, 1997)..... | 34 3/8 | 30 | |

-
- (1) This dividend with respect to the period from June 23, 1997 through June 30, 1997 was paid on November 21, 1997, together with the Company's dividend for the quarter ended September 30, 1997.
 - (2) This dividend with respect to the quarter ended September 30, 1997 was paid on November 21, 1997.

The Company currently intends to pay regular quarterly dividends to its stockholders of \$0.405 per share of Common Stock, which is equal to an annual dividend of \$1.62 per share. Dividend distributions will be declared at the discretion of the Board of Directors and will depend on cash flow from operations of the Company, its financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Code and such other factors as the Board of Directors may deem relevant. The Board of Directors may modify the Company's dividend policy from time to time. Future distributions by the Company will be at the discretion of the Board of Directors and will depend on a number of factors, including the amount of cash flow and the Operating Partnership's financial condition. Any decision by the Board of Directors to reinvest the cash flow rather than to distribute such funds to the Company will depend upon the Operating Partnership's capital requirements, the annual distribution requirements under the REIT provisions of the Code (see "Federal Income Tax Consequences--Requirements for Qualification--Annual Distribution Requirements") and such other factors as the Board of Directors deems relevant. There can be no assurance that any distributions will be made or that the estimated level of distributions will be maintained by the Company.

The Company has determined that the \$0.44 per share dividend paid for the period from June 23, 1997 through the end of the third quarter of 1997 represented ordinary dividend income to its stockholders.

On December 1, 1997 there were 114 holders of record of 38,694,041 shares of the Company's Common Stock.

The Company has declared, in respect of the quarter ended December 31, 1997, a dividend of \$0.405 per share payable on January 28, 1998 to shareholders of record on December 28, 1997.

CAPITALIZATION

The following table sets forth the capitalization of the Company as of September 30, 1997, and as adjusted to give effect to the Offering and application of the net proceeds therefrom as described under "Use of Proceeds." The information set forth in the table should be read in conjunction with the combined historical financial statements and notes thereto, the pro forma financial information and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources" included elsewhere in this Prospectus.

| | AS | |
|---|------------------------|-------------|
| | HISTORICAL | ADJUSTED(1) |
| | ----- | |
| | (DOLLARS IN THOUSANDS) | |
| Debt: | | |
| Mortgage Notes..... | \$ 914,614 | \$1,307,677 |
| Unsecured Line of Credit..... | 71,000 | -- (2) |
| Minority interest in Operating Partnership..... | 81,168 | 159,168 |
| Stockholders' equity..... | | |
| Preferred Stock, \$.01 par value, 50,000,000 shares authorized, none issued or outstanding..... | -- | -- |
| Excess Stock, \$.01 par value, 150,000,000 shares authorized, none issued or outstanding..... | -- | -- |
| Common Stock, \$.01 par value, 250,000,000 shares authorized, 38,693,541 historical and 52,694,041 pro forma shares issued and outstanding(/1/)..... | 387 | 527 |
| Additional paid-in capital..... | 172,315 | 613,252 |
| Retained earnings..... | 22,779 | 22,779 |
| | ----- | ----- |
| Total capitalization..... | \$1,262,263 | \$2,103,403 |
| | ===== | ===== |

- - - - -
- (1) Does not include 2,297,600 shares of Common Stock subject to options granted under the Company's Stock Option Plan. Does not include 18,461,087 OP Units; after August 23, 1998 or such later date as an OP Unit holder may agree, OP Units are redeemable for cash or, at the election of the Company, shares of Common Stock on a one-for-one basis.
 - (2) Reflects the net effect of the historical balance as adjusted for drawdowns subsequent to September 30, 1997 of (i) approximately \$137,500 to pay for the acquisition of 100 East Pratt Street and (ii) approximately \$24,500 to fund on going developments and for general corporate purposes, less the approximately \$233,000 balance of the Unsecured Line of Credit to be repaid from the anticipated use of proceeds.

SELECTED FINANCIAL INFORMATION

The following table sets forth unaudited pro forma financial and other information for the Company and combined historical financial information for the Boston Properties Predecessor Group. The following selected financial information should be read in conjunction with the financial statements and notes thereto included elsewhere in this Prospectus.

The combined historical balance sheets as of December 31, 1996 and 1995 and combined historical statements of operations for the years ended December 31, 1996, 1995 and 1994 of the Boston Properties Predecessor Group have been derived from the historical combined financial statements audited by Coopers & Lybrand L.L.P., independent accountants, whose report with respect thereto is included elsewhere in this Prospectus.

The selected financial data at and for the nine months ended September 30, 1997 (which includes the Company and the Boston Properties Predecessor Group) and for the nine months ended September 30, 1996 are derived from unaudited financial statements. The unaudited financial information includes all adjustments (consisting of normal recurring adjustments) that management considers necessary for fair presentation of the consolidated and combined financial position and results of operations for these periods. Consolidated and combined operating results for the nine months ended September 30, 1997 are not necessarily indicative of the results to be expected for the entire year ended December 31, 1997.

Unaudited pro forma adjustments and operating information for the nine months ended September 30, 1997 and for the year ended December 31, 1996 are presented as if the completion of the Initial Offering and the Formation Transactions, the Offering, and the properties acquired and pending acquisitions subsequent to September 30, 1997 and the acquisitions subsequent to December 31, 1996, had occurred at January 1, 1996, and the effect thereof was carried forward through the nine months ended September 30, 1997. By necessity, such pro forma operating information incorporates certain assumptions which are described in the notes to the Pro Forma Condensed Consolidated Statements of Income included elsewhere in this Prospectus. The unaudited pro forma balance sheet data is presented as if the aforementioned transactions had occurred on September 30, 1997.

The pro forma information does not purport to represent what the Company's financial position or results of operations would actually have been if these transactions had, in fact, occurred on such date or at the beginning of the period indicated, or to project the Company's financial position or results of operations at any future date or for any future period.

THE COMPANY AND THE BOSTON PROPERTIES PREDECESSOR GROUP
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

| | THE COMPANY | THE PREDECESSOR GROUP | | THE COMPANY | |
|---|--|--|---|---|---|
| | HISTORICAL | | | | |
| | PRO FORMA NINE MONTHS ENDED SEPTEMBER 30, 1997 | JUNE 23, 1997 TO SEPTEMBER 30, 1997 | JANUARY 1, 1997 TO JUNE 22, 1997 | NINE MONTHS ENDED SEPTEMBER 30, 1996 | PRO FORMA YEAR ENDED DECEMBER 31, 1996 |
| | (UNAUDITED) | (UNAUDITED) | (UNAUDITED) | (UNAUDITED) | (UNAUDITED) |
| OPERATING DATA: | | | | | |
| Revenues: | | | | | |
| Rental revenue (1)..... | \$ 270,079 | \$ 64,253 | \$ 93,802 | \$147,391 | \$348,034 |
| Hotel revenue (1)..... | -- | -- | 31,185 | 47,458 | -- |
| Fee and other income..... | 6,927 | 4,100 | 4,831 | 7,470 | 7,608 |
| Total revenues.. | 277,006 | 68,353 | 129,818 | 202,319 | 355,642 |
| Expenses: | | | | | |
| Property expenses..... | 82,609 | 17,893 | 27,032 | 43,728 | 110,157 |
| Hotel expenses (1)..... | -- | -- | 22,452 | 32,359 | -- |
| General and administrative... | 9,396 | 3,164 | 5,116 | 8,149 | 12,538 |
| Interest..... | 76,435 | 16,091 | 53,324 | 82,627 | 103,650 |
| Depreciation and amortization... | 43,156 | 10,113 | 17,054 | 27,008 | 58,130 |
| Total expenses.. | 211,596 | 47,261 | 124,978 | 193,871 | 284,475 |
| Income (loss) before minority interest in combined partnership..... | 65,410 | 21,092 | 4,840 | 8,448 | 71,167 |
| Minority interest in combined partnership..... | (304) | (69) | (235) | (288) | (384) |
| Income (loss) before minority interest in Operating Partnership..... | 65,106 | 21,023 | 4,605 | 8,160 | 70,783 |
| Minority interest in Operating Partnership..... | (16,888) | (6,169) | -- | -- | (18,361) |
| Income (loss) before extraordinary items..... | \$ 48,218 | 14,854 | 4,605 | 8,160 | \$ 52,422 |
| Extraordinary gains (loss) on early debt extinguishments, net of minority interest..... | | 7,925 | -- | -- | |
| Net income (loss)..... | | \$ 22,779 | \$ 4,605 | \$ 8,160 | |
| Per Share of Common Stock Data: | | | | | |
| Income before extraordinary items..... | \$.92 | \$.38 | -- | -- | \$.99 |
| Net income..... | -- | .59 | -- | -- | -- |
| Weighted average number of shares outstanding..... | 52,694 | 38,694 | -- | -- | 52,694 |
| Weighted average number of shares and OP Units outstanding..... | 71,155 | 54,760 | -- | -- | 71,155 |
| BALANCE SHEET DATA, AT PERIOD END: | | | | | |
| Real estate, before accumulated depreciation.... | \$2,212,643 | \$1,433,376 | -- | -- | -- |
| Real estate, after accumulated depreciation.... | 1,927,138 | 1,147,871 | -- | -- | -- |

| | | | | | |
|--|------------|-----------|-----------|-----------|-----------|
| Cash and cash equivalents..... | 113,115 | 25,989 | -- | -- | -- |
| Total assets..... | 2,164,889 | 1,295,638 | -- | -- | -- |
| Total indebtedness..... | 1,334,665 | 985,614 | -- | -- | -- |
| Stockholders' or owners' equity (deficiency).... | 636,558 | 195,481 | -- | -- | -- |
| OTHER DATA: | | | | | |
| Funds from Operations (2) (unaudited)..... | \$ 105,064 | \$ 30,879 | \$ 21,450 | \$ 34,652 | \$117,116 |
| Company's Funds from Operations (unaudited)..... | 77,810 | 21,818 | -- | -- | 86,736 |
| EBITDA (3) (unaudited)..... | 180,626 | 47,106 | 74,838 | 117,525 | 228,015 |
| Company's EBITDA(unaudited) | 133,772 | 33,284 | -- | -- | 168,869 |
| Cash flow provided by operating activities (4) | -- | \$ 25,930 | \$ 25,226 | \$ 31,109 | -- |
| Cash flow used in investing activities (4) | -- | (356,794) | (32,844) | (42,952) | -- |
| Cash flow provided by (used in) financing activities (4).. | -- | 356,853 | 9,130 | (1,555) | -- |

THE PREDECESSOR GROUP

HISTORICAL
YEAR ENDED DECEMBER 31,

1996 1995 1994 1993 1992

OPERATING DATA:

Revenues:

| | | | | | |
|---------------------------|------------|------------|------------|------------|------------|
| Rental revenue (1)..... | \$ 195,006 | \$ 179,265 | \$ 176,725 | \$ 182,776 | \$ 177,370 |
| Hotel revenue (1)..... | 65,678 | 61,320 | 58,436 | 54,788 | 52,682 |
| Fee and other income..... | 9,249 | 8,140 | 8,922 | 7,997 | 11,160 |
| Total revenues.. | 269,933 | 248,725 | 244,083 | 245,561 | 241,212 |

Expenses:

| | | | | | |
|----------------------------------|---------|---------|---------|---------|---------|
| Property expenses..... | 58,195 | 55,421 | 53,239 | 54,766 | 49,621 |
| Hotel expenses (1).... | 46,734 | 44,018 | 42,753 | 40,286 | 38,957 |
| General and administrative... | 10,754 | 10,372 | 10,123 | 9,549 | 9,331 |
| Interest..... | 109,394 | 108,793 | 97,273 | 90,335 | 91,889 |
| Depreciation and amortization... | 36,199 | 33,828 | 33,112 | 33,148 | 35,030 |
| Total expenses.. | 261,276 | 252,432 | 236,500 | 228,084 | 224,828 |

Income (loss)

| | | | | | |
|---|-------|---------|-------|--------|--------|
| before minority interest in combined partnership..... | 8,657 | (3,707) | 7,583 | 17,477 | 16,384 |
| Minority interest in combined partnership..... | (384) | (276) | (412) | (391) | (374) |

Income (loss)

| | | | | | |
|--|-------|---------|-------|--------|--------|
| before minority interest in Operating Partnership..... | 8,273 | (3,983) | 7,171 | 17,086 | 16,010 |
| Minority interest in Operating Partnership..... | -- | -- | -- | -- | -- |

Income (loss)

| | | | | | |
|---|-------|---------|-------|--------|--------|
| before extraordinary items..... | 8,273 | (3,983) | 7,171 | 17,086 | 16,010 |
| Extraordinary gains (loss) on early debt extinguishments, net of minority interest..... | (994) | -- | -- | -- | -- |

| | | | | | |
|------------------------|----------|------------|----------|-----------|-----------|
| Net income (loss)..... | \$ 7,279 | \$ (3,983) | \$ 7,171 | \$ 17,086 | \$ 16,010 |
|------------------------|----------|------------|----------|-----------|-----------|

Per Share of

| | | | | | |
|---|-------------|-------------|------------|------------|------------|
| Common Stock | | | | | |
| Data: | | | | | |
| Income before extraordinary items..... | -- | -- | -- | -- | -- |
| Net income..... | -- | -- | -- | -- | -- |
| Weighted average number of shares outstanding..... | -- | -- | -- | -- | -- |
| Weighted average number of shares and OP Units outstanding..... | -- | -- | -- | -- | -- |
| BALANCE SHEET DATA, AT PERIOD | | | | | |
| END: | | | | | |
| Real estate, before accumulated depreciation.... | \$1,035,571 | \$1,012,324 | \$ 984,853 | \$ 983,751 | \$ 982,348 |
| Real estate, after accumulated depreciation.... | 771,660 | 773,810 | 770,763 | 789,234 | 811,815 |
| Cash and cash equivalents..... | 8,998 | 25,867 | 46,289 | 50,697 | 28,841 |
| Total assets..... | 896,511 | 922,786 | 940,155 | 961,715 | 971,648 |
| Total indebtedness..... | 1,442,476 | 1,401,408 | 1,413,331 | 1,426,882 | 1,417,940 |
| Stockholders' or owners' equity (deficiency).... | (576,632) | (506,653) | (502,230) | (495,104) | (480,398) |
| OTHER DATA: | | | | | |
| Funds from Operations (2) (unaudited)..... | \$ 36,318 | \$ 29,151 | \$ 39,568 | \$ 49,240 | \$ 50,097 |
| Company's Funds from Operations (unaudited)..... | -- | -- | -- | -- | -- |
| EBITDA (3) (unaudited)..... | 153,566 | 138,321 | 137,269 | 140,261 | 142,627 |
| Company's EBITDA(unaudited)..... | -- | -- | -- | -- | -- |
| Cash flow provided by operating activities (4)..... | \$ 51,531 | \$ 29,092 | \$ 45,624 | \$ 59,834 | \$ 50,468 |
| Cash flow used in investing activities (4)..... | (23,689) | (36,844) | (18,424) | (9,437) | (48,257) |
| Cash flow provided by (used in) financing activities (4).. | (44,711) | (12,670) | (31,608) | (28,540) | 1,365 |

- (1) Pro forma revenue for the nine month period ended September 30, 1997 and the year ended December 31, 1996 includes the lease revenue that the Company has/will receive under the lease for the two Hotel Properties. After entering into such lease, the Company has not/will not recognize direct hotel revenues and expenses.
- (2) The White Paper on Funds from Operations approved by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT") in March 1995 defines Funds from Operations as net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from debt restructuring and sales of properties, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. The Company believes that Funds from Operations 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 ability of the Company to incur and service debt, to make capital expenditures and to fund other cash needs. The Company computes Funds from Operations in accordance with standards established by NAREIT which may not be comparable to Funds from Operations reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than the Company. Funds from Operations does not represent cash generated from operating activities determined in accordance with GAAP and should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of the Company's financial performance or to cash flow from operating activities (determined in accordance with GAAP) 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.

Funds from Operations for the respective periods is calculated as follows:

| | THE COMPANY | | THE PREDECESSOR GROUP | | THE COMPANY | | THE PREDECESSOR GROUP | | | | |
|--|--|--|---|---|---|-------------------------|-----------------------|----------|----------|----------|--|
| | HISTORICAL | | HISTORICAL | | HISTORICAL | | HISTORICAL | | | | |
| | PRO FORMA NINE MONTHS ENDED SEPTEMBER 30, 1997 | JUNE 23, 1997 TO SEPTEMBER 30, 1997 | JANUARY 1, 1997 TO JUNE 22, 1997 | NINE MONTHS ENDED SEPTEMBER 30, 1996 | PRO FORMA YEAR ENDED DECEMBER 31, 1996 | YEAR ENDED DECEMBER 31, | | | | | |
| | | | | | | 1996 | 1995 | 1994 | 1993 | 1992 | |
| | (UNAUDITED) | (UNAUDITED) | (UNAUDITED) | (UNAUDITED) | (UNAUDITED) | (DOLLARS IN THOUSANDS) | | | | | |
| FUNDS FROM OPERATIONS | | | | | | | | | | | |
| Income (loss) before minority interest and extraordinary item..... | \$ 65,410 | \$21,092 | \$ 4,840 | \$ 8,448 | \$ 71,167 | \$ 8,657 | \$(3,707) | \$ 7,583 | \$17,477 | \$16,384 | |
| Add: | | | | | | | | | | | |
| Real estate depreciation and amortization.. | 40,039 | 9,974 | 16,808 | 26,590 | 53,931 | 35,643 | 33,240 | 32,509 | 32,300 | 34,221 | |
| Less: | | | | | | | | | | | |
| Minority combined partnership's share of Funds from Operations.... | (385) | (187) | (198) | (386) | (479) | (479) | (382) | (524) | (537) | (508) | |
| Non-recurring item-- significant lease termination fee..... | -- | -- | -- | -- | (7,503) | (7,503) | -- | -- | -- | -- | |
| Funds from Operations (unaudited)..... | \$105,064 | \$30,879 | \$21,450 | \$34,652 | \$117,116 | \$36,318 | \$29,151 | \$39,568 | \$49,240 | \$50,097 | |

- (3) EBITDA means operating income before mortgage and other interest, income taxes, depreciation and amortization. The Company believes EBITDA is useful to investors as an indicator of the Company's ability to service debt or pay cash distributions. EBITDA, as calculated by the Company, is not comparable to EBITDA reported by other REITs that do not define EBITDA exactly as the Company defines that term. EBITDA should not be considered as an alternative to operating income or net income (determined in accordance with GAAP) as an indicator of operating performance or as an alternative to cash flows from operating activities (determined in accordance with GAAP) as an indicator of liquidity and other combined or consolidated income or cash flow statement data (determined in accordance with GAAP). EBITDA for the respective periods is calculated as follows:

THE COMPANY THE PREDECESSOR GROUP THE COMPANY

| | HISTORICAL | | | | |
|--|---|---|--|--|--|
| | PRO FORMA NINE MONTHS ENDED SEPTEMBER 30, 1997 (UNAUDITED) | JUNE 23, 1997 TO SEPTEMBER 30, 1997 (UNAUDITED) | JANUARY 1, 1997 TO JUNE 22, 1997 (UNAUDITED) | NINE MONTHS ENDED SEPTEMBER 30, 1996 (UNAUDITED) | PRO FORMA YEAR ENDED DECEMBER 31, 1996 (UNAUDITED) |
| EBITDA | | | | | |
| Income (loss) before minority interest and extraordinary item..... | \$ 65,410 | \$21,092 | \$ 4,840 | \$ 8,448 | \$ 71,167 |
| Add: | | | | | |
| Interest expense..... | 75,362 | 16,091 | 53,324 | 82,627 | 103,045 |
| Real estate depreciation and amortization... | 40,039 | 9,974 | 16,808 | 26,590 | 53,931 |
| Other depreciation... | 385 | 139 | 246 | 418 | 556 |
| Less: | | | | | |
| Minority combined partnership's share of EBITDA..... | (570) | (190) | (380) | (558) | (684) |
| EBITDA (unaudited)..... | \$180,626 ===== | \$47,106 ===== | \$74,838 ===== | \$117,525 ===== | \$228,015 ===== |

THE PREDECESSOR GROUP

| | HISTORICAL YEAR ENDED DECEMBER 31, | | | | |
|--|---------------------------------------|--------------------|--------------------|--------------------|--------------------|
| | 1996 | 1995 | 1994 | 1993 | 1992 |
| EBITDA | | | | | |
| Income (loss) before minority interest and extraordinary item..... | \$ 8,657 | \$ (3,707) | \$ 7,583 | \$ 17,477 | \$ 16,384 |
| Add: | | | | | |
| Interest expense..... | 109,394 | 108,793 | 97,273 | 90,335 | 91,889 |
| Real estate depreciation and amortization... | 35,643 | 33,240 | 32,509 | 32,300 | 34,221 |
| Other depreciation... | 556 | 588 | 603 | 848 | 809 |
| Less: | | | | | |
| Minority combined partnership's share of EBITDA..... | (684) | (593) | (699) | (699) | (676) |
| EBITDA (unaudited)..... | \$153,566 ===== | \$138,321 ===== | \$137,269 ===== | \$140,261 ===== | \$142,627 ===== |

(4) Pro forma information relating to cash flow from operating, investing and financing activities has not been included because the Company believes that the information would not be meaningful due to the number of assumptions required in order to calculate this information.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is based primarily on the consolidated financial statements of the Company for the period subsequent to formation of the Company and on the combined financial statements of the Boston Properties Predecessor Group for the periods prior to the Formation Transactions.

The following discussion should be read in conjunction with the "Selected Financial Information" and the historical and pro forma financial statements and notes thereto appearing elsewhere in this Prospectus. The pro forma financial position is presented as if the Offering and the acquisitions subsequent to September 30, 1997 had occurred on September 30, 1997. The pro forma results of operations is presented as if the Initial Offering, the Formation Transactions, the Offering and the acquisitions subsequent to December 31, 1996 had occurred on January 1, 1996. See "Structure and Formation of the Company--Formation Transactions" and the Notes to the pro forma financial statements of the Company. The combined financial statements of the Boston Properties Predecessor Group consist of 60 of the Office Properties that were owned as of that date (including five Office Properties under development during 1996), nine Industrial Properties, two Hotel Properties and the Garage Property.

RESULTS OF OPERATIONS

COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 1997 TO THE NINE MONTHS ENDED SEPTEMBER 30, 1996.

For discussion purposes, the results of operations for the nine months ended September 30, 1997 combine the operating results of the Boston Properties Predecessor Group for the period January 1, 1997 to June 22, 1997 and the operating results of the Company for the period June 23, 1997 to September 30, 1997. The results of operations for the nine months ended September 30, 1996 represent solely the operating results of the Boston Properties Predecessor Group. Consequently, the comparison of the periods provides only limited information regarding the operations of the Company.

Rental revenue increased \$10.7 million or 7.3% to \$158.1 million from \$147.4 million for the nine months ended September 30, 1997 compared to the nine months ended September 30, 1996. Rental revenue for the nine months ended September 30, 1997 includes rental revenue from the hotel leases for the eight-day period June 23, 1997 to June 30, 1997 and the three months ended September 30, 1997 as well as rental revenue from the properties acquired during 1997.

Hotel operating revenue decreased \$16.3 million or 34.3% to \$31.2 million from \$47.5 million for the nine months ended September 30, 1997 compared to the nine months ended September 30, 1996. Hotel operating revenue for the nine months ended September 30, 1997 only includes revenue from January 1, 1997 to June 22, 1997 as a result of the Operating Partnership entering into a participating lease with ZL Hotel LLC at the time of the Initial Offering.

Third party management and development fee income increased \$1.0 million or 20.4% to \$5.9 million from \$4.9 million for the nine months ended September 30, 1997 compared to the nine months ended September 30, 1996 as a result of increased fees on existing projects as well as additional projects.

Interest income and other increased \$0.4 million or 16.7% to \$3.0 million from \$2.6 million for the nine months ended September 30, 1997 compared to the nine months ended September 30, 1996, primarily due to increasing average cash balances.

Property expenses increased \$1.2 million or 2.7% to \$44.9 million from \$43.7 million for the nine months ended September 30, 1997 compared to the nine months ended September 30, 1996 primarily as a result of real estate acquisitions.

Hotel operating expenses decreased \$10.0 million or 30.9% to \$22.4 million from \$32.4 million for the nine months ended September 30, 1997 compared to the nine months ended September 30, 1996. Hotel expenses for the nine months ended September 30, 1997 only includes expenses from January 1, 1997 to June 22, 1997.

General and administrative expenses increased \$0.1 million or 1.6% to \$8.3 million from \$8.2 million for the nine months ended September 30, 1997 compared to the nine months ended September 30, 1996.

Interest expense decreased \$13.2 million or 16.0% to \$69.4 million from \$82.6 million for the nine months ended September 30, 1997 compared to the nine months ended September 30, 1996. An increase in interest expense due to increased indebtedness for the period January 1, 1997 to June 22, 1997 was offset by a reduction in interest expense for the eight-day period June 23, 1997 to June 30, 1997 and the three months ended September 30, 1997 as a result of the payoff of approximately \$707 million of mortgage indebtedness.

Depreciation and amortization expense increased \$0.2 million or 0.7% to \$27.2 million from \$27.0 million for the nine months ended September 30, 1997 compared to the nine months ended September 30, 1996.

As a result of the foregoing, net income before minority interests and extraordinary items increased \$17.5 million to \$25.9 million from \$8.4 million for the nine months ended September 30, 1997 compared to the nine months ended September 30, 1996.

COMPARISON OF YEAR ENDED DECEMBER 31, 1996 TO YEAR ENDED DECEMBER 31, 1995.

Rental revenue increased \$15.7 million or 8.8% to \$195.0 million from \$179.3 million for the year ended December 31, 1996 compared to the year ended December 31, 1995 primarily as a result of (i) a \$7.5 million lease termination fee received from a tenant at 599 Lexington Avenue for which the space was immediately released, (ii) an increase of \$2.8 million due to the completion of the redevelopment and leasing of 191 Spring Street and (iii) an overall increase in occupancy and rental rates.

Hotel revenue increased \$4.4 million or 7.1% to \$65.7 million from \$61.3 million for the year ended December 31, 1996 compared to the year ended December 31, 1995 primarily as a result of an increase in average daily room rates of 7.6%.

Third-party management and development fee income increased \$1.3 million or 29.5% to \$5.7 million from \$4.4 million for the year ended December 31, 1996 compared to the year ended December 31, 1995 primarily as a result of new fees for development services for projects which began during 1996.

Interest and other income decreased \$0.2 million or 4.5% to \$3.5 million from \$3.7 million primarily due to a reduction in interest income resulting from a reduction in cash reserves.

Property expenses increased \$2.8 million or 5.0% to \$58.2 million from \$55.4 million for the year ended December 31, 1996 compared to the year ended December 31, 1995 primarily as a result of a \$1.1 million increase in utility costs which was partially due to the increase in occupancy of the properties during 1996 and an increase of \$0.1 million in real estate taxes.

Hotel expenses increased \$2.7 million or 6.2% to \$46.7 million from \$44.0 million for the year ended December 31, 1996 compared to the year ended December 31, 1995.

General and administrative expense increased \$0.4 million, or 3.7% to \$10.8 million from \$10.4 million for the year ended December 31, 1996 compared to the year ended December 31, 1995.

Interest expense increased \$0.6 million or 0.6% to \$109.4 million from \$108.8 million for the year ended December 31, 1996 compared to the year ended December 31, 1995 primarily as the result of an increase in interest expense of 191 Spring Street resulting from the capitalization of interest during the redevelopment of that property during 1995, an increase in total indebtedness from new loans on Bedford Business Park and Capital Gallery, partially offset by decreases in interest rates on variable rate loans.

Depreciation and amortization expense increased \$2.4 million or 7.1% to \$36.2 million from \$33.8 million for the year ended December 31, 1996 compared to the year ended December 31, 1995 as a result of increased tenant improvement costs incurred during the successful leasing of available space during 1995 and 1996.

As a result of the foregoing, net income before extraordinary item and minority interest in combined partnership increased \$12.4 million to \$8.7 million from a loss of \$3.7 million for the year ended December 31, 1996 compared to the year ended December 31, 1995.

COMPARISON OF YEAR ENDED DECEMBER 31, 1995 TO YEAR ENDED DECEMBER 31, 1994.

Rental revenue increased \$2.5 million or 1.4% to \$179.3 million from \$176.7 million for the year ended December 31, 1995 compared to the year ended December 31, 1994 as a result of increases in occupancy, including an increase of \$2.3 million from releasing at Democracy Center partially offset by a loss of revenue of \$2.7 million from 191 Spring Street which was taken out of service for eleven months of 1995 while undergoing a complete redevelopment.

Hotel revenue increased \$2.9 million or 4.9% to \$61.3 million from \$58.4 million for the year ended December 31, 1995 compared to the year ended December 31, 1994 primarily as a result of an increase in the average daily room rate of 7.7%.

Third-party management and development fee revenue decreased \$1.6 million or 27.0% to \$4.4 million from \$6.0 million primarily as the result of a decline in revenue from projects completed in 1994.

Interest and other income increased \$864,000 or 30.9% to \$3.7 million from \$2.8 million for the year ended December 31, 1995 compared to the year ended December 31, 1994 primarily as a result of an increase in interest income from cash investments.

Property expenses increased \$2.2 million or 4.1% to \$55.4 million from \$53.2 million for the year ended December 31, 1995 compared to the year ended December 31, 1994 primarily as a result of increased utilities and building cleaning and maintenance costs.

Hotel expenses increased \$1.3 million or 3.0% to \$44.0 million from \$42.8 million for the year ended December 31, 1995 compared to the year ended December 31, 1994.

General and administrative expense increased \$249,000 or 2.5% to \$10.4 million from \$10.1 million for the year ended December 31, 1995 compared to the year ended December 31, 1994.

Interest expense increased \$11.5 million or 11.9% to \$108.8 million from \$97.3 million for the year ended December 31, 1995 compared to the year ended December 31, 1994 as a result of increases in interest rates on variable rate mortgage loans partially offset by a reduction in indebtedness resulting from scheduled payments of mortgage loan principal and the capitalization of interest of the 191 Spring Street loan during the redevelopment of that property in 1995.

Depreciation and amortization expense increased \$716,000 or 2.2% to \$33.9 million from \$33.1 million for the year ended December 31, 1995 compared to the year ended December 31, 1994.

As a result of the foregoing, net income before extraordinary item and minority interest in combined partnership decreased \$11.3 million to a loss of \$3.7 million from \$7.6 million of net income for the year ended December 31, 1995 compared to the year ended December 31, 1994.

PRO FORMA OPERATING RESULTS

Nine Months Ended September 30, 1997. For the nine months ended September 30, 1997, pro forma net income before extraordinary item would have been \$48.2 million compared to \$19.5 million of historical net income for the nine months ended September 30, 1997. The pro forma operating results for the nine months ended September 30, 1997 include a minority interest in the Operating Partnership of \$16.9 million, whereas there was a minority interest in the Operating Partnership of \$6.2 million for the period from June 23, 1997 through September 30, 1997. On a pro forma basis, net income before minority interest for the nine months ended September 30, 1997 would have been \$65.4 million compared to \$25.9 million of net income before extraordinary items for the corresponding historical period. Income before minority interest in Operating Partnership and extraordinary item increased by \$39.4 million on a pro forma basis for the nine months ended September 30, 1997 primarily due to a reduction of interest expense and income earned on the 1997 acquisitions and pending acquisitions.

Pro forma rental revenue for 1996 and the nine months ended September 30, 1997 includes lease revenue from the Hotel and Garage Properties whereas the historical financial statements include revenues and expenses on a gross basis on the respective line items for the Hotel and Garage properties.

Upon completion of the Initial Offering, certain management fee contracts were assigned to the Development and Management Company, which entity, on a pro forma basis, has been accounted for under the equity method. Revenue and expenses from these contracts are included on a gross basis in the historical financial statements in their respective line items.

Year Ended December 31, 1996. For the year ended December 31, 1996, pro forma net income before minority interest in Operating Partnership and extraordinary item would have been \$70.8 million compared to \$8.3 million of historical net income for the year ended December 31, 1996. The pro forma operating results for the year ended December 31, 1996 include a minority interest in Operating Partnership of \$18.4 million whereas there was no minority interest in Operating Partnership in the corresponding historical period. On a pro forma basis, net income before extraordinary item for the year ended December 31, 1996 would have been \$52.4 million compared to \$8.3 million of net income before extraordinary items for the corresponding historical period. Income before minority interest in Operating Partnership and extraordinary item increased by \$62.5 million on a pro forma basis for the year ended December 31, 1996 primarily due to a reduction of interest expense.

Pro Forma rental revenue for the nine months ended September 30, 1997 and for the year ended December 31, 1996 includes the lease revenues that the Company will receive from ZL Hotel LLC under the lease for the two Hotel Properties. After entering into such lease, the Company will not recognize hotel revenues and expenses.

The development and management operations of the Company are reflected on a gross basis in the historical combined financial statements. In connection with the Formation Transactions, a portion of the Greater Washington, D.C. third-party property management business was contributed by the Company to the Development and Management Company and thereafter the operations of the Development and Management Company were accounted for by the Company under the equity method in the pro forma statements; therefore, the pro forma statements include (i) revenues and expenses on a gross basis from development and management conducted directly by the Operating Partnership in the respective income and expense line items and (ii) the Development and Management Company's net operations in the fee and other income line item. See "Business and Properties--Development Consulting and Third-Party Property Management."

LIQUIDITY AND CAPITAL RESOURCES

Upon completion of the Offering and the expected application of the net proceeds therefrom as described in "Use of Proceeds," the Company expects to have reduced its total indebtedness from \$1.54 billion to \$1.33 billion, all of which debt is secured by Properties (the "Mortgage Debt"). The \$1.33 billion Mortgage Debt is comprised of 19 loans secured by 21 properties, with a weighted average interest rate of 7.59% on the fixed rate portion. Approximately 1.0% of the Mortgage Debt (\$11.6 million) is floating rate. There will be a total of \$22.1 million of scheduled loan principal payments due during the year ending December 31, 1998. At the completion of the Offering, the Company's debt to market capitalization ratio will be 36.0% (35.3% if the underwriters' overallotment options are exercised in full).

Mortgage Indebtedness. As of December 1, 1997, the Company had outstanding approximately \$1.33 billion of indebtedness secured by each of the Properties as listed below:

| PROPERTIES | INTEREST RATE | PRINCIPAL | ANNUAL DEBT SERVICE | MATURITY DATE | ESTIMATED BALANCE AT MATURITY |
|---|---------------|-------------|---------------------|--------------------|-------------------------------|
| (IN THOUSANDS) | | | | | |
| 599 Lexington Avenue..... | 7.00% | \$ 225,000 | \$ 15,750 | July 19, 2005 | \$ 225,000(1) |
| 280 Park Avenue..... | 7.00(2) | 220,000 | 15,379 | September 11, 2002 | 202,400 |
| 875 Third Avenue..... | 8.75 | 180,000 | 15,750(3) | December 31, 2002 | 175,754 |
| Riverfront Plaza(4)..... | 7.03 | 121,800 | 10,358 | January 7, 2008 | 95,856 |
| Two Independence Square..... | 7.90(5) | 121,625 | 10,767 | February 27, 2003 | 113,844 |
| One Independence Square..... | 7.90(5) | 77,688 | 7,038 | August 21, 2001 | 73,938 |
| 2300 N Street..... | 6.88 | 66,000 | 4,540 | August 3, 2003 | 66,000 |
| Capital Gallery..... | 8.24 | 60,029 | 5,767 | August 15, 2006 | 49,555 |
| The National Imaging and Mapping Agency Building(6)(7)..... | (8) | 49,445 | 8,232 | February 15, 2003 | 25,194 |
| The Lockheed Martin Building(6)(7).... | 9.38 | 42,952 | 7,215 | July 15, 2002 | 24,379 |
| 10 & 20 Burlington Mall Road(9)..... | 8.33 | 37,000 | 3,082 | October 1, 2001 | 37,000 |
| Ten Cambridge Center & North Garage... | 7.57 | 40,000 | 3,028 | March 29, 2000 | 40,000 |
| 191 Spring Street..... | 8.50 | 23,697 | 2,271 | September 1, 2006 | 20,428 |
| Bedford Business Park..... | 8.50 | 23,119 | 1,980 | December 10, 2008 | 15,891 |
| Reston Town Center Office Complex(7).. | 6.00 | 22,419 | 3,857 | February 1, 2005 | -- |
| Montvale Center..... | 8.59 | 7,905 | 779 | December 1, 2006 | 6,556 |
| Newport Office Park..... | 8.13 | 6,775 | 794 | July 1, 2001 | 5,764 |
| Hilltop Business Center..... | 7.13(10) | 4,617 | 535 | December 15, 1998 | 4,400 |
| Total..... | | \$1,330,071 | \$117,122 | | \$1,181,959 |

- (1) At maturity the lender has the option to purchase a 33.33% interest in this Property in exchange for the cancellation of the loan indebtedness. See "Business and Properties--The Office Properties--Midtown Manhattan Office Market--Park Avenue Submarket--Description of Park Avenue Submarket Properties."
- (2) For purposes of calculating debt service, \$213,000 of the outstanding principal balance has a fixed rate of 7.00%. The remaining \$7,000 of the outstanding principal balance is calculated at LIBOR + 1.00%.
- (3) Represents interest only payments. Principal payments begin on January 1, 2000 based on a 30 year amortization schedule.
- (4) The interest rate with respect to this loan will be fixed at a rate equal to the ten year treasury note rate at the date the acquisition of this Property is completed, plus 115 basis points. For purposes of this table, the ten year treasury note rate of 5.88% at November 26, 1997 was used. The Company has signed a purchase and sale agreement with respect to this Property and anticipates closing in January 1998.
- (5) The interest rate increases to 8.5% on March 25, 1998 through the loan expiration.
- (6) The lender has the option to require repayment in full of these loans at the closing of the Company's acquisition of these Properties. Repayment at such date would require the Company to reimburse the contributor for an aggregate prepayment penalty of approximately \$12-13 million. In connection with these acquisitions, the lender has been engaged in discussions regarding the restructuring or refinancing of these loans.
- (7) The Company has agreed with the contributors of these properties to maintain non-recourse indebtedness thereon for a period of time such that if prepayment of these mortgage notes is required substitute indebtedness would be required.
- (8) Represents two loans with amounts outstanding of \$47,721 and \$1,724, respectively. These loans have interest rates of 9.38% and 9.70%, respectively.
- (9) Includes outstanding indebtedness secured by 91 Hartwell Avenue and 92 and 100 Hayden Avenue.
- (10) LIBOR+1.50%. For purposes of calculating debt service, LIBOR as of September 30, 1997 was 5.63%.

The Unsecured Line of Credit. The Company has a three year, \$300 million Unsecured Line of Credit that expires in June 2000. The Unsecured Line of Credit has been and will be used to facilitate development and acquisition activities and for working capital purposes. A portion of the proceeds of this Offering will be used to repay the \$233.0 million of outstanding indebtedness currently outstanding under the Company's Unsecured Line of Credit. See "Unsecured Line of Credit."

Analysis of Liquidity and Capital Resources. The Company anticipates that distributions will be paid from cash available for distribution, which is expected to exceed cash historically available for distribution as a result of the reduction in debt service resulting from the repayment of indebtedness.

The Company expects to meet its short-term liquidity requirements generally through its working capital and net cash provided by operations. The Company's operating properties and hotels require periodic investments of capital for tenant-related capital expenditures and for general capital improvements. For the period from January 1, 1992 to September 30, 1997 the Company's recurring tenant improvements and leasing commissions averaged \$7.79 per square foot of leased space per year. During the years ending December 31, 1998 through December 31, 2002, the Company expects that the average annual cost of recurring tenant improvements and leasing commissions will be approximately \$8,759,799 based upon the average square footage of expiring leases during such period of 1,124,493 square feet. The Company expects the cost of general capital improvements to the Properties during such period to average \$2,604,659 annually based upon an estimate of \$0.20 per square foot. Actual capital expenditures of the Hotel Properties are expected to be \$2,509,000 based upon the average annual capital expenditures at the Hotel Properties during the period from January 1, 1992 to September 30, 1997.

The Company expects to meet its long-term liquidity requirements for the funding of property development, property acquisitions and other non-recurring capital improvements through long-term secured and unsecured indebtedness (including the Unsecured Line of Credit) and the issuance of additional equity securities from the Company. The Company also intends to fund property development, property acquisitions and other non-recurring capital improvements using the Unsecured Line of Credit on an interim basis.

The Company will have commitments to fund to completion development projects that are currently in process. Commitments under these arrangements totaled \$89.0 million as of September 30, 1997. The Company expects to fund these commitments initially using the Unsecured Line of Credit and cash flow from operations. In addition, the Company has options to acquire land that require minimum deposits that the Company will fund using the Unsecured Line of Credit.

CASH FLOWS

Comparison for the nine months ended September 30, 1997 to the nine months ended September 30, 1996. Cash and cash equivalents were \$26.0 million and \$12.5 million at September 30, 1997 and 1996, respectively. Cash and cash equivalents increased \$17.0 million during the nine months ended September 30, 1997 compared to a decrease of \$13.4 million during the nine months ended September 30, 1996. The increase was due to a \$367.5 million increase in net cash provided by financing activities from \$1.5 million used to \$366.0 million generated, a \$356.6 million increase in net cash used in investing activities from \$43.0 million to \$399.6 million and an increase in cash flows provided by operating activities of \$20.1 million from \$31.1 million to \$51.2 million. The increase in net cash provided by financing activities of \$367.5 was primarily attributable to the Initial Offering and the proceeds received from a mortgage note. The increase in net cash used in investing activities of \$356.6 million was attributable to an increase in the acquisition of tenant improvements, leasing costs and new development costs. The increase in cash provided by operating activities of \$20.1 million was primarily due to a increase in net income of \$19.2 million.

Comparison for the Year Ended December 31, 1996 to Year Ended December 31, 1995. Cash and cash equivalents were \$9.0 million and \$25.9 million at December 31, 1996 and 1995, respectively. Cash and cash equivalents decreased \$16.9 million during 1996 compared to a decrease of \$20.4 million during 1995. The decrease was due to a \$32.0 million increase in net cash used in financing activities from \$12.7 million to \$44.7 million, offset by a \$13.1 million decrease in net cash used in investing activities from \$36.8 million to \$23.7 million and an increase in cash flows provided by operating activities of \$22.4 million from \$29.1 million to \$51.5 million. The increase in net cash used in financing activities of \$32.0 million was attributable to net distributions to owners of \$71.9 million offset by an increase of \$39.9 million in loan proceeds net of financing costs, escrows, and loan principal payments. The decrease in net cash used in investing activities of \$13.1 million was attributable to the acquisition of the two Sugarland properties for \$7.5 million offset by a draw of restricted

cash of \$9.2 million and a net decrease in additions to tenant improvements, leasing and development costs. The increase in cash provided by operating activities of \$22.4 million was due to an increase in net income of \$11.3 million and increases from accounts receivable, escrows and prepaid expenses.

Comparison for the Year Ended December 31, 1995 to Year Ended December 31, 1994. Cash and cash equivalents were \$25.9 million and \$46.3 million at December 31, 1995 and 1994 respectively. Cash and cash equivalents decreased \$20.4 million during 1995 compared to a decrease of \$4.4 million during 1994. The decrease was due to an increase in cash used in investing activities of \$18.4 million from \$18.4 million to \$36.8 million and a decrease in cash provided by operating activities of \$16.5 million from \$45.6 million to \$29.1 million, offset by a decrease in net cash used in financing activities of \$18.9 million from \$31.6 million to \$12.70 million. The increase in cash used in investing activities of \$18.4 million was due to an increase in tenant improvements, building improvements and leasing costs of \$16.6 million and the acquisition of 164 Lexington Road of \$1.8 million. The decrease in net cash used in financing activities of \$18.9 million was attributable to a \$13.9 million decrease in net distributions to owners and a \$5.0 million decrease in loans payable and financing costs.

INFLATION

Substantially all of the office leases provide for separate real estate tax and operating expense escalations over a base amount. In addition, many of the 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.

BUSINESS AND PROPERTIES

GENERAL

The Company's Properties consist of 79 Office Properties (including five Office Development Properties and ten Office Properties expected to be acquired by the Company in January and February 1998), nine Industrial Properties, three Hotel Properties (including the Hotel Development Property) and the Garage Property. The total square footage of the Properties is approximately 18.1 million square feet, comprised of (i) 48 Class A Office Buildings (including five Office Development Properties and six Acquisition Properties) totaling approximately 11.0 million net rentable square feet, with approximately 2.9 million square feet of structured parking for 8,119 vehicles, (ii) 31 R&D Properties totaling approximately 2.0 million net rentable square feet (including four Acquisition Properties), (iii) nine Industrial Properties totaling approximately 925,000 net rentable square feet, (iv) three Hotel Properties (including the Hotel Development Property), with 1,054 rooms, totaling approximately 940,000 square feet, and (v) the Garage Property, with 1,170 parking spaces, consisting of approximately 330,000 square feet.

SUMMARY PROPERTY DATA

Set forth below is a summary of information regarding the Properties, including the Office Development Properties and the Hotel Development Property. Properties marked with an asterisk secure indebtedness of the Company.

| PROPERTY NAME | LOCATION | PERCENT OWNERSHIP | YEAR(S) BUILT/RENOVATED(1) | NO. OF BLDGS. | NET RENTABLE SQUARE FEET | PERCENT LEASED AS OF 9/30/97 | ANNUALIZED RENT AS OF 9/30/97(2) | PERCENT OF ANNUALIZED RENT | ANNUALIZED RENT PER LEASED SQUARE FOOT(2) |
|--|--------------------|-------------------|----------------------------|---------------|--------------------------|------------------------------|----------------------------------|----------------------------|---|
| OFFICE PROPERTIES: | | | | | | | | | |
| Class A Office Buildings: | | | | | | | | | |
| +*599 Lexington Avenue (4)..... | New York, NY | 100.0% | 1986 | 1 | 1,000,070 | 100% | \$ 53,054,876 | 15.8% | \$53.21 |
| +*280 Park Avenue..... | New York, NY | 100.0 | 1968/95-96 | 1 | 1,198,769 | 82 | 40,249,001 | 12.0 | 41.95 |
| +*875 Third Avenue (5)..... | New York, NY | 100.0 | 1982 | 1 | 681,669 | 99 | 28,874,388 | 8.6 | 42.37 |
| *Two Independence Square (6)..... | SW, Washington, DC | 100.0 | 1992 | 1 | 579,600 | 100 | 21,317,592 | 6.4 | 36.88 |
| *Riverfront Plaza (7)..... | Richmond, VA | 100.0 | 1990 | 1 | 899,720 | 97 | 17,563,259 | 5.2 | 20.16 |
| 100 East Pratt Street (8)..... | Baltimore, MD | 100.0 | 1975/1991 | 1 | 633,482 | 98 | 15,224,424 | 4.5 | 24.53 |
| Democracy Center..... | Bethesda, MD | 100.0 | 1985-88/94-96 | 3 | 680,000 | 97 | 14,669,523 | 4.4 | 22.26 |
| *2300 N Street.. | NW, Washington, DC | 100.0 | 1986 | 1 | 280,065 | 100 | 12,911,442 | 3.8 | 46.10 |
| *One Independence Square (6)..... | SW, Washington, DC | 100.0 | 1991 | 1 | 337,794 | 100 | 12,677,045 | 3.8 | 37.53 |
| *Capital Gallery..... | SW, Washington, DC | 100.0 | 1981 | 1 | 399,549 | 90 | 11,691,352 | 3.5 | 32.36 |
| *Lockheed Martin Building (9)(10)(11).... | Reston, VA | 100.0 | 1987/1988 | 1 | 255,244 | 100 | 10,896,216 | 3.2 | 42.69 |
| *National Imaging and Mapping Agency Building (9)(10)..... | Reston, VA | 100.0 | 1987/1988 | 1 | 263,870 | 100 | 10,372,632 | 3.1 | 39.31 |
| The U.S. International Trade Commission Bldg (6)(12)..... | SW, Washington, DC | 100.0 | 1987 | 1 | 243,998 | 100 | 7,488,284 | 2.2 | 30.69 |
| Reston Town Center Office Complex (9)..... | Reston, VA | 100.0 | 1984 | 2 | 261,046 | 100 | 6,746,412 | 2.0 | 25.84 |
| One Cambridge Center..... | Cambridge, MA | 100.0 | 1987 | 1 | 215,385 | 99 | 6,128,729 | 1.8 | 28.65 |
| *Ten Cambridge Center..... | Cambridge, MA | 100.0 | 1990 | 1 | 152,664 | 100 | 4,236,035 | 1.3 | 27.75 |
| *191 Spring Street..... | Lexington, MA | 100.0 | 1971/1995 | 1 | 162,700 | 100 | 4,035,648 | 1.2 | 24.80 |
| *Newport Office Park..... | Quincy, MA | 100.0 | 1988 | 1 | 168,829 | 100 | 3,267,240 | 1.0 | 19.35 |
| *10 & 20 Burlington Mall Road..... | Burlington, MA | 100.0 | 1984-1986/95-96 | 2 | 152,552 | 98 | 3,257,655 | 1.0 | 21.76 |
| Lexington Office Park..... | Lexington, MA | 100.0 | 1982 | 2 | 168,500 | 86 | 3,172,966 | 0.9 | 21.78 |
| *91 Hartwell Avenue..... | Lexington, MA | 100.0 | 1985/96 | 1 | 122,135 | 100 | 2,729,205 | 0.8 | 22.35 |
| Waltham Office Center..... | Waltham, MA | 100.0 | 1968-1970/87-88 | 3 | 129,658 | 95 | 2,476,715 | 0.7 | 20.17 |
| Three Cambridge Center..... | Cambridge, MA | 100.0 | 1987 | 1 | 107,484 | 100 | 2,306,623 | 0.7 | 21.46 |
| *Montvale Center (13)..... | Gaithersburg, MD | 75.0 | 1987 | 1 | 122,157 | 98 | 2,156,064 | 0.6 | 18.09 |
| 170 Tracer Lane..... | Waltham, MA | 100.0 | 1980 | 1 | 73,258 | 100 | 1,737,309 | 0.5 | 23.71 |
| 195 West Street..... | Waltham, MA | 100.0 | 1990 | 1 | 63,500 | 100 | 1,600,931 | 0.5 | 25.21 |
| *Bedford Business Park..... | Bedford, MA | 100.0 | 1980 | 1 | 90,000 | 100 | 1,590,814 | 0.5 | 17.68 |
| Decoverly Two (9)..... | Rockville, MD | 100.0 | 1987 | 1 | 77,747 | 100 | 1,500,756 | 0.4 | 19.36 |
| 33 Hayden Avenue..... | Lexington, MA | 100.0 | 1979 | 1 | 79,564 | 100 | 1,296,766 | 0.4 | 16.30 |
| *100 Hayden Avenue..... | Lexington, MA | 100.0 | 1985 | 1 | 55,924 | 100 | 1,176,733 | 0.4 | 21.04 |
| Eleven Cambridge Center..... | Cambridge, MA | 100.0 | 1984 | 1 | 79,616 | 100 | 1,118,563 | 0.3 | 14.05 |
| 8 Arlington Street (14).... | Boston, MA | 100.0 | 1860-1920/1989 | 1 | 30,526 | 100 | 1,080,172 | 0.3 | 35.39 |
| 32 Hartwell Avenue..... | Lexington, MA | 100.0 | 1968-1979/1987 | 1 | 69,154 | 100 | 1,022,128 | 0.3 | 14.78 |
| 204 Second Avenue..... | Waltham, MA | 100.0 | 1981/1993 | 1 | 40,974 | 100 | 876,976 | 0.3 | 21.40 |

| | | | | | | | | | |
|--|----------------------|--------|--------------|----|------------|------|---------------|-------|---------|
| *92 Hayden Avenue..... | Lexington, MA | 100.0 | 1968/1984 | 1 | 30,980 | 100 | 649,672 | 0.2 | 20.97 |
| 201 Spring Street (15).... | Lexington, MA | 100.0 | 1997 | 1 | 102,000 | -- | -- | -- | -- |
| SUBTOTAL/WEIGHTED AVERAGE FOR CLASS A OFFICE BUILDINGS (16)..... | | | | 43 | 10,010,183 | 96% | \$311,154,146 | 92.7% | \$32.66 |
| R&D Properties: | | | | | | | | | |
| *Bedford Business Park..... | Bedford, MA | 100.0% | 1962-1978/96 | 2 | 383,704 | 100% | \$ 3,780,214 | 1.1% | \$ 9.85 |
| 910 Clopper Road (9)..... | Gaithersburg, MD | 100.0 | 1982 | 1 | 180,650 | 96 | 2,394,024 | 0.7 | 13.86 |
| 7601 Boston Boulevard, Building Eight (6)(17)... | Springfield, VA | 100.0 | 1986 | 1 | 103,750 | 100 | 1,442,674 | 0.4 | 13.91 |
| Fourteen Cambridge Center... Fullerton Square (9)..... | Cambridge, MA | 100.0 | 1983 | 1 | 67,362 | 100 | 1,366,714 | 0.4 | 20.29 |
| *Hilltop Business Center (18)..... | Springfield, VA | 100.0 | 1987 | 2 | 178,841 | 79 | 1,301,148 | 0.4 | 9.16 |
| 930 Clopper Road (9)..... | S. San Francisco, CA | 35.7 | early 1970's | 9 | 144,479 | 91 | 1,061,181 | 0.3 | 8.06 |
| 7435 Boston Boulevard, Building One..... | Gaithersburg, MD | 100.0 | 1989 | 1 | 60,056 | 100 | 849,636 | 0.3 | 14.15 |
| 7500 Boston Boulevard, Building Six (6)..... | Springfield, VA | 100.0 | 1982 | 1 | 105,414 | 66 | 764,560 | 0.2 | 10.91 |
| 8000 Grainger Court, Building Five..... | Springfield, VA | 100.0 | 1985 | 1 | 79,971 | 100 | 803,582 | 0.2 | 10.05 |
| 7600 Boston Boulevard, Building Nine..... | Springfield, VA | 100.0 | 1984 | 1 | 90,465 | 100 | 764,369 | 0.2 | 8.45 |
| Sugarland Building One..... | Springfield, VA | 100.0 | 1987 | 1 | 69,832 | 100 | 742,413 | 0.2 | 10.63 |
| 7451 Boston Boulevard, Building Two..... | Herndon, VA | 100.0 | 1985/1997 | 1 | 52,797 | 82 | 741,041 | 0.2 | 17.12 |
| 164 Lexington Road..... | Springfield, VA | 100.0 | 1982 | 1 | 47,001 | 100 | 660,950 | 0.2 | 14.06 |
| 7374 Boston Boulevard, Building Four (6)..... | Billerica, MA | 100.0 | 1982 | 1 | 64,140 | 100 | 598,478 | 0.2 | 9.33 |
| Sugarland Building Two..... | Springfield, VA | 100.0 | 1984 | 1 | 57,321 | 100 | 595,622 | 0.2 | 10.39 |
| 8000 Corporate Court, Building Eleven..... | Herndon, VA | 100.0 | 1986/1997 | 1 | 59,423 | 46 | 416,390 | 0.1 | 15.30 |
| 7375 Boston Boulevard, Building Ten (6)..... | Springfield, VA | 100.0 | 1989 | 1 | 52,539 | 100 | 412,377 | 0.1 | 7.85 |
| 17 Hartwell Avenue..... | Springfield, VA | 100.0 | 1988 | 1 | 26,865 | 100 | 399,222 | 0.1 | 14.86 |
| 7700 Boston Boulevard, Building Twelve (19).... | Lexington, MA | 100.0 | 1968 | 1 | 30,000 | 100 | 277,500 | 0.1 | 9.25 |
| 7501 Boston Boulevard, Building Seven (6)(20)..... | Springfield, VA | 100.0 | 1997 | 1 | 82,224 | -- | -- | -- | -- |
| SUBTOTAL/WEIGHTED AVERAGE FOR R&D PROPERTIES..... | | | | 31 | 2,012,590 | 93% | \$ 19,372,095 | 5.8% | \$11.26 |
| INDUSTRIAL PROPERTIES: | | | | | | | | | |
| 38 Cabot Boulevard (21)..... | Bucks County, PA | 100.0% | 1972/1984 | 1 | 161,000 | 100% | \$ 868,699 | 0.3% | \$ 5.40 |
| 40-46 Harvard Street..... | Westwood, MA | 100.0 | 1967/1996 | 1 | 169,273 | 90 | 854,020 | 0.3 | 5.62 |
| 25-33 Dartmouth Street..... | Westwood, MA | 100.0 | 1966/1996 | 1 | 78,045 | 100 | 795,124 | 0.2 | 10.19 |
| 2000 South Club Drive, Building Three..... | Landover, MD | 100.0 | 1988 | 1 | 83,608 | 100 | 701,770 | 0.2 | 8.39 |
| 2391 West Winton Avenue..... | Hayward, CA | 100.0 | 1974 | 1 | 221,000 | 100 | 676,188 | 0.2 | 3.07 |
| 6201 Columbia Park Road, Building Two.... | Landover, MD | 100.0 | 1986 | 1 | 99,885 | 56 | 451,475 | 0.1 | 8.07 |
| 1950 Stanford Court, Building One..... | Landover, MD | 100.0 | 1986 | 1 | 53,250 | 100 | 371,682 | 0.1 | 6.98 |
| 560 Forbes Boulevard (17)..... | S. San Francisco, CA | 35.7 | early 1970's | 1 | 40,000 | 100 | 237,890 | 0.1 | 5.95 |
| 430 Rozzi Place (17)..... | S. San Francisco, CA | 35.7 | early 1970's | 1 | 20,000 | 100 | 114,949 | 0.0 | 5.75 |
| SUBTOTAL/WEIGHTED AVERAGE FOR INDUSTRIAL PROPERTIES..... | | | | 9 | 926,061 | 93% | \$ 5,071,797 | 1.5% | \$ 5.87 |
| DEVELOPMENT PROPERTIES: | | | | | | | | | |
| Class A Office Properties: | | | | | | | | | |
| One and Two Reston Overlook | | | | | | | | | |

| | | | | | | | | | | | |
|---|---------------|-------|------|----|------------|---------|---------------|--------|----|---------|----|
| (5)(22)..... | Reston, VA | 25.0% | 1999 | 2 | 444,000 | -- | \$ | -- | -- | \$ | -- |
| One Freedom Square (23)..... | Reston, VA | 25.0 | 1999 | 1 | 406,980 | -- | | -- | -- | | -- |
| Eight Cambridge Center (24)..... | Cambridge, MA | 100.0 | 1999 | 1 | 134,054 | -- | | -- | -- | | -- |
| 181 Spring Street (25)..... | Lexington, MA | 100.0 | 1999 | 1 | 52,000 | -- | | -- | -- | | -- |
| SUBTOTAL/WEIGHTED AVERAGE FOR OFFICE DEVELOPMENT PROPERTIES..... | | | | 5 | 1,037,034 | -- | | -- | -- | | -- |
| TOTAL/WEIGHTED AVERAGE FOR ALL OFFICE AND INDUSTRIAL PROPERTIES.. | | | | 88 | 13,985,868 | 96%(26) | \$335,598,038 | 100.0% | | \$27.71 | |

ANNUALIZED
NET
EFFECTIVE
RENT PER
LEASED
SQUARE
FOOT(3)

PROPERTY NAME

OFFICE PROPERTIES:

| | |
|--|---------|
| Class A Office Buildings: | |
| +*599 Lexington Avenue (4)..... | \$47.11 |
| +*280 Park Avenue..... | 43.18 |
| +*875 Third Avenue (5)..... | 43.27 |
| *Two Independence Square (6)..... | 37.05 |
| *Riverfront Plaza (7)..... | 21.51 |
| 100 East Pratt Street (8)..... | 25.91 |
| Democracy Center..... | 20.93 |
| *2300 N Street.. | 44.91 |
| *One Independence Square (6)..... | 34.22 |
| *Capital Gallery..... | 31.07 |
| *Lockheed Martin Building (9)(10)(11)..... | 42.69 |
| *National Imaging and Mapping Agency Building (9)(10)..... | 45.18 |
| The U.S. International Trade Commission Bldg (6)(12)..... | 25.94 |
| Reston Town Center Office Complex (9)..... | 28.49 |
| One Cambridge Center..... | 25.78 |
| *Ten Cambridge Center..... | 23.10 |
| *191 Spring Street..... | 21.92 |
| *Newport Office Park..... | 17.57 |
| *10 & 20 Burlington Mall Road..... | 18.97 |
| Lexington Office Park..... | 18.97 |
| *91 Hartwell Avenue..... | 20.81 |
| Waltham Office Center..... | 18.21 |
| Three Cambridge Center..... | 20.45 |
| *Montvale Center (13)..... | 15.71 |
| 170 Tracer Lane..... | 19.04 |
| 195 West Street..... | 20.84 |
| *Bedford Business Park..... | 15.56 |
| Decoverly Two (9)..... | 20.71 |
| 33 Hayden Avenue..... | 16.30 |
| *100 Hayden Avenue..... | 19.38 |
| Eleven Cambridge Center..... | 11.30 |
| 8 Arlington | |

| | | |
|--|-------|---------|
| Street (14)..... | 35.91 | |
| 32 Hartwell Avenue..... | 14.39 | |
| 204 Second Avenue..... | 18.29 | |
| *92 Hayden Avenue..... | 17.34 | |
| 201 Spring Street (15)..... | -- | |
| ----- | | |
| SUBTOTAL/WEIGHTED AVERAGE FOR CLASS A OFFICE BUILDINGS (16)..... | | \$31.72 |
| ----- | | |

| | | |
|--|---------|---------|
| R&D Properties: | | |
| *Bedford Business Park..... | \$ 8.00 | |
| 910 Clopper Road (9)..... | 14.35 | |
| 7601 Boston Boulevard, Building Eight (6)(17)... | 13.90 | |
| Fourteen Cambridge Center... Fullerton Square (9)..... | 18.33 | |
| | 9.74 | |
| *Hilltop Business Center (18)..... | 9.62 | |
| 930 Clopper Road (9)..... | 13.88 | |
| 7435 Boston Boulevard, Building One..... | 8.48 | |
| 7500 Boston Boulevard, Building Six (6)..... | 10.05 | |
| 8000 Grainger Court, Building Five..... | 8.04 | |
| 7600 Boston Boulevard, Building Nine..... | 10.05 | |
| Sugarland Building One..... | 16.97 | |
| 7451 Boston Boulevard, Building Two..... | 8.19 | |
| 164 Lexington Road..... | 8.50 | |
| 7374 Boston Boulevard, Building Four (6)..... | 10.14 | |
| Sugarland Building Two..... | 16.01 | |
| 8000 Corporate Court, Building Eleven..... | 7.57 | |
| 7375 Boston Boulevard, Building Ten (6)..... | 8.96 | |
| 17 Hartwell Avenue..... | 8.95 | |
| 7700 Boston Boulevard, Building Twelve (19)..... | -- | |
| 7501 Boston Boulevard, Building Seven (6)(20)..... | -- | |
| ----- | | |
| SUBTOTAL/WEIGHTED AVERAGE FOR R&D PROPERTIES..... | | \$10.61 |
| ----- | | |

| | | |
|--|---------|---------|
| INDUSTRIAL PROPERTIES: | | |
| 38 Cabot Boulevard (21)..... | \$ 5.40 | |
| 40-46 Harvard Street..... | 5.47 | |
| 25-33 Dartmouth Street..... | 9.86 | |
| 2000 South Club Drive, Building Three..... | 7.03 | |
| 2391 West Winton Avenue..... | 3.78 | |
| 6201 Columbia Park Road, Building Two.... | 6.48 | |
| 1950 Stanford Court, Building One..... | 7.38 | |
| 560 Forbes Boulevard (17)..... | 5.52 | |
| 430 Rozzi Place (17)..... | 5.25 | |
| ----- | | |
| SUBTOTAL/WEIGHTED AVERAGE FOR INDUSTRIAL PROPERTIES..... | | \$ 5.75 |
| ----- | | |
| DEVELOPMENT | | |

PROPERTIES:
 Class A Office
 Properties:
 One and Two
 Reston Overlook
 (5)(22)..... \$ --
 One Freedom
 Square (23)..... --
 Eight Cambridge
 Center (24)..... --
 181 Spring
 Street (25)..... --

 SUBTOTAL/WEIGHTED AVERAGE FOR OFFICE DEVELOPMENT PROPERTIES..... --

 TOTAL/WEIGHTED AVERAGE FOR ALL OFFICE AND INDUSTRIAL PROPERTIES.. \$26.87

| LOCATION | PERCENT OWNERSHIP | YEAR BUILT | NUMBER OF BUILDINGS | NUMBER OF ROOMS | SQUARE FOOTAGE | NINE MONTHS ENDED 9/30/97 | | | NINE MONTHS ENDED 9/30/96 | | |
|---|-------------------|------------|---------------------|-----------------|----------------|---------------------------|--------------------------|--|---------------------------|--|----------|
| | | | | | | AVERAGE OCCUPANCY | AVERAGE DAILY RATE (ADR) | REVENUE PER AVAILABLE ROOM (REVPAR) (27) | AVERAGE DAILY RATE (ADR) | REVENUE PER AVAILABLE ROOM (REVPAR) (27) | |
| HOTEL PROPERTIES: | | | | | | | | | | | |
| Long Wharf Marriott(R)..... | Boston, MA | 100.0% | 1982 | 1 | 402 | 420,000 | 88.0% | | | | |
| Cambridge Center Marriott(R)..... | Cambridge, MA | 100.0 | 1986 | 1 | 431 | 330,400 | 88.0 | | | | |
| Residence Inn by Marriott(R)(28) | Cambridge, MA | 100.0 | 1999 | 1 | 221 | 187,474 | N/A | -- | -- | -- | -- |
| TOTAL/WEIGHTED AVERAGE FOR HOTEL PROPERTIES.... | | | | 3 | 1,054 | 937,874 | 88.0% | \$189.27 | \$167.60 | \$173.48 | \$148.98 |

| LOCATION | PERCENT OWNERSHIP | YEAR BUILT | NUMBER OF BUILDINGS | NUMBER OF SPACES | SQUARE FOOTAGE |
|---|-------------------|------------|---------------------|------------------|----------------|
| GARAGE PROPERTY: | | | | | |
| Cambridge Center North Garage.... | Cambridge, MA | 100.0% | 1990 | 1 | 1,170 |
| | | | | 8,119 | 2,880,530 |
| TOTAL FOR GARAGE PROPERTY AND STRUCTURED PARKING..... | | | | 9,289 | 3,212,972 |
| TOTAL FOR ALL PROPERTIES..... | | | | 92 | 18,136,714 |

+ This Property accounted for more than 10% of the Company's revenue for the pro forma twelve months ended September 30, 1997 or the book value of this Property accounted for more than 10% of the Company's total assets at such time. For additional information about this Property, see the description of the Property under "Business and Properties--The Office Properties."

* Upon completion of this Offering, the Company expects to have outstanding approximately \$1.2 billion of indebtedness secured by these Properties. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

- (1) These dates do not include years in which tenant improvements were made to the Properties, except with respect to 25-33 Dartmouth Street and 40-46 Harvard Street, whose interiors were completely rebuilt to satisfy tenant needs in 1996.
- (2) Annualized Rent is the monthly contractual rent under existing leases as of September 30, 1997 multiplied by twelve. This amount reflects total rent before any rent abatements and includes expense reimbursements, which may be estimates as of such date. Total rent abatements for leases in effect as September 30, 1997 were, on an annual basis, \$12.9 million.
- (3) Annualized Net Effective Rent is calculated for leases in effect as of September 30, 1997 as follows: Annualized Rent, calculated as described above (but by determining monthly rent on a straight line basis in accordance with GAAP rather than adding back any rent abatement) was reduced to reflect the annualized costs of tenant improvements and leasing commissions, if any, paid or payable by the Company (calculated by dividing the total tenant improvements and leasing commissions for a given lease by the term of that lease in months and multiplying the result by twelve).
- (4) The Company's New York offices are located in this building, where it occupies 12,896 square feet.
- (5) The Company completed its acquisition of this Property on November 21, 1997.
- (6) The Property is leased on the basis of net usable square feet (which have been converted to net rentable square feet for purposes of this table) due to the requirements of the General Services Administration (the "GSA").
- (7) The Company has entered into a contract to acquire this Property and anticipates a closing date in January 1998.
- (8) The Company completed its acquisition of this Property on October 23, 1997.
- (9) This Property is part of the Mulligan/Griffin Portfolio. The Company has entered into a contract to acquire this Property and anticipates a closing date in February 1998.
- (10) This Property was designed and built to serve certain specialized business purposes of the tenant at this Property, resulting in rents that are presently higher than average market rents for office properties in

this submarket for tenants not requiring similarly customized properties.

- (11) The tenant at this Property has an option to purchase the Property in July 2002 for a purchase price equal to the greater of the fair market value of the Property or \$30.6 million.
- (12) The Company's Washington, D.C. offices are located in this building, also known as 500 E Street, where it occupies 15,612 square feet.
- (13) The Company owns a 75.0% general partner interest in the limited partnership that owns this property. Because of the priority of the Company's partnership interest, the Company expects to receive any partnership distributions that are made with respect to this property.
- (14) The Property, which is used exclusively as the Company's headquarters, was constructed in two phases, circa 1860 and circa 1920.
- (15) The Property is 100% leased to MediaOne of Delaware, Inc., formerly known as Continental Cablevision, Inc., whose lease commenced on November 1, 1997.
- (16) The Class A Office Buildings contain 6,913 structured parking spaces.
- (17) The General Services Administration, the tenant of this Property, has an option to purchase this Property on September 30, 1999 for \$14.0 million and on September 30, 2014 for \$22.0 million.
- (18) The Company owns a 35.7% controlling general partnership interest in this Property.
- (19) The Property is 100% leased to Autometric, Inc., whose lease commenced on October 15, 1997.
- (20) The Property is 100% leased to the General Services Administration, whose lease commenced on November 14, 1997.
- (21) The original building (100,000 net rentable square feet) was built in 1972, with an expansion building (61,000 net rentable square feet) completed in 1984.
- (22) The Company is acting as development manager of these Properties and will be a 25.0% member of a limited liability company that will own the Properties. The Company's economic interest increases above 25.0% if certain performance criteria are achieved. The Properties are expected to be completed in 1999 and are 70.0% pre-leased to BDM International.
- (23) The Company is acting as development manager of this Property and will be a 25% member of a limited liability company that will own the Property. The Company's economic interest increases above 25.0% if certain performance criteria are achieved. The Property is 59% pre-committed to Anderson Consulting.
- (24) This Property which is currently in development, is 100% pre-committed to a leading Massachusetts based high-tech consulting firm. The Property is expected to be completed in Q1 of 1999.
- (25) The Property, which is currently under development by the Company, is expected to be completed in late 1999.
- (26) Does not include the Office Development Properties.
- (27) REVPAR is determined by dividing room revenue by available rooms for the applicable period. Management believes that REVPAR (as defined more fully in the Glossary) is an industry standard measure used to present hotel operating data.
- (28) The Property which is currently under development by the Company, is expected to be completed in January of 1999. This will be a limited service, extended stay Hotel.

DEVELOPMENT PARCELS

The Company owns, has under contract, or has an option to develop or acquire twelve parcels consisting of an aggregate of 69.7 acres of land. The Company believes that this land, some of which needs zoning or other regulatory approvals prior to development, will be able to support an aggregate of approximately 1,549,100 square feet of development. The following chart provides additional information with respect to undeveloped parcels:

| LOCATION | SUBMARKET | NO. OF PARCELS | ACREAGE | DEVELOPABLE SQUARE FEET (1) |
|-----------------|-----------------------|----------------|---------|-----------------------------|
| Rockville, MD | Montgomery County, MD | 4 | 21.9 | 581,100 |
| Reston, VA | Fairfax County, VA | 2 | 8.8 | 339,000 |
| Andover, MA | Route 495 N | 2 | 27.0 | 290,000 |
| Cambridge, MA | East Cambridge, MA | 1 | 2.6 | 209,000 |
| Springfield, VA | Fairfax County, VA | 3 | 9.4 | 130,000 |
| | | --- | ---- | ----- |
| Total | | 12 | 69.7 | 1,549,100 |
| | | === | ==== | ===== |

- (1) Represents the total square feet of development that the parcel(s) will support.

The following chart shows the geographic location of the Company's Office and Industrial Properties, including the Office Development Properties, by net rentable square feet (excluding storage space) and Annualized Rent as of September 30, 1997:

| NET RENTABLE SQUARE FEET OF OFFICE AND INDUSTRIAL PROPERTIES | | | | | | |
|---|----------------------------|--------------------------------|-------------------|--------------------------|------------|------------------------|
| MARKET/SUBMARKET | NUMBER OF PROPERTIES | CLASS A OFFICE BUILDINGS | R&D PROPERTIES | INDUSTRIAL PROPERTIES | TOTAL | PERCENT OF TOTAL |
| GREATER BOSTON | | | | | | |
| East Cambridge (2) | 6 | 689,203 | 67,362 | -- | 756,565 | 5.4% |
| Route 128 NW Bedford, MA.... | 3 | 90,000 | 383,704 | -- | 473,704 | 3.4 |
| Billerica, MA... | 1 | -- | 64,140 | -- | 64,140 | 0.5 |
| Burlington, MA.. | 2 | 152,552 | -- | -- | 152,552 | 1.1 |
| Lexington, MA (3)..... | 11 | 842,957 | 30,000 | -- | 872,957 | 6.2 |
| Route 128/MA Turnpike Waltham, MA.... | 6 | 307,390 | -- | -- | 307,390 | 2.2 |
| Route 128 SW Westwood, MA.... | 2 | -- | -- | 247,318 | 247,318 | 1.8 |
| Route 128 South Quincy, MA..... | 1 | 168,829 | -- | -- | 168,829 | 1.2 |
| Boston..... | 1 | 30,526 | -- | -- | 30,526 | 0.2 |
| Subtotal..... | 33 | 2,281,457 | 545,206 | 247,318 | 3,073,981 | 22.0% |
| GREATER WASHINGTON, D.C. | | | | | | |
| SW Washington, D.C.(4)..... | 4 | 1,560,941 | -- | -- | 1,560,941 | 11.2% |
| West End Washington, D.C. | 1 | 280,065 | -- | -- | 280,065 | 2.0 |
| Montgomery County, MD Bethesda, MD.... | 3 | 680,000 | -- | -- | 680,000 | 4.9 |
| Gaithersburg, MD (5)..... | 3 | 122,157 | 240,706 | -- | 362,863 | 2.6 |
| Rockville, MD(6)..... | 1 | 77,747 | -- | -- | 77,747 | 0.6 |
| Fairfax County, VA Herndon, VA.... | 2 | -- | 112,220 | -- | 112,220 | 0.8 |
| Reston, VA (7).. | 7 | 1,631,140 | -- | -- | 1,631,140 | 11.6 |
| Springfield, VA (4)(8)..... | 13 | -- | 969,979 | -- | 969,979 | 6.9 |
| Prince George's County, MD Landover, MD.... | 3 | -- | -- | 236,743 | 236,743 | 1.7 |
| Subtotal..... | 37 | 4,352,050 | 1,322,905 | 236,743 | 5,911,698 | 42.3% |
| BALTIMORE, MD | 1 | 633,482 | -- | -- | 633,482 | 4.5% |
| RICHMOND, VA(6) | 1 | 899,720 | -- | -- | 899,720 | 6.4% |
| MIDTOWN MANHATTAN | | | | | | |
| Park Avenue.... | 2 | 2,198,839 | -- | -- | 2,198,839 | 15.7% |
| East side..... | 1 | 681,669 | -- | -- | 681,669 | 4.9 |
| Subtotal..... | 3 | 2,880,508 | -- | -- | 2,880,508 | 20.6% |
| GREATER SAN FRANCISCO | | | | | | |
| Hayward, CA.... | 1 | -- | -- | 221,000 | 221,000 | 1.6% |
| San Francisco, CA (9)..... | 11 | -- | 144,479 | 60,000 | 204,479 | 1.4 |
| Subtotal..... | 12 | -- | 144,479 | 281,000 | 425,479 | 3.0% |
| BUCKS COUNTY, PA..... | | | | | | |
| | 1 | -- | -- | 161,000 | 161,000 | 1.2% |
| TOTAL..... | 88 | 11,047,217 | 2,012,590 | 926,061 | 13,985,868 | 100.0% |
| PERCENT OF TOTAL..... | | 79.0% | 14.4% | 6.6% | 100.0% | |
| NUMBER OF OFFICE AND INDUSTRIAL PROPERTIES..... | | 48 | 31 | 9 | 88 | |

| ANNUALIZED RENT OF OFFICE AND INDUSTRIAL PROPERTIES (1) | | | | | |
|--|--------------------------------|-------------------|--------------------------|---------------|------------------------|
| MARKET/SUBMARKET | CLASS A OFFICE BUILDINGS | R&D PROPERTIES | INDUSTRIAL PROPERTIES | TOTAL | PERCENT OF TOTAL |
| GREATER BOSTON | | | | | |
| East Cambridge (2) | \$ 13,789,950 | \$ 1,366,714 | \$ -- | \$ 15,156,664 | 4.5% |
| Route 128 NW Bedford, MA.... | 1,590,814 | 3,780,214 | -- | 5,371,028 | 1.6 |

| | | | | | |
|--|---------------|--------------|--------------|---------------|--------|
| Billerica, MA... | -- | 598,478 | -- | 598,478 | 0.2 |
| Burlington, MA... | 3,257,655 | -- | -- | 3,257,655 | 1.0 |
| Lexington, MA (3)..... | 14,083,118 | 277,500 | -- | 14,360,618 | 4.2 |
| Route 128/MA Turnpike | | | | | |
| Waltham, MA.... | 6,691,931 | -- | -- | 6,691,931 | 2.0 |
| Route 128 SW | | | | | |
| Westwood, MA.... | -- | -- | 1,649,144 | 1,649,144 | 0.5 |
| Route 128 South | | | | | |
| Quincy, MA..... | 3,267,240 | -- | -- | 3,267,240 | 1.0 |
| Boston..... | 1,080,172 | -- | -- | 1,080,172 | 0.3 |
| Subtotal..... | \$ 43,760,880 | \$ 6,022,906 | \$ 1,649,144 | \$ 51,432,930 | 15.3% |
| GREATER WASHINGTON, D.C. | | | | | |
| SW Washington, D.C.(4)..... | \$ 53,174,273 | \$ -- | \$ -- | \$ 53,174,273 | 15.8% |
| West End Washington, D.C. | 12,911,442 | -- | -- | 12,911,442 | 3.8 |
| Montgomery County, MD | | | | | |
| Bethesda, MD.... | 14,669,523 | -- | -- | 14,669,523 | 4.4 |
| Gaithersburg, MD (5)..... | 2,156,064 | 3,243,660 | -- | 5,399,724 | 1.6 |
| Rockville, MD(6)..... | 1,500,756 | -- | -- | 1,500,756 | 0.4 |
| Fairfax County, VA | | | | | |
| Herndon, VA.... | -- | 1,157,431 | -- | 1,157,431 | 0.3 |
| Reston, VA (7).. | 28,015,260 | -- | -- | 28,015,260 | 8.4 |
| Springfield, VA (4)(8)..... | -- | 7,886,917 | -- | 7,886,917 | 2.4 |
| Prince George's County, MD | | | | | |
| Landover, MD.... | -- | -- | 1,524,927 | 1,524,927 | 0.5 |
| Subtotal..... | \$112,427,318 | \$12,288,008 | \$1,524,927 | \$126,240,253 | 37.6% |
| BALTIMORE, MD | \$ 15,224,424 | \$ -- | \$ -- | \$ 15,224,424 | 4.5% |
| RICHMOND, VA(6) | \$ 17,563,259 | \$ -- | \$ -- | \$ 17,563,259 | 5.3% |
| MIDTOWN MANHATTAN | | | | | |
| Park Avenue.... | \$ 93,303,877 | \$ -- | \$ -- | \$ 93,303,877 | 27.8% |
| East side..... | 28,874,388 | -- | -- | 28,874,388 | 8.6 |
| Subtotal..... | \$122,178,265 | \$ -- | \$ -- | \$122,178,265 | 36.4% |
| GREATER SAN FRANCISCO | | | | | |
| Hayward, CA.... | \$ -- | \$ -- | \$ 676,188 | \$ 676,188 | 0.2% |
| San Francisco, CA (9)..... | -- | 1,061,181 | 352,839 | 1,414,020 | 0.4 |
| Subtotal..... | \$ -- | \$ 1,061,181 | \$1,029,027 | \$ 2,090,208 | 0.6% |
| BUCKS COUNTY, PA..... | | | | | |
| | \$ -- | \$ -- | \$ 868,699 | \$ 868,699 | 0.3% |
| TOTAL..... | \$311,154,146 | \$19,372,095 | \$5,071,797 | \$335,598,038 | 100.0% |
| PERCENT OF TOTAL..... | | 92.7% | 5.8% | 1.5% | 100.0% |
| NUMBER OF OFFICE AND INDUSTRIAL PROPERTIES..... | | 48 | 31 | 9 | 88 |

(1) Annualized Rent is the monthly contractual rent under existing leases as of September 30, 1997 multiplied by twelve. This amount reflects total rent before any rent abatements and includes expense reimbursements, which may be estimates as of such date. Total rent abatements for leases in effect as of September 30, 1997, on an annualized basis, were approximately \$12.9 million.

(2) Does not include 1997 Annualized Rent for one Development Property.

(3) Does not include 1997 Annualized Rent for one Development Property and one Property developed and placed in service in November 1997.

(4) Certain of such Properties are leased on the basis of net usable square feet (which have been converted to net rentable square feet for purposes of this table) due to the requirements of the General Services Administration.

(5) Includes two Acquisition Properties. The Company owns a 75.0% general partner interest in the limited partnership that owns the Class A Office Building in this submarket. Because of the priority of the Company's partnership interest, the Company expects to receive any partnership distributions that are made with respect to this Class A Office Building.

(6) This Property is an Acquisition Property.

(7) Includes four Acquisition Properties. Does not include 1997 Annualized Rent for three Development Properties. The Company is acting as development manager of, and is a 25.0% member of, a limited liability company that owns these Development Properties. The Company's economic interest may increase above 25.0% depending upon the achievement of certain performance goals.

(8) Includes two Acquisition Properties. Does not include 1997 Annualized Rent for two Properties developed and placed in service in October and November 1997.

(9)The Company owns a 35.7% controlling general partnership interest in the nine R&D Properties and two Industrial Properties located in Greater San Francisco, California.

TENANTS

TENANT DIVERSIFICATION

The Properties currently are leased to over 500 tenants that are engaged in a variety of businesses, including financial services, investment banking, publishing, computer technology, health care services, accounting and law. The following table sets forth information regarding the leases with respect to the 25 largest tenants at the Properties, based on the amount of square footage leased by such tenants as of September 30, 1997:

| TENANT | PROPERTY | REMAINING LEASE TERM IN MONTHS | TOTAL NET RENTABLE SQUARE FEET | PERCENTAGE OF AGGREGATE LEASED SQUARE FEET |
|---|--|---|--------------------------------------|---|
| General Services | | | | |
| Administration(1) | | | | |
| National Aeronautics and Space | | | | |
| Administration(2)..... | Two Independence Square | 178 | 569,337 | 4.7% |
| U.S. International Trade Commission(3)... | The U.S. International Trade Commission Building | 118 | 217,772 | 1.8 |
| U.S. Customs Service(4)..... | 7601 Boston Boulevard, Building Eight | 204 | 103,750 | 0.9 |
| U.S. Department of State(5)..... | 7500 Boston Boulevard, Building Six | 29 | 79,971 | 0.7 |
| U.S. Department of State(6)..... | 7374 Boston Boulevard, Building Four | 36 | 57,321 | 0.5 |
| U.S. Customs Service(7)..... | 7375 Boston Boulevard, Building Ten | 117 | 11,398 | 0.1 |
| Total GSA Square Footage..... | | | 1,039,549 | 8.6 |
| Lockheed Martin Corporation(8)..... | Democracy Center, 8000 Grainger Court, Building Five, 7435 Boston Boulevard, Building One, 7451 Boston Boulevard, Building Two, 7375 Boston Boulevard, Building Ten, Capital Gallery, Lockheed Martin Building and National Imaging and Mapping Agency Building | 9-66 | 786,469 | 6.5 |
| Shearman & Sterling..... | 599 Lexington Avenue | 119 | 424,649 | 3.5 |
| Office of the Comptroller of the Currency(9)..... | One Independence Square | 104 | 331,518 | 2.7 |
| Hunton & Williams..... | Riverfront Plaza | 102 | 302,424 | 2.5 |
| Debevoise & Plimpton.... | 875 Third Avenue | 61 | 279,375 | 2.3 |
| ComputerVision..... | Bedford Business Park | 28-91 | 273,704 | 2.3 |
| T. Rowe Price Associates, Inc..... | 100 East Pratt Street | 8/109 | 268,842 | 2.2 |
| United States of America..... | Reston Town Center Office Complex | 87 | 261,046 | 2.2 |
| Camp Dresser & McKee, Inc. | One and Ten Cambridge Center | 30 | 214,725 | 1.8 |
| Bankers Trust Company... | 280 Park Avenue | 161 | 208,276 | 1.7 |
| Shaw, Pittman, Potts & Trowbridge..... | 2300 N Street | 108 | 204,154 | 1.7 |
| Wheat First Butcher Singer, Inc. | Riverfront Plaza | 99 | 202,919 | 1.7 |
| National Football League..... | 280 Park Avenue | 173 | 201,658 | 1.7 |
| The Stride Rite Corporation..... | 191 Spring Street | 106 | 162,700 | 1.3 |
| J.I. Case Company..... | 38 Cabot Boulevard | 9 | 161,000 | 1.3 |
| Restoration Hardware. Inc..... | 2391 West Winton Avenue | 94 | 160,213 | 1.3 |
| Furman Selz LLC (10)... | 280 Park Avenue | 196 | 159,288 | 1.3 |
| Medisense, Inc. | Bedford Business Park | 105 | 150,000 | 1.2 |
| Instinet Corporation.... | 875 Third Avenue | 70 | 148,000 | 1.2 |
| Jones, Day, Reavis & Pogue..... | 599 Lexington Avenue | 53-104 | 144,289 | 1.2 |
| Sidley & Austin..... | 875 Third Avenue | 57 | 131,250 | 1.1 |
| Output Technologies, Inc. | 40-46 Harvard Street | 70 | 128,105 | 1.1 |
| Mercer Management Consulting, Inc..... | 33 Hayden Avenue and 2300 N Street | 50-53 | 119,215 | 1.0 |
| Harvard Pilgrim Health Care, Inc. | 100 Hayden Avenue and 170 Tracer Lane | 29-38 | 115,448 | 1.0 |

- (1) All GSA leases are full faith and credit obligations of the United States Government. The GSA accounted for approximately 9.2% of total Annualized Rent of Office and Industrial Properties as of September 30, 1997.
- (2) Lease with the GSA for a net usable square footage amount of 488,374.
- (3) Lease with the GSA for a net usable square footage amount of 198,388.
- (4) Lease with the GSA for a net usable square footage amount of 99,155.
- (5) Lease with the GSA for a net usable square footage amount of 77,142.
- (6) Lease with the GSA for a net usable square footage amount of 47,629.
- (7) Lease with the GSA for a net usable square footage amount of 9,911.

- (8) LMC Properties, Inc., a subsidiary of Lockheed Martin Corporation ("Lockheed"), leases 179,059 of the 786,469 square feet shown. Lockheed guarantees such leases. Lockheed occupies 519,114 of the indicated net rentable square feet pursuant to an assignment and assumption of lease between General Electric Company and Lockheed. General Electric Company remains the primary obligor under such lease.
- (9) Lease measured in net usable square footage of 293,736.
- (10) The Company has committed to lease an additional 46,078 square feet to Furman Selz LLC effective November 1, 1997.

| | | | |
|-------------------|--------------|--------------|--------|
| sq. ft. (4)..... | | | |
| Route 128 NW | | | |
| Square footage | | | |
| of expiring | | | |
| leases..... | 162,700 | | 0 |
| Percentage of | | | |
| total rentable | | | |
| sq. ft. | 17.47% | | 0.00% |
| Annualized Rent | | | |
| (2)..... | \$ 4,035,648 | \$ | 0 |
| No. of tenants | | | |
| whose leases ex- | | | |
| pire..... | 1 | | 0 |
| Annualized Rent | | | |
| per leased sq. | | | |
| ft. | \$ 24.80 | \$ | 0.00 |
| Annualized Rent | | | |
| per leased sq. | | | |
| ft. | | | |
| w/future step- | | | |
| ups (3)..... | \$ 26.60 | \$ | 0.00 |
| Company Quoted | | | |
| Rental Rate per | | | |
| sq. ft. (4)..... | | | |
| Route 128/Massa- | | | |
| chusetts Turnpike | | | |
| Square footage | | | |
| of expiring | | | |
| leases..... | 0 | | 0 |
| Percentage of | | | |
| total rentable | | | |
| sq. ft. | 0.00% | | 0.00% |
| Annualized Rent | | | |
| (2)..... | \$ 0 | \$ | 0 |
| No. of tenants | | | |
| whose leases ex- | | | |
| pire..... | 0 | | 0 |
| Annualized Rent | | | |
| per leased sq. | | | |
| ft. | \$ 0.00 | \$ | 0.00 |
| Annualized Rent | | | |
| per leased sq. | | | |
| ft. | | | |
| w/future step- | | | |
| ups (3)..... | \$ 0.00 | \$ | 0.00 |
| Company Quoted | | | |
| Rental Rate per | | | |
| sq. ft. (4)..... | | | |
| Route 128 South | | | |
| Square footage | | | |
| of expiring | | | |
| leases..... | 0 | | 0 |
| Percentage of | | | |
| total rentable | | | |
| sq. ft. | 0.00% | | 0.00% |
| Annualized Rent | | | |
| (2)..... | \$ 0 | \$ | 0 |
| No. of tenants | | | |
| whose leases ex- | | | |
| pire..... | 0 | | 0 |
| Annualized Rent | | | |
| per leased sq. | | | |
| ft. | \$ 0.00 | \$ | 0.00 |
| Annualized Rent | | | |
| per leased sq. | | | |
| ft. | | | |
| w/future step- | | | |
| ups (3)..... | \$ 0.00 | \$ | 0.00 |
| Company Quoted | | | |
| Rental Rate per | | | |
| sq. ft. (4)..... | | | |
| GREATER WASHING- | | | |
| TON, D.C. | | | |
| Southwest Wash- | | | |
| ington, D.C. | | | |
| Square footage | | | |
| of expiring | | | |
| leases..... | 331,518 | 882,092 | |
| Percentage of | | | |
| total rentable | | | |
| sq. ft. | 21.24% | | 56.51% |
| Annualized Rent | | | |
| (2)..... | \$12,659,802 | \$30,254,535 | |
| No. of tenants | | | |
| whose leases ex- | | | |
| pire..... | 1 | | 8 |
| Annualized Rent | | | |
| per leased sq. | | | |
| ft. | \$ 38.19 | \$ | 34.30 |
| Annualized Rent | | | |
| per leased sq. | | | |
| ft. | | | |
| w/future step- | | | |
| ups (3)..... | \$ 39.21 | \$ | 38.75 |
| Company Quoted | | | |
| Rental Rate per | | | |
| sq. ft. (4)..... | | | |
| West End Washing- | | | |

| | | |
|--|--------------|------------|
| ton, D.C. | | |
| Square footage of expiring leases..... | 204,154 | 33,110 |
| Percentage of total rentable sq. ft. | 72.90% | 11.82% |
| Annualized Rent (2)..... | \$10,801,933 | \$ 871,430 |
| No. of tenants whose leases expire..... | 1 | 1 |
| Annualized Rent per leased sq. ft. | \$ 52.91 | \$ 26.32 |
| Annualized Rent per leased sq. ft. w/future step-ups (2).... | \$ 63.05 | \$ 38.42 |
| Company Quoted Rental Rate per sq. ft. (4)..... | | |

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|--|------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|
| MONTGOMERY COUNTY, MD | | | | | | | | |
| Square footage of expiring leases..... | 18,844 | 100,447 | 68,949 | 133,782 | 44,421 | 206,281 | 69,476 | 19,789 |
| Percentage of total rentable sq. ft. | 2.14% | 11.42% | 7.84% | 15.20% | 5.05% | 23.44% | 7.90% | 2.25% |
| Annualized Rent (2)..... | \$ 437,770 | \$1,928,771 | \$ 1,473,758 | \$ 2,605,370 | \$ 978,752 | \$ 4,669,581 | \$ 1,357,128 | \$ 408,733 |
| No. of tenants whose leases expire..... | 5 | 12 | 10 | 17 | 8 | 10 | 1 | 2 |
| Annualized Rent per leased sq. ft. | \$ 23.23 | \$ 20.38 | \$ 21.37 | \$ 19.47 | \$ 22.03 | \$ 22.64 | \$ 19.53 | \$ 20.65 |
| Annualized Rent per leased sq. ft. w/future step-ups (3).... | \$ 23.23 | \$ 28.30 | \$ 26.66 | \$ 21.26 | \$ 22.50 | \$ 25.49 | \$ 19.50 | \$ 20.65 |
| Company Quoted Rental Rate per sq. ft. (4)..... | \$ 22.59 | | | | | | | |
| BALTIMORE, MD | | | | | | | | |
| Square footage of expiring leases..... | 16,865 | 106,168 | 7,390 | 22,683 | 27,891 | 55,570 | 70,262 | 8,715 |
| Percentage of total rentable sq. ft. | 2.66% | 16.76% | 1.17% | 3.58% | 4.40% | 8.77% | 11.09% | 1.38% |
| Annualized Rent (2)..... | \$ 344,220 | \$1,966,932 | \$ 139,956 | \$ 540,312 | \$ 609,144 | \$ 1,247,868 | \$ 1,413,876 | \$ 271,488 |
| No. of tenants whose leases expire..... | 5 | 11 | 1 | 3 | 1 | 5 | 2 | 2 |
| Annualized Rent per leased sq. ft. | \$ 20.41 | \$ 18.53 | \$ 18.94 | \$ 23.82 | \$ 21.84 | \$ 22.46 | \$ 20.12 | \$ 31.15 |
| Annualized Rent per leased sq. ft. w/future step-ups (3).... | \$ 20.41 | \$ 18.53 | \$ 18.94 | \$ 24.07 | \$ 21.84 | \$ 25.04 | \$ 20.12 | \$ 35.73 |
| Company Quoted Rental Rate per sq. ft. (4)..... | \$ 27.12 | | | | | | | |
| FAIRFAX COUNTY, VA | | | | | | | | |
| Square footage of expiring leases..... | 0 | 0 | 0 | 0 | 0 | 255,244 | 263,870 | 261,046 |
| Percentage of total rentable sq. ft. | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 32.72% | 33.82% | 33.46% |
| Annualized Rent (2)..... | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$10,896,216 | \$10,372,632 | \$ 6,746,412 |
| No. of tenants whose leases expire..... | 0 | 0 | 0 | 0 | 0 | 1 | 1 | 1 |
| Annualized Rent per leased sq. ft. | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$42.69 | \$39.31 | \$25.84 |
| Annualized Rent per leased sq. ft. w/future step-ups (3).... | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | 42.69 | 45.66 | 29.72 |
| Company Quoted Rental Rate per sq. ft. (4)..... | \$ 0.00 | | | | | | | |
| RICHMOND, VA | | | | | | | | |
| Square footage of expiring leases..... | 0 | 17,610 | 117,973 | 65,517 | 80,144 | 3,336 | 23,855 | 48,060 |
| Percentage of total rentable sq. ft. | 0.00% | 1.96% | 13.11% | 7.28% | 8.91% | 0.37% | 2.65% | 5.34% |
| Annualized Rent (2)..... | \$ 0 | \$ 268,872 | \$ 1,788,114 | \$ 1,482,420 | \$ 1,578,828 | \$ 63,384 | \$ 565,248 | \$ 907,692 |
| No. of tenants whose leases expire..... | 0 | 4 | 8 | 11 | 13 | 1 | 3 | 1 |
| Annualized Rent per leased sq. ft. | \$ 0.00 | \$ 15.27 | \$ 15.16 | \$ 22.63 | \$ 19.70 | \$ 19.00 | \$ 23.70 | \$ 18.89 |
| Annualized Rent per leased sq. ft. w/future step-ups (3).... | \$ 0.00 | \$ 15.27 | \$ 16.12 | \$ 24.66 | \$ 21.84 | \$ 22.23 | \$ 25.23 | \$ 22.93 |
| Company Quoted Rental Rate per sq. ft. (4)..... | \$ 22.00 | | | | | | | |

MIDTOWN MANHATTAN

Park Avenue

Square footage of expiring leases.....

48,367 37,113 350 72,792 78,421 403,520 47,061 6,145

Percentage of total rentable sq. ft.

2.20% 1.69% .02% 3.31% 3.57% 18.35% 2.14% .28%

Annualized Rent (2).....

\$2,784,701 \$1,559,480 \$ 35,494 \$ 3,769,144 \$ 3,855,416 \$21,959,975 \$ 2,569,231 \$ 462,266

No. of tenants whose leases expire.....

4 9 1 12 6 12 8 2

Annualized Rent per leased sq. ft.

\$ 57.57 \$ 42.02 \$ 101.41 \$ 51.78 \$ 49.16 \$ 54.42 \$ 54.59 \$ 75.23

Annualized Rent per leased sq. ft. w/future step-ups (3)....

\$ 57.57 \$ 42.02 \$ 107.37 \$ 51.69 \$ 49.47 \$ 57.36 \$ 60.79 \$ 79.25

Company Quoted Rental Rate per sq. ft. (4)....

\$ 44.45

East side

Square footage of expiring leases.....

0 435 65,901 0 2,768 436,875 151,435 4,150

Percentage of total rentable sq. ft.

0% 0.06% 9.67% 0.00% 0.41% 64.09% 22.22% 0.61%

Annualized Rent (2).....

\$ 24,996 \$ 2,038,596 \$ 0 \$ 267,528 \$20,987,268 \$ 4,375,752 \$ 139,800

Percentage of Annualized Rent.....

0.00% 0.09% 7.06% 0.00% 0.93% 72.68% 15.15% 0.48%

No. of tenants whose leases expire.....

1 3 0 1 3 5 2

Annualized Rent per leased sq. ft.

\$ 0.00 \$ 57.46 \$ 30.93 \$ 0.00 \$ 96.65 \$ 48.04 \$ 28.90 \$ 33.69

Annualized Rent per leased sq. ft. w/future step-ups (3)....

\$ 0.00 \$ 57.46 \$ 31.06 \$ 0.00 \$ 107.22 \$ 49.18 \$ 32.82 \$ 37.61

Company Quoted Rental Rate per sq. ft. (4)....

\$ 43.71

TOTAL CLASS A OFFICE BUILDINGS

Square footage of expiring leases.....

217,941 461,907 537,009 790,825 714,656 1,273,945 715,513 460,836

Percentage of total rentable sq. ft.

2.20% 4.66% 5.42% 7.98% 7.21% 15.43% 7.22% 4.65%

Annualized Rent (2).....

\$6,697,748 \$9,550,028 \$11,541,227 \$22,176,201 \$18,437,631 \$63,284,598 \$11,451,834 \$12,243,731

No. of tenants whose leases expire.....

37 75 53 74 60 45 20 10

Annualized Rent per leased sq. ft.

\$ 30.73 \$ 20.68 \$ 21.49 \$ 28.04 \$ 25.80 \$ 41.38 \$ 32.40 \$ 26.57

Annualized Rent per leased sq. ft. w/future step-ups (3)....

\$ 32.18 \$ 24.88 \$ 23.36 \$ 28.63 \$ 26.51 \$ 43.38 \$ 33.01 \$ 32.00

Company Quoted Rental Rate per sq. ft. (4)....

\$ 32.22

----- 2005 2006 2007 & BEYOND -----

MONTGOMERY COUNTY, MD

Square footage of expiring leases.....

36,081 152,978 4,664

Percentage of total rentable sq. ft.

4.10% 17.39% .53%

Annualized Rent (2).....

\$ 831,775 \$ 3,458,413 \$ 57,624

No. of tenants whose leases expire.....

2 3 1

Annualized Rent per leased sq. ft.

\$ 23.05 \$ 22.61 \$ 12.36

Annualized Rent per leased sq. ft. w/future step-ups (3)....

\$ 28.92 \$ 27.34 \$ 12.87

Company Quoted Rental Rate per

| | | | |
|--|-------------|--------------|--------------|
| sq. ft. (4)..... | | | |
| BALTIMORE, MD | | | |
| Square footage of expiring leases..... | 33,793 | 228,864 | 42,409 |
| Percentage of total rentable sq. ft. | 5.33% | 36.13% | 6.69% |
| Annualized Rent (2)..... | \$ 838,548 | \$ 6,330,204 | \$ 1,521,876 |
| No. of tenants whose leases expire..... | 1 | 2 | 2 |
| Annualized Rent per leased sq. ft. | \$ 24.81 | \$ 27.66 | \$ 35.89 |
| Annualized Rent per leased sq. ft. w/future step-ups (3).... | \$ 28.81 | \$ 31.14 | \$ 38.42 |
| Company Quoted Rental Rate per sq. ft. (4)..... | | | |
| FAIRFAX COUNTY, VA | | | |
| Square footage of expiring leases..... | 0 | 0 | 0 |
| Percentage of total rentable sq. ft. | 0.00% | 0.00% | 0.00% |
| Annualized Rent (2)..... | \$ 0 | \$ 0 | \$ 0 |
| No. of tenants whose leases expire..... | 0 | 0 | 0 |
| Annualized Rent per leased sq. ft. | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| Annualized Rent per leased sq. ft. w/future step-ups (3).... | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| Company Quoted Rental Rate per sq. ft. (4)..... | | | |
| RICHMOND, VA | | | |
| Square footage of expiring leases..... | 202,919 | 289,112 | 22,567 |
| Percentage of total rentable sq. ft. | 22.55% | 32.13% | 2.51% |
| Annualized Rent (2)..... | \$4,021,257 | \$ 6,735,248 | \$ 152,196 |
| No. of tenants whose leases expire..... | 1 | 1 | 2 |
| Annualized Rent per leased sq. ft. | \$ 19.82 | \$ 23.30 | \$ 6.74 |
| Annualized Rent per leased sq. ft. w/future step-ups (3).... | \$ 22.52 | \$ 26.50 | \$ 6.74 |
| Company Quoted Rental Rate per sq. ft. (4)..... | | | |
| MIDTOWN MANHATTAN | | | |
| Park Avenue | | | |
| Square footage of expiring leases..... | 33,543 | 21,344 | 1,207,788 |
| Percentage of total rentable sq. ft. | 1.53% | .97% | 54.93% |
| Annualized Rent (2)..... | \$1,667,072 | \$ 888,181 | \$53,752,917 |
| No. of tenants whose leases expire..... | 5 | 2 | 18 |
| Annualized Rent per leased sq. ft. | \$ 49.70 | \$ 41.61 | \$ 44.51 |
| Annualized Rent per leased sq. ft. w/future step-ups (3).... | \$ 52.95 | \$ 45.35 | \$ 47.53 |
| Company Quoted Rental Rate per sq. ft. (4)..... | | | |
| East side | | | |
| Square footage of expiring leases..... | 9,790 | 1,075 | 9,115 |
| Percentage of total rentable sq. ft. | 1.44% | 0.16% | 1.34% |

| | | | |
|--|-------------|--------------|--------------|
| Annualized Rent (2)..... | \$ 322,356 | \$ 55,764 | \$ 662,328 |
| Percentage of Annualized Rent..... | 1.12% | 0.19% | 2.29% |
| No. of tenants whose leases expire..... | 3 | 1 | 3 |
| Annualized Rent per leased sq. ft. | \$ 32.93 | \$ 51.87 | \$ 77.98 |
| Annualized Rent per leased sq. ft. w/future step-ups (3).... | \$ 37.24 | \$ 64.13 | \$ 94.53 |
| Company Quoted Rental Rate per sq. ft. (4)..... | | | |
| TOTAL CLASS A OFFICE BUILDINGS | | | |
| Square footage of expiring leases..... | 406,126 | 1,413,264 | 2,248,269 |
| Percentage of total rentable sq. ft. | 4.10% | 14.26% | 22.69% |
| Annualized Rent (2)..... | \$9,271,822 | \$45,552,662 | \$88,136,732 |
| No. of tenants whose leases expire..... | 10 | 12 | 33 |
| Annualized Rent per leased sq. ft. | \$ 22.83 | \$ 32.23 | \$ 39.20 |
| Annualized Rent per leased sq. ft. w/future step-ups (3).... | \$ 25.72 | \$ 36.02 | \$ 42.93 |
| Company Quoted Rental Rate per sq. ft. (4)..... | | | |

| | | | | | | | | | |
|--|-----------|-------------|-------------|-------------|-----------|-------------|-------------|-----------|-------------|
| ft. w/future step-ups (3).... | \$ 7.84 | \$ 8.39 | \$ 12.97 | \$ 10.32 | \$ 12.45 | \$ 16.92 | \$ 0.00 | \$ 14.57 | \$ 0.00 |
| Company Quoted Rental Rate per sq. ft. (4)..... | \$ 11.68 | | | | | | | | |
| GREATER SAN FRANCISCO | | | | | | | | | |
| Square footage of expiring leases..... | 8,930 | 27,450 | 38,593 | 31,519 | 10,000 | 13,200 | 2,000 | 0 | 0 |
| Percentage of total rentable sq. ft. | 6.18% | 19.00% | 26.71% | 21.82% | 6.92% | 9.14% | 1.38% | 0.00% | 0.00% |
| Annualized Rent (2)..... | \$ 87,097 | \$ 227,088 | \$ 301,578 | \$ 251,798 | \$ 74,340 | \$ 105,120 | \$ 14,160 | \$ 0 | \$ 0 |
| No. of tenants whose leases expire..... | 7 | 12 | 15 | 11 | 4 | 5 | 1 | 0 | 0 |
| Annualized Rent per leased sq. ft..... | \$ 9.75 | \$ 8.27 | \$ 7.81 | \$ 7.99 | \$ 7.43 | \$ 7.96 | \$ 7.08 | \$ 0.00 | \$ 0.00 |
| Annualized Rent per leased sq. ft. w/future step-ups (3).... | \$ 9.75 | \$ 8.27 | \$ 7.81 | \$ 7.99 | \$ 7.43 | \$ 7.96 | \$ 7.08 | \$ 0.00 | \$ 0.00 |
| Company Quoted Rental Rate per sq. ft. (4)..... | \$ 7.80 | | | | | | | | |
| TOTAL R&D PROPERTIES | | | | | | | | | |
| Square footage of expiring leases..... | 68,148 | 190,822 | 161,669 | 415,003 | 85,895 | 193,137 | 120,066 | 47,641 | 116,330 |
| Percentage of total rentable sq. ft. | 3.67% | 10.29% | 8.72% | 22.38% | 4.63% | 10.41% | 6.47% | 2.57% | 6.27% |
| Annualized Rent (2)..... | \$716,585 | \$1,704,053 | \$1,558,824 | \$4,237,150 | \$965,874 | \$2,339,485 | \$1,944,091 | \$561,005 | \$1,329,768 |
| No. of tenants whose leases expire..... | 10 | 24 | 19 | 23 | 9 | 11 | 3 | 3 | 3 |
| Annualized Rent per leased sq. ft..... | \$ 10.52 | \$ 8.93 | \$ 9.64 | \$ 10.21 | \$ 12.24 | \$ 11.11 | \$ 16.19 | \$ 11.78 | \$ 11.43 |
| Annualized Rent per leased sq. ft. w/future step-ups (3).... | \$ 10.52 | \$ 8.95 | \$ 9.91 | \$ 10.32 | \$ 13.42 | 12.70 | \$ 18.12 | \$ 14.57 | \$ 12.92 |
| Company Quoted Rental Rate per sq. ft. (4)..... | \$ 11.59 | | | | | | | | |

| | 2006 | 2007 & BEYOND |
|--|-------|---------------|
| | ----- | ----- |

| | | |
|--|-------------|---------|
| GREATER BOSTON | | |
| East Cambridge | | |
| Square footage of expiring leases..... | 0 | 0 |
| Percentage of total rentable sq. ft. | 0.00% | 0.00% |
| Annualized Rent (2)..... | \$ 0 | \$ 0 |
| No. of tenants whose leases expire..... | 0 | 0 |
| Annualized Rent per leased sq. ft. | \$ 0.00 | \$ 0.00 |
| Annualized Rent per leased sq. ft. w/future step-ups (3).... | \$ 0.00 | \$ 0.00 |
| Company Quoted Rental Rate per sq. ft. (4)..... | | |
| Route 128 NW | | |
| Square footage of expiring leases..... | 150,000 | 0 |
| Percentage of total rentable sq. ft. | 31.39% | 0.00% |
| Annualized Rent (2)..... | \$1,569,948 | \$ 0 |
| No. of tenants whose leases expire..... | 1 | 0 |
| Annualized Rent per leased sq. ft. | \$ 10.47 | \$ 0.00 |
| Annualized Rent per leased sq. ft. w/future | | |

| | | | | |
|---|----|-----------|----|-----------|
| step-ups (3).... | \$ | 10.47 | \$ | 0.00 |
| Company Quoted Rental Rate per sq. ft. (4)..... | | | | |
| GREATER WASHINGTON, D.C. | | | | |
| Montgomery County, MD | | | | |
| Square footage of expiring leases..... | | 0 | | 56,161 |
| Percentage of total rentable sq. ft. | | 0.00% | | 23.33% |
| Annualized Rent (2)..... | \$ | 0 | \$ | 774,684 |
| No. of tenants whose leases ex- pire..... | | 0 | | 1 |
| Annualized Rent per leased sq. ft..... | \$ | 0.00 | \$ | 13.79 |
| Annualized Rent per leased sq. ft. w/future step-ups (3).... | \$ | 0.00 | \$ | 18.10 |
| Company Quoted Rental Rate per sq. ft. (4)..... | | | | |
| Fairfax County, VA | | | | |
| Square footage of expiring leases..... | | 25,897 | | 115,148 |
| Percentage of total rentable sq. ft. | | 2.8% | | 12.46% |
| Annualized Rent (2)..... | \$ | 198,060 | \$ | 1,670,627 |
| No. of tenants whose leases ex- pire..... | | 2 | | 2 |
| Annualized Rent per leased sq. ft..... | \$ | 7.65 | \$ | 14.51 |
| Annualized Rent per leased sq. ft. w/future step-ups (3).... | \$ | 9.24 | \$ | 14.51 |
| Company Quoted Rental Rate per sq. ft. (4)..... | | | | |
| GREATER SAN FRANCISCO | | | | |
| Square footage of expiring leases..... | | 0 | | 0 |
| Percentage of total rentable sq. ft. | | 0.00% | | 0.00% |
| Annualized Rent (2)..... | \$ | 0 | \$ | 0 |
| No. of tenants whose leases ex- pire..... | | 0 | | 0 |
| Annualized Rent per leased sq. ft..... | \$ | 0.00 | \$ | 0.00 |
| Annualized Rent per leased sq. ft. w/future step-ups (3).... | \$ | 0.00 | \$ | 0.00 |
| Company Quoted Rental Rate per sq. ft. (4)..... | | | | |
| TOTAL R&D PROPERTIES | | | | |
| Square footage of expiring leases..... | | 150,000 | | 171,309 |
| Percentage of total rentable sq. ft. | | 8.09% | | 9.24% |
| Annualized Rent (2)..... | \$ | 1,569,949 | \$ | 2,445,311 |
| No. of tenants whose leases ex- pire..... | | 3 | | 3 |
| Annualized Rent per leased sq. ft..... | \$ | 10.47 | \$ | 14.27 |
| Annualized Rent per leased sq. ft. w/future step-ups (3).... | \$ | 10.47 | \$ | 15.69 |
| Company Quoted Rental Rate per sq. ft. (4)..... | | | | |

INDUSTRIAL PROPERTIES
(MARKET/SUBMARKET)

GREATER BOSTON

Route 128/Massa-

chusetts Turnpike

Square footage

of expiring

leases.....

Percentage of

total rentable

sq. ft.

Annualized Rent

(2).....

No. of tenants

whose leases ex-

pire.....

Annualized Rent

per leased sq.

ft.

Annualized Rent

per leased sq.

ft.

w/future step-

ups (3).....

Company Quoted

Rental Rate per

sq. ft. (4).....

2006 2007 &
----- BEYOND

GREATER BOSTON

Route 128/Massa-

chusetts Turnpike

Square footage

of expiring

leases.....

Percentage of

total rentable

sq. ft.

Annualized Rent

(2).....

No. of tenants

whose leases ex-

pire.....

Annualized Rent

per leased sq.

ft.

Annualized Rent

per leased sq.

ft.

w/future step-

ups (3).....

Company Quoted

Rental Rate per

sq. ft. (4).....

2006 2007 &
----- BEYOND

0 0

0.00% 0.00%

\$ 0 \$ 0

0 0

\$ 0.00 \$ 0.00

\$ 0.00 \$ 0.00

\$ 8.84

0 0

0.00% 0.00%

\$ 0 \$ 0

0 0

\$ 0.00 \$ 0.00

\$ 0.00 \$ 0.00

\$ 8.84

0 0

0.00% 0.00%

\$ 0 \$ 0

0 0

\$ 0.00 \$ 0.00

\$ 0.00 \$ 0.00

\$ 8.84

0 0

0.00% 0.00%

\$ 0 \$ 0

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|--|------------|--------------|------------|------------|------------|---------|------------|------------|
| GREATER WASHINGTON, D.C. | | | | | | | | |
| Prince George's County, MD | | | | | | | | |
| Square footage of expiring leases..... | 20,500 | 116,358 | 34,863 | 21,064 | 0 | 0 | 0 | 0 |
| Percentage of total rentable sq. ft. | 8.66% | 49.15% | 14.73% | 8.90% | 0.00% | 0.00% | 0.00% | 0.00% |
| Annualized Rent (2)..... | \$ 253,812 | \$ 819,640 | \$ 307,976 | \$ 143,499 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| No. of tenants whose leases expire..... | 1 | 4 | 1 | 1 | 0 | 0 | 0 | 0 |
| Annualized Rent per leased sq. ft. | \$ 5.75 | \$ 8.21 | \$ 8.83 | \$ 6.81 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| Annualized Rent per leased sq. ft. w/future step-ups (3).... | \$ 5.75 | \$ 8.21 | \$ 8.83 | \$ 6.81 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| Company Quoted Rental Rate per sq. ft. (4).... | \$ 5.34 | | | | | | | |
| GREATER SAN FRANCISCO | | | | | | | | |
| Square footage of expiring leases..... | 0 | 20,000 | 40,000 | 0 | 60,000 | 0 | 0 | 160,213 |
| Percentage of total rentable sq. ft. | 0.00% | 7.12% | 14.23% | 0.00% | 21.35% | 0.00% | 0.00% | 57.02% |
| Annualized Rent (2)..... | \$ 0 | \$ 114,949 | \$ 237,870 | \$ 0 | \$ 234,000 | \$ 0 | \$ 0 | \$ 442,188 |
| No. of tenants whose leases expire..... | 0 | 1 | 1 | 0 | 1 | 0 | 0 | 1 |
| Annualized Rent per leased sq. ft. | \$ 0.00 | \$ 5.75 | \$ 5.95 | \$ 0.00 | \$ 3.90 | \$ 0.00 | \$ 0.00 | \$ 2.76 |
| Annualized Rent per leased sq. ft. w/future step-ups (3).... | \$ 0.00 | \$ 5.75 | \$ 6.31 | \$ 0.00 | \$ 3.90 | \$ 0.00 | \$ 0.00 | \$ 2.76 |
| Company Quoted Rental Rate per sq. ft. (4).... | \$ 7.92 | | | | | | | |
| BUCKS COUNTY, PA | | | | | | | | |
| Square footage of expiring leases..... | 0 | 161,000 | 0 | 0 | 0 | 0 | 0 | 0 |
| Percentage of total rentable sq. ft. | 0.00% | 100.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Annualized Rent (2)..... | \$ 0 | \$ 868,699 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| No. of tenants whose leases expire..... | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 |
| Annualized Rent per leased sq. ft. | \$ 0.00 | \$ 5.40 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| Annualized Rent per leased sq. ft. w/future step-ups (3).... | \$ 0.00 | \$ 5.40 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| Company Quoted Rental Rate per sq. ft. (4).... | \$ 5.40 | | | | | | | |
| TOTAL INDUSTRIAL PROPERTIES | | | | | | | | |
| Square footage of expiring leases..... | 20,500 | 297,358 | 98,767 | 88,280 | 70,629 | 0 | 128,105 | 160,213 |
| Percentage of total rentable sq. ft. | 2.21% | 32.11% | 10.67% | 9.53% | 7.65% | 0.00% | 13.83% | 17.30% |
| Annualized Rent (2)..... | \$ 117,870 | \$ 1,939,230 | \$ 666,855 | \$ 806,854 | \$ 365,769 | \$ 0 | \$ 733,031 | \$ 442,188 |
| No. of tenants whose leases expire..... | 1 | 6 | 3 | 2 | 2 | 0 | 1 | 1 |
| Annualized Rent per leased sq. ft. | \$ 5.75 | \$ 6.52 | \$ 6.75 | \$ 9.14 | \$ 5.16 | \$ 0.00 | \$ 5.72 | \$ 2.76 |
| Annualized Rent per leased sq. ft. w/future step-ups (3).... | \$ 5.75 | \$ 6.52 | \$ 6.90 | \$ 9.14 | \$ 5.16 | \$ 0.00 | \$ 6.47 | \$ 2.76 |

| | | | | | | | | | |
|--|----|-----------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Company Quoted Rental Rate per sq. ft. (4)..... | \$ | 6.13 | | | | | | | |
| TOTAL OFFICE AND INDUSTRIAL PROPERTIES | | | | | | | | | |
| Square footage of expiring leases (6)..... | | 306,592 | 950,087 | 797,445 | 1,294,108 | 871,380 | 1,722,326 | 963,684 | 668,690 |
| Percentage of total rentable sq. ft..... | | 2.42% | 7.49% | 6.28% | 10.20% | 6.87% | 13.57% | 7.59% | 5.29% |
| Annualized Rent (2)..... | \$ | 7,193,947 | \$13,193,311 | \$13,766,906 | \$27,220,205 | \$19,769,274 | \$65,624,083 | \$25,858,716 | \$13,246,924 |
| No. of tenants whose leases expire..... | | 48 | 105 | 74 | 99 | 71 | 55 | 24 | 14 |
| Annualized Rent per leased sq. ft. | \$ | 24.57 | \$ 13.89 | \$ 17.26 | \$ 21.03 | \$ 22.69 | \$ 38.10 | \$ 26.83 | \$ 19.81 |
| Annualized Rent per leased sq. ft. w/future step-ups (3).... | \$ | 26.10 | \$ 15.93 | \$ 18.59 | \$ 21.09 | \$ 23.33 | \$ 39.79 | \$ 27.63 | \$ 18.91 |
| Company Quoted Rental Rate per sq. ft. (4)..... | \$ | 27.30 | | | | | | | |

| | 2005 | 2006 | 2007 & BEYOND |
|--|-------|-------|---------------|
| | ----- | ----- | ----- |

GREATER WASHINGTON, D.C.

Prince George's County, MD

| | | | | |
|--|----|-------|---------|---------|
| Square footage of expiring leases..... | | 0 | 0 | 0 |
| Percentage of total rentable sq. ft. | | 0.00% | 0.00% | 0.00% |
| Annualized Rent (2)..... | \$ | 0 | \$ 0 | \$ 0 |
| No. of tenants whose leases expire..... | | 0 | 0 | 0 |
| Annualized Rent per leased sq. ft. | \$ | 0.00 | \$ 0.00 | \$ 0.00 |
| Annualized Rent per leased sq. ft. w/future step-ups (3).... | \$ | 0.00 | \$ 0.00 | \$ 0.00 |
| Company Quoted Rental Rate per sq. ft. (4)..... | | | | |

GREATER SAN FRANCISCO

| | | | | |
|--|----|-------|---------|---------|
| Square footage of expiring leases..... | | 0 | 0 | 0 |
| Percentage of total rentable sq. ft. | | 0.00% | 0.00% | 0.00% |
| Annualized Rent (2)..... | \$ | 0 | \$ 0 | \$ 0 |
| No. of tenants whose leases expire..... | | 0 | 0 | 0 |
| Annualized Rent per leased sq. ft. | \$ | 0.00 | \$ 0.00 | \$ 0.00 |
| Annualized Rent per leased sq. ft. w/future step-ups (3).... | \$ | 0.00 | \$ 0.00 | \$ 0.00 |
| Company Quoted Rental Rate per sq. ft. (4)..... | | | | |

BUCKS COUNTY, PA

| | | | | |
|---|----|-------|---------|---------|
| Square footage of expiring leases..... | | 0 | 0 | 0 |
| Percentage of total rentable sq. ft. | | 0.00% | 0.00% | 0.00% |
| Annualized Rent (2)..... | \$ | 0 | \$ 0 | \$ 0 |
| No. of tenants whose leases expire..... | | 0 | 0 | 0 |
| Annualized Rent per leased sq. ft. | \$ | 0.00 | \$ 0.00 | \$ 0.00 |
| Annualized Rent per leased sq. ft. w/future | | | | |

| | | | | | | |
|---|----|------------|----|------------|----|------------|
| step-ups (3).... | \$ | 0.00 | \$ | 0.00 | \$ | 0.00 |
| Company Quoted Rental Rate per sq. ft. (4)..... | | | | | | |
| TOTAL INDUSTRIAL PROPERTIES | | | | | | |
| Square footage of expiring leases..... | | 0 | | 0 | | 0 |
| Percentage of total rentable sq. ft. | | 0.00% | | 0.00% | | 0.00% |
| Annualized Rent (2)..... | \$ | 0 | \$ | 0 | \$ | 0 |
| No. of tenants whose leases ex- pire..... | | 0 | | 0 | | 0 |
| Annualized Rent per leased sq. ft. | \$ | 0.00 | \$ | 0.00 | \$ | 0.00 |
| Annualized Rent per leased sq. ft. w/future step-ups (3).... | \$ | 0.00 | \$ | 0.00 | \$ | 0.00 |
| Company Quoted Rental Rate per sq. ft. (4)..... | | | | | | |
| TOTAL OFFICE AND INDUSTRIAL PROP- ERTIES | | | | | | |
| Square footage of expiring leases (6)..... | | 522,456 | | 1,563,264 | | 2,419,578 |
| Percentage of total rentable sq. ft..... | | 4.12% | | 12.32% | | 19.07% |
| Annualized Rent (2)..... | \$ | 10,601,590 | \$ | 47,122,611 | \$ | 90,582,043 |
| No. of tenants whose leases ex- pire..... | | 13 | | 15 | | 36 |
| Annualized Rent per leased sq. ft. | \$ | 20.29 | \$ | 30.14 | \$ | 37.44 |
| Annualized Rent per leased sq. ft. w/future step-ups (3).... | \$ | 22.87 | \$ | 33.57 | \$ | 41.00 |
| Company Quoted Rental Rate per sq. ft. (4)..... | | | | | | |

- - - -

- (1) The Company owns one Class A Office Building in the Back Bay submarket of Greater Boston. This Property serves as the Company's headquarters. The Company is the sole tenant of this building.
- (2) Annualized Rent, as used throughout this Prospectus, represents Annualized Rent which is the monthly contractual rent under existing leases as of September 30, 1997 multiplied by twelve. This amount reflects total rent before any rent abatements and includes expense reimbursements, which may be estimates as of such date.
- (3) Annualized Rent Per Leased Square Foot with Future Step-Ups, represents Annualized Rent Per Leased Square Foot as described in footnote (2) above, but also reflects contractual increases in monthly base rent that occur after September 30, 1997.
- (4) Represents weighted average rental rates per square foot quoted by the Company as of October 1, 1997, based on total net rentable square feet of Company Properties in the submarket. These rates have not been adjusted to a full-service equivalent rate in markets in which the Company's rates are not quoted on a full-service basis.

HISTORICAL TENANT IMPROVEMENTS AND LEASING COMMISSIONS

The following table sets forth certain historical information regarding recurring tenant improvement and leasing commission costs for tenants at the Office and Industrial Properties during the years ending December 31, 1992 through December 31, 1996 and the nine months ended September 30, 1997.

| | 1992 | 1993 | 1994 | 1995 | 1996 | NINE MONTHS ENDED SEPTEMBER 30, 1997 | WEIGHTED AVERAGE |
|--|---------|---------|---------|---------|---------|--|---------------------|
| OFFICE PROPERTIES | | | | | | | |
| Class A Office Buildings | | | | | | | |
| RENEWALS | | | | | | | |
| Number of leases..... | 39 | 34 | 30 | 36 | 45 | 43 | |
| Square feet..... | 298,580 | 163,008 | 239,441 | 78,216 | 226,941 | 460,888 | |
| Tenant improvement costs per square foot..... | \$ 1.63 | \$ 0.47 | \$ 2.70 | \$ 0.48 | \$ 2.80 | \$ 7.29 | \$ 3.57 |
| Leasing commission costs per square foot..... | 0.30 | 0.26 | 0.93 | 1.32 | 1.67 | 1.41 | 1.01 |
| Total tenant improvement and leasing commission costs per square foot..... | \$ 1.93 | \$ 0.73 | \$ 3.63 | \$ 1.80 | \$ 4.47 | \$ 8.70 | \$ 4.58 |
| NEW LEASES | | | | | | | |
| Number of leases..... | 38 | 43 | 57 | 58 | 60 | 39 | |
| Square feet..... | 374,558 | 288,287 | 451,018 | 690,297 | 782,782 | 310,533 | |
| Tenant improvement costs per square foot..... | \$10.50 | \$10.43 | \$10.53 | \$ 8.08 | \$10.33 | \$ 12.04 | \$10.04 |
| Leasing commission costs per square foot..... | 2.06 | 2.38 | 2.02 | 3.59 | 2.88 | 3.65 | 2.84 |
| Total tenant improvement and leasing commission costs per square foot..... | \$12.56 | \$12.81 | \$12.55 | \$11.67 | \$13.21 | \$ 15.69 | \$12.88 |
| TOTAL | | | | | | | |
| Number of leases..... | 77 | 77 | 87 | 94 | 104 | 82 | |
| Square feet..... | 673,138 | 451,295 | 690,459 | 768,513 | 970,072 | 771,421 | |
| Tenant improvement costs per square foot..... | \$ 6.57 | \$ 6.83 | \$ 7.81 | \$ 7.30 | \$ 8.99 | \$ 9.20 | \$ 7.93 |
| Leasing commission costs per square foot..... | 1.28 | 1.62 | 1.64 | 3.36 | 2.41 | 2.31 | 2.18 |
| Total tenant improvement and leasing commission costs per square foot..... | \$ 7.85 | \$ 8.45 | \$ 9.45 | \$10.66 | \$11.40 | \$ 11.51 | \$10.11 |
| R&D Properties | | | | | | | |
| RENEWALS | | | | | | | |
| Number of leases..... | 7 | 11 | 9 | 10 | 11 | 16 | |
| Square feet..... | 58,400 | 20,890 | 49,552 | 31,492 | 139,254 | 91,596 | |
| Tenant improvement costs per square foot..... | \$ 2.73 | \$ 2.22 | \$ 0.74 | \$ 1.35 | \$ 0.98 | \$ 0.85 | \$ 1.28 |
| Leasing commission costs per square foot..... | 0.12 | 2.36 | 0.59 | 1.12 | 0.65 | .11 | 0.91 |
| Total tenant improvement and leasing commission costs per square foot..... | \$ 2.85 | \$ 4.58 | \$ 1.33 | \$ 2.47 | \$ 1.63 | \$.96 | \$ 2.19 |
| NEW LEASES | | | | | | | |
| Number of leases..... | 28 | 26 | 20 | 16 | 16 | 17 | |
| Square feet..... | 126,670 | 146,067 | 228,780 | 145,581 | 198,442 | 55,908 | |
| Tenant improvement costs per square foot..... | \$ 3.42 | \$ 4.02 | \$ 0.19 | \$ 7.23 | \$15.01 | \$ 4.19 | \$ 5.93 |
| Leasing commission costs per square foot..... | 0.84 | 1.66 | 0.34 | 0.75 | 1.62 | .67 | 0.98 |
| Total tenant improvement and leasing commission costs per square foot..... | \$ 4.26 | \$ 5.68 | \$ 0.53 | \$ 7.98 | \$16.63 | \$ 4.86 | \$ 6.91 |
| TOTAL | | | | | | | |
| Number of leases..... | 35 | 37 | 29 | 26 | 27 | 33 | |
| Square feet..... | 185,070 | 166,957 | 276,332 | 177,073 | 337,676 | 147,504 | |
| Tenant improvement costs per square | | | | | | | |

| | | | | | | | |
|--|---------|---------|---------|---------|---------|---------|---------|
| foot..... | \$ 3.21 | \$ 3.79 | \$ 0.29 | \$ 6.18 | \$ 9.23 | \$ 2.12 | \$ 4.52 |
| Leasing commission costs per square foot..... | 0.61 | 1.74 | 0.39 | 0.81 | 1.22 | .33 | 0.86 |
| ----- | | | | | | | |
| Total tenant improvement and leasing commission costs per square foot..... | \$ 3.82 | \$ 5.53 | \$ 0.68 | \$ 6.99 | \$10.45 | \$ 2.45 | \$ 5.38 |
| ===== | | | | | | | |

INDUSTRIAL PROPERTIES

| | | | | | | | |
|--|---------|---------|---------|---------|---------|---------|---------|
| RENEWALS | | | | | | | |
| Number of leases..... | 1 | 0 | 2 | 4 | 3 | 1 | |
| Square feet..... | 13,367 | 0 | 13,367 | 71,283 | 46,117 | 32,750 | |
| Tenant improvement costs per square foot..... | \$ 2.27 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.17 |
| Leasing commission costs per square foot..... | 0.00 | 0.00 | 0.32 | 0.06 | 0.57 | 0.00 | 0.20 |
| ----- | | | | | | | |
| Total tenant improvement and leasing commission costs per square foot..... | \$ 2.27 | \$ 0.00 | \$ 0.32 | \$ 0.06 | \$ 0.57 | \$ 0.00 | \$ 0.37 |
| ===== | | | | | | | |

| | | | | | | | |
|--|---------|---------|---------|---------|---------|---------|---------|
| NEW LEASES | | | | | | | |
| Number of leases..... | 3 | 4 | 4 | 9 | 5 | 2 | |
| Square feet..... | 31,106 | 241,500 | 119,160 | 237,105 | 82,031 | 170,682 | |
| Tenant improvement costs per square foot..... | \$ 1.00 | \$ 0.12 | \$ 1.58 | \$ 0.19 | \$ 1.09 | \$ 0.00 | \$ 0.44 |
| Leasing commission costs per square foot..... | 1.33 | 0.16 | 2.08 | 1.09 | 1.25 | 1.19 | 1.01 |
| ----- | | | | | | | |
| Total tenant improvement and leasing commission costs per square foot..... | \$ 2.33 | \$ 0.28 | \$ 3.66 | \$ 1.28 | \$ 2.34 | \$ 1.19 | \$ 1.45 |
| ===== | | | | | | | |

| | | | | | | | |
|--|---------|---------|---------|---------|---------|---------|---------|
| TOTAL | | | | | | | |
| Number of leases..... | 4 | 4 | 6 | 13 | 8 | 3 | |
| Square feet..... | 44,473 | 241,500 | 132,521 | 308,388 | 128,148 | 203,432 | |
| Tenant improvement costs per square foot..... | \$ 1.38 | \$ 0.12 | \$ 1.42 | \$ 0.15 | \$ 0.70 | \$ 0.00 | \$ 0.39 |
| Leasing commission costs per square foot..... | 0.93 | 0.16 | 1.90 | 0.85 | 1.01 | 1.00 | 0.87 |
| ----- | | | | | | | |
| Total tenant improvement and leasing commission costs per square foot..... | \$ 2.31 | \$ 0.28 | \$ 3.32 | \$ 1.00 | \$ 1.71 | \$ 1.00 | \$ 1.26 |
| ===== | | | | | | | |

| TOTAL OFFICE AND INDUSTRIAL PROPERTIES | NINE MONTHS ENDED | | | | | | WEIGHTED AVERAGE |
|--|-------------------|---------|-----------|-----------|-----------|--------------------|------------------|
| | 1992 | 1993 | 1994 | 1995 | 1996 | SEPTEMBER 30, 1997 | |
| RENEWALS | | | | | | | |
| Number of leases(1)... | 47 | 45 | 41 | 50 | 59 | 60 | |
| Square feet(1)..... | 370,347 | 183,898 | 302,360 | 180,991 | 412,312 | 585,234 | |
| Tenant improvement costs per square foot..... | \$1.83 | \$0.67 | \$2.26 | \$0.44 | \$1.87 | \$5.87 | \$2.84 |
| Leasing commission costs per square foot..... | 0.26 | 0.50 | 0.85 | 0.79 | 1.20 | 1.13 | 0.85 |
| Total tenant improvement and leasing commission costs per square foot..... | \$2.09 | \$1.17 | \$3.11 | \$1.23 | \$3.07 | \$7.00 | \$3.69 |
| NEW LEASES | | | | | | | |
| Number of leases(2)... | 69 | 73 | 81 | 83 | 81 | 58 | |
| Square feet(2)..... | 532,334 | 675,854 | 796,958 | 1,072,983 | 1,063,235 | 537,123 | |
| Tenant improvement costs per square foot..... | \$8.26 | \$5.36 | \$6.25 | \$6.22 | \$10.49 | \$7.40 | \$7.44 |
| Leasing commission costs per square foot..... | 1.73 | 1.43 | 1.55 | 2.65 | 2.52 | 2.56 | 2.14 |
| Total tenant improvement and leasing commission costs per square foot..... | \$9.99 | \$6.79 | \$7.80 | \$8.87 | \$13.01 | \$9.96 | \$9.58 |
| TOTAL | | | | | | | |
| Number of leases..... | 116 | 118 | 122 | 133 | 140 | 118 | |
| Square feet..... | 902,681 | 859,752 | 1,099,318 | 1,253,974 | 1,475,547 | 1,122,357 | |
| Tenant improvement costs per square foot..... | \$5.62 | \$4.35 | \$5.15 | \$5.39 | \$8.09 | \$6.60 | \$6.04 |
| Leasing commission costs per square foot..... | 1.12 | 1.23 | 1.36 | 2.38 | 2.16 | 1.81 | 1.75 |
| Total tenant improvement and leasing commission costs per square foot..... | \$6.74 | \$5.58 | \$6.51 | \$7.77 | \$10.25 | \$8.41 | \$7.79 |

- (1) Does not include retained tenants that have relocated to new space or expanded into new space.
(2) Includes retained tenants that have relocated or expanded into new space.

HISTORICAL CAPITAL EXPENDITURES

For the period from October 1, 1997 through December 31, 1997 and for calendar year 1998, the Company projects the cost of building improvements and equipment upgrades (excluding the costs of tenant improvements) at the Properties (excluding the Hotel Properties and the Garage Property) to be approximately \$0.5 million and \$2.6 million (or \$0.20 per square foot) respectively, which cost is expected to be paid from operating cash flows. These projected capital expenditures are estimated based on historical capital expenditures at the Company's Properties for the years 1992 through 1996 and the nine months ended September 30, 1997. Historical capital expenditures at Properties acquired by the Company for periods prior to such acquisition have not been included in the determination of projected capital expenditures.

The following table sets forth certain historical information regarding recurring capital expenditures at the Office and Industrial Properties for the years ending December 31, 1992 through December 31, 1996 and the nine months ended September 30, 1997.

| | YEAR ENDED DECEMBER 31, | | | | | NINE MONTHS ENDED | |
|-------------------------------------|-------------------------|---------|---------|---------|---------|--------------------|----------------|
| | 1992 | 1993 | 1994 | 1995 | 1996 | SEPTEMBER 30, 1997 | ANNUAL AVERAGE |
| Recurring capital expenditures..... | \$1,425 | \$1,547 | \$1,812 | \$1,618 | \$1,803 | \$1,019 | \$1,594 |

(IN THOUSANDS)

The following table sets forth historical capital expenditures at the Hotel

Properties incurred during the years ending December 31, 1992 through December 31, 1996 and the nine months ended September 30, 1997. The average cost is presented below:

| | YEAR ENDED DECEMBER 31, | | | | | NINE MONTHS ENDED | ANNUAL |
|--|-------------------------|------|------|------|------|-----------------------|---------|
| | 1992 | 1993 | 1994 | 1995 | 1996 | SEPTEMBER 30, 1997 | AVERAGE |
| | (IN THOUSANDS) | | | | | | |

| | | | | | | | |
|--|---------|-------|---------|---------|---------|---------|---------|
| Hotel improvements, equipment upgrades and replacements..... | \$3,182 | \$836 | \$1,917 | \$4,420 | \$3,041 | \$1,242 | \$2,509 |
|--|---------|-------|---------|---------|---------|---------|---------|

As of October 10, 1997, the Hotel Properties had an escrow balance in the amount of \$6.0 million.

TENANT RELATIONS

The Company believes that its relationship with tenants contributes in large part to its success in attracting, expanding and retaining its quality and diverse tenant base. The Company strives to develop and maintain good relationships with tenants through its active management style and by being responsive to individual tenants'

needs. The Company services tenants primarily through its on site, professional management staff. Management believes that tenant satisfaction fosters long-term tenant relationships and creates expansion opportunities, which, in turn, enhance the Company's ability to maintain and increase occupancy rates.

HISTORICAL LEASE RENEWALS

The following table sets forth certain historical information regarding tenants at the Properties who renewed an existing lease at or prior to the expiration of the existing lease:

| | 1993 | 1994 | 1995 | 1996 | FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1977 | TOTAL/ WEIGHTED AVERAGE 1993-9/30/97 |
|---|---------|-----------|-----------|---------|--|---|
| Number of leases expired during calendar year... | 95 | 105 | 95 | 104 | 106 | 100 |
| Aggregate net rentable square footage of expiring leases..... | 916,164 | 1,395,922 | 1,008,579 | 892,486 | 856,395 | 1,053,288 |
| Number of lease renewals..... | 49 | 45 | 53 | 62 | 63 | 52 |
| Aggregate net rentable square footage of lease renewals..... | 336,156 | 452,885 | 444,229 | 451,504 | 577,308 | 421,194 |
| Percentage of leases renewed..... | 51.6% | 42.9% | 55.8% | 59.6% | 59.4% | 52.0% |
| Percentage of expiring net rentable square footage renewed..... | 36.7% | 32.4% | 44.1% | 50.6% | 67.4% | 40.0% |

THE OFFICE PROPERTIES

The Office Properties consist of the 48 Class A Office Buildings (including five Office Development Properties and six Acquisition Properties) and the 31 R&D Properties (including four Acquisition Properties). The Company's 48 Class A Office Buildings contain approximately 11.0 million net rentable square feet in urban and suburban settings in Greater Boston, Greater Washington, D.C., midtown Manhattan, Baltimore, Maryland and, upon completion of the acquisition of Riverfront Plaza, Richmond, Virginia. As of September 30, 1997, the Class A Office Buildings (excluding the Office Development Properties) had an occupancy rate of 96%. Forty-seven of the Class A Office Buildings, including Office Development Properties (consisting of approximately 10.9 million rentable square feet), have been built or substantially redeveloped since 1980.

The 31 R&D Properties contain approximately 2.0 million net rentable square feet and consist primarily of suburban properties located in the Springfield, Virginia and Gaithersburg, Maryland submarkets of Greater Washington, D.C. and the East Cambridge and Route 128 Northwest submarkets of Greater Boston. Twenty-one of the R&D Properties, totaling approximately 1.8 million net rentable square feet, have been built or substantially renovated since 1980. As of September 30, 1997, the R&D Properties had an occupancy rate of 93%.

Management believes that the location and quality of construction of the Office Properties, as well as the Company's reputation for providing a high level of tenant service, have enabled the Company to attract and retain a diverse tenant base. As of September 30, 1997, the Office Properties were leased to more than 500 tenants, and no single tenant accounted for more than approximately 9.2% of the aggregate Annualized Rent of the Company's Office and Industrial Properties.

GREATER BOSTON OFFICE MARKET

Greater Boston, the seventh largest metropolitan area in the United States, has a strong and diverse economy and is a nationally recognized center of higher education, technological entrepreneurship, investment management, health care and research and development. Economic growth during the 1990's substantially increased demand for office space while there has been little addition to the total office space supply of approximately 103 million square feet in this market area defined by the cities and towns within or adjacent to the US I-495 outer circumferential highway. This has resulted in substantial absorption of available space

accompanied by rising rents. Between 1992 and September 30, 1997, according to information provided by Spaulding & Slye, the office space availability rate in this market (space currently available direct from landlord or by sublease, or scheduled to become available within 12 months) declined from 16.0% to 6.9% while average quoted rents increased 37.4%, and the Direct Vacancy Rate was only 3.9% at September 30, 1997. During this same 1992 through September 30, 1997 period office space supply grew by only 2.1% (2,175,000 square feet) and there was net absorption of approximately 12.2 million square feet at a relatively steady rate (approximately 1.8 million square feet in 1992, 2.2 million square feet annually from 1993 through 1995 2.3 million square feet in 1996, and 1.4 million square feet during the first nine months of 1997).

The Company expects this positive office space demand-supply relationship to further strengthen due to the growing economy and anticipated increases in population and employment. Between 1996 and 2001 the population of metropolitan Boston is expected to grow by approximately 231,000, with an increase in total employment of approximately 106,000, an increase in office employment alone of approximately 56,000, and substantial resulting need for office space. The Company believes that this expected growth in demand will result in further increases in rental rates in Greater Boston generally and particularly in the three submarkets in which the Company's Greater Boston office properties are concentrated. These three submarkets are already experiencing low vacancy rates and have substantial limitations on potential increases in supply because of limited sites available for development and significant regulatory obstacles to development. These submarkets are East Cambridge, a market area directly across the Charles River from downtown Boston that includes MIT, and two submarkets adjacent to each other along the west/northwest quadrant of "Route 128," the inner circumferential highway known for its concentration of high-technology firms. According to Spaulding & Slye, the Direct Vacancy rates at September 30, 1997 of these submarkets, and their supply sizes, were as follows: 1.2% Direct Vacancy in the 6.5 million square feet East Cambridge submarket; 1.8% Direct Vacancy in the 11.5 million square feet Route 128/West submarket; and 4.2% Direct Vacancy in the 7.4 million square feet Route 128 Northwest submarket.

The Greater Boston economy is strong and competitive due to its diversity. The Greater Boston market is characterized by four core industry groups: (i) information technology, (ii) financial services, (iii) health care, and (iv) research and development, including both academic and commercial research. Local businesses within these industry groups successfully compete both nationally and internationally. Growth in the area has centered around the emergence of a large number of small to medium-sized companies within these industry groups.

Over 60 colleges and universities are located within the Greater Boston area, attracting to the region in excess of 240,000 students from both within the United States and abroad. These colleges and universities, including Harvard University, MIT, Tufts University, Brandeis University, Boston College, Northeastern University and Boston University, contribute \$5 billion annually to the local economy and draw a diverse and talented student population to the region. Many graduates remain in the area, providing local businesses with a highly-educated, top-quality workforce.

According to the Massachusetts Department of Employment and Training, the Boston area's employment base has expanded by 22% since 1992 to almost 2 million jobs at the end of 1996. As a result of the steady growth in the Boston economy, the local unemployment rate had fallen from 7.0% in 1992 to 3.4% at December 31, 1996.

In addition to its expanding economy, Massachusetts has a high and rising standard of living. Per capita income in the Commonwealth is growing at a faster pace than that of both the nation and the New England region as a whole. According to the U.S. Commerce Department, per capita income in Massachusetts grew by 6.4% to \$28,021 in 1995, which was the second largest gain in the nation for that year, and grew another 4.5% to \$29,288 in 1996.

The Company believes that the prospects for continued economic growth in the region are excellent because of the diverse mix of companies in the area, which has helped to create an economy which is both broad and deep, the local availability of venture and growth capital, the vitality of the City of Boston as a business, cultural and residential center, and the major improvements in transportation infrastructure currently underway.

EAST CAMBRIDGE OFFICE SUBMARKET

The Cambridge office market contains 9.8 million square feet and at September 30, 1997 accounted for approximately 9% of Greater Boston's 103.6 million square foot office supply. According to Spaulding & Slye, the availability rate in Cambridge as a whole fell from 12% at December 31, 1992 to 6.2% at September 30, 1997, with 813,000 square feet absorbed, while only 300,000 square feet were added to the supply. The presence of both Harvard University and MIT attracts existing firms and is a source of new business formation. In addition, Cambridge benefits from proximity to Logan Airport and to Boston across the Charles River as well as from its own urban attractions. Office development has also been aided by the availability of rapid transit and has concentrated along areas served by the Red and Green Lines of the Metropolitan Boston Transit Authority (the "MBTA").

The East Cambridge submarket accounted for the majority of the growth in supply that occurred in Cambridge during the 1980's and with 6.5 million square feet, East Cambridge is now this city's largest and most active submarket, accounting for 67% of the total office space inventory. The office development in East Cambridge was in significant part the result of city government initiatives that were accompanied by substantial roadway, open space and other infrastructure improvements and expansions of supporting retail and business services. According to Spaulding & Slye, the availability rate in this submarket fell from 10.7% in 1992 to 3.8% at September 30, 1997 and the Direct Vacancy Rate was only 1.2% at September 30, 1997. The positive impact of supply reductions on rent levels lagged behind absorption but is now becoming evident; during 1992 through 1994 average asking rental rates continued their post-1980's decline, dipping to a low of \$18.67 per square foot in 1994, before rebounding sharply during the succeeding two years and reaching \$27.59 per square foot at September 30, 1997. The Company believes these rent levels are still 10-15% below current replacement cost rents and will continue to increase significantly.

The Company's East Cambridge Office Properties consist of five Class A Office Buildings with 689,203 net rentable square feet, one R&D Property with 67,362 net rentable square feet and the Company's Garage Property, which contains 1,170 spaces.

The following graph provides information regarding availability rates and average asking rental rates per square foot at year end for each of the years from 1992 through 1996 and at September 30, 1997 for office buildings in the East Cambridge office submarket:

East Cambridge Office Submarket
Average Quoted Market Rent &
Availability Rate

[LINE GRAPH APPEARS HERE]

| Year | Availability Rate | Rent |
|------|-------------------|---------|
| ---- | ----- | ---- |
| 1992 | 11% | \$20.54 |
| 1993 | 9% | \$19.03 |
| 1994 | 9% | \$18.67 |
| 1995 | 6% | \$21.64 |
| 1996 | 6% | \$26.70 |
| 1997 | 3.8% | \$27.59 |

ROUTE 128 NORTHWEST SUBMARKET

The Route 128 Northwest office submarket comprises six towns (Lexington, Lincoln, Concord, Bedford, Burlington and Billerica) with office locations primarily accessed by circumferential Route 128 and radial Route 2 on the south and Route 3 on the north. Construction activity during the 1980's nearly tripled this submarket's office supply, and its September 30, 1997 total of 7.4 million square feet of space accounted for 7% of the total Greater Boston supply, at such date, of approximately 103.6 million square feet. Together with the 11.5 million square feet of space in the adjacent Route 128/Massachusetts Turnpike submarket to the south it defines the preferred core of the suburban Boston office market area.

According to information from Spaulding & Slye, approximately 1.2 million square feet of space were absorbed between 1992 and September 30, 1997, while only 215,000 square feet were added, with a resulting dramatic decrease in the availability rate from 23.7% to 9.8% during this period and a Direct Vacancy Rate at September 30, 1997 of only 4.2%. Average asking rental rates during this period increased from \$16.30 per square foot in 1992 to \$22.31 per square foot at September 30, 1997, with the greatest increase occurring in the period since 1994 when 1,077,000 square feet of space were absorbed and average asking rental rates increased from \$17.01 to its current level. The Company believes that vacancy will continue to decline in the face of growing demand and limited increases in supply with resulting further increases in market rents.

The Company's Route 128 Northwest Office Properties consist of thirteen Class A Office Buildings with 1,085,509 net rentable square feet and four R&D Properties with 477,844 net rentable square feet.

The following graph provides information regarding availability rates and average asking rental rates per square foot at year end for each of the years from 1992 through 1996 and at September 30, 1997 for office buildings in the Route 128 Northwest Office Submarket:

[LINE GRAPH APPEARS HERE]

Route 128 NW Office Submarket
Average Quoted Market Rent &
Availability Rate

| Year | Rent | Availability Rate |
|-----------|-----------|-------------------|
| - - - - - | - - - - - | - - - - - |
| 1992 | \$16.30 | 24% |
| 1993 | \$16.13 | 18% |
| 1994 | \$17.01 | 22% |
| 1995 | \$21.10 | 13% |
| 1996 | \$22.50 | 9% |
| 1997 | \$22.31 | 9.8% |

RECENTLY COMPLETED DEVELOPMENT PROPERTY IN THE ROUTE 128 NORTHWEST SUBMARKET

201 Spring Street. 201 Spring Street is a 102,000 net rentable square foot, Class A Office Building located in Lexington, Massachusetts, in the Route 128 Northwest submarket of Greater Boston. This building is adjacent to the Company's existing Class A Office Building at 191 Spring Street. 201 Spring Street was delivered November 1, 1997. The building is currently 100% leased to MediaOne, formerly Continental Cablevision, Inc. MediaOne has notified the Company that it intends to relocate its headquarters to another state and sublease this building.

GREATER WASHINGTON, D.C. MARKET

Greater Washington, D.C., which includes the District of Columbia and the adjacent areas of Northern Virginia and suburban Maryland, is the fifth largest metropolitan area in the country and the heart of the nation's federal government and policy-making activities. The region's workforce is one of the most highly educated of metropolitan areas nationwide and has the highest participation of women in the labor force and the highest concentration of scientists and engineers, with the second largest concentration of high technology firms. Business service industries, including technology-intensive knowledge-based industries such as information management and data communications, have been the economy's engines of growth in the 1990's, expanding by 26.5% from 1992 to 1996. In 1996 the area had a median household income of \$48,100, the highest in the country.

Employment increases in Greater Washington, D.C. associated with growth in the private economy, particularly the service sector which as a whole grew 15% in the five years ended December 31, 1996, have more than offset the job reductions resulting from the substantial downsizing of the government sector during this period, and non-government employment now accounts for approximately three-quarters of the area's total employment. Unemployment in Greater Washington, D.C. fell from 5.4% in 1992 to 3.4% in 1996, well below the national 1996 rate of 5.4%. The Company believes that these trends and resulting increasing demand for office space will continue in light of the composition of the region's economy and anticipated population and employment growth. The Washington, D.C. metropolitan area population is expected to increase by 552,000 between 1996 and 2001, with growth in total employment of approximately 175,000 and growth in office-based employment of approximately 88,500.

The growth in business demand for office space over the last five years, combined with relatively limited increases in supply, is directly reflected in vacancy reductions and strengthening rents. According to Spaulding & Slye, total office space supply in the Greater Washington, D.C. area was 247.4 million square feet at September 30, 1997 compared to 239.6 million square feet in 1992, an increase of 2.7 million square feet (an annual increase of approximately 6% per year), while during the same period the market absorbed approximately 18.5 million square feet, resulting in a decrease in the vacancy rate from 14.4% in 1992 to 8.9% at September 30, 1997. The absorption was particularly strong in 1995 and 1996, with approximately 9.2 million square feet of absorption and an increase in asking rental rates from \$20.85 per square foot to \$22.76 per square foot. The Company believes that for the foreseeable future space absorption will continue to substantially outstrip growth in supply and that further reductions in vacancy rates will be accompanied by proportionally greater increases in rent levels.

PENDING ACQUISITION IN GREATER WASHINGTON, D.C. MARKET

Mulligan/Griffin Portfolio. The Mulligan/Griffin Portfolio consists of five Class A Office Buildings and four R&D Properties, aggregating approximately 1.3 million net rentable square feet, and six parcels of land aggregating 30.7 acres, which will support approximately 920,000 square feet of development. The Properties and parcels in the Mulligan/Griffin Portfolio are located in the Gaithersburg I-270 and I-270 Rockville submarkets of Montgomery County, Maryland and the Springfield and Reston submarkets of Fairfax County, Virginia. The Company has entered into agreements to acquire these properties and anticipates a closing date in February 1998. There can be no assurances, however, that the Company will acquire these properties in February 1998, or at all.

SOUTHWEST WASHINGTON, D.C. SUBMARKET

The 9.0 million square feet of Class A office space in the Southwest Washington, D.C. submarket accounted for approximately 10% of the total Class A office supply in Washington, D.C. at September 30, 1997. This submarket has been one of the strongest submarkets in Greater Washington, D.C. over the past five years.

According to Spaulding & Slye, the availability rate in this submarket averaged 5.6% between 1992 and 1995 and had fallen to a low of 4.5% in 1995 before it increased to 9.5% at September 30, 1997 (Blue Cross-Blue Shield put its owner-occupied 526,000 square foot building on the market in 1996). In comparison, the availability rate in the Washington, D.C. market as a whole averaged 10.3% between 1992 and 1995 and was 10.0% at September 30, 1997. The asking rental rate in the Southwest Washington, D.C. submarket increased

from \$28.86 per square foot in 1992 to \$29.91 per square foot at September 30, 1997. The Company believes the relative strength of the Southwest Washington, D.C. submarket reflects the accessibility to major government offices and the comparatively limited supply of private office space as a proportion of total office space (including government-owned buildings) in this submarket.

The Company's Southwest Washington, D.C. Office Properties consist of four Class A Office Buildings with 1,560,941 net rentable square feet.

The following graph provides information regarding availability rates and average asking rental rates per square foot at year end for each of the years from 1992 through 1996 and at September 30, 1997 for office buildings in the Southwest Washington, D.C. office submarket. Average asking rental rates declined during the period from 1993 to September 30, 1997 and availability rates varied during this period.

[LINE GRAPH APPEARS HERE]

Southwest Washington, D.C. Office Submarket
Average Quoted Market Rent &
Availability Rate

| Year | Rent | Availability Rate |
|------|---------|-------------------|
| 1992 | \$28.86 | 4.7% |
| 1993 | \$36.84 | 6.5% |
| 1994 | \$34.61 | 6.5% |
| 1995 | \$32.81 | 4.5% |
| 1996 | \$31.00 | 9.0% |
| 1997 | \$29.91 | 9.5% |

MONTGOMERY COUNTY, MARYLAND SUBMARKETS

Montgomery County had a total of approximately 34.9 million square feet of office space at September 30, 1997, accounting for 68% of the total suburban Maryland office stock of approximately 51.3 million square feet. According to Spaulding & Slye, there has been significant improvement in the suburban Maryland market in the past two years, with virtually no increase in supply, the absorption of 2.4 million square feet and a decline in availability from 19.4% to 14.7% as of September 30, 1997. The Company's Properties in this area are located within three submarkets in Montgomery County, the Bethesda-Rock Spring submarket, the Gaithersburg I-270 submarket and the I-270 Rockville submarket.

BETHESDA-ROCK SPRING OFFICE SUBMARKET

The Bethesda-Rock Spring office submarket is the fourth largest in Montgomery County and suburban Maryland, with a total of 4.7 million square feet of office space at September 30, 1997. According to Spaulding & Slye, supply has remained flat since the addition of 777,000 square feet during 1993. This supply addition, combined with cutbacks in defense spending that led defense contractors to place substantial amounts of sublease space on the market in 1994, resulted in negative absorption in 1994 and caused availability to spike briefly to 25.6% at the end of that year. Since then the market has strengthened considerably, absorbing 1,025,000 square feet. With no new supply of office space during this period, the availability rate at September 30, 1997 fell to 3.7% and average asking rental rates rose to \$23.09 per square foot.

The following graph provides information regarding availability rates and average asking rental rates per square foot at year end for each of the years from 1992 through 1996 and at September 30, 1997 for office buildings in the Bethesda-Rock Spring office submarket:

Bethesda-Rock Spring Submarket
Average Quoted Market Rent &
Availability Rate

[LINE GRAPH APPEARS HERE]

| Year | Availability Rate | Rent |
|------|-------------------|---------|
| ---- | ----- | ---- |
| 1992 | 8.7% | \$23.00 |
| 1993 | 18.8% | \$23.00 |
| 1994 | 25.6% | \$22.00 |
| 1995 | 17.1% | \$22.75 |
| 1996 | 4.6% | \$23.00 |
| 1997 | 3.7% | \$23.09 |

The Company has three Class A Office Properties in this submarket with 680,000 net rentable square feet.

GAITHERSBURG I-270 OFFICE SUBMARKET

The Gaithersburg I-270 office submarket consists of 2.9 million square feet with inventory remaining steady since a 76,000 square foot building was completed in 1992. In 1994, this submarket was impacted by the departure of IBM, which had maintained a substantial presence in the area, causing absorption to slump that year to negative 288,000 square feet and availability to spike to 31.1%. The following year, transactions by government contractors led to a sharp turnaround, with record-high absorption of 415,000 square feet in 1995 and further positive absorption since then, reducing the availability rate to 13.7% by September 30, 1997 and sparking an increase in average asking rental rates from \$17.12 per square foot in 1994 to \$19.50 per square foot at September 30, 1997.

The following graph provides information regarding availability rates and average asking rental rates per square foot at year end for each of the years from 1992 through 1996 and at September 30, 1997 for office properties in the Gaithersburg I-270 office submarket:

Gaithersburg I-270 Office Submarket
Average Quoted Market Rent &
Availability Rate

[LINE GRAPH APPEARS HERE]

| Year | Rent | Availability Rate |
|------|---------|----------------------|
| ---- | ---- | ----- |
| 1992 | \$19.34 | 18.4% |
| 1993 | \$19.36 | 21.1% |
| 1994 | \$17.12 | 31.1% |
| 1995 | \$17.88 | 16.6% |
| 1996 | \$19.40 | 13.8% |
| 1997 | \$19.50 | 13.7% |

The Company has one Class A Office Building in this submarket with 122,157 net rentable square feet. In addition, two Acquisition Properties are located in this submarket.

I-270 ROCKVILLE OFFICE SUBMARKET

The I-270 Rockville office submarket had a total supply of 7.3 million square feet of space at September 30, 1997, with no additions to supply since December 31, 1992. During the period from December 31, 1992 through September 30, 1997, the availability rate in this submarket decreased from 11.7% to 8.4% and average asking rental rates increased from \$14.84 to \$20.26 per square foot.

I-270 Rockville Office Submarket
Average Quoted Market Rent &
Availability Rate

[LINE GRAPH APPEARS HERE]

| Year | Rent | Availability Rate |
|------|---------|----------------------|
| ---- | ---- | ----- |
| 1992 | \$14.84 | 12% |
| 1993 | \$16.18 | 14% |
| 1994 | \$16.49 | 14% |
| 1995 | \$16.73 | 12% |
| 1996 | \$17.42 | 11% |
| 1997 | \$20.26 | 8.4% |

One Acquisition Property is located in this submarket.

FAIRFAX COUNTY, VIRGINIA MARKET

The Fairfax County, Virginia office market had a total of approximately 62.4 million square feet of space at September 30, 1997, up only 2% over 1992. The Company's completed Properties in Fairfax County are located in the Springfield, Herndon and Reston submarkets.

SPRINGFIELD, VIRGINIA OFFICE SUBMARKET

The Springfield, Virginia office submarket had a total of approximately 5.4 million square feet at September 30, 1997. Continued positive absorption during this period reduced the availability rate from 17.9% in 1992 to 6.1% at September 30, 1997, and average asking rental rates, after falling to \$7.65 per square foot in 1994, have increased substantially to \$10.04 per square foot at September 30, 1997.

The following graph provides information regarding availability rates and average asking rental rates per square foot at year end for each of the years from 1992 through 1996 and at September 30, 1997 for office buildings in the Springfield, Virginia flex/office submarket:

Springfield, Virginia Flex/Office Submarket
Average Quoted Market Rent &
Availability Rate

[LINE GRAPH APPEARS HERE]

| Year ---- | Availability Rate ----- | Rent ---- |
|--------------|-------------------------------|--------------|
| 1992 | 17.9% | \$ 8.65 |
| 1993 | 16.7% | \$ 8.14 |
| 1994 | 16.7% | \$ 7.65 |
| 1995 | 11.2% | \$ 9.04 |
| 1996 | 7.6% | \$ 9.96 |
| 1997 | 6.1% | \$10.04 |

In this submarket, the Company has eleven R&D Properties aggregating 791,138 net rentable square feet. In addition, two of the Acquisition Properties are located in this submarket.

RECENTLY COMPLETED DEVELOPMENTS IN THE SPRINGFIELD, VIRGINIA FLEX/OFFICE SUBMARKET

7700 Boston Boulevard, Building Twelve and 7501 Boston Boulevard, Building Seven. On land owned by the Company in the Virginia-95 Business Park developed by the Company, the Company completed and delivered two build-to-suit projects in October and November, 1997. These two R&D Properties contain approximately 82,229 and 75,756 rentable square feet, respectively. 7501 Boston Boulevard, Building Seven was developed by the Company for the General Services Administration (specifically for use by the United States Customs Service). 7700 Boston Boulevard Building Twelve is the headquarters of Autometric, Inc. and has expansion potential for another 40,000 square feet of space. 7501 Boston Boulevard, Building Seven and 7700 Boston Boulevard, Building Twelve are leased in their entirety to the GSA and Autometric, Inc. for terms of 10 and 15 years, respectively.

HERNDON, VIRGINIA OFFICE SUBMARKET

The Herndon, Virginia office submarket had total supply of 6.1 million square feet at September 30, 1997, which had increased 100,000 square feet since December 31, 1992. During the period from December 31, 1992 through September 30, 1997, the availability rate in this submarket decreased from 23.1% to 7.4% and average asking rental rates increased from \$13.38 to \$19.84 per square foot.

The following graph provides information regarding availability rates and average asking rental rates per square foot at year end for each of the years from 1992 through 1996 and at September 30, 1997 for office buildings in the Herndon, Virginia submarket:

Hendon, Virginia Office Submarket
Average Quoted Market Rent &
Availability Rate

[LINE GRAPH APPEARS HERE]

| Year | Rent | Availability |
|------|---------|--------------|
| ---- | ---- | ---- |
| 1992 | \$13.38 | 23% |
| 1993 | \$11.18 | 18% |
| 1994 | \$11.13 | 13% |
| 1995 | \$12.25 | 13% |
| 1996 | \$14.76 | 11% |
| 1997 | \$19.84 | 7.4% |

In this submarket the Company has two R&D Properties, aggregating 112,220 net rentable square feet.

RECENTLY COMPLETED RE-DEVELOPMENTS IN THE HERNDON, VIRGINIA OFFICE SUBMARKET

Sugarland Buildings One and Two. These single story office/flex buildings on extensively landscaped sites are located in the Sugarland Office Complex in Herndon, Virginia, within one mile of Reston Town Center and in the midst of the Reston-Herndon-Dulles high-technology area. Building One, constructed in 1985, contains approximately 52,797 net rentable square feet and is on a 4.67 acre parcel with 297 parking spaces. Building Two, also constructed in 1985, contains approximately 59,423 net rentable square feet and is on a 4.93 acre parcel with 234 parking spaces. The Company purchased the buildings vacant in 1996, completed improvements to them in June 1997 and as of December 1, 1997 had approximately 70% of the total of 112,220 net rentable square feet committed under signed leases or letters of intent with leases in negotiation.

RESTON, VIRGINIA OFFICE SUBMARKET

The Reston, Virginia Office Submarket had total supply of 9.5 million square feet at September 30, 1997, with no additions to supply since December 31, 1992. During the period from December 31, 1992 through September 30, 1997, the availability rate in this submarket decreased from 16.2% to 4.8% and average asking rental rates increased from \$15.25 to \$21.86.

The following graph provides information regarding availability rates and average asking rental rates per square foot at year end for each of the years from 1992 through 1996 and at September 30, 1997 for office buildings in the Reston, Virginia submarket:

Reston, Virginia Office Submarket
Average Quoted market Rent &
Availability Rate

[LINE GRAPH APPEARS HERE]

| Year | Rent | Availability Rate |
|------|---------|-------------------|
| ---- | ---- | ---- |
| 1992 | \$15.25 | 16.2% |
| 1993 | \$12.63 | 16.9% |
| 1994 | \$12.84 | 13.3% |
| 1995 | \$17.56 | 7.0% |
| 1996 | \$18.07 | 6.2% |
| 1997 | \$21.86 | 4.8% |

Four of the Acquisition Properties and three of the Development Properties are located in this submarket.

DOWNTOWN BALTIMORE, MARYLAND SUBMARKET

The metropolitan Baltimore, Maryland office market comprises approximately 36.4 million square feet, ranking it as the 21st largest office market in the nation, comparable in size to San Diego and Cleveland. The Company's 100 East Pratt Street Property is located in the downtown submarket of metropolitan Baltimore. With 13.7 million square feet of office space, the downtown Baltimore submarket accounted for approximately 37.5% of the metropolitan Baltimore office market at June 30, 1997. The top tier of Class A Office Buildings ("Tier A1") in downtown Baltimore consists of ten buildings, including the Company's 100 East Pratt Street Property. The Tier A1 buildings total approximately 3.6 million square feet and at June 30, 1997 had a combined vacancy rate of 8.6%.

The following graph provides information regarding availability rates and average asking rental rates per square foot at year end for each of the years from 1992 through 1996 and at September 30, 1997 for Class A office buildings in the downtown Baltimore submarket. 100 East Pratt Street competes with the nine other Tier A1 buildings in this submarket, which the Company believes generally achieve higher rents and occupancy rates than Class A buildings in this submarket in general.

[LINE GRAPH APPEARS HERE]

Downtown Baltimore Submarket
Average Quoted Market Rent &
Availability Rate

| Year | Rent | Availability Rate |
|-------|--------|-------------------|
| ----- | ----- | ----- |
| 1992 | \$19 | 22% |
| 1993 | \$19 | 17% |
| 1994 | \$19.5 | 17% |
| 1995 | \$21.5 | 17% |
| 1996 | \$22.5 | 14% |
| 1997 | \$24.5 | 13.1% |

The Company owns one Class A Office Building in this submarket with 633,482 net rentable square feet.

RECENT ACQUISITION IN BALTIMORE, MARYLAND SUBMARKET

100 East Pratt Street. 100 East Pratt Street is a 633,482 net rentable square foot Class A Office Building. The property was acquired by the Company in October 1997. 100 East Pratt Street is located along the prestigious "Pratt Street Corridor" overlooking Baltimore's Inner Harbor. The office tower was designed by Skidmore, Owings and Merrill and has won numerous architectural awards. The building has a full complement of amenities including a 940 space parking garage, health club and a conference center occupying an entire floor for the exclusive use of tenants.

DOWNTOWN RICHMOND, VIRGINIA SUBMARKET

The Riverfront Plaza Property is located in the downtown submarket of Richmond, Virginia. Located along the James River, the downtown submarket is generally bounded by Interstate 64 to the north, the James River to the south, U.S. Route 301 to the west and Interstate 95 to the east. The downtown submarket is located approximately ten minutes' travel from Richmond International Airport, and the region's affluent communities are easily accessible in the suburbs to the north, east and west.

The downtown Richmond Class A office market consists of nine buildings with 3.0 million square feet of office space. During the period from 1992 through September 30, 1997, the availability rate for Class A office space decreased from 19.8% to 5.0% and average asking rental rates decreased from \$22.23 per square foot to \$20.84 per square foot.

The following graph provides information regarding availability rates and average asking rental rates per square foot at year end for each of the years from 1992 through 1996 and at September 30, 1997 for Class A office buildings in the downtown Richmond submarket:

[LINE GRAPH APPEARS HERE]

Downtown Richmond Class A Office Submarket
Average Quoted Market Rent &
Availability Rate

| Year | Rent | Availability Rate |
|-----------|-----------|-------------------|
| - - - - - | - - - - - | - - - - - |
| 1992 | \$22.23 | 19.8% |
| 1993 | \$21.84 | 17.0% |
| 1994 | \$20.86 | 13.2% |
| 1995 | \$20.40 | 9.5% |
| 1996 | \$20.40 | 8.6% |
| 1997 | \$20.84 | 5.0% |

The Company's Property in this submarket is an Acquisition Property.

PENDING ACQUISITION IN RICHMOND, VIRGINIA SUBMARKET

Riverfront Plaza. Riverfront Plaza is an approximately 900,000 (excluding storage space) net rentable square foot Class A office, retail and parking complex consisting of twin 20-story towers. The Company entered into an agreement to purchase the Property on November 11, 1997 and expects to close the acquisition in January, 1998. Although the Company has substantially completed its due diligence review of Riverfront Plaza, there can be no assurance that the acquisition will be consummated in January 1998, or at all. Riverfront Plaza is located on the James River in Richmond, Virginia and is immediately adjacent to the "Canal Walk" redevelopment area. This project, led by the City of Richmond, calls for the renovation of the canal area into a mixed use "24-hour" activity center. The building's 2,178 space garage provides the highest ratio of parking of any building in Richmond.

MIDTOWN MANHATTAN OFFICE MARKET

New York City is a world renowned business capital and cultural center, with service and retail industries driving its economy. New York remains the nation's leader in financial services and attracts international transactions and global businesses. A major gateway to the United States, its extensive transportation infrastructure includes three airports, premier port and rail services and the nation's largest mass transit system.

Despite increasing costs, New York City's economy has remained competitive in the areas of retail/wholesale trade and business services, which combine for over one-half of the City's employment base. The services sector, particularly financial, legal, public relations and other business service industries, continue to be an area of growth. This sector also provides high wage jobs which have contributed to the high level of consumption-based activity in the City's economy over the past several years.

Largely a result of growing opportunities in the services and retail/wholesale trade sectors, the unemployment rate in New York City has recovered steadily during the past five years. This overall increase in employment has combined with a trend to locational preference for midtown Manhattan as compared to the Downtown/Wall Street area for office-based employers, leading to falling vacancy rates and increasing rent levels in this market area.

According to information provided by Insignia/ESG, the midtown Manhattan market at September 30, 1997 consisted of 194.7 million square feet of space, with supply up 3.2 million square feet (1.7%) over 1992 and absorption of 8.6 million square feet in the same period. The resulting net reduction in supply correlates with a decline in the availability rate (space currently vacant becoming available within 12 months directly or on sublease and additions to supply) from 1992 to September 30, 1997 from 16.5% to 10.7% in midtown and an increase in asking rent from \$32.19 per square foot to \$34.31 per square foot over the same period.

PARK AVENUE SUBMARKET

Two of the Company's three midtown Manhattan Office Properties are located within the Park Avenue submarket of the midtown Manhattan market area. The Park Avenue submarket, with 25.7 million square feet of office space as of September 30, 1997 (an increase of only 300,000 square feet over 1992), is characterized by higher rent levels and lower availability rates than midtown Manhattan generally and has also seen greater improvement during the past five years. During the period 1992 through September 30, 1997, the availability rate in this submarket declined from 15.1% to 7.6% and average asking rental rates increased from \$40.36 per square foot to \$46.31 per square foot.

The following graph provides information regarding availability rates and average asking rental rates per square foot at year end for each of the years from 1992 through 1996 and at September 30, 1997 for office buildings in the Park Avenue office submarket:

[LINE GRAPH APPEARS HERE]

Park Avenue Office Submarket
Average Quoted Market Rent &
Availability Rate

| Year | Rent | Availability |
|-----------|-----------|--------------|
| - - - - - | - - - - - | - - - - - |
| 1992 | \$40.36 | 15.1% |
| 1993 | \$41.09 | 13.1% |
| 1994 | \$42.98 | 8.2% |
| 1995 | \$44.13 | 12.5% |
| 1996 | \$44.40 | 11.4% |
| 1997 | \$46.31 | 7.6% |

Description of Park Avenue Submarket Properties

280 Park Avenue. The Company acquired this Property on September 11, 1997. 280 Park Avenue is a modern Class A Office Building containing approximately 1.2 million net rentable square feet. The Property is located on the full westerly blockfront of Park Avenue between East 48th Street and East 49th Street and occupies two-thirds of the block running from Park Avenue toward Madison Avenue. 280 Park Avenue was designed by Emery Roth & Sons and was built in two phases. The 30 story East Tower was built in 1961 and the 42 story West Tower was constructed in 1968. The Property recently underwent a significant modernization program including upgrades to the HVAC and life safety systems, exterior plazas, lobby areas, the Park Avenue and mid-block entrances. Across Park Avenue from the Property to the north are the Waldorf-Astoria Hotel and the landmark St. Bartholomew's Church. The Property is only four blocks from Grand Central Terminal and its commuter rail lines and subway connections, and is one block from a new direct entrance to Grand Central Terminal that is currently under construction. As of September 30, 1997, Bankers Trust Company leased 208,276

net rentable square feet (approximately 18% of the net rentable square feet) pursuant to a lease which expires February 28, 2011. Bankers Trust Company has two five-year extension options following the initial lease expiration at a base rent equal to 85% of the fair rental value of the property on the commencement date of such extension. Pursuant to such lease, Bankers Trust Company is expected to pay base rent per leased square foot of \$35.00 during the years 1997 through 2001, \$36.01 in 2002, \$39.00 during the years 2003 through 2006, \$40.01 in 2007, and \$43.00 during the years 2008 through 2011. As of September 30, 1997, the National Football League leased 201,658 net rentable square feet (approximately 17% of the net rentable square feet) pursuant to a lease which expires February 28, 2012. Pursuant to such lease, the National Football League is expected to pay base rent per leased square foot of \$39.33 during the years 1997 through 2001, \$41.02 in 2002, \$41.35 during the years 2003 through 2006, \$43.04 in 2007, and \$43.37 during the years 2008 through 2012. As of September 30, 1997, Furman Selz LLC leased 159,288 net rentable square feet (approximately 14% of the net rentable square feet) pursuant to a lease which expires January 31, 2014. The Company has committed to lease an additional 46,078 square feet to Furman Selz LLC effective November 1, 1997. This additional space will bring the total net rentable square feet to 205,366 (approximately 18% of the net rentable square feet). Pursuant to such lease, Furman Selz LLC will receive free rent during the period from July 1, 1997 through February 1, 1999 on 159,288 square feet and from November 1, 1997 through February 1, 1999 on 46,078 square feet. Furman Selz LLC is expected to pay base rent per leased square foot of \$37.29 in 1999, \$40.75 during the years 2000 through 2003, \$44.18 in 2004, \$44.50 during the years 2005 through 2008, \$47.97 in 2009, and \$48.29 during the years 2010 through 2014. In connection with this lease, the Company is required to pay \$9.2 million towards tenant improvements and \$3.4 million of leasing commissions.

Based on information provided by the previous owner of this Property, the occupancy rate for this Property at January 5, 1994, 1995, 1996 and 1997 and at September 30, 1997 was 88.2%, 77.1%, 70.0%, 83.7% and 81.9%, respectively. The Average Effective Annual Rent per leased square foot of 280 Park Avenue for the nine months ended September 30, 1997 was \$42.71. Based on the information provided to the Company by the previous owner of this Property, the Company is unable to provide occupancy rates for 1992 and 1993 and Average Effective Annual Rent information for the years 1992 through 1996.

The aggregate tax basis of depreciable real property at 280 Park Avenue for federal income tax purposes was \$197.3 million as of September 30, 1997. Depreciation is computed on the straight-line method over the estimated life of the real property which is 39 years. For the tax year ending June 30, 1998, 280 Park Avenue will be taxed by the Borough of Manhattan at a rate equal to \$10.164 per \$100 of assessed value, resulting in a total tax for such period equal to \$9,575,493.

In the Company's opinion, 280 Park Avenue is adequately covered by insurance.

In addition to normally recurring capital expenditures, the Company has committed or budgeted to invest \$29.0 million in tenant improvements, leasing commissions and building system improvements.

The following schedule of lease expirations for this Property sets forth: (i) the number of leases expiring; (ii) the total area in square feet covered by such leases; (iii) the Annualized Rent represented by such leases; and (iv) the percentage of Annualized Rent represented by such leases, for the three months ending December 31, 1997, each of the years 1998 through 2006, and the year 2007 and beyond:

| | THREE MONTHS ENDING 12/31/97 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 AND BEYOND |
|---|------------------------------|-----------|-------|-------------|-------------|-----------|-----------|-------|-----------|-----------|-----------------|
| Number of Leases Expiring..... | 1 | 3 | 0 | 9 | 6 | 1 | 3 | 0 | 1 | 1 | 15 |
| Square Footage of Expiring Leases..... | 6,720 | 9,753 | 0 | 53,674 | 78,421 | 3,254 | 25,696 | 0 | 16,500 | 5,594 | 759,789 |
| Annualized Rent.. | \$422,697 | \$392,546 | \$ 0 | \$2,765,709 | \$3,855,416 | \$134,024 | \$927,202 | \$ 0 | \$769,050 | \$194,392 | \$30,787,965 |
| Percentage of Annualized Rent Expiring..... | 1.05% | 0.98% | 0.00% | 6.87% | 9.58% | 0.33% | 2.30% | 0.00% | 1.91% | 0.48% | 76.49% |

The Property is subject to a mortgage as set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources--Mortgage Indebtedness."

599 Lexington Avenue. The revenue from this Property amounted to more than 10% of the Company's revenue for the pro forma twelve months ended September 30, 1997. 599 Lexington Avenue is a 50-story, 1

million square foot Class A Office Building that occupies the entire blockfront on the east side of Lexington Avenue between 52nd and 53rd Streets, directly across 53rd Street from Citicorp Center. The building was completed by the Company in 1984. Designed by architect Edward Larrabee Barnes, 599 Lexington Avenue has a finely detailed aluminum and glass curtain wall exterior and rises to its 653 foot height through a series of distinctive geometric setbacks. The building sits on a 45,000 square foot site including a triangular plaza in front of its main entrance facing the corner of 53rd Street and Lexington Avenue that includes an entrance to the city subway system providing direct access to two separate subway lines. The 50-foot tall glass-fronted marble lobby showcases a major three dimensional work by American artist Frank Stella. The ground floor of the building has approximately 24,500 square feet of retail space fronting on Lexington Avenue and 52nd and 53rd Streets. Approximately 80% of the 985,500 rentable square feet of office space is on virtually column-free floors of 21,000 square feet or more, which the Company believes enables tenants to house their operations with an unusually high level of efficiency. The building's setbacks at its upper levels provide a series of floors of 15,750 and then 7,600 square feet that can offer high visibility for small and medium-size tenancies on a multi-tenant or full floor occupancy basis.

As of September 30, 1997, Shearman & Sterling, a national law firm, leased 424,649 net rentable square feet (approximately 42% of the net rentable square feet) pursuant to a lease which expires August 31, 2007. Pursuant to such lease, Shearman & Sterling is expected to pay base rent per leased square foot of \$30.02 in 1997, \$34.51 during the years 1998 through 2001, \$35.84 in 2002, and \$38.23 during the years 2003 through 2007. In addition, under such lease the tenant has four five-year extension options following the expiration of the lease on August 31, 2007. As of December 31, 1996, Jones, Day, Reavis & Pogue ("Jones, Day"), a national law firm, leased 144,289 net rentable square feet (approximately 14% of the net rentable square feet) pursuant to a lease which expires February 28, 2002 with respect to 128,539 net rentable square feet and on May 31, 2006 with respect to the remaining 15,750 net rentable square feet. Jones, Day has a five-year renewal option with respect to the 128,539 net rentable square feet expiring February 28, 2002. Pursuant to its lease, Jones, Day is expected to pay base rent per leased square foot of \$50.65 in 1997, \$51.21 in 1998, \$51.43 in 1999, \$51.65 in 2000, \$52.18 in 2001, and \$52.41 in 2002, and, with respect to the 15,750 net rentable square feet expiring May 31, \$48.00 during the years 2003 through 2006. As of December 31, 1996, Citibank, N.A., a national bank, leased 114,350 square feet (approximately 11% of the net rentable square feet) pursuant to a lease which expires on December 31, 2002. Pursuant to this lease, Citibank is expected to pay base rent per leased square foot of \$39.50 in 1997, \$42.79 in 1998, and \$45.50 during the years 1999 through 2002.

The Average Effective Annual Rent per leased square foot of 599 Lexington Avenue for the years ended December 31, 1992, 1993, 1994, 1995, 1996, and September 30, 1997 was \$41.08, \$41.08, \$40.75, \$40.65, \$39.94 and \$40.06, respectively. The occupancy rate of the Property for each of such years was 99.2%, 100.0%, 97.2%, 99.7%, 99.5% and 99.7%, respectively.

The aggregate tax basis of depreciable real property at 599 Lexington Avenue for federal income tax purposes was \$144.8 million as of September 30, 1997. Depreciation is computed on the straight-line method over the estimated life of the real property which range from 18 to 39 years. The aggregate tax basis of depreciable personal property associated with 599 Lexington Avenue for federal income tax purposes was \$6.0 million as of September 30, 1997. Depreciation is computed on the straight-line and double declining balance methods over the estimated useful life of the personal property of five or seven years. For the tax year ending June 30, 1998, 599 Lexington Avenue will be taxed by the Borough of Manhattan at a rate equal to \$10.164 per \$100 of assessed value, resulting in a total tax for such period equal to \$10,766,725.

The Property is subject to a mortgage as set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources--Mortgage Indebtedness." Such mortgage is not prepayable. The mortgage lender has an option to purchase, at the maturity of the mortgage, a 33.33% interest in the Property in exchange for cancellation of the outstanding balance of the mortgage (which option, if exercised, would ascribe an implied value of approximately \$675.0 million to the Property as a whole). The mortgage requires that the Property be managed by a limited liability company (the "599 Manager") which is at all times controlled by Mr. Zuckerman or Mr. Linde. The economic interests in the 599 Manager are 99.9% owned by the Company, and Messrs. Zuckerman and Linde are the sole managing-members, and hold the

remaining 0.1% interest. In the event the 599 Manager is no longer controlled by Mr. Zuckerman and Mr. Linde, other than as a result of their respective deaths or incapacity, the mortgage lender could require the mortgage loan to be repaid in its entirety prior to maturity. Each of Messrs. Zuckerman and Linde have agreed to notify the Company at least six months prior to resigning as a managing member of the 599 Manager.

The following schedule of lease expirations for this Property sets forth: (i) the number of leases expiring; (ii) the total area in square feet covered by such leases; (iii) the Annualized Rent represented by such leases; and (iv) the percentage of Annualized Rent represented by such leases, for the three months ending December 31, 1997, each of the years 1998 through 2006, and the year 2007 and beyond:

| | THREE MONTHS | | | | | | | | | |
|---|--------------------|-------------|----------|-------------|-------|--------------|-------------|-----------|-----------|-----------|
| | ENDING 12/31/97 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| Number of Leases Expiring..... | 3 | 6 | 1 | 3 | 0 | 11 | 5 | 2 | 4 | 1 |
| Square Footage of Expiring Leases..... | 41,647 | 27,360 | 350 | 19,118 | 0 | 400,266 | 21,365 | 6,145 | 17,043 | 15,750 |
| Annualized Rent..... | \$2,362,004 | \$1,166,934 | \$35,494 | \$1,003,435 | 0 | \$21,825,951 | \$1,642,029 | \$462,266 | \$898,022 | \$693,789 |
| Percentage of Annualized Rent Expiring..... | 4.45% | 2.20% | 0.07% | 1.89% | 0.00% | 41.14% | 3.09% | 0.87% | 1.69% | 1.31% |
| | 2007 AND BEYOND | | | | | | | | | |
| Number of Leases Expiring..... | 3 | | | | | | | | | |
| Square Footage of Expiring Leases..... | 447,999 | | | | | | | | | |
| Annualized Rent..... | \$22,964,952 | | | | | | | | | |
| Percentage of Annualized Rent Expiring..... | 43.29% | | | | | | | | | |

In the Company's opinion, 599 Lexington Avenue is adequately covered by insurance.

Other than normally recurring capital expenditures, the Company has no plans with respect to material renovation, improvement or redevelopment of 599 Lexington Avenue.

See "Operating Partnership Agreement--Tax Protection Provisions."

EAST SIDE SUBMARKET

The East Side Submarket consists of 15.8 million square feet in 33 buildings generally located east of Park Avenue and north of 46th Street. During the period from 1992 through September 30, 1997, the availability rate in this submarket declined from 17.2% to 12.6% and average asking rental rates increased from \$31.42 per square foot to \$36.95 per square foot.

[LINE GRAPH APPEARS HERE]

East Side Office Submarket
Average Quoted Market Rent &
Availability Rate

| Year | Rent | Availability Rate |
|------|---------|-------------------|
| 1992 | \$31.42 | 17.2% |
| 1993 | \$30.20 | 14.8% |
| 1994 | \$32.21 | 8.8% |
| 1995 | \$35.30 | 9.8% |
| 1996 | \$34.77 | 11.8% |
| 1997 | \$36.95 | 12.6% |

RECENT ACQUISITION IN EAST SIDE SUBMARKET

875 Third Avenue. 875 Third Avenue was acquired by the Company on November 21, 1997. This approximately 682,000 net rentable square foot Class A Office Building is located in midtown Manhattan on Third Avenue between 53rd and 52nd Streets. The Property is located in the Eastside submarket of midtown

Manhattan, one block from the Park Avenue submarket. As of September 30, 1997, Debevoise & Plimpton leased 279,375 net rentable square feet (approximately 40% of the net rentable square feet) pursuant to a lease which expires October 31, 2002. Pursuant to such lease, Debevoise & Plimpton is expected to pay Base Rent per leased square foot of \$42.64 in 1997 and \$44.12 during the years 1998 through 2002. As of September 30, 1997, Instinet Corporation leased 148,000 net rentable square feet (approximately 21% of the net rentable square feet) pursuant to a lease which expires July 31, 2003. Pursuant to such lease, Instinet Corporation is expected to pay base rent per leased square foot of \$27.98 in 1997, \$29.58 in 1998, \$31.44 in 1999, and \$31.85 during the years 2000 through 2003. As of September 30, 1997, Sidley & Austin leased 131,250 net rentable square feet (approximately 19% of the net rentable square feet) pursuant to a lease which expires June 30, 2002. Pursuant to such lease, Sidley & Austin is expected to pay base rate per leased square foot of \$43.27 during the years 1997 through 2002. As of September 30, 1997, Grey Advertising, Inc. leased 90,250 net rentable square feet (approximately 13% of the net rentable square feet) of which 64,000 square feet expires December 31, 1999 and 26,250 square feet expires June 30, 2002. Pursuant to its leases, Grey Advertising, Inc. is expected to pay base rent per leased square foot of \$30.11 in 1997, \$31.53 during the years 1998 through 1999 and \$38.50 during the years 2000 through 2002.

The Average Effective Annual Rent per leased square foot of 875 Third Avenue for the nine months ended September 30, 1997 was \$39.41. According to information provided by the seller of this property, the occupancy rate for this Property for the years ended December 31, 1992, 1993, 1994, 1995 and 1996 was 98.3%, 96.5%, 100.0%, 100.0% and 100.0%, respectively. The occupancy rate of the Property for the nine months ended September 30, 1997 was 100%. Based on the information provided to the Company by the previous owner of this Property, the Company is unable to provide Average Effective Annual Rent information for the years 1992 through 1996.

The aggregate tax basis of depreciable real property at 875 Third Avenue for federal income tax purposes was \$148.6 million as of September 30, 1997. Depreciation is computed on the straight-line method over the estimated life of the real property which is 39 years. For the tax year ending June 30, 1998, 875 Third Avenue will be taxed by the Borough of Manhattan at a rate equal to \$10.164 per \$100 of assessed value, resulting in a total tax for such period equal to \$6,266,106.

For information concerning the expiration of leases with respect to 875 Third Avenue, see "Business and Properties--Tenants--Lease Expirations of Office and Industrial Properties--Eastside."

In the Company's opinion, 875 Third Avenue is adequately covered by insurance.

Other than normally recurring capital expenditures, the Company has no plans with respect to material renovation, improvement or redevelopment of 875 Third Avenue.

The Property is subject to a mortgage as set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources--Mortgage Indebtedness."

See "Operating Partnership Agreement--Tax Protection Provisions."

THE HOTEL PROPERTIES

The Company owns two Hotel Properties in the Greater Boston area, one in downtown Boston on the Boston Harbor waterfront and one in East Cambridge that is part of the Cambridge Center development. Both hotels are operated by Marriott International, Inc. under the Marriott(R) name. In order to assist the Company in maintaining its qualifications as a REIT under federal tax law, the Company leases these Hotel Properties, pursuant to separate leases with a participation in the gross receipts of the Hotel Properties, to a lessee (ZL Hotel LLC) in which Messrs. Zuckerman and Linde are the sole member-managers. Messrs. Zuckerman Linde have a 9.8% economic interest in such lessee and two unaffiliated public charities have a 90.2% economic interest. Marriott International, Inc. operates these Hotel Properties under the Marriott(R) name pursuant to management agreements with ZL Hotel LLC.

THE HOTEL DEVELOPMENT PROPERTY

Residence Inn by Marriott(R). The Company is developing a 221 room limited service Residence Inn by Marriott(R) on a site in the Company's Cambridge Center development. Residence Inn by Marriott(R) is an extended-stay hotel.

GREATER BOSTON HOTEL MARKET

Over the past five years the Greater Boston hotel market has consistently ranked as one of the strongest lodging markets in the country, with high occupancy and average room rates resulting in revenues per available room ("REVPAR," the hotel industry standard of comparison) significantly higher than average. In 1996, according to Horwath Landauer/Smith Travel Research, the Greater Boston hotel market supply of approximately 34,500 rooms had an overall occupancy rate of 73.5% and an average room rate of \$105.51, ranking fourth in both of these categories out of the top 25 markets nationwide.

The strength of this market reflects the broad base of room demand in Boston as a national and international business, tourist and meeting destination. Business growth in Boston from 1992 through 1996 has been strong as reflected in falling office vacancy rates and unemployment rates (see "--The Office Properties--Greater Boston Office Market"). Boston has grown steadily as a national and international tourist destination, with total visitors to Boston reaching a record 10.6 million in 1996 according to the Boston Convention and Tourist Bureau, up 21% over 1992. Boston is also an important meeting and convention site, ranked as a "first-tier" convention city even though as a result of the limited size of exhibition space available in its Hynes Convention Center it does not rank in the top 30 in the amount of prime exhibit space in its principal convention facility. In November 1997, the state enacted legislation providing for the development of a new convention center with an estimated cost of approximately \$700 million that would contain a 600,000 square foot main exhibit hall with 235,000 square feet of additional meeting space, which would more than triple the 193,000 square feet currently available in the Hynes Convention Center. There can be no assurances that this new convention center will be developed as planned.

BOSTON/CAMBRIDGE HOTEL SUBMARKET

The Company's completed Hotel Properties are located in downtown Boston and in East Cambridge, the latter directly across the Longfellow Bridge from Boston. The Boston/Cambridge lodging market, at the core of the metropolitan area, has a total of approximately 13,371 rooms and achieves higher occupancy and room rates than the Greater Boston market as a whole, with resulting higher REVPAR, as indicated in the following table which indicates the performance of that market during the years 1992 through 1996:

BOSTON/CAMBRIDGE HOTEL SUBMARKET, 1992-1996

| | 1992 | 1993 | 1994 | 1995 | 1996 |
|----------------------------|----------|----------|----------|----------|----------|
| Occupancy..... | 71.5% | 74.6% | 76.5% | 77.4% | 78.1% |
| Average Daily Rate..... | \$115.25 | \$118.75 | \$126.75 | \$133.00 | \$143.25 |
| REVPAR..... | \$ 82.41 | \$ 88.59 | \$ 96.92 | \$102.88 | \$111.84 |
| Percent Change..... | | 7.5% | 9.4% | 6.1% | 8.7% |
| Available Room Supply..... | 13,069 | 13,112 | 13,224 | 13,359 | 13,371 |
| Percent Change..... | | 0.3% | 0.9% | 1.0% | 0.1% |

Source: Pinnacle Advisory Group

New additions to the Boston hotel market are underway and anticipated and if the proposed new convention center is constructed further additions to supply are expected. The Company believes that business, tourist and convention and meeting-driven demand will increase as well, supported by major transportation infrastructure improvements currently underway including the \$10.4 billion Central Artery/Ted Williams Tunnel project (which will improve access to downtown Boston and Logan International Airport and the urban quality of downtown Boston) and the \$1.2 billion Logan 2000 program (the modernization and facility expansion of Logan

International Airport). The Company also believes that because of their excellent locations and the advantages of Marriott(R) brand strength and marketing programs and management, its Hotel Properties will continue to perform strongly and benefit directly from such growth in overall demand.

SEASONALITY

The Company's two completed hotels traditionally have experienced significant seasonality in their net operating income, with average weighted net operating income by quarter over the past three years as follows:

| FIRST QUARTER ----- | SECOND QUARTER ----- | THIRD QUARTER ----- | FOURTH QUARTER ----- |
|------------------------|-------------------------|------------------------|-------------------------|
| 14% | 30% | 31% | 25% |

MARRIOTT(R) IS A REGISTERED TRADEMARK OF MARRIOTT INTERNATIONAL, INC., WHICH HAS NOT ENDORSED OR APPROVED THE OFFERING OR ANY OF THE FINANCIAL RESULTS OF THE HOTELS SET FORTH IN THIS PROSPECTUS. INVESTORS IN THE COMPANY WILL NOT RECEIVE AN INTEREST IN MARRIOTT INTERNATIONAL, INC.

DEVELOPMENT CONSULTING AND THIRD-PARTY PROPERTY MANAGEMENT

DEVELOPMENT CONSULTING

Because commercial real estate development is a highly complex and specialized business, many corporate and government entities that decide to develop a property primarily for their own use seek a development and project manager to assist with the design and execution of the project. The Company has found development consulting and project management to be a desirable way to leverage the Company's extensive experience in project and construction management, marketing, leasing, finance, governmental relations, tax, real estate law, and accounting. The Company's engagement in this type of activity has three distinct attractions:

- . Development consulting and project management can be a significant source of revenue that requires little incremental investment by the Company. To support the Company's own activities, the Company's offices in Boston and Washington, D.C. are staffed with professionals who are able to provide the full range of services needed for project design and execution. By taking on third party projects, the Company is able to fully utilize the talents of those individuals and add to their experience and knowledge base.
- . In addition to being a profitable source of revenue, the Company has achieved significant recognition in its primary markets for successful oversight of high-visibility projects. The Company believes that such recognition has added to the Company's credibility when bidding for build-to-suit projects or attempting to significantly pre-lease a project under construction.
- . The Company has been successful at retaining clients at the end of third-party development projects and becoming the property manager for the completed project. These property management engagements are excellent sources of incremental revenues without the need for large investment or risk.

THIRD-PARTY PROPERTY MANAGEMENT AND TENANT SERVICES

The Company generally does not provide third-party property management services, but the Company has been willing to accept property management engagements in certain cases where the Company had a pre-existing relationship with a major tenant or client for whom the Company provided development services. In Greater Washington, D.C., the Company manages six properties for third parties. The Company served as development and project manager for all of these properties.

PARTIAL INTERESTS

The Company owns less than a 100.0% fee interest in 15 of the Properties. The Company owns a 25.0% limited liability company membership interest in three buildings in Reston, Virginia, which the Company is

currently developing in partnership with Westbrook. The Company's economic interest in this property may be increased above 25.0%, depending upon the achievement of certain performance objectives. The Company owns a 75.0% partnership interest and is the sole general partner of the limited partnership that owns 100.0% of the fee interest in Montvale Center in Gaithersburg, Maryland. Because of the priority of the Company's 75.0% partnership interest, the Company expects to receive substantially all of any partnership distributions that are made with respect to this property. The Company owns a 35.7% controlling general partnership interest in the nine Hilltop Business Center properties, 560 Forbes Boulevard in South San Francisco, California and 430 Rozzi Place in South San Francisco, California.

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.

With respect to 17 Hartwell Avenue in Lexington, Massachusetts, the Company received a Notice of Potential Responsibility ("NOR") from the state regulatory authority on January 9, 1997, related to groundwater contamination. In addition, the Company received a Notice of Downgradient Property Status Submittal from each of two third parties concerning alleged contamination at two downgradient properties. 17 Hartwell Avenue is a 30,000 square foot office building occupied by Kendall Company, a division of Tyco International, which has been the tenant of the entire building for 20 years. The tenant received a similar NOR and responded to the state regulatory authority that it would conduct an investigation. That investigation is underway and has identified the presence of hazardous substances in a catch basin along the property line. It is expected that the tenant will take any necessary response actions. The lease with the tenant contains a provision pursuant to which the tenant indemnifies the Company against such liability. The Company has notified the state regulatory authority that it will cooperate with and monitor the tenant's investigation.

On January 15, 1992, 91 Hartwell Avenue in Lexington, Massachusetts was listed by the state regulatory authority as an unclassified Confirmed Disposal Site in connection with groundwater contamination. 91 Hartwell Avenue is a 122,328 square foot office building occupied by five tenants. The Company has 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. Downgradient Property Status eliminates certain deadlines for conducting response actions at a site. 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.

The Company expects that any resolution of the environmental matters relating to 17 Hartwell Ave. and 91 Hartwell Ave. will not have a material impact on the financial position, results of operations or liquidity of the Company.

CERTAIN AGREEMENTS RELATING TO THE PROPERTIES

The Operating Partnership Agreement provides that, until June 23, 2007, the Operating Partnership may not sell or otherwise transfer any of the Designated Properties (i.e., 599 Lexington Avenue, One and Two Independence Square, and Capital Gallery, or a successor property obtained in a "like kind" exchange for such

a property) in a taxable transaction without the prior written consent of Messrs. Zuckerman and Linde. In connection with the acquisition or contribution of five other properties, the Company entered into similar agreements for the benefit of the selling or contributing properties. Specifically, the Company has agreed with the party that contributed 875 Third Avenue to the Operating Partnership that the Company will not sell or otherwise transfer that Property in a taxable transaction until November 21, 2007 without the consent of that party. The Company has entered into a similar agreement restricting the Company's ability to transfer 2300 N Street in a taxable transaction until June, 2002. In addition, the Company has agreed with the parties that will contribute the Lockheed Martin Building, the National Imaging and Mapping Agency Building and the Reston Town Center Office Complex that the Company will not sell or otherwise transfer in a taxable transaction such Properties (except to an existing tenant pursuant to an existing purchase option) for a period of ten years from the date the Company completes its acquisition of these Properties. In the case of a Designated Property, 2300 N Street and 875 Third Avenue, the Operating Partnership is not required to obtain the aforementioned consent from a party protected thereby if such party does not continue to hold, during the applicable period, at least a specified percentage of such party's original OP Units. Since the consent of the protected parties is required only in connection with a taxable sale or other disposition of any Designated Property, the Operating Partnership will not be required to obtain such consent in connection with a "like-kind" exchange of any such property in accordance with Section 1031 of the Code or in connection with a number of other nontaxable transactions, such as a nontaxable reorganization or merger of the Operating Partnership or the formation of a joint venture involving a Property pursuant to Section 721 of the Code. The Operating Partnership has also entered into agreements providing Messrs. Zuckerman, Linde and others with the right to guarantee additional and/or substitute indebtedness of the Company in the event that certain other indebtedness is repaid or reduced. See "The Operating Partnership--Tax Protection Provisions."

THE UNSECURED LINE OF CREDIT

Upon the completion of the Initial Offering, the Company entered into a \$300 million Unsecured Line of Credit with BankBoston, as agent, that expires in June 2000. The Unsecured Line of Credit is a recourse obligation of the Operating Partnership and is guaranteed by the Company. The Company has used, and intends to continue to use, the Unsecured Line of Credit principally to fund growth opportunities and for working capital purposes. As of December 1, 1997, the Company had an outstanding balance of \$233.0 million under this line of credit.

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. The Unsecured Line of Credit requires: the Company to maintain a ratio of unsecured indebtedness to unencumbered property value of not more than 60%; that the unencumbered properties must generate sufficient net operating income to maintain a debt service coverage ratio of at least 1.4 to 1 (based on a 25-year amortization with an assumed interest rate equal to the rate on seven-year U.S. Treasuries plus 2%); a total indebtedness to total asset value ratio of not more than (i) 65% for the period from November 21, 1997 through April 30, 1998 and (ii) 55% after April 30, 1998; that the ratio of EBITDA to debt service plus estimated capital expenditures and preferred dividends be at least 1.75 to 1; and certain other customary covenants and performance requirements. In addition, the Unsecured Line of Credit restricts ownership of hotel properties to 25% of the Company's aggregate portfolio. The Unsecured Line of Credit, except under certain circumstances, limits the Company's ability to make distributions up to 90% of its annual Funds from Operations.

The Unsecured Line of Credit, at the Company's election, bears interest at a floating rate based on a spread over LIBOR equal to (i) 125 basis points during the period from November 21, 1997 through January 31, 1998, (ii) 140 basis points during the period from February 1, 1998 through April 30, 1998, and (iii) after April 30, 1998, from 90 basis points to 110 basis points, depending upon the Company's applicable leverage ratio, or BankBoston's prime rate. The Unsecured Line of Credit requires monthly payments of interest only on prime rate loans, with interest on LIBOR loans payable on the last day of an interest period but not less often than quarterly. LIBOR loans may be for periods of between thirty and 180 days.

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

Pursuant to the Certificate, the Board of Directors is divided into three classes of directors. The initial terms of the three classes will expire in 1998 (Mr. Zuckerman), 1999 (Messrs. Patricof and Turchin) and 2000 (Messrs. Linde and Seidenberg), respectively. Beginning in 1998, directors of each class will be chosen for three-year terms upon the expiration of their current terms and each year one class of directors will be elected by the stockholders. The Company believes that classification of the Board of Directors helps to assure the continuity and stability of the Company's business strategies and policies as determined by the Board of Directors. Holders of shares of Common Stock have no right to cumulative voting in the election of directors. Consequently, at each annual meeting of stockholders, the holders of a majority of the shares of Common Stock will be able to elect all of the successors of the class of directors whose terms expire at that meeting. A majority of directors are neither employees nor affiliates of the Company.

The following table sets forth certain information with respect to the directors and executive officers of the Company as of December 1, 1997:

| NAME | AGE | POSITION |
|----------------------------|-----|---|
| Mortimer B. Zuckerman..... | 60 | Chairman of the Board |
| Edward H. Linde..... | 56 | President, Chief Executive Officer and Director |
| Alan J. Patricof..... | 63 | Director |
| Ivan G. Seidenberg..... | 51 | Director |
| Martin Turchin..... | 56 | Director |
| Raymond A. Ritchey..... | 47 | Senior Vice President |
| Robert E. Burke..... | 60 | Senior Vice President |
| David R. Barrett..... | 56 | Senior Vice President |
| Robert E. Selsam..... | 51 | Senior Vice President |
| David G. Gaw..... | 46 | Senior Vice President, Chief Financial Officer |

The following is a biographical summary of the experience of the directors and executive and senior officers of the Company:

Directors and Executive Officers

Mr. Mortimer B. Zuckerman serves as Chairman of the Board of Directors of the Company. Mr. Zuckerman co-founded the Company in 1970 after spending seven years at Cabot, Cabot & Forbes where he rose to the position of Senior Vice President and Chief Financial Officer. He is a graduate of McGill University, Montreal receiving an undergraduate degree in 1957 and a degree of law in 1961. He received an MBA with distinction from the Wharton School, University of Pennsylvania in 1961 and a Master of Law from Harvard University in 1962. Mr. Zuckerman serves as a Trustee for New York University, a Director and Member of the Executive Committee of WNET/Channel 13 New York, a Trustee of Memorial Sloan-Kettering Cancer Institute, a Trustee of the Institute For Advanced Studies at Princeton, a Member of the Harvard Medical School Board of Visitors, and a Member of the Council on Foreign Relations and the International Institute For Strategic Studies. He is also Chairman and Editor-in-Chief of U.S. News & World Report, Chairman of The Atlantic Monthly magazine, Chairman and Co-Publisher of the New York Daily News and Chairman of the Board of Applied Graphics Technologies (AGT) and a member of the Board of Directors of Snyder Communications.

Mr. Edward H. Linde serves as President, Chief Executive Officer and a Director of the Company. Mr. Linde co-founded the Company in 1970 after spending five years at Cabot, Cabot & Forbes where he became Vice President and Senior Project Manager. Mr. Linde serves as Chairman of the Board of Directors of the

Massachusetts Government Land Bank and Co-Chairman of the Massachusetts Development Finance Agency. He is also a member of the Board of Directors of the CareGroup and the Beth Israel Deaconess Medical Center, an Overseer of the Boston Symphony Orchestra, and a member of the Board of Fellows of the Harvard Medical School. Mr. Linde is a member of the Board of Applied Graphics Technologies (AGT). He received a BS in Civil Engineering from MIT in 1962 and an MBA from Harvard Business School, where he was a Baker Scholar, in 1964.

Mr. Alan J. Patricof serves as a Director of the Company. Mr. Patricof is Chairman of the Board of Directors of Patricof & Co. Ventures, Inc., the company that he founded in 1969. He has more than 30 years of investment experience with a particular expertise in portfolio management. Mr. Patricof was Chairman of the White House Commission on the Small Business Administration and a member of the Blue Ribbon Commission of the National Association of Corporate Directors. He also serves as a director of Cellular Communications International, Inc., Cellular Communications of Puerto Rico, Inc., CoreComm Incorporated, Healthcare Direct, Inc., Johnny Rockets Group, Inc., Medscape, Inc., NTL Incorporated, and SCP Communications, Inc. Mr. Patricof received a BS in finance from Ohio State University and an MBA from Columbia University Graduate School of Business.

Mr. Ivan G. Seidenberg serves as a Director of the Company. Mr. Seidenberg is Vice Chairman, President and Chief Operating Officer of Bell Atlantic. Prior to the merger of Bell Atlantic and NYNEX, Mr. Seidenberg was Chairman and Chief Executive Officer of NYNEX where he held various positions since 1991. Mr. Seidenberg is a member of the Board of Directors of AlliedSignal Inc., American Home Products Corp., The Conference Board, CVS Corp., Pace University, The Museum of Television and Radio, The New York Hall of Science, The New York Hospital and Viacom, Inc., and a director of Bell Atlantic. He is Chairman of the Federal Communications Commission's Network Reliability and Interoperability Council and a member of the Council on Foreign Relations and the Lincoln Center Consolidated Fund Committee. Mr. Seidenberg received a BA in mathematics from City University of New York and an MBA from Pace University.

Mr. Martin Turchin serves as a Director of the Company. Since 1985, Mr. Turchin has served as Vice-Chairman of Insignia/Edward S. Gordon Co., Inc., a subsidiary of Insignia Financial Group, one of the nation's largest commercial real estate brokerage and management firms. Mr. Turchin has more than 30 years experience as a commercial real estate broker, consultant and advisor and has been involved in some of the largest real estate transactions in the United States. Mr. Turchin is a three time recipient of the Real Estate Board of New York's "Most Ingenious Deal of the Year Award." Mr. Turchin attended City College of the University of New York and St. John's Law School.

Mr. Raymond A. Ritchey serves as a Senior Vice President, Co-Manager of the Washington office and National Director of Acquisitions and Development for the Company. In this capacity, Mr. Ritchey is responsible for all marketing and new opportunity origination in the Washington area and directly oversees similar activities for the Company on a national basis. Mr. Ritchey joined the Company in 1980, leading the Company's expansion to become one of the dominant real estate firms in the Washington metropolitan area. For four years prior to joining the Company, Mr. Ritchey was one of the leading commercial real estate brokers in the Washington area with Coldwell Banker. He is a 1972 graduate of the U.S. Naval Academy and a 1973 graduate of the U.S. Naval Post Graduate School in Monterey, California.

Mr. Robert E. Burke serves as a Senior Vice President and Co-Manager of the Washington office for the Company. He joined the Company in 1979 to open its Washington area office serving as general manager in charge of operations of that office. Prior to 1979, Mr. Burke spent 7 1/2 years as General Manager of the John Fitzgerald Kennedy Library Corporation. He received dual degrees in 1960 when he earned a BS from Bates College and a Bachelor of Civil Engineering degree from Rensselaer Polytechnic Institute.

Mr. David R. Barrett serves as Senior Vice President and Manager of the Boston office of the Company. He joined the Company in 1976 after six years as a principal in a consulting firm specializing in housing and urban development and after serving as Special Assistant to the Administrator of the Housing and Development Administration of the City of New York. He has been involved in all aspects of developing the Company's

portfolio of properties and was directly responsible for the approval, design, construction and leasing of the Cambridge Center development. Mr. Barrett received a BA from Columbia College in 1963 and an LLB with honors from Harvard Law School in 1966 where he was an editor of the Harvard Law Review.

Mr. Robert E. Selsam is a Senior Vice President and Manager of the Company's New York office. He joined the Company in 1984, prior to which he was Director of Planning for the Metropolitan Transportation Authority of the State of New York. Mr. Selsam serves as Secretary and member of the Executive Committee of the New York Building Congress, is Executive Vice President and past Co-Chairman of the Associated Builders and Owners of New York, a member of the Executive Committee of the Association for a Better New York, and Vice President and Trustee of the New York Foundation for Architecture. He received a BA from the University of Pennsylvania in 1968 and a MS in Urban Planning from the Columbia University School of Architecture in 1970. Mr. Selsam has had direct involvement in all aspects of the Company's New York activities including development, leasing and building operations.

Mr. David G. Gaw is Senior Vice President and Chief Financial Officer for the Company, where he oversees a 47-person accounting, control and financial management department. He joined the Company in 1982 and has been involved in the Company's financial operations since then, including administering the Company's financings and banking relationships. From 1978 to 1982 he served as Vice President for the Norwood Group. Mr. Gaw received a BSBA from Suffolk University in 1973 and also received an MBA from Suffolk University in 1983.

Senior Officers

Mr. Frederick J. DeAngelis serves as Senior Vice President and General Counsel for the Company, where he oversees a staff of three lawyers and one paralegal. Mr. DeAngelis joined the Company in 1980 after serving as a partner at the firm of Lane & Altman in Boston. He received an AB in Economics (cum laude) from Holy Cross College in 1970 and a doctor of law degree (magna cum laude) from Boston College Law School in 1973.

Mr. Stephen R. Clineburg, who joined the Company in 1984, serves as Senior Vice President and Regional General Counsel, Washington region. From June 1972 through July 1984, Mr. Clineburg was an attorney at the Gulf Oil Corporation and before that had been a Vice President and Title Officer of the Real Title Corporation in Fairfax, Virginia. Mr. Clineburg graduated from Columbia University with a BA in English in 1963 and from the University of Virginia Law School in Charlottesville in 1966.

Mr. James C. Rosenfeld is a Senior Vice President of the Company, where he has been responsible for all suburban Boston project development. Prior to joining the Company in 1980, he worked for ten years at Cabot, Cabot & Forbes where he served as project manager on major commercial office building projects. Mr. Rosenfeld received an AB from Bowdoin College in 1965.

Mr. E. Mitchell Norville is Senior Vice President and Senior Project Manager-Washington for the Company. In that capacity he oversees development of the Company's projects, including its fee development work for third parties. He has had direct responsibility for the project management of such projects as Independence Square, the headquarters for HCFA, and the work being performed for the National Institute of Health. Mr. Norville joined the Company in 1984 following his graduation from the University of Virginia with an MBA. He also received a BS in Mechanical Engineering from Clemson University in 1980.

Mr. Peter D. Johnston is a Senior Vice President of the Company, where he has been responsible for the development of more than one million square feet of the Company's Washington, D.C., commercial projects. He joined Boston Properties in 1987 after receiving an MBA from the University of Virginia. Mr. Johnston also received a Bachelor of Business Administration from Roanoke College in 1981 as well as an MA degree from Hollins College in 1982.

Mr. John D. Camera, Jr. is Senior Vice President--Boston Construction Management for the Company and in that capacity oversees the Company's Boston area construction activities. Mr. Camera, who joined the Company in 1980, has more than 30 years of construction industry experience. He is a 1964 graduate of the

Worcester Polytechnic Institute where he received a BS in Civil Engineering. Following graduation he served in the U.S. Navy Civil Engineering Corps. During his time at the Company, he has been responsible for more than \$325 million of construction activity.

Mr. Jonathan B. Kurtis is Senior Vice President--Washington Construction Management for the Company. In that capacity he oversees all of the Company's Washington area construction activities and has been responsible for more than \$517 million of successfully completed construction undertaken by the Company. Mr. Kurtis joined the Company in 1984 following seven years of general contractor project management experience. He graduated from the University of Florida in Gainesville, Florida with a Bachelor of Building Construction in 1977.

Mr. John J. Baraldi is Senior Vice President and National Director of Property Management at the Company. In that capacity, and based on his 35 years of property management experience, he provides national leadership and guidance to the property managers responsible for each of the Company's geographical areas of activity. Mr. Baraldi joined the Company in 1975 after holding property management positions at Cabot, Cabot & Forbes and the General Foods Corporation.

Mr. David H. Boone is Senior Vice President and Director of Washington Area Property Management for the Company. In that capacity, he has direct responsibility for the property management of the Company's Washington properties. Mr. Boone joined the Company in 1986 after 23 years experience in building operations and property management with other firms. Mr. Boone has also served as commercial Vice President for BOMA (Building Owners & Managers Association) Washington, D.C. and on the Board of Governors for BOMA International.

Mr. William J. Wedge serves as Senior Vice President--Tax Counsel for the Company. He joined Boston Properties in 1984 after serving in the Tax Department of Coopers & Lybrand. Mr. Wedge graduated from Dartmouth College in 1977 with a B.A. in History and Government, received a JD (cum laude) from Suffolk Law School in 1981 and was awarded a Masters of Taxation (LLM) by Boston University Law School in 1984. Mr. Wedge is an Adjunct Professor of Law at Suffolk Law School. He oversees tax and corporate affairs for the Company.

COMMITTEES OF THE BOARD OF DIRECTORS

Audit Committee

The Board of Directors has established an Audit Committee consisting of Messrs. Patricof, Seidenberg and Turchin. The Audit Committee makes recommendations concerning the engagement of independent public accountants, reviews with the independent public accountants the scope and results of the audit engagement, approves professional services provided by the independent public accountants, reviews the independence of the independent public accountants, considers the range of audit and non-audit fees and reviews the adequacy of the Company's internal accounting controls.

Compensation Committee

The Board of Directors has established a Compensation Committee to determine compensation for the Company's executive officers. The members of the Compensation Committee are Messrs. Patricof, Seidenberg and Turchin.

The Board of Directors has also established a Special Acquisitions and Finance Committee, the members of which are Messrs. Zuckerman and Linde, and a Significant Investments Committee, the members of which are Messrs. Zuckerman, Linde and Turchin.

The Board of Directors may from time to time establish certain other committees to facilitate the management of the Company.

COMPENSATION OF DIRECTORS

The Company pays its non-employee directors annual compensation of \$15,000 for their services. In addition, non-employee directors receive a fee of \$1,000 for each Board of Directors meeting attended in person.

Non-employee directors attending any committee meetings in person receive an additional fee of \$1,000 for each committee meeting attended, unless the committee meeting is held on the day of a meeting of the Board of Directors. Non-employee directors also receive an additional fee of \$250 for each telephonic meeting attended. Each Non-Employee Director has made an election, subject to approval of the Board's Compensation Committee, to receive, on a deferred basis, Shares of Common Stock in lieu of cash fees. Non-employee directors are also reimbursed for reasonable expenses incurred to attend director and committee meetings. Officers of the Company who are directors are not paid any directors' fees. The Non-employee directors received, upon initial election to the Board of Directors, an option to purchase 10,000 shares of Common Stock, and annually thereafter will receive an option to purchase 5,000 shares of Common Stock. These options will become exercisable over two years.

EXECUTIVE COMPENSATION

The following table sets forth the total compensation paid in 1996 and the annual base salary rates and other compensation expected to be paid in 1997 to the Company's Chief Executive Officer and each of the Company's four other most highly compensated executive officers (the "Named Executive Officers").

SUMMARY COMPENSATION TABLE

| NAME AND PRINCIPAL POSITION | YEAR | ANNUAL COMPENSATION | | | LONG TERM COMPENSATION AWARDS | ALL OTHER COMPENSATION(\$) |
|--|------|---------------------|-----------|-------------------------------------|--|-------------------------------|
| | | SALARY(\$) | BONUS(\$) | OTHER ANNUAL COMPENSATION(\$) | SECURITIES UNDERLYING OPTIONS(#) | |
| Edward H. Linde..... | 1997 | \$150,000(1) | (2) | (3) | 320,000(4) | -- |
| President and Chief Executive Officer | 1996 | 7,000 | -- | \$12,378(3) | -- | -- |
| Raymond A. Ritchey..... | 1997 | \$250,000(1) | (2) | -- | 200,000(4) | (5) |
| Senior Vice President | 1996 | 292,423 | -- | -- | -- | \$4,150(5) |
| Robert E. Burke..... | 1997 | \$250,000(1) | (2) | -- | 160,000(4) | (5) |
| Senior Vice President | 1996 | 313,023 | -- | -- | -- | \$4,150(5) |
| David R. Barrett..... | 1997 | \$240,000(1) | (2) | -- | 120,000(4) | (5) |
| Senior Vice President | 1996 | 285,493 | -- | -- | -- | \$4,150(5) |
| Robert E. Selsam..... | 1997 | \$221,500(1) | \$42,225 | -- | 80,000(4) | (5) |
| Senior Vice President | 1996 | 220,324 | 42,654 | -- | -- | \$4,150(5) |

- (1) Represents rate of annual base salary for 1997 that has been in effect since the completion of the Initial Offering.
- (2) 1997 bonus will be determined by the Board of Directors in its discretion.
- (3) Represents the Company's contribution toward Mr. Linde's automobile expenses. The Company anticipates that this amount will remain approximately the same in 1997.
- (4) One third of these options are exercisable on each of the third, fourth and fifth anniversary of the Initial Offering.
- (5) 1996 amounts include the Company's matching contribution under its 401(k) plan (\$4,000 per individual) and the Company's cost of term life insurance (approximately \$150 per individual). The Company anticipates that 1997 amounts will be approximately the same.

OPTION GRANTS IN FISCAL YEAR 1997

| NAME | INDIVIDUAL GRANTS | | | | POTENTIAL REALIZABLE | |
|-------------------------|------------------------|--|--------------------------------|-----------------|---|------------|
| | OPTIONS GRANTED (#)(1) | PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR | EXERCISE OR BASE PRICE (\$/SH) | EXPIRATION DATE | VALUE AT ASSUMED ANNUAL RATES OF SHARE PRICE APPRECIATION FOR OPTION TERM | |
| | | | | | 5%(\$) | 10%(\$) |
| Edward H. Linde..... | 320,000 | 16.4% | 25.00 | (2) | 5,030,400 | 12,748,800 |
| Raymond A. Ritchey..... | 200,000 | 10.3 | 25.00 | (2) | 3,144,000 | 7,968,000 |
| Robert E. Burke..... | 160,000 | 8.2 | 25.00 | (2) | 2,515,200 | 6,374,000 |
| David R. Barrett..... | 120,000 | 6.2 | 25.00 | (2) | 1,886,400 | 4,780,800 |
| Robert E. Selsam..... | 80,000 | 4.1 | 25.00 | (2) | 1,257,600 | 3,187,200 |

(1) One third of these options are exercisable on each of the third, fourth and fifth anniversary of the Initial Offering.

(2)The expiration date of the options is June 23, 2007.

Mr. Zuckerman, Chairman of the Board, also received a grant of 320,000 options on the same terms and with the same realizable values as Mr. Linde.

EMPLOYMENT AND NONCOMPETITION AGREEMENTS

Mr. Linde, as President and Chief Executive Officer, has an employment and noncompetition agreement with the Company (the "Employment Agreement"). Pursuant to the Employment Agreement, until the third anniversary of the Initial Offering, Mr. Linde will devote substantially all of his business time to the business and affairs of the Company. Mr. Linde receives an annual base salary of \$150,000 and is eligible for bonus compensation, including stock options, to be determined in the discretion of the Board of Directors. Mr. Linde's employment with the Company may be terminated for "cause" by the Company for: (i) gross negligence or willful misconduct; (ii) an uncured breach of any of his material duties under the Employment Agreement; (iii) fraud or other conduct against the material best interests of the Company; or (iv) a conviction of a felony if such conviction has a material adverse effect on the Company. Mr. Linde may terminate his employment for "good reason," which includes: (i) a substantial adverse change in the nature or scope of his responsibilities and authority under the Employment Agreement or (ii) an uncured breach by the Company of any of its material obligations under the Employment Agreement. If Mr. Linde's employment is terminated by the Company "without cause" or by Mr. Linde for "good reason," then Mr. Linde will be entitled to a severance amount equal to the product of (x) his base salary plus prior year's bonus multiplied by (y) the number of full and fractional years that the noncompetition agreement described below is in effect (but in any event at least one year's base salary plus prior year's bonus).

The Employment Agreement prohibits Mr. Linde while he is a director or an officer of the Company and for one year thereafter, but in any event until the third anniversary of the Initial Offering, from (i) engaging, directly or indirectly, in the acquisition, development, construction, operation, management, or leasing of any commercial real estate property, (ii) intentionally interfering with the Company's relationships with its tenants, suppliers, contractors, lenders or employees or with any governmental agency, or (iii) soliciting the Company's tenants or employees. Pursuant to the Employment Agreement, however, Mr. Linde may engage in minority interest passive investments which include the acquisition, holding, and exercise of voting rights associated with investments made through (i) the purchase of securities that represent a non-controlling, minority interest in an entity or (ii) the lending of money, but without management of the property or business to which such investment directly or indirectly relates and without any business or strategic consultation with such entity. In addition, Mr. Linde may participate as an officer or director of any charitable organization, and he may continue to own and operate the one Personal Property. The period that this noncompetition agreement is in effect may be terminated prematurely by the Company which will reduce the severance amount payable to Mr. Linde. In addition, the agreement provides that the noncompetition provision shall not apply if Mr. Linde's employment is terminated following certain changes of control of the Company; in such event, the severance amount payable to Mr. Linde

will be determined by reference to the period of time that the noncompetition provision would have been in effect in the absence of such a change of control. See "Policies with Respect to Certain Activities--Conflict of Interest Policies--Excluded Property."

Messrs. Barrett, Burke, Ritchey, Rosenfeld and Selsam have employment agreements with the Company similar to that of Mr. Linde, except that the geographic scope of their noncompetition provisions is limited to the Company's markets at the time of termination of their employment. In addition, Mr. Zuckerman is a party to an agreement with the Company that contains noncompetition provisions of the same scope and duration as the noncompetition provisions of Mr. Linde's Employment Agreement. The Company will continue to be subject during the term of Mr. Selsam's employment to an agreement dated August 10, 1995 pursuant to which (i) he was paid \$35,000 on August 1, 1997 and (ii) he is paid 5% of the management fees earned on 90 Church Street, a property managed by the Company.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Company has established a Compensation Committee consisting of Messrs. Seidenberg, Patricof and Turchin, none of whom was or is an officer or employee of the Company. As the compensation of the Company's senior officers for 1997 was established at the time of the Initial Offering, the Compensation Committee did not meet during 1997. None of such persons had any relationships requiring disclosure under applicable rules and regulations.

STOCK OPTION PLAN

The Company has adopted the Boston Properties, Inc. 1997 Stock Option and Incentive Plan (the "Plan") to provide incentives to attract and retain executive officers, directors, employees and other key personnel. The Plan is administered by the Compensation Committee. The maximum number of shares available for issuance under the Plan is 9.5% of the total number of shares of Common Stock and OP Units (other than OP Units owned by the Company) outstanding from time to time. After the completion of the Offering, there will be 6,331,880 shares reserved for issuance under the Plan.

The following summary of the Plan is qualified in its entirety by reference to the full text of the Plan, a copy of which has been filed with the Securities and Exchange Commission as an exhibit to the Registration Statement of which this Prospectus is a part.

The Plan permits the granting of (i) options to purchase Common Stock intended to qualify as incentive stock options ("Incentive Options") under Section 422 of the Code and (ii) options that do not so qualify ("Non-Qualified Options"). The option exercise price of each option will be determined by the Committee but may not be less than 100% of the fair market value of the Common Stock on the date of grant in the case of incentive stock options, and may not be less than 25% of the fair market value of the Common Stock on the date of grant in the case of Non-Qualified Options. Plan participants may elect, with the consent of the Committee, to receive discounted Non-Qualified Options in lieu of cash compensation.

The term of each option will be fixed by the Committee and may not exceed ten years from date of grant in the case of an Incentive Option. The Committee will determine at what time or times each option may be exercised and, subject to the provisions of the Plan, the period of time, if any, after retirement, death, disability or termination of employment during which options may be exercised. Options may be made exercisable in installments, and the exercisability of options may be accelerated by the Committee.

At the discretion of the Committee, stock options granted under the Plan may include a "re-load" feature pursuant to which an optionee exercising an option by the delivery of shares of Common Stock would automatically be granted an additional stock option (with an exercise price equal to the fair market value of the Common Stock on the date the additional stock option is granted) to purchase that number of shares of Common Stock equal to the number delivered to exercise the original stock option. The purpose of this feature is to enable participants to maintain an equity interest in the Company without dilution.

To qualify as Incentive Options, options must meet additional Federal tax requirements, including limits on the value of shares subject to Incentive Options which first become exercisable in any one calendar year, and a shorter term and higher minimum exercise price in the case of certain large stockholders.

The Plan provides for the automatic grant of Non-Qualified Options to non-employee directors. Each non-employee director received, upon initial election to the Board of Directors, a Non-Qualified Option to acquire 10,000 shares of Common Stock. Each non-employee director who is serving as a director of the Company on the fifth business day after each annual meeting of shareholders, beginning with the 1998 annual meeting, will automatically be granted on such day a Non-Qualified Option to acquire 5,000 shares of Common Stock. The exercise price of each such Non-Qualified Option is the fair market value of the Common Stock on the date of grant. One-half of each Non-Qualified Option shall be exercisable on each of the first and second anniversary date of grant. The Committee may also grant additional Non-Qualified Options to non-employee directors.

The Committee may also award, subject to such conditions and restrictions as the Committee may determine, shares of Common Stock; deferred stock units which are ultimately payable in the form of shares of Common Stock; performance share awards to participants entitling the participants to receive shares of Common Stock upon the achievement of individual or Company performance goals; dividend equivalent rights, which entitle the recipient to receive credits for dividends that would be paid if the recipient had held specified shares of Common Stock; awards of capital stock other than Common Stock and other awards that are valued in whole or in part by reference to or are otherwise based on, Common Stock.

The Committee may provide in each award agreement that the award becomes fully vested and non-forfeitable if, after a Change of Control of the Company (as defined in the Plan), the participant's employment is terminated by the Company (or its successor) without cause, or if the participant voluntarily resigns for "good reason" (as defined in the Plan).

NEW PLAN BENEFITS

Approximately 175 employees and four non-employee directors are currently eligible to participate in the Plan. The table below shows the options that have been granted to current employees and non-employee directors as of December 1, 1997.

1997 STOCK OPTION AND INCENTIVE PLAN

| NAME AND POSITION ----- | NUMBER OF SHARES UNDERLYING STOCK OPTION(1) ----- |
|--|---|
| Mortimer B. Zuckerman..... Chairman | 320,000 |
| Edward H. Linde..... President and Chief Executive Officer | 320,000 |
| Executive Group (6 persons)..... | 930,000 |
| Non-Employee Director Group (4 persons)..... | 350,000 |
| Non-Executive Officer Employee Group (approximately 157 persons)..... | 1,017,600 |

(1) All options were granted to the employees and the non-employee directors at the Initial Offering price of \$25.00. In general, one-third of the options granted to officers and Mr. Zuckerman will be exercisable on each of the third, fourth and fifth anniversary of the date of grant, respectively. One-third of the options granted to employees who are not officers will be exercisable on each of the first, second and third anniversary of the date of grant, respectively. Other than the options granted to Mr. Zuckerman as described above, one-half of the options granted to non-employee directors will be exercisable on each of the first and second anniversary date of grant, respectively.

TAX ASPECTS UNDER THE U.S. INTERNAL REVENUE CODE

The following is a summary of the principal Federal income tax consequences of option grants under the Plan. It does not describe all Federal tax consequences under the Plan, nor does it describe state or local tax consequences.

INCENTIVE OPTIONS

Under the Code, an employee will not realize taxable income by reason of the grant or the exercise of an Incentive Option. If an employee exercises an Incentive Option and does not dispose of the shares until the later of (a) two years from the date the option was granted or (b) one year from the date the shares were transferred to the employee, the entire gain, if any, realized upon disposition of such shares will be taxable to the employee as long-term capital gain, and the Company will not be entitled to any deduction. If an employee disposes of the shares within such one-year or two-year period in a manner so as to violate the holding period requirements (a "disqualifying disposition"), the employee generally will realize ordinary income in the year of disposition, and, provided the Company complies with applicable withholding requirements, the Company will receive a corresponding deduction, in an amount equal to the excess of (1) the lesser of (x) the amount, if any, realized on the disposition and (y) the fair market value of the shares on the date the option was exercised over (2) the option price. Any additional gain realized on the disposition of the shares acquired upon exercise of the option will be long-term or short-term capital gain and any loss will be long-term or short-term capital loss depending upon the holding period for such shares. The employee will be considered to have disposed of his shares if he sells, exchanges, makes a gift of or transfers legal title to the shares (except by pledge or by transfer on death). If the disposition of shares is by gift and violates the holding period requirements, the amount of the employee's ordinary income (and the Company's deduction) is equal to the fair market value of the shares on the date of exercise less the option price. If the disposition is by sale or exchange, the employee's tax basis will equal the amount paid for the shares plus any ordinary income realized as a result of the disqualifying distribution. The exercise of an Incentive Option may subject the employee to the alternative minimum tax.

Special rules apply if an employee surrenders shares of Common Stock in payment of the exercise price of his Incentive Option.

An Incentive Option that is exercised by an employee more than three months after an employee's employment terminates will be treated as a Non-Qualified Option for Federal income tax purposes. In the case of an employee who is disabled, the three-month period is extended to one year and in the case of an employee who dies, the three-month employment rule does not apply.

NON-QUALIFIED OPTIONS

There are no Federal income tax consequences to either the optionee or the Company on the grant of a Non-Qualified Option. On the exercise of a Non-Qualified Option, the optionee has taxable ordinary income equal to the excess of the fair market value of the Common Stock received on the exercise date over the option price of the shares. The optionee's tax basis for the shares acquired upon exercise of a Non-Qualified Option is increased by the amount of such taxable income. The Company will be entitled to a Federal income tax deduction in an amount equal to such excess. Upon the sale of the shares acquired by exercise of a Non-Qualified Option, the optionee will realize long-term or short-term capital gain or loss depending upon his or her holding period for such shares.

Special rules apply if an optionee surrenders shares of Common Stock in payment of the exercise price of a Non-Qualified Option.

LIMITATION OF LIABILITY AND INDEMNIFICATION

The Company's directors and officers are and will be indemnified against certain liabilities under Delaware law, the Certificate of Incorporation and Bylaws of the Company and the Operating Partnership Agreement. The Certificate of Incorporation of the Company requires the Company to indemnify its directors and officers to the fullest extent permitted from time to time under Delaware law.

The Bylaws provide that directors and officers of the Company shall be, and, in the discretion of the Board of Directors, non-officer employees may be, indemnified by the Company to the fullest extent authorized by Delaware law, as it now exists or may in the future be amended, against all expenses and liabilities reasonably incurred in connection with service for or on behalf of the Company. The Bylaws also provide that the right of directors and officers to indemnification shall be a contract right and shall not be exclusive of any other right now possessed or hereafter acquired under any bylaw, agreement, vote of stockholders or otherwise. The Certificate contains a provision permitted by Delaware law that generally eliminates the personal liability of directors for monetary damages for breaches of their fiduciary duty, including breaches involving negligence or gross negligence in business combinations, unless the director has breached his or her duty of loyalty, failed to act in good faith, engaged in intentional misconduct or a knowing violation of law, paid a dividend or approved a stock repurchase in violation of the Delaware General Corporation Law ("DGCL") or obtained an improper personal benefit. The provision does not alter a director's liability under the federal securities laws. In addition, this provision does not affect the availability of equitable remedies, such as an injunction or rescission, for breach of fiduciary duty. The Company believes that this provision will assist the Company in attracting and retaining qualified individuals to serve as officers and directors.

The Operating Partnership Agreement also provides for indemnification of the Company and its directors and officers to the same extent indemnification is provided to directors and officers of the Company in the Company's Certificate and limits the liability of the Company and its directors and officers to the Operating Partnership and its partners, to the same extent that the liability of directors and officers of the Company to the Company and its stockholders is limited under their organizational documents.

INDEMNIFICATION AGREEMENTS

The Company has entered into indemnification agreements with each of its directors and executive officers. The indemnification agreements require, among other things, that the Company indemnify its directors and executive officers to the fullest extent permitted by law and advance to the directors and executive officers all related expenses, subject to reimbursement if it is subsequently determined that indemnification is not permitted. Under these agreements, the Company must also indemnify and advance all expenses incurred by directors and executive officers seeking to enforce their rights under the indemnification agreements and may cover directors and executive officers under the Company's directors' and officers' liability insurance. Although the form of indemnification agreement offers substantially the same scope of coverage afforded by law, as a traditional form of contract it may provide greater assurance to directors and executive officers that indemnification will be available.

CERTAIN TRANSACTIONS

Prior to the Initial Offering, Messrs. Zuckerman and Linde made loans totaling \$40.5 million to entities that owned certain development properties and parcels of land that the Company succeeded to the ownership of at the completion of the Offering. Such loans bore interest at an annual rate of 9.25%, which interest was capitalized over the period that such loans have been outstanding. At the completion of the Initial Offering, the balance of such loans was approximately \$42.8 million, which balance was repaid at the completion of the Initial Offering with amounts drawn under the Unsecured Line of Credit.

POLICIES WITH RESPECT TO CERTAIN ACTIVITIES

The following is a discussion of certain investment, financing and other policies of the Company. These policies have been determined by the Company's Board of Directors and, in general, may be amended or revised from time to time by the Board of Directors without a vote of the stockholders.

INVESTMENT POLICIES

INVESTMENT IN REAL ESTATE OR INTERESTS IN REAL ESTATE

The Company conducts all of its investment activities through the Operating Partnership and its affiliates. The Company's investment objectives are to provide quarterly cash distributions and achieve long-term capital appreciation through increases in the value of the Company. The Company has not established a specific policy regarding the relative priority of these investment objectives. For a discussion of the Properties and the Company's acquisition and other strategic objectives, see "Business and Properties" and "Business and Growth Strategies."

The Company expects to continue to pursue its investment objectives primarily through the ownership by the Operating Partnership of the Properties and other acquired properties. The Company currently intends to continue to invest primarily in developments of commercial properties and acquisitions of existing improved properties or properties in need of redevelopment, and acquisitions of land which the Company believes has development potential. Future investment or development activities will not be limited to any geographic area or product type or to a specified percentage of the Company's assets. While the Company intends to continue to diversify in terms of property locations, size and market, the Company does not have any limit on the amount or percentage of its assets that may be invested in any one property or any one geographic area. The Company intends to engage in such future investment or development activities in a manner that is consistent with the maintenance of its status as a REIT for federal income tax purposes. In addition, the Company may purchase or lease income-producing commercial and other types of properties for long-term investment, expand and improve the real estate presently owned or other properties purchased, or sell such real estate properties, in whole or in part, when circumstances warrant. The Company does not have a policy that restricts the amount or percentage of assets that will be invested in any specific property.

The Company may also continue to participate with third parties in property ownership, through joint ventures or other types of co-ownership. Such investments may permit the Company to own interests in larger assets without unduly restricting diversification and, therefore, add flexibility in structuring its portfolio. The Company will not, however, enter into a joint venture or partnership to make an investment that would not otherwise meet its investment policies.

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

INVESTMENTS IN REAL ESTATE MORTGAGES

While the Company's current portfolio consists of, and the Company's business objectives emphasize, equity investments in commercial real estate, the Company may, at the discretion of the Board of Directors, invest in mortgages and other types of real estate interests consistent with the Company's qualification as a REIT. The Company does not presently intend to invest in mortgages or deeds of trust, but may invest in participating or convertible mortgages if the Company concludes that it may benefit from the cash flow or any appreciation in value of the property. Investments in real estate mortgages run the risk that one or more borrowers may default under such mortgages and that the collateral securing such mortgages may not be sufficient to enable the Company to recoup its full investment.

SECURITIES OR INTERESTS IN PERSONS PRIMARILY ENGAGED IN REAL ESTATE ACTIVITIES
AND OTHER ISSUERS

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

DISPOSITIONS

The Company does not currently intend to dispose of any of the Properties, although it reserves the right to do so if, based upon management's periodic review of the Company's portfolio, the Board of Directors determines that such action would be in the best interests of the Company. Any decision to dispose of a Property will be made by the Company and approved by a majority of the Board of Directors. The tax consequences of the disposition of the Properties may, however, influence the decision of certain directors and executive officers of the Company who hold OP Units as to the desirability of a proposed disposition. See "Policies with Respect to Certain Activities--Conflict of Interest Policies" and "Operating Partnership Agreement--Tax Protection Provisions."

FINANCING POLICIES

The Company does not have a policy limiting the amount of indebtedness that the Company may incur. In addition, the Certificate and Bylaws do not limit the amount or percentage of indebtedness that the Company may incur. The Company has not established any limit on the number or amount of mortgages that may be placed on any single property or on its portfolio as a whole.

The Board of Directors will consider a number of factors when evaluating the Company's level of indebtedness and when making decisions regarding the incurrence of indebtedness, including the purchase price of properties to be acquired with debt financing, the estimated market value of its properties upon refinancing and the ability of particular properties and the Company as a whole to generate cash flow to cover expected debt service. See "Risk Factors--Impact of Debt on the Company" and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

CONFLICT OF INTEREST POLICIES

Certain holders of OP Units, including Messrs. Zuckerman and Linde, will incur adverse tax consequences upon the sale of certain of the Properties owned by the Company and on the repayment of indebtedness which are different from the tax consequences to the Company and persons who purchase shares of Common Stock in the Offering. Consequently, such holders may have different objectives regarding the appropriate pricing and timing of any such sale or repayment of indebtedness. While the Company will have the exclusive authority under the Operating Partnership Agreement to determine whether, when, and on what terms to sell a Property (other than a Designated Property) or when to refinance or repay indebtedness, any such decision would require the approval of the Board of Directors. As Directors of the Company, Messrs. Zuckerman and Linde have substantial influence with respect to any such decision, and such influence could be exercised in a manner inconsistent with the interests of some, or a majority, of the Company's stockholders, including in a manner which could prevent completion of a Property sale or the repayment of indebtedness.

In this connection, the Operating Partnership Agreement provides that, until June 23, 2007, the Operating Partnership may not sell or otherwise transfer a Designated Property (defined as One and Two Independence Square, 599 Lexington Avenue and Capital Gallery, or a successor property acquired in a like-kind exchange for such a property) in a taxable transaction without the prior consent of Messrs. Zuckerman and Linde. Similarly, the Company has agreed with the party that contributed 875 Third Avenue to the Operating Partnership that the Company will not sell or otherwise transfer that Property or a successor property in a taxable transaction until November 21, 2007 without the consent of that party. The Operating Partnership is not, however, required to obtain this consent from Messrs. Zuckerman or Linde or the parties to the 875 Third Avenue transaction who are protected thereby if at any time during the applicable period the protected party does not continue to hold at least a specified percentage of such party's original OP Units. In addition, the Company has agreed with the parties that will contribute the Lockheed Martin Building, the National Imaging and Mapping Agency Building and the Reston Town Center Office Complex that the Company will not sell or otherwise transfer such Properties (except to an existing tenant pursuant to an existing purchase option) for a period of ten years from the date the

Company completes its acquisition of these Properties. For the pro forma nine months ended September 30, 1997, the Properties described above in this paragraph comprised approximately 32.8% of the Company's pro forma Funds from Operations.

In addition to the foregoing, the Operating Partnership agreed to undertake to use its reasonable commercial efforts to cause its lenders to permit Messrs. Zuckerman and Linde to guarantee additional and/or substitute Operating Partnership indebtedness following the Initial Offering if Messrs. Zuckerman or Linde would recognize gain following the Offering as a result of the refinancing of the Operating Partnership's indebtedness. The Operating Partnership is under no obligation, however, to maintain any specified debt or any specified level of indebtedness. See "Operating Partnership Agreement--Tax Protection Provisions" for a more complete description of these provisions.

The Company has adopted certain policies that are designed to eliminate or minimize certain potential conflicts of interest. In addition, the Company's Board of Directors is subject to certain provisions of Delaware law, which are also designed to eliminate or minimize conflicts. However, there can be no assurance that these policies or provisions of law will always be successful in eliminating the influence of such conflicts, and if they are not successful, decisions could be made that might fail to reflect fully the interests of all stockholders.

The Company has adopted a policy that, without the approval of a majority of the disinterested directors, it will not (i) acquire from or sell to any director, officer or employee of the Company, or any entity in which a director, officer or employee of the Company has an economic interest of more than five percent or a controlling interest, or acquire from or sell to any affiliate of any of the foregoing, any of the assets or other property of the Company, (ii) make any loan to or borrow from any of the foregoing persons or (iii) engage in any other transaction with any of the foregoing persons.

Pursuant to Delaware law, a contract or other transaction between the Company and a Director or between the Company and any other corporation or other entity in which a Director is a director or has a material financial interest is not void or voidable solely on the grounds of such common directorship or interest, the presence of such Director at the meeting at which the contract or transaction is authorized, approved or ratified or the counting of the Director's vote in favor thereof if (i) the material facts relating to the common directorship or interest and as to the transaction are disclosed to the Board of Directors or a committee of the Board, and the Board or committee in good faith authorizes the transaction or contract by the affirmative vote of a majority of disinterested directors, even if the disinterested directors constitute less than a quorum, or (ii) the material facts relating to the common directorship or interest and as to the transaction are disclosed to the shareholders entitled to vote thereon, and the transaction is approved in good faith by vote of the shareholders, or (iii) the transaction or contract is fair and reasonable to the Company at the time it is authorized, ratified or approved.

See "Risk Factors--Conflicts of Interests."

PERSONAL PROPERTY

Upon the completion of the Initial Offering the Operating Partnership succeeded to all but one of the properties managed by the Company or in which the Company or affiliates of the Company, including Messrs. Zuckerman and Linde, held ownership interests. One property (the "Personal Property") was not contributed to the Company in the Initial Offering. The Personal Property was Sumner Square, a four building office complex located in Washington, D.C., NW (203,765 net rentable square feet).

Since the Personal Property is located in the same market as certain of the the Company's Properties, it may compete with such Properties. The Personal Property is managed by the Company in return for a management fee with customary terms that are approved by the Company's independent directors. In 1996, the management fee paid with respect to the Personal Property was approximately \$314,000. There is no assurance, however, that the Personal Property will continue to be managed by the Operating Partnership or the

Development and Management Company or that fiduciary obligations will not require Messrs. Zuckerman and Linde, from time to time, to devote a significant amount of their time to the Personal Property. See "Risk Factors--Conflicts of Interest."

The partnership that owns the Personal Property and in which Messrs. Zuckerman and Linde and other affiliates of the Company hold indirect ownership interests (the "Partnership") has granted the Company an option to acquire the Personal Property for a cash price equal to the sum of (i) \$1.00 over the outstanding indebtedness of the Partnership (to the extent not assumed by the Company), (ii) the net cash capital contributions made by the partners of the Partnership after June 23, 1997, with interest thereon, (iii) any expenses associated with the sale (not to exceed \$50,000), and (iv) real estate taxes incurred in connection with the transfer of the Personal Property.

POLICIES WITH RESPECT TO OTHER ACTIVITIES

The Company has authority to offer Common Stock, Preferred Stock or options to purchase stock in exchange for property and to repurchase or otherwise acquire its Common Stock or other securities in the open market or otherwise, and the Company may engage in such activities in the future. As described under "Operating Partnership Agreement--Redemption of OP Units," the Company expects (but is not obligated) to issue Common Stock to holders of OP Units in the Operating Partnership upon exercise of their redemption rights. The Company has in the past issued Common Stock and OP Units in exchange for properties. The Board of Directors has no present intention of causing the Company to repurchase any Common Stock. The Company may issue Preferred Stock from time to time, in one or more series, as authorized by the Board of Directors without the need for stockholder approval. See "Description of Capital Stock--Preferred Stock." The Company has not engaged in trading, underwriting or agency distribution or sale of securities of other issuers other than the Operating Partnership and does not intend to do so. At all times, the Company intends to make investments in such a manner as to qualify as a REIT, unless because of circumstances or changes in the Code (or the Treasury Regulations), the Board of Directors determines that it is no longer in the best interest of the Company to qualify as a REIT. The Company has not made any loans to third parties, although it may in the future make loans to third parties, including, without limitation, to joint ventures in which it participates. The Company intends to make investments in such a way that it will not be treated as an investment company under the 1940 Act. The Company's policies with respect to such activities may be reviewed and modified or amended from time to time by the Company's Board of Directors without a vote of the stockholders.

STRUCTURE AND FORMATION OF THE COMPANY

FORMATION TRANSACTIONS

Prior to the completion of the Initial Offering, each Property that was owned by the Company at the completion of the Initial Offering was owned by a partnership (a "Property Partnership") of which Messrs. Zuckerman and Linde and others affiliated with Boston Properties, Inc. controlled the managing general partner and, in most cases, a majority economic interest. The other direct or indirect investors in the Property Partnerships included persons formerly affiliated with Boston Properties, Inc., as well as private investors (including former owners of the land on which the Properties were developed) who were not affiliated with Boston Properties, Inc.

Prior to or simultaneously with the completion of the Initial Offering, the Company engaged in the transactions described below (the "Formation Transactions"), which were designed to consolidate the ownership of the Properties and the commercial real estate business of the Company in the Operating Partnership, to facilitate the Initial Offering and to enable the Company to qualify as a REIT for federal income tax purposes commencing with the taxable year ending December 31, 1997.

- Boston Properties, Inc., a Massachusetts company ("BP-Massachusetts") that was founded in 1970, was reorganized to change its jurisdiction of organization to Delaware. This reorganization was effected by merging BP-Massachusetts with and into Boston Properties, Inc., a Delaware corporation ("BP-Delaware"), immediately prior to the completion of the Initial Offering.

- . The Company sold 36,110,000 shares of Common Stock in the Initial Offering and contributed approximately \$846.4 million, the net proceeds of the Initial Offering, to the Operating Partnership in exchange for an equivalent number of OP Units.
- . Pursuant to one or more option, contribution or merger agreements, (i) certain Property Partnerships contributed Properties to the Operating Partnership, or merged into and with the Operating Partnership, in exchange for OP Units and the assumption of debt, and the partners of such Property Partnerships received such OP Units either directly as merger consideration or as a distribution from the Property Partnership, and (ii) certain persons, both affiliated and not affiliated with the Company, contributed their direct and indirect interests in certain Property Partnerships to the Operating Partnership in exchange for OP Units.
- . Prior to the completion of the Initial Offering, the Company contributed substantially all of its Greater Washington, D.C. third-party property management business to Boston Properties Management, Inc. (the "Development and Management Company"), a subsidiary of the Operating Partnership. In order to retain qualification as a REIT, the Operating Partnership owns a 1.0% voting interest, and holds a 95.0% economic interest, in the Development and Management Company. The remaining voting and economic interest is held by officers and directors of the Development and Management Company. In addition, the other management and development operations of the Company were contributed to the Operating Partnership.
- . In connection with the transactions described in the preceding two paragraphs, the Operating Partnership issued a total of 18,650,000 OP Units.
- . With respect to direct or indirect contributions of interests to the Property Partnerships, the Operating Partnership assumed all the rights, obligations and responsibilities of the holders of such interests. Any working capital or other cash balance of the Property Partnership as of immediately prior to the Initial Offering was distributed to the holders of such interests prior to the contribution to the Operating Partnership. The contribution agreements with respect to such interests generally contained representations only with respect to the ownership of such interests by the holders thereof and certain other limited matters.
- . The Operating Partnership entered into a participating lease with ZL Hotel LLC. Marriott International, Inc. continues to manage the Hotel Properties under the Marriott(R) name pursuant to management agreements with ZL Hotel LLC. Messrs. Zuckerman and Linde are the sole member-managers of the lessee and own a 9.8% economic interest in ZL Hotel LLC. ZL Hotel Corp. owns the remaining 90.2% economic interest in ZL Hotel LLC. Two unaffiliated public charities own all of the capital stock of ZL Hotel Corp.
- . Approximately \$707.1 million of the net proceeds of the Initial Offering, together with \$57.7 million drawn under the Unsecured Line of Credit, was used by the Operating Partnership to acquire the Newport Office Park Property, repay certain mortgage indebtedness secured by the Properties and to refinance existing indebtedness with respect to the certain development properties and certain parcels of land, the interest on which will continue to be capitalized during the development period.

As a result of the Formation Transactions, (i) the Company owned 38,693,541 OP Units, which represented an approximately 70.7% economic interest in the Operating Partnership, and Messrs. Zuckerman and Linde and other persons with a direct or indirect interest in the Property Partnerships owned 16,066,459 OP Units, which represented the remaining approximately 29.3% economic interest in the Operating Partnership and (ii) the Company indirectly owned a fee interest in all of the Properties. At the completion of the Formation Transactions, Messrs. Zuckerman and Linde owned an aggregate of 15,972,611 shares of Common Stock and OP Units.

No independent third-party appraisals, valuations or fairness opinions were obtained by the Company in connection with the Formation Transactions. In forming the Company, the Company succeeded to the ownership of each of the Properties or the interests therein based upon a value for such property determined by the Company. The valuation of the Company as a whole was determined based primarily upon a multiple of estimated funds from operations and adjusted funds from operations attributable to all assets of the Company, including the Company's interests in the Development and Management Company.

STRUCTURE OF THE COMPANY

As a result of the Formation Transactions, the subsequent issuance of 891,369 shares of Common Stock and OP Units in connection with the acquisition of Properties, and the issuance of shares of Common Stock in this Offering, the structure and ownership of the Company is as illustrated in the chart set forth below:

[Chart depicting Boston Properties, Inc. and its principal subsidiaries]

BENEFITS TO RELATED PARTIES

Certain affiliates of the Company realized certain material benefits in connection with the Formation Transactions, including the following:

- . In respect of their respective ownership interests in the Property Partnerships and the development and management business of the Company, Messrs. Zuckerman and Linde became beneficial owners of a total of 15,972,611 shares of Common Stock and OP Units, with a total value of approximately \$399.3 million based on the Initial Offering price of the Common Stock. Other persons who were officers of the Company at the completion of the Initial Offering received 1,186,298 OP Units, with a total value of approximately \$29.7 million based on the Initial Offering price, for their interests in the Property Partnerships. In addition, guarantees by Messrs. Zuckerman and Linde with respect to principal repayment of approximately \$92 million of indebtedness were released because such indebtedness was repaid at the completion of the Initial Offering. The book value of the interests and assets transferred to the Company by Messrs. Zuckerman and Linde and other officers of the Company was approximately negative \$506.3 million.
- . Approximately \$749.9 million of indebtedness, of which \$707.1 million was secured by the Properties, and \$42.8 million was due to Messrs. Zuckerman and Linde for amounts loaned in connection with certain development properties and certain parcels of land, and the related additional and accrued interest thereon, assumed by the Operating Partnership was repaid in the Formation Transactions. A portion of this debt was previously guaranteed by Messrs. Zuckerman and Linde. Messrs. Zuckerman and Linde continued to guarantee certain indebtedness of the Company. See "Operating Partnership Agreement--Tax Protection Provisions."
- . Messrs. Zuckerman and Linde and others who received OP Units in connection with the Formation Transactions were granted registration rights with respect to shares of Common Stock that were issued in exchange for OP Units.
- . In connection with certain development projects or rights, Messrs. Zuckerman and Linde had direct or indirect personal liability, in certain instances, for the performance of contractual obligations by or for the benefit of the Operating Partnership. In connection with the Formation Transactions, they were relieved of such personal liability or, to the extent they were not so relieved, the Operating Partnership agreed to cause such contractual obligations to be performed and to indemnify Messrs. Zuckerman and Linde and their affiliates for all damages and expenses that may arise from any failure to do so.
- . Messrs. Zuckerman and Linde owned approximately 7.1% of the outstanding Common Stock following the Initial Offering, served as directors and as officers with the titles Chairman of the Board and President and Chief Executive Officer, respectively, and the Company entered into an employment agreement with Mr. Linde.
- . A "grandfather" provision in the Company's Shareholder Rights Agreement which assures that Messrs. Zuckerman and Linde and their affiliates would not, alone, be deemed to be a "group" that would trigger the exercisability of rights issued thereunder and that would enable them to continue to own, whether through ownership of Common Stock or OP Units, a percentage economic interest in the Company equal to their interest as of immediately after the completion of the Initial Offering.

OPERATING PARTNERSHIP AGREEMENT

The following summary of the Operating Partnership Agreement describes the material provisions of such agreement. This summary is qualified in its entirety by reference to the Operating Partnership Agreement, which is filed as an exhibit to the Registration Statement of which this Prospectus is a part.

MANAGEMENT

The Operating Partnership was organized as a Delaware limited partnership on April 8, 1997. The Company is the sole general partner of, and will hold after the Offering approximately 74.1% of the economic interests in, the Operating Partnership. The Company holds a one percent general partner interest in the Operating Partnership and the balance is held as a limited partner interest. The Company conducts substantially all of its business through the Operating Partnership and its subsidiaries.

Pursuant to the Operating Partnership Agreement, the Company, as the sole general partner of the Operating Partnership, generally has full, exclusive and complete responsibility and discretion in the management, operation and control of the Operating Partnership, including the ability to cause the Operating Partnership to enter into certain major transactions, including acquisitions, developments and dispositions of properties and refinancings of existing indebtedness. No limited partner may take part in the operation, management or control of the business of the Operating Partnership by virtue of being a holder of OP Units. Certain restrictions apply to the Company's ability to engage in a Business Combination, as described more fully under "Extraordinary Transactions" below.

The limited partners of the Operating Partnership have agreed that in the event of any conflict in the fiduciary duties owed by the Company to its stockholders and by the Company, as general partner of the Operating Partnership, to such limited partners, the Company may act in the best interests of the Company's stockholders without violating its fiduciary duties to such limited partners or being liable for any resulting breach of its duties to the limited partners.

The Operating Partnership Agreement provides that all business activities of the Company, including all activities pertaining to the acquisition and operation of properties, must be conducted through the Operating Partnership, and that the Operating Partnership must be operated in a manner that will enable the Company to satisfy the requirements for being classified as a REIT.

REMOVAL OF THE GENERAL PARTNER; TRANSFER OF THE GENERAL PARTNER'S INTEREST

The Operating Partnership provides that the limited partners may not remove the Company as general partner of the Operating Partnership. The Company may not transfer any of its interests as general or limited partner in the Operating Partnership except (i) in connection with a merger or sale of all or substantially all of its assets pursuant to a transaction for which it has obtained the requisite approval in accordance with the terms of the Operating Partnership Agreement (ii) if the limited partners holding at least three-fourths of the OP Units (excluding OP Units owned by the Company) consent to such transfer or (iii) to certain affiliates of the Company.

AMENDMENTS OF THE OPERATING PARTNERSHIP AGREEMENT

Amendments to the Operating Partnership Agreement may be proposed by the Company or by limited partners owning at least 20% of the OP Units.

Generally, the Operating Partnership Agreement may be amended with the approval of the Company, as general partner, and limited partners (including the Company) holding a majority of the OP Units. Certain amendments that would, among other things, convert a limited partner's interest into a general partner's interest, modify the limited liability of a limited partner, alter the interest of a partner in profits or losses or the right to receive any distributions, alter or modify the redemption right described above, or cause the termination of the

Operating Partnership at a time or on terms inconsistent with those set forth in the Operating Partnership Agreement must be approved by the Company and each limited partner that would be adversely affected by such amendment. Notwithstanding the foregoing, the Company, as general partner, has the power, without the consent of the limited partners, to amend the Operating Partnership Agreement as may be required to (1) add to the obligations of the Company as general partner or surrender any right or power granted to the Company as general partner; (2) reflect the admission, substitution, termination or withdrawal of partners in accordance with the terms of the Operating Partnership Agreement; (3) establish the rights, powers, duties and preferences of any additional partnership interests issued in accordance with the terms of the Operating Partnership Agreement; (4) reflect a change of an inconsequential nature that does not materially adversely affect the limited partners, or cure any ambiguity, correct or supplement any provisions of the Operating Partnership Agreement not inconsistent with law or with other provisions of the Operating Partnership Agreement, or make other changes concerning matters under the Operating Partnership Agreement that are not otherwise inconsistent with the Operating Partnership Agreement or law; or (5) satisfy any requirements of federal or state law. Certain provisions affecting the rights and duties of the Company as general partner (e.g., restrictions on the Company's power to conduct businesses other than owning OP Units; restrictions relating to the issuance of securities of the Company and related capital contributions to the Operating Partnership; restrictions relating to certain extraordinary transactions involving the Company or the Operating Partnership) may not be amended without the approval of a majority or, in certain instances, a supermajority of the OP Units not held by the Company.

TRANSFER OF OP UNITS; SUBSTITUTE LIMITED PARTNERS

The Operating Partnership Agreement provides that limited partners generally may transfer their OP Units without the consent of any other person, but may substitute a transferee as a limited partner only with the prior written consent of the Company as the sole general partner of the Operating Partnership. In addition, limited partners may not transfer OP Units in any event until the one-year anniversary of the Initial Offering or in violation of certain regulatory and other restrictions set forth in the Operating Partnership Agreement. Notwithstanding the foregoing, Messrs. Zuckerman and Linde and the other executive and senior officers of the Company have entered into agreements pursuant to which they may not transfer or dispose of OP Units or Common Stock without the consent of Goldman, Sachs & Co. and Merrill Lynch, Pierce, Fenner & Smith Incorporated for a period of two years (one year in the case of senior officers who are not executive officers) from June 1997.

REDEMPTION OF OP UNITS

Beginning on August 23, 1998 (or such later date as a holder of OP Units may agree), the Operating Partnership will be obligated to redeem each OP Unit at the request of the holder thereof for cash equal to the fair market value of one share of Common Stock at the time of such redemption (as determined in accordance with the provisions of the Operating Partnership Agreement), provided that the Company may elect to acquire any such OP Unit presented for redemption for one share of Common Stock or an amount of cash of the same value. The Company presently anticipates that it will elect to issue Common Stock in connection with each such redemption rather than having the Operating Partnership pay cash. With each such redemption, the Company's percentage ownership interest in the Operating Partnership will increase. Persons other than the Company who acquired OP Units in the Formation Transactions or in connection with acquisitions by the Company have certain rights, pursuant to separate registration rights agreements, to have the issuance of shares of Common Stock that may be issued to them in exchange for their OP Units, or the resale of such shares by them, registered under the Securities Act. See "Shares Available for Future Sale."

ISSUANCE OF ADDITIONAL LIMITED PARTNERSHIP INTERESTS

The Company is authorized, without the consent of the limited partners, to cause the Operating Partnership to issue additional OP Units to the Company, to the limited partners or to other persons for such consideration and on such terms and conditions as the Company deems appropriate. If additional OP Units are issued to the

Company, then the Company must (i) issue additional shares of Common Stock and must contribute to the Operating Partnership the entire proceeds received by the Company from such issuance or (ii) issue additional OP Units to all partners in proportion to their respective interests in the Operating Partnership. In addition, the Company may cause the Operating Partnership to issue to the Company additional partnership interests in different series or classes, which may be senior to the OP Units, in conjunction with an offering of securities of the Company having substantially similar rights, in which the proceeds thereof are contributed to the Operating Partnership. Consideration for additional partnership interests may be cash or other property or assets. No limited partner has preemptive, preferential or similar rights with respect to additional capital contributions to the Operating Partnership or the issuance or sale of any partnership interests therein.

EXTRAORDINARY TRANSACTIONS

The Operating Partnership Agreement provides that the Company may not generally engage in any merger, consolidation or other combination with or into another person or sale of all or substantially all of its assets, or any reclassification, or any recapitalization or change of outstanding shares of Common Stock (a "Business Combination"), unless the holders of OP Units will receive, or have the opportunity to receive, the same consideration per OP Unit as holders of Common Stock receive per share of Common Stock in the transaction; if holders of OP Units will not be treated in such manner in connection with a proposed Business Combination, the Company may not engage in such transaction unless limited partners (other than the Company) holding at least 75% of the OP Units held by limited partners vote to approve the Business Combination. In addition, the Company, as general partner of the Operating Partnership, has agreed in the Operating Partnership Agreement with the limited partners that the Company will not consummate a Business Combination in which the Company conducted a vote of the stockholders unless the matter would have been approved had holders of OP Units been able to vote together with the stockholders on the transaction. The foregoing provision of the Operating Partnership Agreement would under no circumstances enable or require the Company to engage in a Business Combination which required the approval of the Company's stockholders if the Company's stockholders did not in fact give the requisite approval. Rather, if the Company's stockholders did approve a Business Combination, the Company would not consummate the transaction unless (i) the Company as general partner first conducts a vote of holders of OP Units (including the Company) on the matter, (ii) the Company votes the OP Units held by it in the same proportion as the stockholders of the Company voted on the matter at the stockholder vote, and (iii) the result of such vote of the OP Unit holders (including the proportionate vote of the Company's OP Units) is that had such vote been a vote of stockholders, the Business Combination would have been approved by the stockholders. As a result of these provisions of the Operating Partnership, a third party may be inhibited from making an acquisition proposal that it would otherwise make, or the Company, despite having the requisite authority under its Certificate of Incorporation, may not be authorized to engage in a proposed Business Combination.

TAX PROTECTION PROVISIONS

The Operating Partnership Agreement provides that, until June 23, 2007, the Operating Partnership may not sell or otherwise transfer a Designated Property in a taxable transaction without the prior written consent of Messrs. Zuckerman and Linde. The Company has entered into similar agreements for the benefit of the party or parties who contributed certain Properties to the Operating Partnership. See "Business and Properties--Certain Agreements Relating to the Properties." The Operating Partnership is not required to obtain the aforementioned consent from Messrs. Zuckerman or Linde if they do not continue to hold during the applicable period at least a specified percentage of his original OP Units. Since the consent of the protected parties is required only in connection with a taxable sale or other disposition of any Designated Property, the Operating Partnership will not be required to obtain such consent in connection with a "like-kind" exchange of any such property under Section 1031 of the Code or in connection with a number of other nontaxable transactions, such as a nontaxable reorganization or merger of the Operating Partnership or the formation of a joint venture involving a Designated Property pursuant to Section 721 of the Code.

Messrs. Zuckerman and Linde recognized approximately \$80 million in gain as a result of the Formation Transactions. To avoid the recognition of additional gain, Messrs. Zuckerman and Linde (together with certain other Continuing Investors) agreed to guarantee certain indebtedness of the Company in the amount of approximately \$135 million, which is represented by non-recourse liabilities on five of the Properties (2300 N Street, Ten Cambridge Center, the Garage Property, 191 Spring Street and Hilltop Business Center). Messrs. Zuckerman and Linde also agreed to guarantee up to approximately \$57.7 million of any recourse liabilities of the Operating Partnership (which initially consisted of amounts outstanding under the Unsecured Line of Credit) through a deficit restoration obligation set forth in the Operating Partnership Agreement. In addition to these guarantees, Messrs. Zuckerman and Linde also avoided the recognition of gain as a result of the allocation of their share of the Operating Partnership's non-recourse indebtedness in the amount of approximately \$695.3 million (including the approximately \$134.5 million noted above).

If the level of indebtedness of the Operating Partnership were to fall below the total indebtedness following the Initial Offering (approximately \$753 million), Messrs. Zuckerman and Linde would recognize taxable gain under Section 731 of the Code. To reduce this risk to Messrs. Zuckerman and Linde while providing the Company with sole control over its level of indebtedness, the Operating Partnership agreed to undertake to use its reasonable commercial efforts to cause its lenders to permit Messrs. Zuckerman and Linde to guarantee additional and/or substitute indebtedness following the Initial Offering. The Operating Partnership, however, is under no obligation to Messrs. Zuckerman and Linde to maintain any specified debt or any specified level of indebtedness or to make any payments to Messrs. Zuckerman or Linde if a reduction in the indebtedness of the Operating Partnership were to result in the recognition of gain by Messrs. Zuckerman or Linde. See "Risk Factors--Conflicts of Interest." In addition, the Company has agreed with the parties that contributed certain Properties to the Company to permit such parties to guarantee certain amounts of indebtedness for specified periods of time.

EXCULPATION AND INDEMNIFICATION OF THE GENERAL PARTNER

The Operating Partnership Agreement generally provides that the Company, as general partner of the Operating Partnership, will incur no liability to the Operating Partnership or any limited partner for losses sustained or liabilities incurred as a result of errors in judgment or of any act or omission if the Company carried out its duties in good faith. In addition, the Company is not responsible for any misconduct or negligence on the part of its agents, provided the Company appointed such agents in good faith. The Company may consult with legal counsel, accountants, appraisers, management consultants, investment bankers and other consultants and advisors, and any action it takes or omits to take in reliance upon the opinion of such persons, as to matters that the Company reasonably believes to be within their professional or expert competence, shall be conclusively presumed to have been done or omitted in good faith and in accordance with such opinion.

The Operating Partnership Agreement also provides for indemnification of the Company, the directors and officers of the Company, and such other persons as the Company may from time to time designate against any judgments, penalties, fines, settlements and reasonable expenses actually incurred by such person in connection with the preceding unless it is established that: (1) the act or omission of the indemnified person was material to the matter giving rise to the preceding and either was committed in bad faith or was the result of active and deliberate dishonesty; (2) the indemnified person actually received an improper personal benefit in money, property or services; or (3) in the case of any criminal proceeding, the indemnified person had reasonable cause to believe that the act or omission was unlawful.

TAX MATTERS

The Company is the tax matters partner of the Operating Partnership and, as such, has the authority to make tax elections under the Code on behalf of the Operating Partnership.

TERM

The Operating Partnership will continue in full force and effect until December 31, 2095 or until sooner dissolved pursuant to the terms of the Operating Partnership Agreement.

PRINCIPAL STOCKHOLDERS

The following table sets forth certain information regarding the beneficial ownership of Common Stock (including Common Stock that may be issued in exchange for OP Units presented for redemption) by each director, by each Named Executive Officer, by all directors and executive officers of the Company as a group and by each person who is expected to be the beneficial owner of 5% or more of the outstanding shares of Common Stock immediately following the completion of the Offering. Except as indicated below, all of such Common Stock is owned directly, and the indicated person has sole voting and investment power.

| NAM OF BENEFICIAL OWNER(1)E | NUMBER OF SHARES AND OP UNITS BENEFICIALLY OWNED AFTER THE OFFERING | PERCENTAGE OF ALL COMMON STOCK AND OP UNITS | PERCENT OF ALL COMMON STOCK(2) |
|---|--|--|---|
| Mortimer B. Zuckerman (3)(5)..... | 8,957,894 | 12.9% | 14.8% |
| Edward H. Linde (4)(5)..... | 7,020,714 | 10.1 | 12.0 |
| Alan J. Patricof (6)..... | 5,000 | * | * |
| Ivan G. Seidenberg (6)..... | 500 | * | * |
| Martin Turchin (7)..... | 5,000 | * | * |
| Robert E. Burke (8)..... | 286,048 | * | * |
| Raymond A. Ritchey (9)..... | 286,048 | * | * |
| David R. Barrett (10)..... | 169,381 | * | * |
| Robert E. Selsam (11)..... | 9,000 | * | * |
| All directors and executive officers as a group (10 persons).. | 16,813,618 | 24.1% | 25.1% |

* Less than 1%.

- (1) Address: c/o Boston Properties, Inc., 8 Arlington Street, Boston, Massachusetts 02116.
- (2) Assumes that all the OP Units held by the person are presented to the Operating Partnership for redemption and acquired by the Company for shares of Common Stock. The total number of shares of Common Stock outstanding used in calculating the percentage assumes that none of the OP Units held by other persons are similarly acquired for Common Stock.
- (3) Includes 2,136,312 OP Units held by certain trusts that received OP Units in the Formation Transactions in exchange for interests in the Properties. Includes 1,291,770 shares of Common Stock.
- (4) Includes 2,135,854 OP Units held by certain trusts that received OP Units in the Formation Transactions in exchange for interests in the Properties. Includes 1,297,771 shares of Common Stock, 6,000 of which are held by a trust.
- (5) Excludes 21,600 of the OP Units owned by Square 36 Properties Limited Partnership ("Square 36"). Messrs. Zuckerman and Linde control the general partner of Square 36 but do not have an economic interest in such OP Units and cannot dispose of such OP Units without the consent of an unaffiliated limited partner of Square 36.
- (6) Shares of Common Stock.
- (7) Shares of Common Stock, of which 3,000 shares are held by a family trust.
- (8) Includes 37,926 OP Units held by a limited liability company.
- (9) Includes 35,600 OP Units held by a limited liability company.
- (10) Includes 23,600 OP Units held by a limited liability company.
- (11) Includes 1,000 shares of Common Stock.

DESCRIPTION OF CAPITAL STOCK

The description of the Company's capital stock set forth below does not purport to be complete and is qualified in its entirety by reference to the Company's Certificate and Bylaws, copies of which are exhibits to the Registration Statement of which this Prospectus is a part.

GENERAL

The Company adopted its Amended and Restated Certificate of Incorporation (the "Certificate") on June 23, 1997. Under the Certificate, the Company has authority to issue up to 450 million shares of stock, consisting of 250 million shares of Common Stock, par value \$0.01 per share, 150 million shares of excess stock, par value \$0.01 per share ("Excess Stock") (as described below), and 50 million shares of Preferred Stock, par value \$0.01 per share. Under Delaware law, stockholders generally are not responsible for the corporation's debts or obligations. Upon completion of the Offering, 52,694,041 shares of Common Stock will be issued and outstanding and no shares of Excess Stock or Preferred Stock will be issued and outstanding.

With respect to the Preferred Stock, the Certificate authorizes the Directors to set or change the preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions, qualifications or terms or conditions of redemption of such stock.

COMMON STOCK

All shares of Common Stock offered hereby have been duly authorized, and are fully paid and nonassessable. Subject to the preferential rights of any other shares or series of shares and to the provisions of the Company's Certificate regarding Excess Stock, holders of Common Stock are entitled to receive dividends on Common Stock if, as and when authorized and declared by the Board of Directors of the Company out of assets legally available therefor and to share ratably in the assets of the Company legally available for distribution to its stockholders in the event of its liquidation, dissolution or winding-up after payment of, or adequate provision for, all known debts and liabilities of the Company.

Subject to the provisions of the Company's Certificate regarding Excess Stock, each outstanding share of Common Stock entitles the holder to one vote on all matters submitted to a vote of stockholders, including the election of directors, and, except as otherwise required by law or except as provided with respect to any other class or series of shares, the holders of Common Stock possess exclusive voting power. There is no cumulative voting in the election of directors, which means that the holders of a majority of the outstanding shares of Common Stock can elect all of the directors then standing for election, and the holders of the remaining shares of Common Stock will not be able to elect any director.

Holders of Common Stock have no conversion, sinking fund or redemption rights, or preemptive rights to subscribe for any securities of the Company.

The Company intends to furnish its stockholders with annual reports containing audited consolidated financial statements and an opinion thereon expressed by an independent public accounting firm and quarterly reports for the first three quarters of each fiscal year containing unaudited financial information.

Subject to the provisions of the Company's Certificate regarding Excess Stock, all Common Stock has equal dividend, distribution, liquidation and other rights, and has no preference, appraisal (except as provided by Delaware law) or exchange rights.

PREFERRED STOCK

Preferred Stock may be issued from time to time, in one or more series, as authorized by the Board of Directors. Prior to the issuance of shares of each series, the Board of Directors is required by the DGCL and the Company's Certificate to fix for each series, subject to the provisions of the Company's Certificate regarding

Excess Stock, such terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption, as are permitted by Delaware law. Such rights, powers, restrictions and limitations could include the right to receive specified dividend payments and payments on liquidation prior to any such payments being made to the holders of some, or a majority, of the Common Stock. The Board of Directors could authorize the issuance of Preferred Stock with terms and conditions that could have the effect of discouraging a takeover or any other transaction that holders of Common Stock might believe to be in their best interests or in which holders of some, or a majority, of the Common Stock might receive a premium for their shares over the then current market price of such shares. As of the date hereof, no shares of Preferred Stock are outstanding, and the Company has no present plans to issue any Preferred Stock. The Company has authorized the issuance of a series of preferred stock in connection with the Company's shareholder rights plan. See "--Shareholder Rights Agreement"; "Certain Provisions of Delaware Law and of the Company's Certificate and Bylaws."

RESTRICTIONS ON TRANSFERS

In order for the Company to qualify as a REIT under the Code, among other things, not more than 50% in value of its outstanding capital stock may be owned, directly or indirectly, by five or fewer individuals (defined in the Code to include certain entities) during the last half of a taxable year (other than the first year) (the "Five or Fewer Requirement"), and such shares of capital stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months (other than the first year) or during a proportionate part of a shorter taxable year. See "Federal Income Tax Consequences." In order to protect the Company against the risk of losing its status as a REIT and to otherwise protect the Company from the consequences of a concentration of ownership among its stockholders, the Certificate, subject to certain exceptions, provides that no single person (which includes any "group" of persons) (other than the "Related Parties," as defined below and certain "Look-Through Entities," as defined below), may "beneficially own" more than 6.6% (the "Ownership Limit") of the aggregate number of outstanding shares of any class or series of capital stock. Under the Certificate, a person generally "beneficially owns" shares if (i) such person has direct ownership of such shares, (ii) such person has indirect ownership of such shares taking into account the constructive ownership rules of Section 544 of the Code, as modified by Section 856(h)(1)(B) of the Code, or (iii) such person would be deemed to "beneficially own" such shares pursuant to Rule 13d-3 under the Exchange Act. A Related Party, however, will not be deemed to beneficially own shares by virtue of clause (iii) of the preceding sentence and a "group" of which a Related Party is a member will generally not have attributed to the group's beneficial ownership any shares beneficially owned by such Related Party. Each of Mr. Zuckerman and his respective heirs, legatees and devisees, and any other person whose beneficial ownership of shares of Common Stock would be attributed under the Code to Mr. Zuckerman, is a "Related Party", and such persons are subject to a "Related Party Ownership Limit" of 15%, such that none of such persons shall be deemed to beneficially own shares in excess of the Ownership Limit unless, in the aggregate, such persons own shares of any class or series of capital stock in excess of 15% of the number of shares of such class or series outstanding. A similar Related Party Ownership Limit is applied to Mr. Linde and persons with a similar relationship to Mr. Linde, all of whom are also Related Parties under the Certificate. The Company's Certificate provides that pension plans described in Section 401(a) of the Code and mutual funds registered under the Investment Company Act of 1940 ("Look-Through Entities") are subject to a 15% "Look-Through Ownership Limit." Pension plans and mutual funds are among the entities that are not treated as holders of stock under the Five or Fewer Requirement and the beneficial owners of such entities will be counted as holders for this purpose. Any transfer of shares of capital stock or of any security convertible into shares of capital stock that would create a direct or indirect ownership of shares of capital stock in excess of the Ownership Limit, the Look-Through Ownership Limit or the Related Party Ownership Limit, as applicable, or that would result in the disqualification of the Company as a REIT, including any transfer that results in the shares of capital stock being owned by fewer than 100 persons or results in the Company being "closely held" within the meaning of Section 856(h) of the Code or results in the Company constructively owning 10% or more of the ownership interests in a tenant of the Company within the meaning of Section 318 of the Code as modified by Section 856(d)(5) of the Code, shall be null and void, and the intended transferee will acquire no rights to the shares of capital stock. The foregoing restrictions on transferability and ownership will not apply if the Board of Directors determines that it is no

longer in the best interests of the Company to attempt to qualify, or to continue to qualify, as a REIT. The Board of Directors may, in its sole discretion, waive the Ownership Limit, the Look-Through Ownership Limit and the Related Party Ownership Limit if evidence satisfactory to the Board of Directors is presented that the changes in ownership will not jeopardize the Company's REIT status and the Board of Directors otherwise decides that such action is in the best interest of the Company.

If any purported transfer of capital stock of the Company or any other event would otherwise result in any person violating the Ownership Limit, the Look-Through Ownership Limit or the Related Party Limit, as applicable, or the Certificate, then any such purported transfer will be void and of no force or effect with respect to the purported transferee (the "Prohibited Transferee") as to that number of shares in excess of the applicable Limit and the Prohibited Transferee shall acquire no right or interest (or, in the case of any event other than a purported transfer, the person or entity holding record title to any such shares in excess of the applicable Limit (the "Prohibited Owner") shall cease to own any right or interest) in such excess shares. Any such excess shares described above will be converted automatically into an equal number of shares of Excess Stock (the "Excess Shares") and transferred automatically, by operation of law, to a trust, the beneficiary of which will be a qualified charitable organization selected by the Company (the "Beneficiary"). Such automatic transfer shall be deemed to be effective as of the close of business on the Trading Day (as defined in the Certificate) prior to the date of such violative transfer. As soon as practical after the transfer of shares to the trust, the trustee of the trust (who shall be designated by the Company and be unaffiliated with the Company and any Prohibited Transferee or Prohibited Owner) will be required to sell such Excess Shares to a person or entity who could own such shares without violating the applicable Limit, and distribute to the Prohibited Transferee an amount equal to the lesser of the price paid by the Prohibited Transferee for such Excess Shares or the sales proceeds received by the trust for such Excess Shares. In the case of any Excess Shares resulting from any event other than a transfer, or from a transfer for no consideration (such as a gift), the trustee will be required to sell such Excess Shares to a qualified person or entity and distribute to the Prohibited Owner an amount equal to the lesser of the fair market value of such Excess Shares as of the date of such event or the sales proceeds received by the trust for such Excess Shares. In either case, any proceeds in excess of the amount distributable to the Prohibited Transferee or Prohibited Owner, as applicable, will be distributed to the Beneficiary. Prior to a sale of any such Excess Shares by the trust, the trustee will be entitled to receive in trust for the Beneficiary, all dividends and other distributions paid by the Company with respect to such Excess Shares.

In addition, shares of stock of the Company held in the trust shall be deemed to have been offered for sale to the Company, or its designee, at a price per share equal to the lesser of (i) the price per share in the transaction that resulted in such transfer to the trust (or, in the case of a devise or gift, the market price at the time of such devise or gift) and (ii) the market price on the date the Company, or its designee, accepts such offer. The Company shall have the right to accept such offer for a period of 90 days. Upon such a sale to the company, the interest of the Beneficiary in the shares sold shall terminate and the trustee shall distribute the net proceeds of the sale to the Prohibited Owner.

These restrictions do not preclude settlement of transactions through the NYSE.

Each stockholder shall upon demand be required to disclose to the Company in writing any information with respect to the direct, indirect and constructive ownership of capital stock as the Board of Directors deems necessary to comply with the provisions of the Code applicable to REITs, to comply with the requirements of any taxing authority or governmental agency or to determine any such compliance.

The Ownership Limit may have the effect of precluding acquisition of control of the Company.

SHAREHOLDER RIGHTS AGREEMENT

The Board of Directors of the Company has adopted a Shareholder Rights Agreement (the "Rights Agreement"). The adoption of the Rights Agreement could make it more difficult for a third party to acquire, or could discourage a third party from acquiring, the Company or a large block of the Company's Common Stock.

Pursuant to the terms of the Rights Agreement, the Board of Directors declared a dividend distribution of one Preferred Stock Purchase Right (a "Right") for each outstanding share of Common Stock to stockholders of record as of a day prior to effectiveness of the Registration Statement with respect to the Initial Offering (the "Record Date"). In addition, one Right will automatically attach to each share of Common Stock issued between the Record Date and the Distribution Date (as hereinafter defined). Each Right entitles the registered holder to purchase from the Company a unit consisting of one one-thousandth of a share (a "Unit") of Series E Junior Participating Cumulative Preferred Stock, par value \$.01 per share (the "Series E Preferred Stock") at a cash exercise price of \$100 per Unit (the "Exercise Price"), subject to adjustment. Each Share offered hereby will be entitled to a Right when distributed.

Initially, the Rights are not exercisable and are attached to and trade with the outstanding shares of Common Stock. The Rights will separate from the Common Stock and will become exercisable upon the earliest of (i) the close of business on the tenth calendar day following the first public announcement that a person or group of affiliated or associated persons (an "Acquiring Person") has acquired beneficial ownership of more than 15% of the sum of the outstanding shares of Common Stock and Excess Stock ("Common Shares") (the date of said announcement being referred to as the "Stock Acquisition Date"), or (ii) the close of business on the tenth business day (or such other calendar day as the Board of Directors may determine) following the commencement of a tender offer or exchange offer that would result upon its consummation in a person or group becoming the beneficial owner of more than 15% of the outstanding Common Shares (the earlier of such dates being herein referred to as the "Distribution Date"). For these purposes, a person will not be deemed to beneficially own shares of Common Stock which may be issued in exchange for OP Units. In addition, no person who is a partner of the Operating Partnership as of the closing of the Offering will be an Acquiring Person unless such person acquires beneficial ownership of (i) more than 15% of the outstanding Common Shares and (ii) a greater percentage of the then outstanding Common Shares and OP Units (excluding OP Units held by the Company) than that percentage of the total number of shares of Common Stock and OP Units (excluding OP Units held by the Company) that such partner held at the conclusion of the Initial Offering. Furthermore, no "group" of which a Related Party is a member will be deemed to beneficially own the Common Shares beneficially owned by such Related Party.

Until the Distribution Date (or earlier redemption, exchange or expiration of the Rights), (a) the Rights will be evidenced by the Common Stock certificates and will be transferred with and only with such Common Stock certificates, (b) new Common Stock certificates issued after the Record Date will contain a notation incorporating the Shareholder Rights Agreement by reference, and (c) the surrender for transfer of any certificates for Common Stock will also constitute the transfer of the Rights associated with the Common Stock represented by such certificate.

The Rights are not exercisable until the Distribution Date and will expire in 2007, unless previously redeemed or exchanged by the Company as described below.

As soon as practicable after the Distribution Date, Rights Certificates will be mailed to holders of record of Common Stock as of the close of business on the Distribution Date and, thereafter, the separate Rights Certificates alone will represent the Rights. Except as otherwise determined by the Board of Directors, only shares of Common Stock issued prior to the Distribution Date will be issued with Rights.

In the event that a Stock Acquisition Date occurs, proper provision will be made so that each holder of a Right (other than an Acquiring Person or its associates or affiliates, whose Rights shall become null and void) will thereafter have the right to receive upon exercise that number of Units of Series E Preferred Stock of the Company having a market value of two times the exercise price of the Right (such right being referred to as the "Subscription Right"). In the event that, at any time following the Stock Acquisition Date, (i) the Company consolidates with, or merges with and into, any other person, and the Company is not the continuing or surviving corporation, (ii) any person consolidates with the Company, or merges with and into the Company and the Company is the continuing or surviving corporation of such merger and, in connection with such merger, all or part of the shares of Common Stock are changed into or exchanged for stock or other securities of any other person or cash or any other property, or (iii) 50% or more of the Company's assets or earning power is sold, mortgaged or otherwise transferred, each holder of a Right shall thereafter have the right to receive, upon

exercise, common stock of the acquiring company having a market value equal to two times the exercise price of the Right (such right being referred to as the "Merger Right"). The holder of a Right will continue to have the Merger Right whether or not such holder has exercised the Subscription Right. Rights that are or were beneficially owned by an Acquiring Person may under certain circumstances specified in the Rights Agreement become null and void.

At any time after the Stock Acquisition Date, the Board of Directors may, at its option, exchange all or any part of the then outstanding and exercisable Rights for shares of Common Stock or Units of Series E Preferred Stock at an exchange ratio of one share of Common Stock or one Unit of Series E Preferred Stock per Right. Notwithstanding the foregoing, the Board of Directors generally will not be empowered to effect such exchange at any time after any person becomes the beneficial owner of 50% or more of the Common Stock of the Company.

The Exercise Price payable, and the number of Units of Series E Preferred Stock or other securities or property issuable, upon exercise of the Rights are subject to adjustment from time to time to prevent dilution (i) in the event of a stock dividend or a subdivision, combination or reclassification of, the Series E Preferred Stock, (ii) if holders of the Series E Preferred Stock are granted certain rights or warrants to subscribe for Series E Preferred Stock or convertible securities at less than the current market price of the Series E Preferred Stock, or (iii) upon the distribution to holders of the Series E Preferred Stock of evidences of indebtedness or assets (excluding regular quarterly cash dividends) or of subscription rights or warrants (other than those referred to above).

With certain exceptions, no adjustment in the Exercise Price will be required until cumulative adjustments amount to at least 1% of the Exercise Price, determined on a per Right basis. The Company is not obligated to issue fractional Units. If the Company elects not to issue fractional Units, in lieu thereof an adjustment in cash will be made based on the fair market value of the Series E Preferred Stock on the last trading date prior to the date of exercise. Any of the provisions of the Rights Agreement may be amended by the Board of Directors at any time prior to the Distribution Date.

The Rights may be redeemed in whole, but not in part, at a price of \$0.001 per Right (payable in cash, Common Stock or other consideration deemed appropriate by the Board of Directors) by the Board of Directors only until the earlier of (i) the close of business on the tenth calendar day after the Stock Acquisition Date, or (ii) the expiration date of the Rights Agreement. Immediately upon the action of the Board of Directors ordering redemption of the Rights, the Rights will terminate and thereafter the only right of the holders of Rights will be to receive the redemption price.

The Rights Agreement may be amended by the Board of Directors in its sole discretion until the Distribution Date. After the Distribution Date, the Board of Directors may, subject to certain limitations set forth in the Rights Agreement, amend the Rights Agreement only to cure any ambiguity, defect or inconsistency, to shorten or lengthen any time period, or to make changes that do not adversely affect the interests of Rights holders (excluding the interests of an Acquiring Person or its associates or affiliates).

Until a Right is exercised, the holder will have no rights as a stockholder of the Company (beyond those as an existing stockholder), including the right to vote or to receive dividends. While the distribution of the Rights will not be taxable to stockholders or to the Company, stockholders may, depending upon the circumstances, recognize taxable income in the event that the Rights become exercisable for Units, other securities of the Company, other consideration or for common stock of an acquiring company.

A copy of the Rights Agreement has been filed with the SEC and is incorporated as an exhibit hereto by reference to the Registration Statement with respect to the Initial Offering. A copy of the Rights Agreement is also available from the Company upon written request. The foregoing description of the Rights does not purport to be complete and is qualified in its entirety by reference to the Rights Agreement, which is incorporated herein by reference.

CERTAIN PROVISIONS OF DELAWARE LAW AND
THE COMPANY'S CERTIFICATE AND BYLAWS

The following summary of certain provisions of Delaware law and the Company's Certificate and Bylaws does not purport to be complete and is subject to and qualified in its entirety by reference to Delaware law and the Company's Certificate and Bylaws, copies of which have been filed with the SEC and are incorporated as exhibits hereto by reference to the Registration Statement with respect to the Initial Offering.

The Certificate and the Bylaws of the Company contain certain provisions that could make more difficult the acquisition of the Company by means of a tender offer, a proxy contest or otherwise. These provisions are expected to discourage certain types of coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of the Company to negotiate first with the Board of Directors. The Company believes that the benefits of these provisions outweigh the potential disadvantages of discouraging such proposals because, among other things, negotiation of such proposals might result in an improvement of their terms. The description set forth below is intended as a summary only and is qualified in its entirety by reference to the Certificate and the Bylaws, which have been filed with the SEC and are incorporated as exhibits hereto by reference to the Registration Statement with respect to the Initial Offering. See also "Description of Capital Stock--Restrictions on Transfers."

AMENDMENT OF CERTIFICATE AND BYLAWS

The Company's Certificate may be amended only by the affirmative vote of the holders of two-thirds (or, if more than 75% of the directors then in office approve the amendment, a majority) of all of the votes entitled to be cast on the matter except that amendments dealing with certain articles of the Certificate (for example, articles relating to stockholder action; the powers, election of, removal of and classification of directors; limitation of liability; and amendment of the By-laws or the Certificate) shall require the affirmative vote of not less than seventy-five percent of the outstanding votes entitled to be cast on the matter. Unless otherwise required by law, the Board of Directors may amend the Company's Bylaws by the affirmative vote of a majority of the directors then in office. The Bylaws may also be amended by the stockholders, at an annual meeting or at a special meeting called for such purpose, by the affirmative vote of at least seventy-five percent of the votes entitled to be cast on the matter; provided, that if the Board of Directors recommends that stockholders approve such amendment at such meeting, such amendment shall require the affirmative vote of only a majority of the shares present at such meeting and entitled to vote.

DISSOLUTION OF THE COMPANY

The DGCL permits the dissolution of the Company by (i) the affirmative vote of a majority of the entire Board of Directors declaring such dissolution to be advisable and directing that the proposed dissolution be submitted for consideration at an annual or special meeting of stockholders, and (ii) upon proper notice, stockholder approval by the affirmative vote of a majority of the votes entitled to be cast on the matter.

MEETINGS OF STOCKHOLDERS

Under the Company's Bylaws, annual meetings of stockholders shall be held at such date and time as determined by the Board of Directors, the Chairman of the Board or the President. The Bylaws establish an advance notice procedure for stockholders to make nominations of candidates for directors or bring other business before an annual meeting of stockholders. Special meetings of stockholders may be called only by a majority of the Directors then in office and only matters set forth in the notice of the meeting may be considered and acted upon at such a meeting.

THE BOARD OF DIRECTORS

The Company's Certificate provides that the Board of Directors shall initially consist of five Directors and thereafter the number of Directors of the Company may be established by the Board of Directors but may not be

fewer than the minimum number required by the DGCL nor more than eleven. Subject to the rights, if any, of the holders of any series of Preferred Stock to elect Directors and to fill vacancies in the Board of Directors relating thereto, any vacancy will be filled, including any vacancy created by an increase in the number of Directors, at any regular meeting or at any special meeting called for the purpose, by a majority of the remaining Directors. Pursuant to the terms of the Certificate, the Directors are divided into three classes. One class will hold office initially for a term expiring at the annual meeting of stockholders to be held in 1998, another class will hold office initially for a term expiring at the annual meeting of stockholders to be held in 1999 and the third class will hold office initially for a term expiring in 2000. As the term of each class expires, Directors in that class will be elected for a term of three years and until their successors are duly elected and qualified. The use of a classified board may render more difficult a change in control of the Company or removal of incumbent management. The Company believes, however, that classification of the Board of Directors will help to assure the continuity and stability of its business strategies and policies.

The Certificate provides that the affirmative vote of more than 75% of the Directors then in office is required to approve certain transactions or actions of the Board, including a change of control (as defined) of the Company or of the Operating Partnership, any amendment to the Operating Partnership Agreement, any waiver of the limitations on ownership contained in the Certificate, certain issuances of equity securities by the Company or termination of the Company's status as a REIT.

SHAREHOLDER RIGHTS PLAN AND OWNERSHIP LIMITATIONS

The Company has adopted a Shareholder Rights Plan. In addition, the Certificate contains provisions that limit the ownership by any person of shares of any class or series of capital stock of the Company. See "Description of Capital Stock--Shareholder Rights Agreement."

LIMITATION OF LIABILITY AND INDEMNIFICATION

The Company's Certificate generally limits the liability of the Company's Directors to the Company to the fullest extent permitted from time to time by Delaware law. The DGCL permits, but does not require, a corporation to indemnify its directors, officers, employees or agents and expressly provides that the indemnification provided for under the DGCL shall not be deemed exclusive of any indemnification right under any bylaw, vote of stockholders or disinterested directors, or otherwise. The DGCL permits indemnification against expenses and certain other liabilities arising out of legal actions brought or threatened against such persons for their conduct on behalf of a corporation, provided that each such person acted in good faith and in a manner that he reasonably believed was in or not opposed to such corporation's best interests and in the case of a criminal proceeding, had no reasonable cause to believe his or her conduct was unlawful. The DGCL does not allow indemnification of directors in the case of an action by or in the right of a corporation (including stockholder derivative suits) unless the directors successfully defend the action or indemnification is ordered by the court.

The Bylaws provide that Directors and officers of the Company shall be, and, in the discretion of the Board of Directors, non-officer employees may be, indemnified by the Company to the fullest extent authorized by Delaware law, as it now exists or may in the future be amended, against all expenses and liabilities actually and reasonably incurred in connection with service for or on behalf of the Company. The Bylaws also provide that the right of directors and officers to indemnification shall be a contract right and shall not be exclusive of any other right now possessed or hereafter acquired under any bylaw, agreement, vote of stockholders, or otherwise. The Certificate contains a provision permitted by Delaware law that generally eliminates the personal liability of directors for monetary damages for breaches of their fiduciary duty, including breaches involving negligence or gross negligence in business combinations, unless the director has breached his or her duty of loyalty, failed to act in good faith, engaged in intentional misconduct or a knowing violation of law, paid a dividend or approved a stock repurchase in violation of the DGCL or obtained an improper personal benefit. The provision does not alter a director's liability under the federal securities laws. In addition, this provision does not affect the availability of equitable remedies, such as an injunction or rescission, for breach of fiduciary duty.

Inssofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling the Company pursuant to the foregoing provisions, the Company has been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

BUSINESS COMBINATIONS

The Company is subject to the provisions of section 203 ("Section 203") of the DGCL. Section 203 provides, with certain exceptions, that a Delaware corporation may not engage in any of a broad range of business combinations with a person or affiliate, or associate of such person, who is an "interested stockholder" for a period of three years from the date that such person became an interested stockholder unless: (i) the transaction resulting in a person becoming an interested stockholder, or the business combination, was approved by the board of directors of the corporation before the consummation of such transaction; (ii) the interested stockholder owned 85% or more of the outstanding voting stock of the corporation immediately after the transaction in which it became an interested stockholder (excluding shares owned by persons who are both officers and directors of the corporation, and shares held by certain employee stock ownership plans); or (iii) on or after the date the person becomes an interested stockholder, the business combination is approved by the corporation's board of directors and by the holders of at least 66 2/3% of the corporation's outstanding voting stock at an annual or special meeting, excluding shares owned by the interested stockholder. Under Section 203, an "interested stockholder" is defined (with certain exceptions) as any person who, together with affiliates and associates, owns or within the prior three years did own, 15% or more of the corporation's outstanding voting stock.

INDEMNIFICATION AGREEMENTS

The Company has entered into indemnification agreements with each of its directors and executive officers. The indemnification agreements require, among other things, that the Company indemnify its directors and executive officers to the fullest extent permitted by law and advance to the directors and executive officers all related expenses, subject to reimbursement if it is subsequently determined that indemnification is not permitted. Under these agreements, the Company must also indemnify and advance all expenses incurred by directors and executive officers seeking to enforce their rights under the indemnification agreements and may cover directors and executive officers under the Company's directors' and officers' liability insurance. Although the form of indemnification agreement offers substantially the same scope of coverage afforded by law, it provides greater assurance to directors and executive officers that indemnification will be available, because, as a contract, it cannot be modified unilaterally in the future by the Board of Directors or the stockholders to eliminate the rights it provides.

SHARES AVAILABLE FOR FUTURE SALE

GENERAL

Upon the completion of the Offering and the acquisition of the Acquisition Properties, the Company will have outstanding 52,694,041 shares of Common Stock and an additional 18,461,087 shares of Common Stock will be reserved for issuance upon exchange of OP Units. All outstanding shares of Common Stock will be freely tradeable by persons other than "affiliates" of the Company without restriction under the Securities Act, subject to the limitations on ownership set forth in the Company's Certificate and Bylaws. See "Description of Capital Stock--Restrictions on Transfers." The shares of Common Stock acquired in redemption of OP Units (the "Restricted Shares") will be "restricted" securities under the meaning of Rule 144 promulgated under the Securities Act ("Rule 144") and may not be sold in the absence of registration under the Securities Act unless an exemption from registration is available, including exemptions contained in Rule 144. As described below under "--Registration Rights," the Company has granted certain holders registration rights with respect to their shares of Common Stock.

In general, under Rule 144, if one year has elapsed since the later of the date of acquisition of Restricted Shares from the Company or any "affiliate" of the Company, as that term is defined under the Securities Act, the acquiror or subsequent holder thereof is entitled to sell within any three-month period a number of shares that does not exceed the greater of 1% of the then outstanding shares of Common Stock or the average weekly trading volume of the Common Stock during the four calendar weeks preceding the date on which notice of the sale is filed with the SEC. Sales under Rule 144 are also subject to certain manner of sales provisions, notice requirements and the availability of current public information about the Company. If two years have elapsed since the date of acquisition of Restricted Shares from the Company or from any "affiliate" of the Company, and the acquiror or subsequent holder thereof is deemed not to have been an affiliate of the Company at any time during the 90 days preceding a sale, such person is entitled to sell such shares in the public market under Rule 144(k) without regard to the volume limitations, manner of sale provisions, public information requirements or notice requirements. Affiliates of the Company (such as Messrs. Zuckerman and Linde who in the aggregate beneficially own 2,589,542 shares of Common Stock) remain subject to such limitations without regard to the lapse of time.

The Company has established the Stock Option Plan for the purpose of attracting and retaining directors, executive officers and other key employees. See "Management--Stock Option Plan" and "Management--Compensation of Directors." Following the completion of this Offering the Company will have reserved for issuance under the Plan 6,618,880 shares of Common Stock, including 2,297,600 shares issuable upon exercise of outstanding options. Prior to June 23, 1998, the Company expects to file a registration statement on Form S-8 with the SEC with respect to the shares of Common Stock issuable under the Stock Option Plan, which shares may then be resold without restriction, unless held by affiliates.

The Common Stock is traded on the NYSE. No prediction can be made as to the effect, if any, that future sales of shares, or the availability of shares for future sale, will have on the market price prevailing from time to time. Sales of substantial amounts of Common Stock (including shares issued upon the exercise of Options), or the perception that such sales occur, could adversely affect prevailing market prices of the Common Stock. See "Risk Factors--Market for the Common Stock."

REGISTRATION RIGHTS

The Company has granted those persons who have received OP Units certain registration rights with respect to the shares of Common Stock that may be acquired by them in connection with the exercise of the Redemption/Exchange Rights under the Operating Partnership Agreement. With respect to the 16,066,459 OP Units issued at the time of the Initial Offering, these registration rights require the Company to register all such shares of Common Stock effective as of August 23, 1997. With respect to the 890,869 OP Units issued in connection with the acquisition of 875 Third Avenue, registration is required to be effected by February 1999. With respect to OP Units issued in connection with the acquisition of the Mulligan/Griffen Portfolio, registration is required to be effected by the 375th day after the closing of that acquisition. The Company will bear expenses incident to its registration requirements under the registration rights, except that such expenses shall not include any underwriting discounts or commissions or transfer taxes, if any, relating to such shares.

FEDERAL INCOME TAX CONSEQUENCES

The following is a summary of the material federal income tax consequences associated with an investment in the Common Stock. Goodwin, Procter & Hoar llp, which acted as tax counsel to the Company in connection with the formation of the Company and the Company's election to be taxed as a REIT, has reviewed the following discussion and is of the opinion that it is an accurate description of the federal income tax considerations that are likely to be material to a holder of Common Stock. The following discussion is not exhaustive of all possible tax considerations and is not tax advice. Moreover, this summary does not deal with all tax aspects that might be relevant to a particular prospective stockholder in light of his/her personal circumstances; nor does it deal with particular types of stockholders that are subject to special treatment under the Code, such as insurance companies, financial institutions and broker-dealers. The Code provisions governing the Federal income tax treatment of REITs are highly technical and complex, and this summary is qualified in its entirety by the applicable Code provisions, rules and regulations promulgated thereunder, and administrative and judicial interpretations thereof. The following discussion and the opinions of Goodwin, Procter & Hoar llp are based on current law. Unless the context requires otherwise, references to the "Company" in this "Federal Income Tax Consequences" section refer only to Boston Properties, Inc.

EACH PROSPECTIVE PURCHASER IS ADVISED TO CONSULT HIS OR HER OWN TAX ADVISER REGARDING THE SPECIFIC TAX CONSEQUENCES TO HIM OR HER OF THE PURCHASE, OWNERSHIP AND SALE OF THE COMMON STOCK AND OF THE COMPANY'S ELECTION TO BE TAXED AS A REIT, INCLUDING THE FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES OF SUCH PURCHASE, OWNERSHIP AND SALE.

FEDERAL INCOME TAXATION OF THE COMPANY

Upon consultation with its advisers, the Company believes that it is in a position to qualify for treatment as a REIT for the year ending December 31, 1997, and intends to operate so as to meet the requirements under the Code for qualification as a REIT, commencing with its taxable year ended December 31, 1997 and thereafter. The Company also believes, after consultation with its advisers, that it has been organized, has operated and will operate in such a manner as to qualify for taxation as a REIT under the Code. No assurance can be given, however, that such requirements have been or will be met.

OPINION OF TAX COUNSEL

Goodwin, Procter & Hoar llp has acted as counsel to the Company in connection with the formation of the Company, the Initial Offering, the Company's election to be taxed as a REIT, and the Offering. In the opinion of Goodwin, Procter & Hoar llp, commencing with the Company's taxable year ending December 31, 1997, the Company will qualify to be taxed as a REIT under the Code, provided that (i) the elections and other procedural steps described in this discussion of "Federal Income Tax Consequences" are completed in a timely fashion and (ii) the Company and the Operating Partnership operate in accordance with various assumptions and factual representations made by the Company and the Operating Partnership concerning their business, properties and operations. It must be emphasized that Goodwin, Procter & Hoar llp's opinion is based on various assumptions and is conditioned upon such assumptions and representations made by the Company and the Operating Partnership concerning their business and properties as set forth in this Prospectus. Such factual assumptions and representations are set forth below in this discussion of "Federal Income Tax Consequences." In addition, Goodwin, Procter & Hoar llp's opinion is based upon the factual representations of the Company and the Operating Partnership concerning its business and properties as set forth in this Prospectus. Moreover, such qualification and taxation as a REIT depends upon the Company's ability to meet, through actual annual operating results, distribution levels and diversity of stock ownership, the various qualification tests imposed under the Code discussed below, the results of which will not be reviewed by Goodwin, Procter & Hoar llp. Accordingly, no assurance can be given that the actual results of the Company's operations for any one taxable year will satisfy such requirements. See "Risk Factors--Failure to Qualify as a REIT."

The opinion of Goodwin, Procter & Hoar llp is also based upon existing law as currently applicable, IRS regulations, currently published administrative positions of the IRS and judicial decisions, which are subject to change either prospectively or retroactively. No assurance can be given that any such changes would not modify the conclusions expressed in the opinion. Moreover, unlike a private letter ruling (which will not be sought), an opinion of counsel is not binding on the IRS, and no assurance can be given that the IRS will not successfully challenge the status of the Company as a REIT.

If the Company qualifies for taxation as a REIT, it generally will not be subject to federal corporate income taxes on that portion of its ordinary income or capital gain that is currently distributed to stockholders. The REIT provisions of the Code generally allow a REIT to deduct dividends paid to its stockholders. This deduction for dividends paid to stockholders substantially eliminates the federal "double taxation" on earnings (once at the corporate level and once again at the stockholder level) that usually results from investments in a corporation.

Even if the Company qualifies for taxation as a REIT, however, the Company will be subject to federal income tax, as follows: First, the Company will be taxed at regular corporate rates on its undistributed REIT taxable income, including undistributed net capital gains. Second, under certain circumstances, the Company may be subject to the "alternative minimum tax." Third, if the Company has net income from the sale or other disposition of "foreclosure property" that is held primarily for sale to customers in the ordinary course of business or other non-qualifying income from foreclosure property, it will be subject to tax at the highest corporate rate on such income. Fourth, if the Company has net income from prohibited transactions (which are, in general, certain sales or other dispositions of property other than foreclosure property held primarily for sale to customers in the ordinary course of business), such income will be subject to a 100% tax. Fifth, if the Company should fail to satisfy either the 75% or 95% gross income test (discussed below) but has nonetheless maintained its qualification as a REIT because certain other requirements have been met, it will be subject to a 100% tax on the net income attributable to the greater of the amount by which the Company fails the 75% or 95% test, multiplied by a fraction intended to reflect the Company's profitability. Sixth, if the Company fails to distribute during each year at least the sum of (i) 85% of its REIT ordinary income for such year, (ii) 95% of its REIT capital gain net income for such year and (iii) any undistributed taxable income from prior periods, the Company will be subject to a 4% excise tax on the excess of such required distribution over the amounts actually distributed. Seventh, if the Company should acquire any asset from a C corporation (i.e., a corporation generally subject to full corporate-level tax) in a carryover-basis transaction and the Company subsequently recognizes gain on the disposition of such asset during the ten-year period (the "Recognition Period") beginning on the date on which the asset was acquired by the Company, then, to the extent of the excess of (a) the fair market value of the asset as of the beginning of the applicable Recognition Period over (b) the Company's adjusted basis in such asset as of the beginning of such Recognition Period (the "Built-In Gain"), such gain will be subject to tax at the highest regular corporate rate, pursuant to guidelines issued by the IRS (the "Built-In Gain Rules").

REQUIREMENTS FOR QUALIFICATION

To qualify as a REIT, the Company must elect to be so treated and must meet the requirements, discussed below, relating to the Company's organization, sources of income, nature of assets and distributions of income to stockholders.

ORGANIZATIONAL REQUIREMENTS

The Code defines a REIT as a corporation, trust or association: (i) that is managed by one or more directors or trustees, (ii) the beneficial ownership of which is evidenced by transferable shares or by transferable certificates of beneficial interest, (iii) that would be taxable as a domestic corporation but for the REIT requirements, (iv) that is neither a financial institution nor an insurance company subject to certain provisions of the Code, (v) the beneficial ownership of which is held by 100 or more persons, and (vi) during the last half of each taxable year not more than 50% in value of the outstanding stock of which is owned, directly or indirectly through the application of certain attribution rules, by five or fewer individuals (as defined in the Code to include certain entities). In addition, certain other tests, described below, regarding the nature of its income and assets also must

be satisfied. The Code provides that conditions (i) through (iv), inclusive, must be met during the entire taxable year and that condition (v) must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months. Conditions (v) and (vi) (the "100 Stockholder Requirement" and "Five or Fewer Requirement") will not apply until after the first taxable year for which an election is made to be taxed as a REIT. For purposes of conditions (v) and (vi), pension funds and certain other tax-exempt entities are treated as individuals, subject to a "look-through" exception in the case of condition (vi).

Prior to consummation of the Initial Offering, the Company did not satisfy conditions (v) and (vi) above. The Company's issuance of Common Stock in connection with the Formation Transactions and the Offering permitted it to satisfy the 100 Stockholder Requirement and the Five or Fewer Requirement. In order to protect the Company from a concentration of ownership of its stock that would cause the Company to fail the Five or Fewer Requirement, the Company's Certificate provides that stock owned, or deemed to be owned or transferred to a stockholder in excess of the Ownership Limit or the Look-Through Ownership Limit will automatically be converted into Excess Stock and transferred to a charity for resale, with the original stockholder entitled to receive certain proceeds from such a resale. See "Description of Capital Stock--Restrictions on Transfers." Excess stock is a separate class of capital stock of the Company that is entitled to no voting rights but shares ratably with the Common Stock in dividends and rights upon dissolution. Because of the absence of authority on this issue, however, there is no assurance that the operation of the Excess Stock or other provisions contained in the Certificate will, as a matter of law, prevent a concentration of ownership of stock in excess of the Ownership Limit from causing the Company to violate the Five or Fewer Requirement. If there were a concentration of ownership that would cause the Company to violate the Five or Fewer Requirement, and the operation of the Excess Stock or other provisions contained in the Certificate were not held to cure such violation, the Company would be disqualified as a REIT. In rendering its opinion that the Company is organized in a manner that permits the Company to qualify as a REIT, Goodwin, Procter & Hoar llp is relying on the representation of the Company that the ownership of its stock (without regard to the Excess Stock provisions) satisfies the Five or Fewer Requirement, and Goodwin, Procter & Hoar llp expresses no opinion as to whether, as a matter of law, the Excess Stock or other provisions contained in the Certificate preclude the Company from failing the Five or Fewer Requirement.

In addition, a corporation may not elect to become a REIT unless its taxable year is the calendar year. The Company's taxable year is the calendar year.

In the case of a REIT that is a partner in a partnership, Treasury Regulations provide that the REIT will be deemed to own its proportionate share (based on its interest in partnership capital) of the assets of the partnership and will be entitled to the income of the partnership attributable to such share. In addition, the character of the assets and gross income of the partnership shall retain the same character in the hands of the REIT for purposes of Section 856 of the Code, including satisfying the gross income tests and asset tests. Thus, the Company's proportionate share of the assets, liabilities and items of income of the Operating Partnership (including the Operating Partnership's share of the assets and liabilities and items of income with respect to any partnership in which it holds an interest) are treated as assets, liabilities and items of income of the Company for purposes of applying the requirements described herein.

INCOME TESTS

To maintain qualification as a REIT, three gross income requirements must be satisfied annually.

- . First, at least 75% of the Company's gross income, excluding gross income from certain dispositions of property held primarily for sale to customers in the ordinary course of a trade or business ("prohibited transactions"), for each taxable year must be derived directly or indirectly from investments relating to real property or mortgages on real property (including "rents from real property" and, in certain circumstances, interest) or from certain types of temporary investments.
- . Second, at least 95% of the Company's gross income (excluding gross income from prohibited transactions) for each taxable year must be derived from such real property investments described above and from dividends, interest and gain from the sale or disposition of stock or securities or from any combination of the foregoing.

- Third, short-term gain from the sale or other disposition of stock or securities, gain from prohibited transactions and gain from the sale or other disposition of real property held for less than four years (apart from involuntary conversions and sales of foreclosure property) must represent less than 30% of the Company's gross income (including gross income from prohibited transactions) for each taxable year. For purposes of applying the 30% gross income test, the holding period of Properties acquired by the Operating Partnership in the Formation Transactions was deemed to have commenced on the date of acquisition. Recently enacted legislation repealed the 30% gross income test for tax years beginning after August 5, 1997.

Rents received or deemed to be received by the Company qualify as "rents from real property" in satisfying the gross income requirements for a REIT described above only if several conditions are met.

- First, the amount of rent generally must not be based in whole or in part on the income or profits of any person. An amount received or accrued generally will not be excluded from the term "rents from real property," however, solely by reason of being based on a fixed percentage or percentages of receipts or sales.
- Second, the Code provides that rents received from a tenant will not qualify as "rents from real property" in satisfying the gross income tests if the REIT, or an owner of 10% or more of the REIT, directly or constructively owns 10% or more of such tenant (a "Related Party Tenant") or a subtenant of such tenant (in which case only rent attributable to the subtenant is disqualified).
- Third, if rent attributable to personal property, leased in connection with a lease of real property, is greater than 15% of the total rent received under the lease, then the portion of rent attributable to the personal property will not qualify as "rents from real property."
- Finally, for rents to qualify as "rents from real property" the REIT must not operate or manage the property or furnish or render services to tenants, other than through an "independent contractor" who is adequately compensated and from whom the REIT does not derive any income; provided, however, that a REIT may provide services with respect to its properties and the income will qualify as "rents from real property" if the services are "usually or customarily rendered" in connection with the rental of room or other space for occupancy only and are not otherwise considered "rendered to the occupant."

The Company does not charge rent that is based in whole or in part on the income or profits of any person (except by reason of being based on a fixed percentage or percentages of receipts or sales consistent with the rule described above). The Company does not derive, and does not anticipate deriving, rent attributable to personal property leased in connection with real property that exceeds 15% of the total rents.

Pursuant to leases with respect to the two completed Hotel Properties, ZL Hotel LLC leases from the Operating Partnership the two Hotel Properties for a ten year period. The hotel leases provide that ZL Hotel LLC is obligated to pay to the Operating Partnership (i) the greater of Base Rent or Participating Rent (collectively, the "Rents") and (ii) Additional Charges. Participating Rent is calculated by multiplying fixed percentages by various revenue categories for each of the Hotel Properties. Both Base Rent and the thresholds in the Participating Rent formulas will be adjusted for inflation. Base Rent accrues and is required to be paid monthly. Participating Rent is payable monthly, with monthly adjustments based on actual results.

In order for Base Rent, Participating Rent and Additional Charges to constitute "rents from real property," the leases must be respected as true leases for federal income tax purposes and not treated as service contracts, joint ventures or some other type of arrangement. The determination of whether the leases are true leases depends on an analysis of all the surrounding facts and circumstances. In making such a determination, courts have considered a variety of factors, including the following: (i) the intent of the parties, (ii) the form of the agreement, (iii) the degree of control over the property that is retained by the property owner (e.g., whether the lessee has substantial control over the operation of the property or whether the lessee was required simply to use its best efforts to perform its obligations under the agreement), and (iv) the extent to which the property owner retains the risk of loss with respect to the property (e.g., whether the lessee bears the risk of increases in operating expenses or the risk of damage to the property) or the potential for economic gain (e.g., appreciation) with respect to the property.

In addition, Code section 7701(e) provides that a contract that purports to be a service contract (or a partnership agreement) is treated instead as a lease of property if the contract is properly treated as such, taking into account all relevant factors, including whether or not: (i) the service recipient is in physical possession of the property, (ii) the service recipient controls the property, (iii) the service recipient has a significant economic or possessory interest in the property (e.g., the property's use is likely to be dedicated to the service recipient for a substantial portion of the useful life of the property, the recipient shares the risk that the property will decline in value, the recipient shares in any appreciation in the value of the property, the recipient shares in savings in the property's operating costs, or the recipient bears the risk of damage to or loss of the property), (iv) the service provider does not bear any risk of substantially diminished receipts or substantially increased expenditures if there is nonperformance under the contract, (v) the service provider does not use the property concurrently to provide significant services to entities unrelated to the service recipient, and (vi) the total contract price does not substantially exceed the rental value of the property for the contract period. Since the determination whether a service contract should be treated as a lease is inherently factual, the presence or absence of any single factor may not be dispositive in every case. The hotel leases were structured to qualify as true leases for federal income tax purposes.

Investors should be aware that there are no controlling Treasury Regulations, published rulings, or judicial decisions involving leases with terms substantially the same as the hotel leases that discuss whether such leases constitute true leases for federal income tax purposes. Therefore, there can be no complete assurance that the IRS will not assert a contrary position. If the leases are recharacterized as service contracts or partnership agreements, rather than true leases, part or all of the payments that the Operating Partnership receives from the lessee would not be considered rent or would not otherwise satisfy the various requirements for qualification as "rents from real property." In that case, the Company likely would not be able to satisfy either the 75% or 95% gross income tests and, as a result, would lose its REIT status.

As indicated above, "rents from real property" must not be based in whole or in part on the income or profits of any person. The Participating Rent should qualify as "rents from real property" since it is based on percentages of receipts or sales which percentages are fixed at the time the leases are entered into, provided (i) the leases are not renegotiated during the term of the leases in a manner that has the effect of basing Participating Rent on income or profits and (ii) the leases conform with normal business practice. More generally, the Participating Rent will not qualify as "rents from real property" if, considering the hotel leases and all the surrounding circumstances, the arrangement does not conform with normal business practice, but is in reality used as a means of basing the Participating Rent on income or profits. Since the Participating Rent is based on fixed percentages of the gross revenues from the hotels that are established in the hotel leases, and the Company has represented that the percentages (i) will not be renegotiated during the terms of the leases in a manner that has the effect of basing the Participating Rent on income or profits and (ii) conform with normal business practice, the Participating Rent should not be considered based in whole or in part on the income or profits of any person. Furthermore, the Company has represented that, with respect to other hotel properties that it acquires in the future, it will not charge rent for any property that is based in whole or in part on the income or profits of any person (except by reason of being based on a fixed percentage of gross revenues, as described above.)

Pursuant to leases with independent third parties, the Operating Partnership or certain subsidiary partnerships leases the Garage Property and the garage portions of certain of the Office Properties to independent third parties for periods between one to three years. The parking leases provide that the Operating Partnership will receive rent based on the gross receipts of the parking garage. The same "true lease" and "rent from real property" analysis applies with respect to the parking leases as is described above for the hotel leases. The garage leases also have been structured to qualify as true leases for federal income tax purposes. As is the case with respect to the hotel leases, there can be no complete assurance that the IRS will not assert a contrary position, which if successful could result in the loss of the Company's status as a REIT.

Through the Operating Partnership, which is not an "independent contractor," the Company provides certain services with respect to the Properties, but the Company believes (and has represented to Goodwin, Procter & Hoar llp) that all such services are considered "usually or customarily rendered" in connection with the rental of space for occupancy only, so that the provision of such services does not jeopardize the qualification

of rent from the Properties as "rents from real property." In rendering its opinion on the Company's ability to qualify as a REIT, Goodwin, Procter & Hoar llp is relying on such representations. In the case of any services that are not "usual and customary" under the foregoing rules, the Company intends to employ "independent contractors" to provide such services.

The Operating Partnership may receive certain types of income with respect to the properties it owns that will not qualify under the 75% or 95% gross income test. In particular, dividends on the Company's stock in the Development and Management Company will not qualify under the 75% gross income test. The Company believes, however, that the aggregate amount of such non-qualifying income in any taxable year will not cause the Company to exceed the limits on non-qualifying income under the 75% and 95% gross income tests.

If the Company fails to satisfy one or both of the 75% or 95% gross income tests for any taxable year, it may nevertheless qualify as a REIT for that year if it is eligible for relief under certain provisions of the Code. These relief provisions generally will be available if (i) the Company's failure to meet these tests was due to reasonable cause and not due to willful neglect, (ii) the Company attaches a schedule of the sources of its income to its Federal income tax return and (iii) any incorrect information on the schedule is not due to fraud with intent to evade tax. It is not possible, however, to state whether, in all circumstances, the Company would be entitled to the benefit of these relief provisions. For example, if the Company fails to satisfy the gross income tests because nonqualifying income that the Company intentionally incurs exceeds the limits on such income, the IRS could conclude that the Company's failure to satisfy the tests was not due to reasonable cause. As discussed above in "--Opinion of Tax Counsel," even if these relief provisions apply, a tax would be imposed with respect to the excess net income. No similar mitigation provision provides relief if the Company were to fail the 30% income test for its taxable year ending December 31, 1997, and in such case, the Company would cease to qualify as a REIT for taxable years beginning after August 5, 1997. The 30% gross income test has been repealed. See "Risk Factors--Failure to Qualify as a REIT."

ASSET TESTS

At the close of each quarter of its taxable year, the Company also must satisfy three tests relating to the nature and diversification of its assets.

- . First, at least 75% of the value of the Company's total assets must be represented by real estate assets, cash, cash items and government securities.
- . Second, no more than 25% of the Company's total assets may be represented by securities other than those in the 75% asset class.
- . Third, of the investments included in the 25% asset class, the value of any one issuer's securities owned by the Company may not exceed 5% of the value of the Company's total assets, and the Company may not own more than 10% of any one issuer's outstanding voting securities.

The 5% test must generally be met for any quarter in which the Company acquires securities of an issuer. Thus, this requirement must be satisfied not only on the date the Company acquires securities of the Development and Management Company, but also each time the Company increases its ownership of securities of the Development and Management Company (including as a result of increasing its interest in the Operating Partnership as limited partners exercise their redemption rights).

The Operating Partnership owns 100% of the nonvoting stock and 1% of the voting stock of the Development and Management Company, and by virtue of its ownership of Units, the Company is considered to own its pro rata share of such stock. Neither the Company nor the Operating Partnership, however, owns more than 10% of the voting securities of the Development and Management Company. In addition, the Company and its senior management do not believe that the Company's pro rata share of the value of the securities of the Development and Management Company exceeds 5% of the total value of the Company's assets. The Company's belief is based in part upon its analysis of the value of the equity and unsecured debt securities of the Development and Management Company owned by the Operating Partnership relative to the value of the other assets owned by the Operating Partnership. No independent appraisals have been obtained to support this conclusion, however, and Goodwin, Procter and Hoar LLP, in rendering its opinion as to the qualification of the

Company as a REIT, is relying on the conclusions of the Company and its senior management as to the value of the securities of the Development and Management Company. There can be no assurance that the IRS might not contend that the value of the securities of the Development and Management Company held by the Company (through the Operating Partnership) exceeds the 5% value limitation.

As noted above, the 5% value requirement must be satisfied not only on the date the Company acquires equity and unsecured debt securities of the Development and Management Company, but also each time the Company increases its ownership of such securities of the Development and Management Company (including as a result of increasing its interest in the Operating Partnership as partners exercise their redemption rights). Although the Company plans to take steps to ensure that it satisfied the 5% value test for any quarter with respect to which retesting is to occur, there can be no assurance that such steps will always be successful or will not require a reduction in the Company's overall interest in the Development and Management Company.

After initially meeting the asset tests at the close of any quarter, the Company will not lose its status as a REIT for failure to satisfy the asset tests at the end of a later quarter solely by reason of changes in asset values. If the failure to satisfy the asset tests results from an acquisition of securities or other property during a quarter, the failure can be cured by disposition of sufficient nonqualifying assets within 30 days after the close of that quarter. The Company maintains, and will continue to maintain, adequate records of the value of its assets to ensure compliance with the asset tests and will take such other actions within 30 days after the close of any quarter as may be required to cure any noncompliance.

ANNUAL DISTRIBUTION REQUIREMENTS

In order to be taxed as a REIT, the Company is required to distribute dividends (other than capital gain dividends) to its stockholders in an amount at least equal to (a) the sum of (i) 95% of the Company's "REIT taxable income" (computed without regard to the dividends-paid deduction and the Company's capital gain) and (ii) 95% of the net income, if any, from foreclosure property in excess of the special tax on income from foreclosure property, minus (b) the sum of certain items of non-cash income. Such distributions must be paid in the taxable year to which they relate, or in the following taxable year if declared before the Company timely files its Federal income tax return for such year and if paid on or before the first regular dividend payment after such declaration. Even if the Company satisfies the foregoing distribution requirements, to the extent that the Company does not distribute all of its net capital gain or "REIT taxable income" as adjusted, it will be subject to tax thereon at regular capital gains or ordinary corporate tax rates. Furthermore, if the Company should fail to distribute during each calendar year at least the sum of (a) 85% of its ordinary income for that year, (b) 95% of its capital gain net income other than such capital gain net income which the REIT elects to retain and pay tax on for that year and (c) any undistributed taxable income from prior periods, the Company would be subject to a 4% excise tax on the excess of such required distribution over the amounts actually distributed. Pursuant to recently enacted legislation, the Company may elect to retain, rather than distribute its net long-term capital gains for tax years beginning after August 5, 1997. The effect of such an election is that (i) the Company is required to pay the tax on such gains, (ii) U.S. Stockholders, while required to include their proportionate share of the undistributed long-term capital gains in income, will receive a credit or refund for their share of the tax paid by the REIT and (iii) the basis of U.S. Stockholder's Common Stock would be increased by the amount of the undistributed long-term capital gains (minus the amount of capital gains tax paid by the Company) included in the U.S. Stockholder's long-term capital gains. In addition, if the Company disposes of any asset subject to the Built-In Gain Rules during the applicable Recognition Period, the Company will be required, pursuant to guidance issued by the IRS, to distribute at least 95% of the Built-In Gain (after tax), if any, recognized on the disposition of the asset.

The Company intends to make timely distributions sufficient to satisfy the annual distribution requirements. In this regard, the Operating Partnership Agreement authorizes the Company, as general partner, to take such steps as may be necessary to cause the Operating Partnership to distribute to its partners an amount sufficient to permit the Company to meet these distribution requirements.

It is expected that the Company's REIT taxable income will be less than its cash flow due to the allowance of depreciation and other non-cash charges in computing REIT taxable income. Accordingly, the Company

anticipates that it will generally have sufficient cash or liquid assets to enable it to satisfy the 95% distribution requirement. It is possible, however, that the Company, from time to time, may not have sufficient cash or other liquid assets to meet the 95% distribution requirement or to distribute such greater amount as may be necessary to avoid income and excise taxation, as a result of timing differences between (i) the actual receipt of income and actual payment of deductible expenses and (ii) the inclusion of such income and deduction of such expenses in arriving at taxable income of the Company, or as a result of nondeductible expenses such as principal amortization or capital expenditures in excess of noncash deductions. In the event that such timing differences occur, the Company may find it necessary to arrange for borrowings or, if possible, pay taxable stock dividends in order to meet the dividend requirement.

Under certain circumstances, the Company may be able to rectify a failure to meet the distribution requirement for a year by paying "deficiency dividends" to stockholders in a later year, which may be included in the Company's deduction for dividends paid for the earlier year. Thus, the Company may be able to avoid being taxed on amounts distributed as deficiency dividends. The Company will, however, be required to pay interest based upon the amount of any deduction taken for deficiency dividends.

FAILURE TO QUALIFY

If the Company fails to qualify for taxation as a REIT in any taxable year and the relief provisions do not apply, the Company will be subject to tax (including any applicable alternative minimum tax) on its taxable income at regular corporate rates. Distributions to stockholders in any year in which the Company fails to qualify will not be deductible by the Company nor will they be required to be made. In such event, to the extent of current or accumulated earnings and profits, all distributions to stockholders will be dividends, taxable as ordinary income, and subject to certain limitations of the Code, corporate distributees may be eligible for the dividends-received deduction. Unless the Company is entitled to relief under specific statutory provisions, the Company also will be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost. It is not possible to state whether in all circumstances the Company would be entitled to such statutory relief. For example, if the Company fails to satisfy the gross income tests because nonqualifying income that the Company intentionally incurs exceeds the limit on such income, the IRS could conclude that the Company's failure to satisfy the tests was not due to reasonable cause. See "Risk Factors--Failure to Qualify as a REIT--Other Tax Liabilities."

TAXATION OF U.S. STOCKHOLDERS

As used herein, the term "U.S. Stockholder" means a holder of Common Stock that for United States federal income tax purposes (a) is a citizen or resident of the United States, (b) is a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (c) is an estate or trust, the income of which is subject to United States federal income taxation regardless of its source or (d) a trust if a U.S. court is able to exercise primary supervision over the administration of such trust and one or more U.S. persons have the authority to control all substantial decisions of such trust. For any taxable year for which the Company qualifies for taxation as a REIT, amounts distributed to taxable U.S. Stockholders will be taxed as follows.

DISTRIBUTIONS GENERALLY

Distributions to U.S. Stockholders, other than capital gain dividends discussed below, will constitute dividends up to the amount of the Company's current or accumulated earnings and profits and will be taxable to the stockholders as ordinary income. These distributions are not eligible for the dividends-received deduction for corporations. To the extent that the Company makes a distribution in excess of its current or accumulated earnings and profits, the distribution will be treated first as a tax-free return of capital, reducing the tax basis in the U.S. Stockholder's Common Stock, and the amount of such distribution in excess of a U.S. Stockholder's tax basis in its Common Stock will be taxable as gain realized from the sale of its Common Stock. Dividends declared by the Company in October, November or December of any year payable to a stockholder of record on a specified date in any such month shall be treated as both paid by the Company and received by the stockholder

on December 31 of the year, provided that the dividend is actually paid by the Company during January of the following calendar year. Stockholders may not include on their own federal income tax returns any losses of the Company.

The Company will be treated as having sufficient earnings and profits to treat as a dividend any distribution by the Company up to the amount required to be distributed in order to avoid imposition of the 4% excise tax discussed in "Opinion of Tax Counsel" above. Moreover, any "deficiency dividend" will be treated as an ordinary or capital gain dividend, as the case may be, regardless of the Company's earnings and profits. As a result, stockholders may be required to treat certain distributions that would otherwise result in a tax-free return of capital as taxable dividends.

CAPITAL GAIN DIVIDENDS

Dividends to U.S. Stockholders that are properly designated by the Company as capital gain dividends will be treated as long-term capital gains (to the extent they do not exceed the Company's actual net capital gain) for the taxable year without regard to the period for which the stockholder has held his stock. Pursuant to recently enacted legislation, in the case of a stockholder who is an individual, an estate or a trust, long-term capital gains and losses are separated into three tax rate groups: a 20% group, a 25% group and a 28% group and subject to tax at the rate effective for each group. Pursuant to IRS Notice 97-64, 1997-47 IRB 1, the Company will designate capital gain dividends, if any, as 20% rate gain distributions, 25% rate gain distributions or 28% rate distributions and detail such designations in a notice to its stockholders. Corporate stockholders may be required to treat up to 20% of certain capital gain dividends as ordinary income. Capital gain dividends are not eligible for the dividends-received deduction for corporations.

IRS Notice 97-64 describes temporary regulations that will be issued in regard to the proper treatment of capital gain dividends and undistributed capital gains and gives interim guidance that should be followed in this area until further notice. To the extent that the Company has net capital gain for a taxable year, dividends paid during the year (or that are deemed to be paid in a taxable year beginning after December 31, 1997) may be designated by it as capital gain dividends. In general, a capital gain dividend is treated by the shareholders as a gain from the sale or exchange of a capital asset held for more than one year. If the Company designates a dividend as a capital gain dividend for a taxable year ending on or after May 7, 1997, it may also designate the dividend as a 20% rate gain distribution, an unrecaptured section 1250 gain distribution, or a 28% rate gain distribution. If no additional designation is made regarding a capital gain dividend, it will be taxable as a 28% rate gain distribution. If any capital gain dividend is received on or after May 7, 1997, but is treated as being paid during a taxable year that ends on or before that date, the dividend will be taxable as a 28% rate gain distribution. This interim guidance may be changed in the future. As a result, prospective investors are urged to consult their own tax advisors with respect to the proper treatment of capital gain dividends and undistributed capital gains.

PASSIVE ACTIVITY LOSS AND INVESTMENT INTEREST LIMITATIONS

Distributions from the Company and gain from the disposition of Common Stock will not be treated as passive activity income, and therefore stockholders may not be able to apply any "passive losses" against such income. Dividends from the Company (to the extent they do not constitute a return of capital) will generally be treated as investment income for purposes of the investment income limitation. Net capital gain from the disposition of Common Stock and capital gain dividends generally will be included in investment income for purposes of the investment interest deduction limitations only if and to the extent the stockholder so elects, in which case such capital gains will be taxed as ordinary income.

CERTAIN DISPOSITIONS OF SHARES

Losses incurred on the sale or exchange of Common Stock held for less than six months (after applying certain holding period rules) will be deemed capital loss to the extent of any capital gain dividends received by the selling stockholder from those shares. Due to ambiguities in the Taxpayer Relief Act of 1997, pending guidance from the IRS, it is not clear whether or how such capital loss will be separated into the 20% group, the 25% group and the 28% group.

TREATMENT OF TAX-EXEMPT STOCKHOLDERS

Distributions from the Company to a tax-exempt employee pension trust or other domestic tax-exempt stockholder generally, will not constitute "unrelated business taxable income" ("UBTI") unless the stockholder has borrowed to acquire or carry its Common Stock. Qualified trusts that hold more than 10% (by value) of the shares of certain REITS, however, may be required to treat a certain percentage of such a REIT's distributions as UBTI. This requirement will apply only if (i) the REIT would not qualify as such for federal income tax purposes but for the application of the "look-through" exception to the Five or Fewer Requirement applicable to shares held by qualified trusts and (ii) the REIT is "predominantly held" by qualified trusts. A REIT is predominantly held by qualified trusts if either (i) a single qualified trust holds more than 25% by value of the interests in the REIT or (ii) one or more qualified trusts, each owning more than 10% by value of the interests in the REIT, hold in the aggregate more than 50% of the interests in the REIT. The percentage of any REIT dividend treated as UBTI is equal to the ratio of (a) the UBTI earned by the REIT (treating the REIT as if it were a qualified trust and therefore subject to tax on UBTI) to (b) the total gross income (less certain associated expenses) of the REIT. A de minimis exception applies where the ratio set forth in the preceding sentence is less than 5% for any year. For these purposes, a qualified trust is any trust described in section 401(a) of the Code and exempt from tax under section 501(a) of the Code. The provisions requiring qualified trusts to treat a portion of REIT distributions as UBTI will not apply if the REIT is able to satisfy the Five or Fewer Requirement without relying upon the "look-through" exception.

SPECIAL TAX CONSIDERATIONS FOR FOREIGN STOCKHOLDERS

The rules governing United States income taxation of non-resident alien individuals, foreign corporations, foreign partnerships and foreign trusts and estates (collectively, "Non-U.S. Stockholders") are complex, and the following discussion is intended only as a summary of these rules. Prospective Non-U.S. Stockholders should consult with their own tax advisors to determine the impact of federal, state and local income tax laws on an investment in the Company, including any reporting requirements.

In general, Non-U.S. Stockholders will be subject to regular United States federal income tax with respect to their investment in the Company if the investment is "effectively connected" with the Non-U.S. Stockholder's conduct of a trade or business in the United States. A corporate Non-U.S. Stockholder that receives income that is (or is treated as) effectively connected with a U.S. trade or business also may be subject to the branch profits tax under section 884 of the Code, which is payable in addition to regular United States federal corporate income tax. The following discussion will apply to Non-U.S. Stockholders whose investment in the Company is not so effectively connected.

A distribution by the Company that is not attributable to gain from the sale or exchange by the Company of a United States real property interest and that is not designated by the Company as a capital gain dividend will be treated as an ordinary income dividend to the extent that it is made out of current or accumulated earnings and profits. Generally, any ordinary income dividend will be subject to a United States federal income tax equal to 30% of the gross amount of the dividend unless this tax is reduced by an applicable tax treaty. Such a distribution in excess of the Company's earnings and profits will be treated first as a return of capital that will reduce a Non-U.S. Stockholder's basis in its Common Stock (but not below zero) and then as gain from the disposition of such shares, the tax treatment of which is described under the rules discussed below with respect to dispositions of Common Stock.

Distributions by the Company that are attributable to gain from the sale or exchange of a United States real property interest will be taxed to a Non-U.S. Stockholder under the Foreign Investment in Real Property Tax Act of 1980 ("FIRPTA"). Under FIRPTA, such distributions are taxed to a Non-U.S. Stockholder as if the distributions were gains "effectively connected" with a United States trade or business. Accordingly, a Non-U.S. Stockholder will be taxed at the normal capital gain rates applicable to a U.S. Stockholder (subject to any applicable alternative minimum tax and a special alternative minimum tax in the case of non-resident alien individuals). Distributions subject to FIRPTA also may be subject to a 30% branch profits tax when made to a foreign corporate stockholder that is not entitled to treaty exemptions.

Although tax treaties may reduce the Company's withholding obligations, the Company generally will be required to withhold from distributions to Non-U.S. Stockholders, and remit to the IRS, (i) 35% of designated capital gain dividends (or, if greater, 35% of the amount of any distributions that could be designated as capital gain dividends) and (ii) 30% of ordinary dividends paid out of earnings and profits. In addition, if the Company designates prior distributions as capital gain dividends, subsequent distributions, up to the amount of such prior distributions, will be treated as capital gain dividends for purposes of withholding. A distribution in excess of the Company's earnings and profits will be subject to 30% dividend withholding if at the time of the distribution it cannot be determined whether the distribution will be in an amount in excess of the Company's current or accumulated earnings and profits. If the amount of tax withheld by the Company with respect to a distribution to a Non-U.S. Stockholder exceeds the stockholder's United States tax liability with respect to such distribution, the Non-U.S. Stockholder may file for a refund of such excess from the IRS.

Unless the Common Stock constitutes a "United States real property interest" within the meaning of FIRPTA, a sale of Common Stock by a Non-U.S. Stockholder generally will not be subject to United States federal income taxation. The Common Stock will not constitute a United States real property interest if the Company is a "domestically controlled REIT." A domestically controlled REIT is a REIT in which at all times during a specified testing period less than 50% in value of its shares is held directly or indirectly by Non-U.S. Stockholders. It is currently anticipated that the Company will be a domestically controlled REIT and therefore that sales of Common Stock will not be subject to taxation under FIRPTA. However, because the Common Stock will be publicly traded, no assurance can be given that the Company will continue to be a domestically controlled REIT. If the Company were not a domestically controlled REIT, whether a Non-U.S. Stockholder's sale of Common Stock would be subject to tax under FIRPTA as a sale of a United States real property interest would depend on whether the Common Stock were "regularly traded" on an established securities market (such as the NYSE on which the Common Stock will be listed) and on the size of the selling stockholder's interest in the Company. If the gain on the sale of Common Stock were subject to taxation under FIRPTA, the Non-U.S. Stockholder would be subject to the same treatment as a U.S. Stockholder with respect to the gain (subject to any applicable alternative minimum tax and a special alternative minimum tax in the case of non-resident alien individuals). In addition, distributions that are treated as gain from the disposition of Common Stock and are subject to tax under FIRPTA also may be subject to a 30% branch profit tax when made to a foreign corporate stockholder that is not entitled to treaty exemptions. In any event, a purchaser of Common Stock from a Non-U.S. Stockholder will not be required to withhold under FIRPTA on the purchase price if the purchased Common Stock is "regularly traded" on an established securities market (such as the NYSE) or if the Company is a domestically controlled REIT. Otherwise, under FIRPTA the purchaser of Common Stock may be required to withhold 10% of the purchase price and remit this amount to the IRS. Capital gains not subject to FIRPTA will be taxable to a Non-U.S. Stockholder if the Non-U.S. Stockholder is a non-resident alien individual who is present in the United States for 183 days or more during the taxable year and certain other conditions apply, in which case the non-resident alien individual will be subject to a 30% tax on his or her U.S. source capital gains.

On October 6, 1997, the U.S. Treasury Department issued final Treasury regulations governing information reporting and the certification procedures regarding withholding and backup withholding on certain amounts paid to Non-U.S. Stockholders after December 31, 1998. The new Treasury regulations may alter the procedures for claiming the benefits of an income tax treaty. Non-U.S. Stockholders should consult their tax advisors concerning the effect, if any, of such new Treasury regulations on an investment in Common Stock.

INFORMATION REPORTING REQUIREMENTS AND BACKUP WITHHOLDING TAX

Under certain circumstances, U.S. Stockholders may be subject to backup withholding at a rate of 31% on payments made with respect to, or cash proceeds of a sale or exchange of, Common Stock. Backup withholding will apply only if the holder (i) fails to furnish his or her taxpayer identification number ("TIN") (which, for an individual, would be his or her Social Security Number), (ii) furnishes an incorrect TIN, (iii) is notified by the IRS that he or she has failed properly to report payments of interest and dividends or is otherwise subject to backup withholding or (iv) under certain circumstances, fails to certify, under penalties of perjury, that he or she has furnished a correct TIN and (a) that he or she has not been notified by the IRS that he or she is subject to backup withholding for failure to report interest and dividend payments or (b) that he or she has been notified by

the IRS that he or she is no longer subject to backup withholding. Backup withholding will not apply with respect to payments made to certain exempt recipients, such as corporations and tax-exempt organizations.

U.S. Stockholders should consult their own tax advisors regarding their qualifications for exemption from backup withholding and the procedure for obtaining such an exemption. Backup withholding is not an additional tax. Rather, the amount of any backup withholding with respect to a payment to a U.S. Stockholder will be allowed as a credit against the U.S. Stockholder's United States federal income tax liability and may entitle the U.S. Stockholder to a refund, provided that the required information is furnished to the IRS.

Additional issues may arise pertaining to information reporting and backup withholding for Non-U.S. Stockholders. Non-U.S. Stockholders should consult their tax advisors with regard to U.S. information reporting and backup withholding.

OTHER TAX CONSIDERATIONS

EFFECT OF TAX STATUS OF OPERATING PARTNERSHIP ON REIT QUALIFICATION

Substantially all of the Company's investments are through the Operating Partnership. In addition, the Operating Partnership holds interests in certain Properties through subsidiary partnerships. The Company's interest in these partnerships may involve special tax considerations. Such considerations include (i) the allocations of items of income and expense, which could affect the computation of taxable income of the Company, (ii) the status of the Operating Partnership, and other subsidiary partnerships as partnerships (as opposed to associations taxable as corporations) for federal income tax purposes, and (iii) the taking of actions by the Operating Partnership and subsidiary partnerships that could adversely affect the Company's qualifications as a REIT. In the opinion of Goodwin, Procter & Hoar LLP, based on certain representations of the Company and its subsidiaries, each of the Operating Partnership, and the other subsidiary partnerships in which the Operating Partnership has an interest will be treated for Federal income tax purposes as a partnership (and not as an association taxable as a corporation). If any of the Operating Partnership, or other subsidiary partnerships in which the Operating Partnership has an interest were treated as an association taxable as a corporation, the Company would fail to qualify as a REIT for a number of reasons.

TAX ALLOCATIONS WITH RESPECT TO THE PROPERTIES

When property is contributed to a partnership in exchange for an interest in the partnership, the partnership generally takes a carryover basis in that property for tax purposes equal to the adjusted basis of the contributing partner in the property, rather than a basis equal to the fair market value of the property at the time of contribution. Pursuant to section 704(c) of the Code, income, gain, loss and deduction attributable to such contributed property must be allocated in a manner such that the contributing partner is charged with, or benefits from, respectively, the unrealized gain or unrealized loss associated with the property at the time of the contribution. The amount of such unrealized gain or unrealized loss is generally equal to the difference between the fair market value of the contributed property at the time of contribution and the adjusted tax basis of such property at the time of contribution (a "Book-Tax Difference"). Such allocations are solely for Federal income tax purposes and do not affect the book capital accounts or other economic or legal arrangements among the partners. The Operating Partnership was formed by way of contributions of appreciated property (including certain of the Properties). Consequently, the Operating Partnership Agreement requires such allocations to be made in a manner consistent with section 704(c) of the Code. Final and temporary Regulations under Section 704(c) of the Code provide partnerships with a choice of several methods of accounting for Book-Tax Differences for property contributed to a partnership on or after December 21, 1993, including the retention of the "traditional method" that was available under prior law or the election of certain alternative methods. Currently, the Company intends to elect the "traditional method with curative allocations" of Section 704(c) allocations. Under the traditional method, which is the least favorable method from the Company's perspective, the carryover basis of contributed interests in the Properties in the hands of the Operating Partnership could cause the Company (i) to be allocated lower amounts of depreciation deductions for tax purposes than would be allocated to the Company if all Properties were to have a tax basis equal to their fair market value at the time of the contribution (the "ceiling rule") and (ii) to be allocated taxable gain in the event of a sale of such contributed interests in the Properties in excess of the economic or book income allocated to the Company as a result of such

sale, with a corresponding benefit to the other partners in the Operating Partnership. If the "traditional method with curative allocations" is elected by the Company the Operating Partnership Agreement may specially allocate taxable gain on sale of the Properties to the contributing partners up to the aggregate amount of depreciation deductions with respect to each such Property that the "ceiling rule" prevented the Company from being allocated.

Interests in the Properties purchased for cash by the Operating Partnership simultaneously with or subsequent to the admission of the Company to the Operating Partnership initially had a tax basis equal to their fair market value. Thus, Section 704(c) of the Code does not apply to such interests.

A portion of the amounts to be used to fund distributions to stockholders is expected to come from the Development and Management Company, through dividends on stock held by the Operating Partnership. The Development and Management Company will not qualify as a REIT and will pay federal, state and local income taxes on its taxable income at normal corporate rates. The federal, state or local income taxes that the company is required to pay will reduce the amount of dividends payable by such company to the Operating Partnership and cash available for distribution by the Company, which in turn could require the Operating Partnership to secure funds from additional sources in order to allow the Company to make required distributions.

As described above, the value of the equity and unsecured debt securities of the Development and Management Company held by the Company cannot exceed 5% of the value of the Company's assets at a time when a Partner exercises his redemption right (or the Company otherwise is considered to acquire additional securities of the Development and Management Company). See "--Requirements for Qualification--Asset Tests." This limitation may restrict the ability of the Development and Management Company to increase the size of its respective business unless the value of the assets of the Company is increasing at a commensurate rate.

STATE AND LOCAL TAX

The Company and its operating subsidiaries may be subject to state and local tax in states and localities in which they do business or own property. The tax treatment of the Company and its operating subsidiaries and the holders of Common Stock in such jurisdictions may differ from the federal income tax treatment described above.

In addition, the Taxpayer Relief Act of 1997 includes several provisions, some of which have been indicated in the discussion above, that will liberalize certain of the requirements for qualification as a REIT. However, these provisions will have neither a material beneficial effect nor a material adverse effect on the Company's ability to operate as a REIT.

UNDERWRITING

Subject to the terms and conditions in the United States purchase agreement (the "U.S. Purchase Agreement"), among the Company and each of the underwriters named below (the "U.S. Underwriters"), and concurrently with the sale of 2,800,000 shares to the International Managers (as defined below), the Company has agreed to sell to each of the U.S. Underwriters, for whom Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Bear, Stearns & Co. Inc., Morgan Stanley & Co. Incorporated, PaineWebber Incorporated, Prudential Securities Incorporated, Smith Barney Inc. and Chase Securities Inc. are acting as representatives (the "U.S. Representatives"), and each of the U.S. Underwriters has severally agreed to purchase from the Company, the respective number of shares of Common Stock set forth opposite their respective names:

| UNDERWRITER ----- | NUMBER OF SHARES ----- |
|--|----------------------------------|
| Goldman, Sachs & Co. | |
| Merrill Lynch, Pierce, Fenner & Smith Incorporated..... | |
| Bear, Stearns & Co. Inc. | |
| Morgan Stanley & Co. Incorporated | |
| PaineWebber Incorporated | |
| Prudential Securities Incorporated | |
| Smith Barney Inc. | |
| Chase Securities Inc. | |
| Total..... | ----- 11,200,000 ===== |

The Company has also entered into a purchase agreement (the "International Purchase Agreement" and, together with the U.S. Purchase Agreement, the "Purchase Agreements") with certain underwriters outside the United States and Canada (the "International Managers" and, together with the U.S. Underwriters, the "Underwriters") for whom Goldman Sachs International, Merrill Lynch International, Bear, Stearns International Limited, Morgan Stanley & Co. International Limited, PaineWebber International (UK) Ltd., Prudential-Bache Securities (U.K.) Inc., Smith Barney Inc. and Chase Manhattan International Limited are acting as lead managers. Subject to the terms and conditions set forth in the International Purchase Agreement and concurrently with the sale of 11,200,000 shares of Common Stock to the U.S. Underwriters pursuant to the U.S. Purchase Agreement, the Company has agreed to sell to the International Managers, and the International Managers have severally agreed to purchase from the Company, an aggregate of 2,800,000 shares of Common Stock. The public offering price per share and the total underwriting discount per share are identical under the U.S. Purchase Agreement and the International Purchase Agreement.

In each Purchase Agreement, the several U.S. Underwriters and the several International Managers have agreed, respectively, subject to the terms and conditions set forth in such Purchase Agreement, to purchase all of the shares of Common Stock being sold pursuant to such Purchase Agreement if any of such shares of Common Stock are purchased. Under certain circumstances, the commitments of non-defaulting U.S. Underwriters or International Managers (as the case may be) may be increased. The sale of shares of Common Stock pursuant to the U.S. Purchase Agreement and the International Purchase Agreement are conditioned upon each other.

The U.S. Representatives have advised the Company that the U.S. Underwriters propose to offer the Common Stock to the public at the public offering price set forth on the cover page of this Prospectus and to certain dealers at such price less a concession not in excess of \$ per share. The U.S. Underwriters may allow, and such dealers may re-allow, a discount not in excess of \$ per share on sales to certain other brokers and dealers. After the date of this Prospectus, the public offering price and concession and discount may be changed.

The Company has been informed that the U.S. Underwriters and the International Managers have entered into an agreement (the "Intersyndicate Agreement") providing for the coordination of their activities. Under the terms of the Intersyndicate Agreement, the U.S. Underwriters and the International Managers are permitted to sell shares of Common Stock to each other for purposes of resale at the public offering price, less an amount not greater than the selling concession. Under the terms of the Intersyndicate Agreement, the International Managers

and any dealer to whom they sell shares of Common Stock will not offer to sell or sell shares of Common Stock to persons who are United States persons or Canadian persons or to persons they believe intend to resell to persons who are United States persons or Canadian persons, and the U.S. Underwriters and any dealer to whom they sell shares of Common Stock will not offer to sell or sell shares of Common Stock to persons who are non-United States and non-Canadian persons or to persons they believe intend to resell to non-United States and non-Canadian persons, except in each case for transactions pursuant to such agreement.

The Company has granted to the U.S. Underwriters an option, exercisable for 30 days after the date of this Prospectus, to purchase up to 1,680,000 additional shares of Common Stock to cover overallocments, if any, at the public offering price, less the underwriting discount set forth on the cover page of this Prospectus. If the U.S. Underwriters exercise this option, each U.S. Underwriter will have a firm commitment, subject to certain conditions, to purchase approximately the same percentage thereof which the number of shares of Common Stock to be purchased by it shown in the foregoing table bears to such U.S. Underwriters' initial amount reflected in the foregoing table. The Company also has granted an option to the International Managers, exercisable during the 30-day period after the date of this Prospectus, to purchase up to 420,000 additional shares of Common Stock to cover overallocments, if any, on terms similar to those granted to the U.S. Underwriters.

In the Purchase Agreements, the Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act.

The Company, the Operating Partnership and certain persons who owned interests in one or more of the Properties prior to the Initial Offering and who received OP Units in exchange for such interests in the Formation Transactions (the "Non-Affiliated Participants") agreed, subject to certain exceptions, not to sell, offer or contract to sell, grant any option for the sale of, or otherwise dispose of any shares of Common Stock or OP Units, or any securities convertible into or exchangeable for Common Stock or OP Units, for a period of one year from June 1997, without the prior written consent of Goldman, Sachs & Co. and Merrill Lynch, Pierce, Fenner & Smith Incorporated. The Company has granted certain registration rights pursuant to which the Non-Affiliated Participants may require the Company to file a registration statement with the Securities and Exchange Commission with respect to sales of any shares received by the Non-Affiliated Participants in exchange for their OP Units after the expiration of the one-year period.

Messrs. Zuckerman and Linde and the senior officers of the Company who received OP Units and/or shares of Common Stock in the Formation Transactions have agreed, subject to certain exceptions, not to sell, offer or contract to sell, grant any option for the sale of, or otherwise dispose of any shares of Common Stock or OP Units for a period of two years from June 1997, without the prior written consent of Goldman, Sachs & Co. and Merrill Lynch, Pierce, Fenner & Smith Incorporated.

Until the distribution of the Common Stock is completed, rules of the Securities and Exchange Commission may limit the ability of the Underwriters and certain selling group members to bid for and purchase the Common Stock. As an exception to these rules, the U.S. Representatives are permitted to engage in certain transactions that stabilize the price of the Common Stock. Such transactions consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the Common Stock.

If the Underwriters create a short position in the Common Stock in connection with this Offering, i.e., if they sell more shares of Common Stock than are set forth on the cover page of this Prospectus, the U.S. Representatives and the International Managers, respectively, may reduce that short position by purchasing Common Stock in the open market. The U.S. Representatives and the International Managers, respectively, may also elect to reduce any short position by exercising all or part of the over-allotment option described above.

The U.S. Representatives and the International Managers, respectively, may also impose a penalty bid on certain Underwriters and selling group members. This means that if the U.S. Representatives or the International Managers purchase shares of Common Stock in the open market to reduce the Underwriters' short position or to stabilize the price of the Common Stock, they may reclaim the amount of the selling concession from the Underwriters and selling group members who sold those shares as part of this Offering.

In general, purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might be in the absence of such purchases. The imposition of a penalty bid might also have an effect on the price of a security to the extent that it were to discourage resales of the security.

Neither the Company nor any of the Underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Common Stock. In addition, none of the Underwriters makes any representation that the U.S. Representatives or the International Managers will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

The Prudential Insurance Company of America, an affiliate of Prudential Securities Incorporated, is the lender with respect to the mortgages on The National Imaging and Mapping Agency Building and The Lockheed Martin Building. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources--Mortgage Indebtedness."

EXPERTS

The combined historical financial statements and financial statement schedule of the Boston Properties Predecessor Group included in this Prospectus and the Registration Statement of which this Prospectus is a part, to the extent and for the periods indicated in their reports and the Statements of Revenue over Certain Operating Expenses of 280 Park Avenue, 100 East Pratt Street, 875 Third Avenue, Riverfront Plaza and the Mulligan/Griffin Portfolio for the year ended December 31, 1996, have been audited by Coopers & Lybrand L.L.P., independent accountants, and are included herein in reliance upon the authority of such firm as experts in accounting and auditing.

In addition, certain statistical information provided under the captions "Prospectus Summary--The Properties" and "Business and Properties" has been prepared by Spaulding & Slye, and is included herein in reliance upon the authority of such firm as expert in, among other things, office and industrial real estate market conditions.

LEGAL MATTERS

Certain legal matters, including the validity of the shares of Common Stock offered hereby, will be passed upon for the Company by Goodwin, Procter & Hoar LLP. In addition, the description of federal income tax consequences contained in this Prospectus under the heading "Federal Income Tax Consequences" is based upon the opinion of Goodwin, Procter & Hoar LLP. Gilbert G. Menna, the sole shareholder of Gilbert G. Menna, P.C., a partner of Goodwin, Procter & Hoar llp, serves as an Assistant Secretary of the Company. Certain partners of Goodwin, Procter & Hoar LLP or their affiliates, together with Mr. Menna, own approximately 20,000 shares of Common Stock. Goodwin, Procter & Hoar llp occupies approximately 26,000 square feet at 599 Lexington Avenue under a lease with the Company that expires in 2002.

Certain legal matters will be passed upon for the Underwriters by Skadden, Arps, Slate, Meagher & Flom LLP.

ADDITIONAL INFORMATION

The Company has filed with the Securities and Exchange Commission (the "Commission") a Registration Statement on Form S-11 (of which this Prospectus is a part) under the Securities Act with respect to the securities offered hereby. This Prospectus does not contain all information set forth in the Registration Statement, certain portions of which have been omitted as permitted by the rules and regulations of the Commission. Statements contained in this Prospectus as to the content of any contract or other document are not necessarily complete, and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference and the exhibits and schedules hereto. For further information regarding the Company and the Common Stock offered hereby, reference is hereby made to the Registration Statement and such exhibits and schedules, which may be obtained from the Commission as its principal office at 450 Fifth Street, Northwest, Washington, D.C. 20549, upon payment of the fees prescribed by the Commission. The Commission maintains a website at <http://www.sec.gov> containing reports, proxy and information statements and other information regarding registrants, including the Company, that file electronically with the Commission.

Statements contained in this Prospectus as to the contents of any contract or other document that is filed as an exhibit to the Registration Statement are not necessarily complete, and each such statement is qualified in its entirety by reference to the full text of such contract or document.

The Company is required to file reports and other information with the Commission pursuant to the Securities Exchange Act of 1934. In addition to applicable legal or NYSE requirements, if any, holders of Common Shares will receive annual reports containing audited financial statements with a report thereon by the Company's independent certified public accounts, and quarterly reports containing unaudited financial information for each of the first three quarters of each fiscal year.

GLOSSARY

"100 Stockholder Requirement" means the requirement that beneficial ownership of a corporation must be held by 100 or more persons in order to qualify as a REIT under the Code.

"1940 Act" means the Investment Company Act of 1940, as amended.

"Absorption" means the net increase in square feet of leased space.

"ADA" means the Americans with Disabilities Act, enacted on July 26, 1990.

"ADR" means the average daily rate of a Hotel Property.

"Annualized Net Effective Rent" is calculated for leases in effect as of September 30, 1997 as follows: Annualized Rent, calculated as described below (but by determining monthly rent on a straight line basis in accordance with GAAP rather than adding back any rent abatement) was reduced to reflect the annualized costs of tenant improvements and leasing commissions, if any, paid or payable by the Company (calculated by dividing the total tenant improvements and leasing commissions for a given lease by the term of that lease in months and multiplying the result by twelve).

"Annualized Rent" means the monthly contractual rent under existing leases as of September 30, 1997 multiplied by twelve. This amount reflects total rent before any rent abatements and includes expense reimbursements, which may be estimates as of such date.

"Acquisition Properties" means the ten Office Properties subject to purchase and sale agreements or contribution and exchange agreements which the Company expects to acquire in January and February 1998.

"Average Effective Annual Rent" means the contractual rent for the month of December of the applicable year, presented on a straight-line basis in accordance with GAAP, exclusive of tenant pass-throughs of operating and other expenses.

"Beneficiary" means the qualified charitable organization selected by the Company to serve as the beneficiary of the trust which shall hold any Excess Shares.

"Book-Tax Difference" means the difference between the fair market value of the contributed property at the time of contribution and the adjusted tax basis of such property at the time of contribution.

"Boston Properties Predecessor Group" means Boston Properties, Inc., the Property Partnerships and the other entities which owned interests in one or more of the Properties or in other assets that were contributed to the Company in connection with the Formation Transactions.

"Built-In Gain" means the excess of the fair market value of an asset as of the beginning of the applicable Recognition Period over the Company's adjusted basis in such asset as of the beginning of such Recognition Period.

"Built-In Gain Rules" means the built-in gain rules promulgated in guidelines issued by the IRS.

"Bylaws" means the Amended and Restated Bylaws of the Company.

"Certificate" means the Amended and Restated Certificate of Incorporation of the Company.

"Class A Office Buildings" means the 48 Class A office buildings, including five Class A office buildings currently under development by the Company and six Class A office buildings expected to be acquired by the Company in January and February 1998. The Company considers Class A office buildings to be centrally located buildings that are professionally managed and maintained, attract high-quality tenants and command upper-tier rental rates, and are modern structures or have been modernized to successfully compete with newer buildings.

"Code" means the Internal Revenue Code of 1986, as amended, together with its predecessor.

"Commission" or the "SEC" means the Securities and Exchange Commission.

"Common Stock" means shares of the Company's common stock, \$.01 par value per share.

"Company" means Boston Properties, Inc., a Delaware corporation, and its subsidiaries on a consolidated basis, including the Operating Partnership and the Development and Management Company.

"Company Quoted Rental Rate" means the weighted average rental rate per square foot quoted by the Company as of October 1, 1997, based on the total net rentable square feet of Properties in the applicable submarket. This rate is not adjusted to a full-service equivalent rate in markets in which the Company's rates are not quoted on a full-service basis.

"Continuing Investors" means the persons who held a direct or indirect interest in the assets of the Company prior to the Offering.

"Development and Management Company" means Boston Properties Management, Inc., the subsidiary of the Operating Partnership which succeeded to a portion of the third-party commercial real estate property management business of Boston Properties, Inc.

"Designated Property" means any of 599 Lexington Avenue, One and Two Independence Square, and Capital Gallery, or a successor property acquired in a "like kind" exchange for such a property.

"Development Properties" means the five Office Properties and one Hotel Property under development or redevelopment by the Company at December 1, 1997.

"DGCL" means the Delaware General Corporation Law.

"Direct Vacancy Rate" means space immediately available by landlords.

"EBITDA" means earnings before interest, taxes, depreciation and amortization.

"Excess Shares" means those shares of Common Stock in excess of the Ownership Limit, the Look-Through Ownership Limit, the Related Party Limit, or the Certificate which are automatically converted into an equal number of shares of Excess Stock.

"Excess Stock" means the separate class of shares of stock of the Company into which shares of stock of the Company owned, or deemed to be owned, or transferred to a stockholder in excess of the Ownership Limit, the Related Party Limit or the Look-Through Ownership Limit, as applicable, will automatically be converted.

"FIRPTA" means the Foreign Investment in Real Property Tax Act of 1980, as amended.

"Five or Fewer Requirement" means the requirement under the Code that not more than 50% in value of the Company's outstanding shares of Stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code) during the last half of a taxable year (other than the first year).

"Formation Transactions" means the transactions relating to the formation of the Company and its subsidiaries, including the transfer to the Company upon the completion of the Initial Offering of the Properties from the Property Partnerships and other entities which owned one or more Properties prior to the completion of the Initial Offering and the development, project management and property management businesses of Boston Properties, Inc.

"Funds from Operations" means, in accordance with the resolution adopted by the Board of Governors of NAREIT, net income (loss) (computed in accordance with GAAP), excluding significant non-recurring items, gains (or losses) from debt restructuring and sales of property, plus depreciation and amortization on real estate assets, and after adjustments for unconsolidated partnerships and joint ventures.

"GAAP" means generally accepted accounting principles.

"Garage Property" means the 1,170 space parking garage in which the Company has an interest.

"Greater Boston" means the city of Boston and ninety surrounding municipalities in the Commonwealth of Massachusetts, as designated by Spaulding & Slye in its market study cited herein.

"Greater Washington, D.C." means the city of Washington, D.C. and fifty surrounding municipalities, as designated by Spaulding & Slye in its market study cited herein.

"GSA" means the General Services Administration of the United States Government.

"Hotel Development Property" means the limited service extended stay hotel currently under development by the Company.

"Hotel Properties" means the two full service hotels and one limited service extended stay hotel (which is currently under development) which the Company owns.

"HVAC" means heating, ventilation and air conditioning.

"Industrial Properties" means the nine industrial properties in which the Company has an interest.

"International Purchase Agreement" means the purchase agreement among the Company and the International Managers.

"International Managers" means the underwriters outside the United States and Canada named in this Prospectus for whom Goldman Sachs International and Merrill Lynch International are acting as lead managers.

"Intersyndicate Agreement" means the agreement between the U.S. Underwriters and the International Managers providing for the coordination of their activities.

"IRS" means the Internal Revenue Service.

"LIBOR" means the London Interbank Offered Rate.

"Look-Through Ownership Limit" means the ownership limit applicable to entities which are looked through for purposes of the Five or Fewer Requirement restricting such entities to holding no more than 15.0% of the number of outstanding shares of any class or series of capital stock of the Company.

"Marriott (R)" means Marriott International, Inc., the manager of the three Hotel Properties.

"MIT" means the Massachusetts Institute of Technology.

"Mortgage Debt" means the total mortgage debt secured by the Properties following the Offering.

"Named Executive Officers" means the Company's Chief Executive Officer and each of the Company's four other most highly compensated executive officers.

"NAREIT" means the National Association of Real Estate Investment Trusts.

"Non-U.S. Stockholders" means non-United States stockholders for federal income tax purposes.

"NYSE" means the New York Stock Exchange, Inc.

"Offering" means the offering of shares of Common Stock of the Company pursuant to, and as described in, this Prospectus.

"Office Development Properties" means the five office properties currently under development by the Company.

"Office Properties" means the 48 Class A Office Buildings, including five Class A Office Buildings currently under development by the Company and six Class A Office Buildings expected to be acquired in January and February 1998, and 27 R&D Properties, including four R&D Properties expected to be acquired in February 1998, in which the Company has an interest.

"OP Units" means limited and general partnership interests in the Operating Partnership.

"Operating Partnership" means Boston Properties Limited Partnership, a Delaware limited partnership.

"Operating Partnership Agreement" means the amended and restated agreement of limited partnership of the Operating Partnership.

"Ownership Limit" means the restriction contained in the Company's Certificate providing that, subject to certain exceptions, no holder may own, or be deemed to own by virtue of the attribution provision of the Code, more than 6.6% of the number of outstanding shares of any class or series of capital stock of the Company.

"Personal Property" means the property in which Messrs. Zuckerman and Linde hold ownership interests but which was not contributed to the Company as part of the Formation Transactions.

"Plan" means the Boston Properties, Inc. 1997 Stock Option and Incentive Plan.

"Preferred Stock" means shares of Series E preferred stock of the Company, \$.01 par value per share.

"Prohibited Owner" means a person or entity holding record title to shares of Common Stock in excess of the Ownership Limit, the Look-Through Ownership Limit, the Related Party Limit, or the Certificate.

"Prohibited Transferee" means the transferee of any purported transfer of capital stock of the Company or any other event which would otherwise result in the transferee violating the Ownership Limit, the Look-Through Ownership Limit, the Related Party Limit, or the Certificate.

"Properties" means the 92 commercial real estate properties referred to herein in which the Company has an interest (including the six Development Properties and the ten Acquisition Properties).

"Property Partnership" means a general or limited partnership which, prior to the Formation Transactions, owned or had an interest in one or more Properties.

"Prospectus" means this prospectus, as the same may be amended.

"Purchase Agreements" means the U.S. Purchase Agreement and the International Purchase Agreement.

"R&D Properties" means the 27 Office Properties in which the Company has an interest that support both office, research and development and other technical uses.

"Recognition Period" means the ten-year period beginning on the date on which the Company acquires an asset from a C corporation in a carry-over basis transaction.

"REIT" means real estate investment trust, as defined by Sections 856 through 860 of the Code and applicable Treasury Regulations.

"REIT Requirements" means the requirements for qualifying as a REIT under Sections 856 through 860 of the Code and applicable Treasury Regulations.

"Related Party" means each of Messrs. Zuckerman and Linde, their respective heirs, legatees and devisees, and any other person whose beneficial ownership of shares of Common Stock would be attributed under the Code to Messrs. Zuckerman, Linde, or their respective heirs, legatees or devisees.

"Related Party Ownership Limit" means the ownership limit applicable to each of Mr. Zuckerman and associated related parties and Mr. Linde and associated related parties restricting each such class of persons to holding no more than 15.0% of the number of outstanding shares of any class or series of capital stock of the Company.

"Related Party Tenant" means a tenant or subtenant of the Company which is 10% or more constructively or directly owned by an owner of 10% or more of the Company under the Code.

"Restricted Stock" means the shares of Common Stock acquired by holders in redemption of OP Units which will constitute "restricted" securities as defined by Rule 144.

"REVPAR" means the revenue per available room of a Hotel Property as determined by dividing room revenue (excluding food and beverage revenue) over the applicable period by available rooms (i.e., the sum of the number of rooms available to be rented at a Hotel Property on each day of the applicable period).

"Rule 144" means Rule 144 promulgated under the Securities Act.

"Securities Act" means the Securities Act of 1933, as amended.

"Stock" means Common Stock and Preferred Stock.

"Subsidiary Corporation" means the Development and Management Company.

"Tax Counsel" means Goodwin, Procter & Hoar LLP, tax counsel to the Company.

"TIN" means taxpayer identification number.

"Total Square Footage" means total net rentable square feet of the Office and Industrial Properties, plus total square footage of the Hotel and Garage Properties and structured parking related to the Office Properties.

"Treasury Regulations" means regulations of the U.S. Department of Treasury under the Code.

"UBTI" means unrelated business taxable income as defined by Section 512(a) of the Code and applicable Treasury Regulations.

"Underwriters" means the U.S. Underwriters and the International Managers.

"Unsecured Line of Credit" means the \$300 million unsecured revolving line of credit with BankBoston, N.A., as agent that expires in June 2000.

"U.S. or United States" means the United States of America (including the District of Columbia), its territories, possessions and other areas subject to its jurisdiction.

"U.S. Purchase Agreement" means the purchase agreement among the Company and the U.S. Underwriters.

"U.S. Representatives" means Goldman, Sachs & Co. and Merrill Lynch, Pierce, Fenner & Smith Incorporated acting as representatives for the U.S. Underwriters.

"U.S. Stockholder" means a United States stockholder under the REIT Requirements.

"U.S. Underwriters" means the underwriters for the United States and Canada named in this Prospectus for whom the U.S. Representatives are acting as representatives.

"White Paper" means the White Paper on Funds from Operations approved by the Board of Governors of NAREIT in March 1995.

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BOSTON PROPERTIES, INC.

PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

SEPTEMBER 30, 1997
(UNAUDITED)

The following unaudited Pro Forma Condensed Consolidated Balance Sheet of Boston Properties, Inc. (the "Company") is presented as if the following transactions had been consummated on September 30, 1997; (i) properties acquired or to be acquired subsequent to September 30, 1997 (the "1997 Acquired Properties" and "Pending Acquisitions", collectively the "Acquisition Properties"), and (ii) the completion of this offering (the "Offering"). This Pro Forma Condensed Consolidated Balance Sheet should be read in conjunction with the Pro Forma Condensed Consolidated Statement of Income of the Company for the nine months ended September 30, 1997 and the year ended December 31, 1996 and the historical consolidated and combined financial statements and notes thereto of the Company and the Boston Properties Predecessor Group (the "Predecessor Group") included elsewhere in this Prospectus. In management's opinion, all adjustments necessary to reflect the above transactions have been made.

The following Pro Forma Condensed Consolidated Balance Sheet is not necessarily indicative of what the actual financial position would have been assuming the above transactions had been consummated at September 30, 1997, nor does it purport to represent the future financial position of the Company.

The Properties

The Company will own a portfolio of 92 commercial real estate properties (the "Properties") aggregating approximately 18.1 million square feet. The properties consist of 79 office properties with approximately 13.1 million net rentable square feet (including five office properties under development containing approximately 1.0 million net rentable square feet) and approximately 2.9 million additional square feet of structured parking for 8,119 vehicles, nine industrial properties with approximately 926,000 net rentable square feet, three hotels with a total of 1,054 rooms (consisting of approximately 937,000 square feet) (including one hotel currently under development), and a parking garage with 1,170 spaces (consisting of approximately 332,000 square feet). In addition, the Company will own, have under contract or have an option to acquire twelve parcels of land totaling 69.7 acres, which will support approximately 1,549,000 square feet of development.

The Offering

The Company has filed a registration statement on Form S-11 with the Securities and Exchange Commission with respect to the Offering of approximately 14.0 million common shares at an estimated offering price of \$33.25 (excluding 2.1 million common shares that may be issued upon exercise of the underwriters' overallotment options).

BOSTON PROPERTIES, INC.

PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

SEPTEMBER 30, 1997
(UNAUDITED)
(DOLLARS IN THOUSANDS)

| | BOSTON PROPERTIES, INC. | PRO FORMA ADJUSTMENTS | | | PRO FORMA |
|--|-------------------------------|---------------------------|-----------------|----------------------|-------------|
| | | ACQUISITION PROPERTIES | OFFERING (A) | OTHER ADJUSTMENTS | |
| ASSETS | | | | | |
| Real estate and equipment..... | \$1,433,376 | \$779,267 (B) | -- | -- | \$2,212,643 |
| Less: accumulated depreciation..... | (285,505) | -- | -- | -- | (285,505) |
| Total real estate and equipment..... | 1,147,871 | 779,267 | -- | -- | 1,927,138 |
| Cash | 25,989 | (145,435) (C) | \$441,061 | \$ (208,500) (C) | 113,115 |
| Escrows..... | 10,673 | 2,631 (D) | -- | -- | 13,304 |
| Tenant and other receivables..... | 13,170 | 227 (E) | -- | -- | 13,397 |
| Accrued rental income... | 50,377 | -- | -- | -- | 50,377 |
| Deferred charges..... | 34,707 | -- | -- | -- | 34,707 |
| Prepaid expenses and other assets..... | 8,933 | -- | -- | -- | 8,933 |
| Investment in Joint Venture..... | 3,918 | -- | -- | -- | 3,918 |
| Total assets..... | \$1,295,638 | \$636,690 | \$441,061 | \$ (208,500) | \$2,164,889 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Liabilities: | | | | | |
| Mortgage notes payable..... | \$ 914,614 | \$420,051 (F) | -- | -- | \$1,334,665 |
| Unsecured Line of Credit..... | 71,000 | 137,500 (F) | -- | \$ (208,500) (F) | -- |
| Accounts payable and accrued expenses..... | 16,073 | 1,123 (G) | -- | -- | 17,196 |
| Accrued interest payable..... | 3,639 | -- | -- | -- | 3,639 |
| Rent received in advance, security deposits and other liabilities..... | 13,663 | -- | -- | -- | 13,663 |
| Total liabilities..... | 1,018,989 | 558,674 | -- | (208,500) | 1,369,163 |
| Minority interest in Operating Partnership.. | 81,168 | 78,000 (B) | -- | -- | 159,168 |
| Stockholders' equity: | | | | | |
| Preferred stock, \$.01 par value, 50,000,000 shares authorized, none issued or outstanding..... | -- | -- | -- | -- | -- |
| Excess stock, \$.01 par value, 150,000,000 shares authorized, none issued or outstanding..... | -- | -- | -- | -- | -- |
| Common stock, \$.01 par value, 250,000,000 shares authorized, 38,693,541 issued and outstanding (historical) and 52,694,041 shares issued and outstanding (pro forma)..... | 387 | -- | \$ 140 | -- | 527 |
| Additional paid in capital..... | 172,315 | 16 (B) | 440,921 | -- | 613,252 |
| Retained earnings..... | 22,779 | -- | -- | -- | 22,779 |
| Total stockholders' equity..... | 195,481 | 16 | 441,061 | -- | 636,558 |
| Total liabilities and stockholders' equity.. | \$1,295,638 | \$636,690 | \$441,061 | \$ (208,500) | \$2,164,889 |

The accompanying notes are an integral part of the pro forma condensed consolidated balance sheet.

BOSTON PROPERTIES, INC.

NOTES TO THE
PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

NOTES TO THE PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 1997:

(A) Represents the net proceeds obtained from the issuance of 14.0 million common shares in the Offering as follows:

| | |
|---|-----------|
| Gross proceeds from the Offering..... | \$465,500 |
| Underwriters' discount and other offering expenses..... | (24,439) |
| | ----- |
| Net cash proceeds..... | 441,061 |
| Par value of common shares(/1/)..... | (140) |
| | ----- |
| | \$440,921 |
| | ===== |

(/1/) Represents the issuance of 14.0 million (\$.01 par value per share) common shares in the Offering at an assumed offering price of \$33.25 per share.

(B) Represents the purchase price, including closing costs, of the 1997 Acquired Properties and the Pending Acquisitions as follows:

| 1997 ACQUIRED PROPERTIES | PURCHASE PRICE |
|--|----------------|
| ----- | ----- |
| 100 East Pratt Street (/1/)..... | \$137,516 |
| 875 Third Avenue (/2/)..... | 209,500 |
| | |
| PENDING ACQUISITIONS | |
| ----- | |
| Riverfront Plaza (/3/)..... | 174,361 |
| Mulligan/Griffin Portfolio (/4/)..... | 257,890 |
| | ----- |
| Total Acquisition Properties..... | \$779,267 |
| | ===== |

(/1/) The acquisition of 100 East Pratt Street was funded by a draw-down of \$137,500 from the Unsecured Line of Credit and the issuance of 500 shares of common stock (valued at approximately \$16, based on a value of \$32.00 per share).

(/2/) The acquisition of 875 Third Avenue was funded by the assumption of a \$180,000 mortgage note, payment of \$1,500 in cash and the issuance of 890,869 restricted Operating Partnership Units (the "OP Units"). To the extent that, for the ten trading days through and including December 31, 1998 the average daily closing price on the New York Stock Exchange of shares of common stock is less than \$31.43 per share (such average, the "Share Average"), the Operating Partnership shall issue to the contributor of 875 Third Avenue a number of additional OP Units (the "Additional OP Units") such that the product of (x) the Share Average, multiplied by (y) the sum of 890,869 plus the Additional OP Units, equals \$28,000. Consequently, for accounting purposes, the OP Units were valued at approximately \$28,000, based on a value of \$31.43 per unit.

(/3/) The acquisition of Riverfront Plaza will be funded through the payment of \$52,561 in cash and mortgage acquisition financing of \$121,800.

(/4/) The acquisition of the Mulligan/Griffin Portfolio will be funded through the payment of \$88,516 in cash, the assumption of the fair value of mortgage debt in the amount of \$118,251, the assumption of other liabilities in the amount of \$1,123 and the issuance of \$50,000 in restricted OP Units based on a price per unit of \$33.25. In the event that the actual Closing Day Value, defined as the average of the closing price of the Company's common stock on the 20 days immediately preceding the closing of the acquisition is less than \$30.00 per share, the number of OP Units to be issued shall be determined as though the Closing Day Value is \$30.00 per share; and in the event that the actual Closing Day Value exceeds \$36.00 per share the number of OP Units shall be determined as though Closing Day Value is \$36.00 per share. If the Closing Day Value is any amount between \$30.00 and \$36.00, inclusive, the number of OP Units to be issued shall be based on the actual Closing Day Value. The contributors have the right to elect additional restrict OP units in lieu of cash.

BOSTON PROPERTIES, INC.

NOTES TO THE PRO FORMA CONDENSED
CONSOLIDATED BALANCE SHEET--(CONTINUED)

(DOLLARS IN THOUSANDS)

(C) Represents the cash transactions as follows:

| | |
|---|------------|
| Net proceeds of the Offering described in Note (A) | \$ 441,061 |
| Proceeds and working capital used for the Acquisition Properties..... | (145,435) |
| Paydown of Unsecured Line of Credit with proceeds from the Offering..... | (208,500) |
| | ----- |
| Net increase in cash..... | \$ 87,126 |
| | ===== |

(D) Net increase reflects the following:

| | |
|---|----------|
| Required escrow deposit for the debt assumed on the acquisition of 875 Third Avenue..... | \$ 2,631 |
| | ===== |

(E) Reflects tenant note receivable to be acquired in connection with the
pending acquisition of Riverfront Plaza.

(F) Represents the debt transactions as follows:

MORTGAGE NOTES PAYABLE

| | |
|---|-----------|
| Debt assumed in connection with the acquisition of 875 Third Avenue..... | \$180,000 |
| Mortgage acquisition financing in connection with the acquisition of Riverfront Plaza..... | 121,800 |
| Debt assumed in connection with the acquisition of the Mulligan/Griffin Portfolio..... | 118,251 |
| | ----- |
| Net increase in mortgage indebtedness..... | \$420,051 |
| | ===== |

UNSECURED LINE OF CREDIT

| | |
|---|-------------|
| Draw-down from the Unsecured Line of Credit in connection with the acquisition of 100 East Pratt Street..... | \$ 137,500 |
| Paydown of the Unsecured Line of Credit from proceeds of the Offering, net | (208,500) |
| | ----- |
| Net decrease in Unsecured Line of Credit..... | \$ (71,000) |
| | ===== |

(G) Reflects other liabilities to be assumed in connection with the pending
acquisition of the Mulligan/Griffin Portfolio.

BOSTON PROPERTIES, INC.

PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997 AND FOR THE YEAR ENDED DECEMBER
31, 1996
(UNAUDITED)

The following unaudited Pro Forma Condensed Consolidated Statement of Income for the nine months ended September 30, 1997 and for the year ended December 31, 1996 is presented as if the following transactions had occurred on January 1, 1996; (i) the consummation of the initial public offering (the "Initial Offering") and related Formation Transactions, and the Offering (ii) the acquisition of the property acquired concurrent with the Initial Offering (the "Initial Offering Acquisition Property"), (iii) the acquisition of properties acquired subsequent to the Initial Offering (the "1997 Acquisitions"), (iv) the acquisition of the pending acquisitions (the "Pending Acquisitions") and (v) the closing of the mortgage financing.

The Development and Management Company has been included in the pro forma financial information under the equity method of accounting due to the Operating Partnership's ownership of a noncontrolling, 1% voting interest.

The operations of the hotel properties and the parking garage have been included in the pro forma financial information pursuant to participating lease agreements to be entered into in order for the Company to continue to qualify as a REIT under IRC Section 856.

This Pro Forma Condensed Consolidated Statement of Income should be read in conjunction with the Pro Forma Condensed Consolidated Balance Sheet of the Company and the historical consolidated and combined financial statements and notes thereto of the Company and the Predecessor Company included elsewhere in the Prospectus.

The unaudited Pro Forma Condensed Consolidated Statement of Income is not necessarily indicative of what the actual results of operations would have been for the nine months ended September 30, 1997, or for the year ended December 31, 1996, had the previously described transactions actually occurred on January 1, 1996 and the effect thereof carried forward through the nine month period ended September 30, 1997, nor do they purport to present the future results of operations of the Company.

BOSTON PROPERTIES, INC.

PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997

(UNAUDITED)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

| | BOSTON PROPERTIES, INC. JUNE 23, 1997 TO SEPTEMBER 30, 1997 | BOSTON PROPERTIES PREDECESSOR GROUP JANUARY 1, 1997 TO JUNE 22, 1997 | PRO FORMA ADJUSTMENTS | | | | |
|---|---|--|----------------------------------|---|-----------------------------|--------------------------------|----------------------|
| | | | FORMATION TRANSACTIONS (A) | INITIAL OFFERING ACQUISITION PROPERTY (B) | 1997 ACQUISITIONS (C) | PENDING ACQUISITIONS (C) | OTHER ADJUSTMENTS |
| Revenue: | | | | | | | |
| Rental: | | | | | | | |
| Base rent..... | \$57,892 | \$80,122 | \$ 9,396 | \$1,498 | \$54,440 | \$33,223 | -- |
| Recoveries from tenants..... | 6,144 | 10,283 | -- | 101 | 7,639 | 6,059 | -- |
| Parking and other..... | 217 | 3,397 | (1,061) | -- | 347 | 382 | -- |
| Total rental revenue..... | 64,253 | 93,802 | 8,335 | 1,599 | 62,426 | 39,664 | -- |
| Hotel..... | -- | 31,185 | (31,185) | -- | -- | -- | -- |
| Development and management services..... | 2,221 | 3,685 | (452) | -- | -- | -- | -- |
| Interest and other..... | 1,879 | 1,146 | (352) | -- | -- | -- | \$(1,200) (D) |
| Total revenue... | 68,353 | 129,818 | (23,654) | 1,599 | 62,426 | 39,664 | (1,200) |
| Expenses: | | | | | | | |
| Rental: | | | | | | | |
| Operating..... | 8,828 | 13,650 | (353) | 437 | 14,580 | 6,027 | -- |
| Real estate taxes..... | 9,065 | 13,382 | 1,345 | 172 | 13,049 | 2,427 | -- |
| Hotel: | | | | | | | |
| Operating..... | -- | 20,938 | (20,938) | -- | -- | -- | -- |
| Real estate tax- es..... | -- | 1,514 | (1,514) | -- | -- | -- | -- |
| General and administrative... | 3,164 | 5,116 | 391 | -- | -- | -- | 725 (E) |
| Interest..... | 16,091 | 53,324 | (28,151) | -- | 11,813 | 6,519 | 16,839 (F) |
| Depreciation and amortization.... | 10,113 | 17,054 | 124 | 210(G) | 7,646 | 8,009 | -- |
| Total expenses.. | 47,261 | 124,978 | (49,096) | 819 | 47,088 | 22,982 | 17,564 |
| Income before minority interests | 21,092 | 4,840 | 25,442 | 780 | 15,338 | 16,682 | (18,764) |
| Minority interest in property partnership..... | (69) | (235) | -- | -- | -- | -- | -- |
| Income before minority interest in Operating Partnership | 21,023 | 4,605 | 25,442 | 780 | 15,338 | 16,682 | (18,764) |
| Minority interest in Operating Partnership..... | (6,169) | -- | -- | -- | -- | -- | (10,719)(H) |
| Income before extraordinary item..... | \$14,854 | \$ 4,605 | \$ 25,442 | \$ 780 | \$15,338 | \$16,682 | \$(29,483) |
| Income before ex- traordinary item per common share.. | \$.38 | | | | | | |
| Weighted average number of common shares outstand- ing..... | 38,694 | | | | | | |

PRO
FORMA

| | |
|-----------------|-----------|
| Revenue: | |
| Rental: | |
| Base rent..... | \$236,571 |
| Recoveries from | |

| | |
|---|-----------|
| tenants..... | 30,226 |
| Parking and other..... | 3,282 |
| | ----- |
| Total rental revenue..... | 270,079 |
| Hotel..... | -- |
| Development and management services..... | 5,454 |
| Interest and other..... | 1,473 |
| | ----- |
| Total revenue... | 277,006 |
| | ----- |
| Expenses: | |
| Rental: | |
| Operating..... | 43,169 |
| Real estate taxes..... | 39,440 |
| Hotel: | |
| Operating..... | -- |
| Real estate tax- es..... | -- |
| General and administrative... | 9,396 |
| Interest..... | 76,435 |
| Depreciation and amortization..... | 43,156 |
| | ----- |
| Total expenses.. | 211,596 |
| | ----- |
| Income before minority interests | 65,410 |
| Minority interest in property partnership..... | (304) |
| | ----- |
| Income before minority interest in Operating Partnership | 65,106 |
| Minority interest in Operating Partnership..... | (16,888) |
| | ----- |
| Income before extraordinary item..... | \$ 48,218 |
| | ===== |
| Income before ex- traordinary item per common share.. | \$.92 |
| | ===== |
| Weighted average number of common shares outstand- ing..... | 52,694 |
| | ===== |

The accompanying notes are an integral part of the pro forma condensed consolidated statement of income.

BOSTON PROPERTIES, INC.

NOTES TO THE
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME

(DOLLARS IN THOUSANDS)

NOTES TO THE PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997

A. Reflects the pro forma Formation Transactions adjustment summary for the period from January 1, 1997 to June 22, 1997 (the "Predecessor Period").

| PRO FORMA ADJUSTMENTS | RENT HOTELS AND GARAGE | PARKING INCOME | HOTEL REVENUE | MGMT FEES | INTEREST AND OTHER | PROPERTY OPERATING EXPENSES | PROPERTY REAL ESTATE TAXES | HOTEL OPERATING EXPENSES | HOTEL REAL ESTATE TAXES | GENERAL & ADMIN | INTEREST EXPENSE |
|--|------------------------|----------------|---------------|-----------|--------------------|-----------------------------|----------------------------|--------------------------|-------------------------|-----------------|------------------|
| (1)Assignment of contracts..... | | | | \$ (452) | | | | | | \$ (430) | |
| (2)Equity investment income..... | | | | | \$ 21 | | | | | | |
| (3)Operation of hotels and garage..... | | \$ (1,061) | \$ (31,185) | | | \$ (353) | \$ 1,345 | \$ (20,938) | \$ (1,514) | | |
| (4)Rental of hotels and garage..... | \$ 9,396 | | | | | | | | | | |
| (5)General and administrative.. | | | | | | | | | | 821 | |
| (6)Amortization of deferred financing costs..... | | | | | | | | | | | \$ (189) |
| (7)Release of restricted cash..... | | | | | (373) | | | | | | |
| (8)Depreciation expense..... | | | | | | | | | | | |
| (9)Mortgage interest..... | | | | | | | | | | | (27,962) |
| Pro Forma Formation Transactions adjustment summary total... | \$ 9,396 | \$ (1,061) | \$ (31,185) | \$ (452) | \$ (352) | \$ (353) | \$ 1,345 | \$ (20,938) | \$ (1,514) | \$ 391 | \$ (28,151) |

| PRO FORMA ADJUSTMENTS | DEPRECIATION EXPENSE |
|--|----------------------|
| (1)Assignment of contracts..... | |
| (2)Equity investment income..... | |
| (3)Operation of hotels and garage..... | |
| (4)Rental of hotels and garage..... | |
| (5)General and administrative.. | |
| (6)Amortization of deferred financing costs..... | |
| (7)Release of restricted cash..... | |
| (8)Depreciation expense..... | \$ 124 |
| (9)Mortgage interest..... | |
| Pro Forma Formation Transactions adjustment summary total... | \$ 124 |

(1) In connection with the Formation Transactions, certain third-party management contracts were assigned to the Development and Management Company. As a result of the assignment, operating income, expenses and overhead attributable to the contracts were reflected in the operations of the Development and Management Company as detailed below:

| | |
|--|--------|
| Management services..... | \$ 452 |
| General and administrative expenses..... | (430) |
| | ----- |
| Manager contract income..... | \$ 22 |
| | ===== |

- (2) The Operating Partnership holds a 95% economic interest in the Development and Management Company and records an equity interest of \$21 on the \$22 net income.
- (3) In connection with the Formation Transactions, the Operating Partnership entered into participating leases for the operation of the hotels and parking garage. As a result of these agreements, revenue and expenses will not be reflected from the operation of these businesses.
- (4) Represents rental income from the leasing of the hotels and parking garage owned by the Operating Partnership. The hotel lease arrangements are with an affiliate.
- (5) Reflects an increase of \$821 in general and administrative expenses as a result of operating as a public company.
- (6) Reflects the net increase of \$290 in the amortization of deferred financing costs for the \$1,800 fee and related professional costs on the Unsecured Line of Credit, less a net reduction of \$479 in amortization of deferred financing costs related to debt paid off with the Initial Offering proceeds.

BOSTON PROPERTIES, INC.

NOTES TO THE PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME--(CONTINUED)

(DOLLARS IN THOUSANDS)

- (7) Reflects the decrease in interest income as a result of the release of cash previously required to be held in escrow per the terms of the various mortgage note payable agreements.
- (8) Reflects the increase in depreciation from depreciating over 40 years the pro forma increase to real estate from the purchase of limited partners' interests and transfer costs paid.
- (9) Reflects the repayment of a portion of the existing mortgage indebtedness from proceeds of the Initial Offering for the Predecessor Period:

| PROPERTIES ----- | PRINCIPAL AMOUNT | INTEREST RATE | INTEREST ----- |
|---|---------------------|------------------|-------------------|
| 599 Lexington Avenue..... | \$225,000 | 7.00% | \$ 7,547 |
| Two Independence Square..... | 122,505 | 7.90% | 4,637 |
| One Independence Square..... | 78,327 | 7.90% | 2,965 |
| 2300 N Street..... | 66,000 | 7.00% | 2,214 |
| Capital Gallery..... | 60,559 | 8.24% | 2,391 |
| Ten Cambridge Center..... | 25,000 | 7.57% | 907 |
| 191 Spring Street..... | 23,883 | 8.50% | 973 |
| Bedford Business Park..... | 23,376 | 8.50% | 952 |
| 10 & 20 Burlington Mall Road..... | 16,621 | 8.33% | 663 |
| Cambridge Center North Garage..... | 15,000 | 7.57% | 544 |
| 91 Hartwell Avenue..... | 11,322 | 8.33% | 452 |
| 92 & 100 Hayden Avenue..... | 9,057 | 8.33% | 362 |
| Montvale Center..... | 7,969 | 8.59% | 328 |
| Newport Office Park..... | 6,874 | 8.13% | 268 |
| Hilltop Business Center..... | 4,750 | 7.00% | 159 |
| Total..... | | | 25,362 |
| Historical interest expense - Predecessor Period..... | | | (53,324) |
| Pro forma interest expense adjustment for the Predecessor Period..... | | | \$(27,962) |
| | | | ===== |

- B. Reflects the results of operations, as adjusted for depreciation, of the Newport Office Park, acquired concurrent with the Initial Offering, for the period from January 1, 1997 to June 22, 1997 (the acquisition date).

BOSTON PROPERTIES, INC.

NOTES TO THE PRO FORMA CONDENSED
CONSOLIDATED STATEMENT OF INCOME--(CONTINUED)

(DOLLARS IN THOUSANDS)

C. Reflects the historical results of operations, as adjusted for base rent and depreciation, for the 1997 Acquisitions and Pending Acquisitions for the nine months ended September 30, 1997 as follows:

1997 ACQUISITIONS

| | 280 PARK AVENUE(1) | 100 EAST PRATT STREET | 875 THIRD AVENUE | TOTAL |
|------------------------------|-----------------------|--------------------------|---------------------|----------|
| Revenue: | | | | |
| Base rent..... | \$17,012 | \$10,924 | \$18,646 | \$46,582 |
| Adjustment(2)..... | 7,437 | 397 | 24 | 7,858 |
| Total base rent..... | 24,449 | 11,321 | 18,670 | 54,440 |
| Recoveries from tenants..... | 1,707 | 2,133 | 3,799 | 7,639 |
| Other..... | 80 | 267 | -- | 347 |
| Total rental revenue..... | 26,236 | 13,721 | 22,469 | 62,426 |
| Expenses: | | | | |
| Operating..... | 7,772 | 3,453 | 3,355 | 14,580 |
| Real estate taxes..... | 6,677 | 1,541 | 4,831 | 13,049 |
| Interest..... | -- | -- | 11,813 | 11,813 |
| Depreciation(Note G)..... | 3,355 | 1,934 | 2,357 | 7,646 |
| Total expenses..... | 17,804 | 6,928 | 22,356 | 47,088 |
| Net income..... | \$ 8,432 | \$ 6,793 | \$ 113 | \$15,338 |

(1) Reflects the results of operations for the period from January 1, 1997 through September 11, 1997 (the acquisition date).

(2) Represents an adjustment to straight-line rent based on the pro forma acquisition date of January 1, 1996 and also includes an adjustment for rental income from Banker's Trust during the period they occupied 280 Park Avenue as owner/occupant of the building (the rental figure is based upon the lease entered into by Banker's Trust concurrent with the sale of the building to the Company on September 11, 1997).

PENDING ACQUISITIONS

| | RIVERFRONT PLAZA | MULLIGAN/GRIFFIN PORTFOLIO | TOTAL |
|------------------------------|---------------------|-------------------------------|----------|
| Revenue: | | | |
| Base rent..... | \$13,023 | \$19,523 | \$32,546 |
| Adjustment(1)..... | 389 | 288 | 677 |
| Total base rent..... | 13,412 | 19,811 | 33,223 |
| Recoveries from tenants..... | 2,017 | 4,042 | 6,059 |
| Other..... | 382 | -- | 382 |
| Total rental revenue..... | 15,811 | 23,853 | 39,664 |
| Expenses: | | | |
| Operating..... | 2,761 | 3,266(2) | 6,027 |
| Real estate taxes..... | 1,219 | 1,208 | 2,427 |
| Interest..... | -- | 6,519(3) | 6,519 |
| Depreciation(Note G)..... | 2,288 | 5,721 | 8,009 |
| Total expenses..... | 6,268 | 16,714 | 22,982 |
| Net income..... | \$ 9,543 | \$ 7,139 | \$16,682 |

(1) Represents an adjustment to straight-line rent based on the pro forma acquisition date of January 1, 1996.

(2) Includes an adjustment of \$300 to reflect the Company's estimate of additional property level operating expenses.

(3) Includes an adjustment of (\$1,323) to reflect effective interest on the fair value of mortgage debt assumed.

BOSTON PROPERTIES, INC.

NOTES TO THE PRO FORMA CONDENSED
CONSOLIDATED STATEMENT OF INCOME--(CONTINUED)

(DOLLARS IN THOUSANDS)

D. Reflects reduction in interest income as a result of cash used for the acquisition of 280 Park Avenue.

E. Reflects the incremental increase in general and administrative costs related to the 1997 Acquisitions and Pending Acquisitions.

F. Reflects the net increase in interest as a result of the following debt transactions:

| | |
|---|----------|
| Payoff of the Unsecured Line of Credit with proceeds from the Offering for the period subsequent to the Initial Offering, net of amounts capitalized..... | \$ (411) |
| Mortgage acquisition financing of 280 Park Avenue in the original principal amount of \$220 million computed at an interest rate of 7.00% for the period January 1, 1997 to September 11, 1997 (date of acquisition)..... | 10,675 |
| Amortization of deferred financing fees for the period from January 1, 1997 to September 11, 1997 (date of acquisition) as a result of approximately \$1.1 million of fees associated with the mortgage financing of 280 Park Avenue. The deferred financing fees are amortized over the five year term of the loan | 153 |
| Mortgage acquisition financing of Riverfront Plaza in the principal amount of \$121,800 computed at the 10 year U.S. Treasury Note rate (5.88% at November 17, 1997) plus 1.15% | 6,422 |
| | ----- |
| Increase in interest expense for the period subsequent to the Initial Offering..... | \$16,839 |
| | ===== |

G. Detail of pro forma depreciation expense is presented below for the Initial Offering Acquisition Property, the 1997 Acquisitions and the Pending Acquisitions:

| PROPERTY(IES) | PURCHASE PRICE | PRO FORMA DEPRECIATION(1) |
|---------------------------------------|----------------|---------------------------|
| ----- | ----- | ----- |
| INITIAL OFFERING ACQUISITION PROPERTY | | |
| Newport Office Park(2)..... | \$ 21,700 | \$ 210 |
| | | ===== |
| 1997 ACQUISITIONS | | |
| 280 Park Avenue(2)..... | 322,650 | \$3,355 |
| 100 East Pratt Street..... | 137,516 | 1,934 |
| 875 Third Avenue..... | 209,500 | 2,357 |
| | | ----- |
| | | \$7,646 |
| | | ===== |
| PENDING ACQUISITIONS | | |
| Riverfront Plaza..... | 174,361 | \$2,288 |
| Mulligan/Griffin Portfolio..... | 257,890 | 5,721 |
| | | ----- |
| | | \$8,009 |
| | | ===== |

(1) Represents depreciation expense on the properties which has been calculated over 40 years for the building and over the life of the lease for tenant improvements.

(2) Reflects pro forma depreciation expense for the periods prior to acquisition.

H. Adjustment to minority interest to reflect the minority investors interest in the Operating Partnership following the Offering and issuance of OP Units and common shares.

BOSTON PROPERTIES, INC.

PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 1996
(UNAUDITED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

| | BOSTON PROPERTIES PREDECESSOR GROUP | PRO FORMA ADJUSTMENTS | | | | | PRO FORMA |
|--|--|---------------------------|------------------------------------|--------------------------|-------------------------|----------------------|----------------|
| | | FORMATION TRANSACTIONS | INITIAL OFFERING ACQUISITION | PROPERTY ACQUISITIONS | PENDING ACQUISITIONS | OTHER ADJUSTMENTS | |
| | | (A) | (B) | (C) | (C) | | |
| Revenue: | | | | | | | |
| Rental: | | | | | | | |
| Base rent..... | \$169,420 | \$22,371 | \$2,908 | \$66,637 | \$42,332 | -- | \$303,668 |
| Recoveries from tenants..... | 22,607 | -- | 180 | 11,379 | 8,416 | -- | 42,582 |
| Parking and other..... | 2,979 | (2,043) | -- | 412 | 436 | -- | 1,784 |
| Total rental revenue.. | 195,006 | 20,328 | 3,088 | 78,428 | 51,184 | -- | 348,034 |
| Hotel..... | 65,678 | (65,678) | -- | -- | -- | -- | -- |
| Development and management services.... | 5,719 | (936) | -- | -- | -- | -- | 4,783 |
| Interest and other..... | 3,530 | (705) | -- | -- | -- | -- | 2,825 |
| Total revenue..... | 269,933 | (46,991) | 3,088 | 78,428 | 51,184 | -- | 355,642 |
| Expenses: | | | | | | | |
| Rental: | | | | | | | |
| Operating..... | 29,823 | (713) | 879 | 18,751 | 8,523 | -- | 57,263 |
| Real estate taxes..... | 28,372 | 2,754 | 347 | 18,327 | 3,094 | -- | 52,894 |
| Hotel: | | | | | | | |
| Operating..... | 43,634 | (43,634) | -- | -- | -- | -- | -- |
| Real estate taxes..... | 3,100 | (3,100) | -- | -- | -- | -- | -- |
| General and administrative..... | 10,754 | 834 | -- | -- | -- | \$ 950(D) | 12,538 |
| Interest..... | 109,394 | (54,398) | -- | 15,750 | 8,721 | 24,183(E) | 103,650 |
| Depreciation and amortization..... | 36,199 | 257 | 434(F) | 10,561 | 10,679 | -- | 58,130 |
| Total expenses..... | 261,276 | (98,000) | 1,660 | 63,389 | 31,017 | 25,133 | 284,475 |
| Income before minority interests | 8,657 | 51,009 | 1,428 | 15,039 | 20,167 | (25,133) | 71,167 |
| Minority interest in property partnership.... | (384) | -- | -- | -- | -- | -- | (384) |
| Income before minority interest in Operating Partnership | 8,273 | 51,009 | 1,428 | 15,039 | 20,167 | (25,133) | 70,783 |
| Minority interest in Operating Partnership... | -- | -- | -- | -- | -- | (18,361)(G) | (18,361) |
| Income before extraordinary item..... | \$ 8,273 | \$51,009 | \$1,428 | \$15,039 | \$20,167 | \$(43,494) | \$ 52,422 |
| Income before extraordinary item per common share..... | | | | | | | \$.99 |
| Weighted average number of common shares outstanding..... | | | | | | | 52,694 |

The accompanying notes are an integral part of the pro forma condensed consolidated statement of income.

BOSTON PROPERTIES, INC.

NOTES TO THE PRO FORMA CONDENSED
CONSOLIDATED STATEMENT OF INCOME

(DOLLARS IN THOUSANDS)

NOTES TO THE PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR
ENDED DECEMBER 31, 1996

A. Reflects the pro forma Formation Transactions adjustment summary for the
year ended December 31, 1996.

| PRO FORMA ADJUSTMENTS | RENT HOTELS AND GARAGE | PARKING INCOME | HOTEL REVENUE | MGMT FEES | INTEREST AND OTHER | PROPERTY OPERATING EXPENSES | PROPERTY REAL ESTATE TAXES | HOTEL OPERATING EXPENSES | HOTEL REAL ESTATE TAXES | GENERAL & ADMIN | INTEREST EXPENSE |
|--|---------------------------------|-------------------|------------------|--------------|--------------------------|-----------------------------------|----------------------------------|--------------------------------|----------------------------------|--------------------|---------------------|
| (1) Assignment of contracts..... | | | | \$(936) | | | | | | \$ (866) | |
| (2) Equity investment income..... | | | | | \$66 | | | | | | |
| (3) Operation of hotels and garage..... | | \$(2,043) | \$(65,678) | | | \$(713) | \$2,754 | \$(43,634) | \$(3,100) | | |
| (4) Rental of hotels and garage..... | \$22,371 | | | | | | | | | | |
| (5) General and administrative.. | | | | | | | | | | 1,700 | |
| (6) Amortization of deferred financing costs..... | | | | | | | | | | | \$ (731) |
| (7) Release of restricted cash..... | | | | | (771) | | | | | | |
| (8) Depreciation expense..... | | | | | | | | | | | |
| (9) Mortgage interest..... | | | | | | | | | | | (53,667) |
| Pro forma formation transactions adjustment summary total... | \$22,371 | \$(2,043) | \$(65,678) | \$(936) | \$(705) | \$(713) | \$2,754 | \$(43,634) | \$(3,100) | \$ 834 | \$(54,398) |

| PRO FORMA ADJUSTMENTS | DEPRECIATION EXPENSE |
|--|-------------------------|
| (1) Assignment of contracts..... | |
| (2) Equity investment income..... | |
| (3) Operation of hotels and garage..... | |
| (4) Rental of hotels and garage..... | |
| (5) General and administrative.. | |
| (6) Amortization of deferred financing costs..... | |
| (7) Release of restricted cash..... | |
| (8) Depreciation expense..... | \$257 |
| (9) Mortgage interest..... | |
| Pro forma formation transactions adjustment summary total... | \$257 |

(1) In connection with the Formation Transactions, certain third-party management contracts are assigned to the Development and Management Company. As a result of the assignment, current operating income, expenses and overhead attributable to the contracts are reflected in the operations of the Development and Management Company as detailed below:

| | |
|--|-------|
| Management services..... | \$936 |
| General and administrative expenses..... | (866) |
| | ---- |
| Manager contract income..... | \$ 70 |
| | ==== |

- (2) The Operating Partnership holds a 95% economic interest in the Development and Management Company and records an equity interest of \$66 on the \$70 net income.
- (3) In connection with the Formation Transactions, the Operating Partnership entered into participating leases for the operation of the hotels and parking garage. As a result of these agreements, revenue and expenses are not reflected from the operation of these businesses.
- (4) Represents rental income from the leasing of the hotels and parking garage owned by the Operating Partnership. The hotel lease arrangements are with an affiliate.
- (5) Reflects an increase of \$1,700 in general and administrative expenses as a result of operating as a public company.
- (6) Reflects the net increase of \$600 in the amortization of deferred financing costs for the \$1,800 fee and related professional costs on the Unsecured Line of Credit, less a net reduction of \$1,331 in amortization of deferred financing costs related to debt paid off with the Initial Offering proceeds.
- (7) Reflects the decrease in interest income as a result of the release of cash previously required to be held in escrow per the terms of the various mortgage note payable agreements.
- (8) Reflects the increase in depreciation from depreciating over 40 years the pro forma increase to real estate from the purchase of limited partners' interests and transfer costs paid.

BOSTON PROPERTIES, INC.

NOTES TO THE PRO FORMA CONDENSED
CONSOLIDATED STATEMENT OF INCOME--(CONTINUED)

(DOLLARS IN THOUSANDS)

- (9) Reflects the repayment of a portion of the existing mortgage indebtedness from proceeds of the Initial Offering and the corresponding adjustment to interest expense incurred in 1996.

| PROPERTY(IES) | PRINCIPAL AMOUNT | INTEREST RATE | INTEREST |
|--|---------------------|------------------|--------------|
| 599 Lexington Avenue..... | \$225,000 | 7.00% | \$ 15,750(1) |
| Two Independence Square..... | 122,855 | 7.90% | 9,813 |
| One Independence Square..... | 78,700 | 7.90% | 6,276 |
| 2300 N Street..... | 66,000 | 7.00% | 4,620(1) |
| Capital Gallery..... | 60,751 | 8.24% | 5,761 |
| Ten Cambridge Center..... | 25,000 | 7.57% | 1,924 |
| 191 Spring Street..... | 23,942 | 8.50% | 1,697 |
| Bedford Business Park..... | 23,500 | 8.50% | 1,998(1) |
| 10 & 20 Burlington Mall Road..... | 16,621 | 8.33% | 1,385 |
| Cambridge Center North Garage..... | 15,000 | 7.57% | 1,183 |
| 91 Hartwell Avenue..... | 11,322 | 8.33% | 943 |
| 92 & 100 Hayden Avenue..... | 9,057 | 8.33% | 754 |
| Montvale Center..... | 7,992 | 8.59% | 474 |
| Newport Office Park..... | 6,874 | 8.13% | 558 |
| Hilltop Business Center..... | 4,817 | 7.00% | 318 |
| Pro forma totals..... | | | 53,454 |
| Historical interest expense for the year ended December 31, 1996..... | | | (107,121) |
| Pro forma interest expense adjustment.. | | | \$ (53,667) |

- (1) The interest expense used in this calculation assumes the mortgage loan was outstanding during all of 1996.

B. Reflects the historical results of operations, as adjusted for depreciation, for Newport Office Park, acquired concurrent with the Initial Offering for the year ended December 31, 1996.

C. Reflects the historical results of operations, as adjusted for base rent and depreciation, for the 1997 Acquisitions and Pending Acquisitions for the year ended December 31, 1996 as follows:

1997 ACQUISITIONS

| | 280 PARK AVENUE | 100 EAST STREET | PRATT AVENUE | 875 THIRD TOTAL |
|------------------------------|--------------------|--------------------|-----------------|--------------------|
| Revenue: | | | | |
| Base rent..... | \$16,786 | \$14,046 | \$25,255 | \$56,087 |
| Adjustment(1)..... | 9,991 | 528 | 31 | 10,550 |
| Total base rent..... | 26,777 | 14,574 | 25,286 | 66,637 |
| Recoveries from tenants..... | 2,600 | 2,966 | 5,813 | 11,379 |
| Other..... | 59 | 353 | -- | 412 |
| Total rental revenue..... | 29,436 | 17,893 | 31,099 | 78,428 |
| Expenses: | | | | |
| Operating..... | 10,169 | 4,333 | 4,249 | 18,751 |
| Real estate taxes..... | 9,908 | 2,054 | 6,365 | 18,327 |
| Interest..... | -- | -- | 15,750 | 15,750 |
| Depreciation(Note F)..... | 4,840 | 2,578 | 3,143 | 10,561 |
| Total expenses..... | 24,917 | 8,965 | 29,507 | 63,389 |
| Net income..... | \$ 4,519 | \$ 8,928 | \$ 1,592 | \$15,039 |

- (1) Represents an adjustment to straight-line rent based on the pro forma acquisition date of January 1, 1996 and also includes an adjustment for rental income from Banker's Trust during the period they occupied 280 Park Avenue as owner/occupant of the building (the rental figure is based upon the lease entered into by Banker's Trust concurrent with the sale of the building to the Company on September 11, 1997).

BOSTON PROPERTIES, INC.

NOTES TO THE PRO FORMA CONDENSED
CONSOLIDATED STATEMENT OF INCOME--(CONTINUED)

(DOLLARS IN THOUSANDS)

PENDING ACQUISITIONS

| | RIVERFRONT PLAZA | MULLIGAN/GRIFFIN PORTFOLIO | TOTAL |
|------------------------------|---------------------|-------------------------------|----------|
| Revenue: | | | |
| Base rent..... | \$15,898 | \$25,548 | \$41,446 |
| Adjustment(1)..... | 522 | 364 | 886 |
| Total base rent..... | 16,420 | 25,912 | 42,332 |
| Recoveries from tenants..... | 2,976 | 5,440 | 8,416 |
| Other..... | 436 | -- | 436 |
| Total rental revenue..... | 19,832 | 31,352 | 51,184 |
| Expenses: | | | |
| Operating..... | 3,865 | 4,658(2) | 8,523 |
| Real estate taxes..... | 1,638 | 1,456 | 3,094 |
| Interest..... | -- | 8,721(3) | 8,721 |
| Depreciation(Note F)..... | 3,051 | 7,628 | 10,679 |
| Total expenses..... | 8,554 | 22,463 | 31,017 |
| Net income..... | \$11,278 | \$ 8,889 | \$20,167 |

(1) Represents an adjustment to straight-line rent based on the pro forma acquisition date of January 1, 1996.

(2) Includes an adjustment of \$400 to reflect the Company's estimate of additional property level operating expenses.

(3) Includes an adjustment of (\$2,634) to reflect effective interest on the fair value of the mortgage debt assumed.

D. Reflects the incremental increase in general and administrative costs related to the 1997 Acquisitions and Pending Acquisitions.

E. Reflects the net increase in interest expense as a result of the following debt transactions:

| | |
|---|----------|
| Acquisition mortgage financing of 280 Park Avenue in the original principal amount of \$220 million computed at an interest rate of 7.00% for the year ended December 31, 1996..... | \$15,400 |
| Amortization of deferred financing fees as a result of approximately \$1.1 million of fees associated with the mortgage financing of 280 Park Avenue. The deferred financing fees are amortized over the five year term of the loan | 220 |
| Mortgage acquisition financing of Riverfront Plaza in the principal amount of \$121,800 computed at the 10 year U.S. Treasury Note rate (5.88% at November 17, 1997) plus 1.15% | 8,563 |
| Increase in interest expense..... | \$24,183 |

F. Detail of pro forma depreciation expense is presented below for the Initial Offering Acquisition Property, the 1997 Acquisitions and the Pending Acquisitions:

| PROPERTY(IES) | PURCHASE PRICE | PRO FORMA DEPRECIATION(1) |
|---------------------------------------|-------------------|------------------------------|
| INITIAL OFFERING ACQUISITION PROPERTY | | |
| Newport Office Park..... | \$ 21,700 | \$ 434 |
| 1997 ACQUISITIONS | | |
| 280 Park Avenue..... | 322,650 | \$ 4,840 |
| 100 East Pratt Street..... | 137,516 | 2,578 |
| 875 Third Avenue..... | 209,500 | 3,143 |
| | | \$10,561 |
| PENDING ACQUISITIONS | | |
| Riverfront Plaza..... | 174,361 | \$ 3,051 |
| Mulligan/Griffin Portfolio..... | 257,890 | 7,628 |
| | | \$10,679 |

- -----
(1) Represents depreciation expense on the properties which has been calculated over 40 years for the building and over the life of the lease for tenant improvements.

G. Adjustment to minority interest to reflect the minority investors interest in the Operating Partnership following the Offering and issuance of OP Units and common shares.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Partners and Owners of Boston Properties Predecessor Group

We have audited the accompanying combined balance sheets of the Boston Properties Predecessor Group as of December 31, 1996 and 1995, and the related combined statements of operations, owners' equity (deficit), and cash flows for each of the three years in the period ended December 31, 1996 and the financial statement schedule included on the index at F-1 of this Prospectus. These combined financial statements and financial statement schedule are the responsibility of the management of the Boston Properties Predecessor Group. Our responsibility is to express an opinion on these combined financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Boston Properties Predecessor Group as of December 31, 1996 and 1995, and the combined results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedule referred to above, when considered in relation to the basic combined financial statements taken as a whole, presents fairly, in all material respects, the information required to be set forth therein.

/s/ Coopers & Lybrand L.L.P.

Boston, Massachusetts
May 1, 1997

BOSTON PROPERTIES, INC.
AND
BOSTON PROPERTIES PREDECESSOR GROUP
CONSOLIDATED AND COMBINED BALANCE SHEETS
(DOLLARS IN THOUSANDS)

| | THE COMPANY SEPTEMBER 30, 1997 | THE PREDECESSOR GROUP DECEMBER 31, | |
|--|--------------------------------------|---------------------------------------|-------------|
| | ----- 1996 | ----- 1995 | ----- |
| | ----- (UNAUDITED) | | |
| ASSETS | | | |
| Real estate and equipment: | | | |
| Land and land improvements..... | \$ 298,818 | \$ 169,424 | \$ 169,721 |
| Buildings and improvements..... | 937,717 | 702,720 | 698,053 |
| Tenant improvements..... | 116,255 | 107,808 | 101,701 |
| Furniture, fixtures and equipment..... | 32,633 | 34,034 | 32,831 |
| Development and construction in process..... | 47,953 | 21,585 | 10,018 |
| | ----- | ----- | ----- |
| | 1,433,376 | 1,035,571 | 1,012,324 |
| Less: accumulated depreciation..... | (285,505) | (263,911) | (238,514) |
| | ----- | ----- | ----- |
| Total real estate and equipment..... | 1,147,871 | 771,660 | 773,810 |
| Cash and cash equivalents..... | 25,989 | 8,998 | 25,867 |
| Escrows..... | 10,673 | 25,474 | 27,716 |
| Tenant and other receivables..... | 13,170 | 12,049 | 14,362 |
| Accrued rental income..... | 50,377 | 49,206 | 49,681 |
| Deferred costs net of accumulated amortization of \$38,504, \$52,627 and \$46,819 at September 30, 1997, and December 31, 1996 and 1995, respectively..... | 34,707 | 24,722 | 22,829 |
| Prepaid expenses and other assets..... | 8,933 | 4,402 | 8,521 |
| Investment in Joint Venture..... | 3,918 | -- | -- |
| | ----- | ----- | ----- |
| Total assets..... | \$1,295,638 | \$ 896,511 | \$ 922,786 |
| | ===== | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' AND OWNERS' EQUITY (DEFICIT) | | | |
| Liabilities: | | | |
| Mortgage notes payable..... | \$914,614 | \$1,420,359 | \$1,396,141 |
| Unsecured line of credit..... | 71,000 | -- | -- |
| Notes payable--affiliates..... | -- | 22,117 | 5,267 |
| Accounts payable and accrued expenses.. | 16,073 | 13,795 | 14,367 |
| Accrued interest payable..... | 3,639 | 9,667 | 9,088 |
| Rents received in advance, security deposits and other liabilities..... | 13,663 | 7,205 | 4,576 |
| | ----- | ----- | ----- |
| Total liabilities..... | 1,018,989 | 1,473,143 | 1,429,439 |
| | ----- | ----- | ----- |
| Commitments and contingencies..... | -- | -- | -- |
| Minority interest in Operating Partnership..... | 81,168 | -- | -- |
| | ----- | ----- | ----- |
| Stockholders' equity: | | | |
| Preferred stock, \$.01 par value, 50,000,000 shares authorized, none issued or outstanding..... | -- | -- | -- |
| Excess Stock, \$.01 par value, 150,000,000 shares authorized, none issued or outstanding..... | -- | -- | -- |
| Common stock, \$.01 par value, 250,000,000 shares authorized, 38,693,541 issued and outstanding..... | 387 | -- | -- |
| Additional paid in capital..... | 172,315 | -- | -- |
| Retained earnings..... | 22,779 | -- | -- |
| Owners' deficit..... | -- | (576,632) | (506,653) |
| | ----- | ----- | ----- |
| Total stockholders' and owners' equity (deficit)..... | 195,481 | (576,632) | (506,653) |
| | ----- | ----- | ----- |
| Total liabilities and stockholders' and owners' equity (deficit)..... | \$1,295,638 | \$ 896,511 | \$ 922,786 |
| | ===== | ===== | ===== |

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

BOSTON PROPERTIES, INC.
AND
BOSTON PROPERTIES PREDECESSOR GROUP

CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

| | THE COMPANY | | THE PREDECESSOR GROUP | | | |
|--|---|--|--|--------------------------|------------|-----------|
| | JUNE 23, 1997 TO SEPTEMBER 30, 1997 | JANUARY 1, 1997 TO JUNE 22, 1997 | NINE MONTHS ENDED SEPTEMBER 30, 1996 | YEARS ENDED DECEMBER 31, | | |
| | (UNAUDITED) | (UNAUDITED) | (UNAUDITED) | 1996 | 1995 | 1994 |
| Revenue: | | | | | | |
| Rental: | | | | | | |
| Base rent..... | \$57,892 | \$ 80,122 | \$127,727 | \$169,420 | \$155,614 | \$153,101 |
| Recoveries from tenants..... | 6,144 | 10,283 | 17,401 | 22,607 | 21,124 | 21,710 |
| Parking and other... | 217 | 3,397 | 2,263 | 2,979 | 2,527 | 1,914 |
| ----- | | | | | | |
| Total rental revenue..... | 64,253 | 93,802 | 147,391 | 195,006 | 179,265 | 176,725 |
| Hotel..... | -- | 31,185 | 47,458 | 65,678 | 61,320 | 58,436 |
| Development and management services.. | 2,221 | 3,685 | 4,880 | 5,719 | 4,444 | 6,090 |
| Interest and other.... | 1,879 | 1,146 | 2,590 | 3,530 | 3,696 | 2,832 |
| ----- | | | | | | |
| Total revenue..... | 68,353 | 129,818 | 202,319 | 269,933 | 248,725 | 244,083 |
| ----- | | | | | | |
| Expenses: | | | | | | |
| Rental: | | | | | | |
| Operating..... | 8,828 | 13,650 | 22,332 | 29,823 | 27,142 | 25,061 |
| Real estate taxes... | 9,065 | 13,382 | 21,396 | 28,372 | 28,279 | 28,178 |
| Hotel: | | | | | | |
| Operating..... | -- | 20,938 | 30,590 | 43,634 | 41,501 | 40,276 |
| Real estate taxes... | -- | 1,514 | 1,769 | 3,100 | 2,517 | 2,477 |
| General and administrative..... | 3,164 | 5,116 | 8,149 | 10,754 | 10,372 | 10,123 |
| Interest..... | 16,091 | 53,324 | 82,627 | 109,394 | 108,793 | 97,273 |
| Depreciation and amortization..... | 10,113 | 17,054 | 27,008 | 36,199 | 33,828 | 33,112 |
| ----- | | | | | | |
| Total expenses..... | 47,261 | 124,978 | 193,871 | 261,276 | 252,432 | 236,500 |
| ----- | | | | | | |
| Income (loss) before extraordinary items and minority interests.... | 21,092 | 4,840 | 8,448 | 8,657 | (3,707) | 7,583 |
| Minority interest in combined partnership... | (69) | (235) | (288) | (384) | (276) | (412) |
| ----- | | | | | | |
| Income (loss) before minority interest in Operating Partnership and extraordinary items..... | 21,023 | 4,605 | 8,160 | 8,273 | (3,983) | 7,171 |
| Minority interest in Operating Partnership.. | (6,169) | -- | -- | -- | -- | -- |
| ----- | | | | | | |
| Income (loss) before extraordinary items.... | 14,854 | 4,605 | 8,160 | 8,273 | (3,983) | 7,171 |
| Net extraordinary items on early extinguishments, net of minority interest..... | 7,925 | -- | -- | (994) | -- | -- |
| ----- | | | | | | |
| Net income (loss)..... | \$22,779 | \$ 4,605 | \$ 8,160 | \$ 7,279 | \$ (3,983) | \$ 7,171 |
| ===== | | | | | | |
| Net income per share.... | \$.59 | | | | | |
| ===== | | | | | | |
| Shares outstanding..... | 38,694 | | | | | |
| ===== | | | | | | |

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

BOSTON PROPERTIES, INC.
AND
BOSTON PROPERTIES PREDECESSOR GROUP

CONSOLIDATED AND COMBINED STATEMENTS OF STOCKHOLDERS' AND OWNERS' EQUITY
(DEFICIT)
(DOLLARS IN THOUSANDS)

| | COMMON STOCK SHARES | PAR VALUE | ADDITIONAL PAID-IN CAPITAL | PREDECESSOR GROUP EQUITY (DEFICIT) | TOTAL |
|---|------------------------|-----------|----------------------------------|---|--------------|
| Balance, January 1, 1994..... | | | | \$(495,104) | \$ (495,104) |
| Contributions..... | | | | 24,323 | 24,323 |
| Net income..... | | | | 7,171 | 7,171 |
| Distributions..... | | | | (38,620) | (38,620) |
| Balance, December 31, 1994..... | | | | (502,230) | (502,230) |
| Contributions..... | | | | 44,661 | 44,661 |
| Net loss..... | | | | (3,983) | (3,983) |
| Distributions..... | | | | (45,101) | (45,101) |
| Balance, December 31, 1995..... | | | | (506,653) | (506,653) |
| Contributions..... | | | | 33,279 | 33,279 |
| Net income..... | | | | 7,279 | 7,279 |
| Distributions and conversion of equity to note payable- affiliate..... | | | | (110,537) | (110,537) |
| Balance, December 31, 1996..... | | | | (576,632) | (576,632) |
| Contributions (unaudited)..... | | | | 9,330 | 9,330 |
| Net income for the period January 1, 1997 through June 22, 1997 (unaudited)..... | | | | 4,605 | 4,605 |
| Distributions (unaudited)..... | | | | (32,125) | (32,125) |
| Balance contributed at June 22, 1997..... | | | | \$(594,822) | \$ (594,822) |
| Reclassification adjustments..... | | | \$(594,822) | 594,822 | -- |
| Sale of Common Stock net of Offering costs..... | 38,694 | \$387 | 838,822 | -- | 839,209 |
| Allocation of minority interest in Operating Partnership..... | -- | -- | (71,685) | -- | (71,685) |
| Net income, June 23, 1997 to September 30, 1997 (unaudited)..... | -- | -- | -- | 22,779 | 22,779 |
| Stockholders' Equity, September 30, 1997.... | 38,694 | \$387 | \$ 172,315 | \$ 22,779 | \$ 195,481 |

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

BOSTON PROPERTIES, INC.
AND
BOSTON PROPERTIES PREDECESSOR GROUP

CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

| | THE COMPANY | | THE PREDECESSOR GROUP | | | |
|--|--|---|---|--------------------------|------------|----------|
| | JUNE 23, 1997 TO SEPTEMBER 30, 1997 | JANUARY 1, 1997 TO JUNE 22, 1997 | NINE MONTHS ENDED SEPTEMBER 30, 1996 | YEARS ENDED DECEMBER 31, | | |
| | (UNAUDITED) | (UNAUDITED) | (UNAUDITED) | 1996 | 1995 | 1994 |
| Cash flows from operating activities: | | | | | | |
| Net income (loss)..... | \$ 22,779 | \$ 4,605 | \$ 8,160 | \$ 7,279 | \$ (3,983) | \$ 7,171 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | | | | |
| Depreciation and amortization..... | 10,113 | 17,054 | 27,008 | 36,199 | 33,828 | 33,112 |
| Minority interest in Operating Partnership..... | 9,463 | -- | -- | -- | -- | -- |
| Effective interest adjustment..... | 173 | 1,497 | 483 | 644 | 1,347 | 3,131 |
| Extraordinary gain on early debt extinguishment..... | (11,216) | -- | -- | -- | -- | -- |
| Change in operating assets/liabilities: | | | | | | |
| Tenant receivables..... | 5,993 | (7,114) | (2,856) | 2,313 | (1,049) | 270 |
| Escrows..... | -- | -- | -- | (1,033) | 692 | 21 |
| Prepaid expenses and other assets..... | (3,038) | (1,494) | 759 | 2,777 | (360) | 1,550 |
| Accounts payable and accrued expenses..... | (2,138) | 5,220 | (2,007) | (1,673) | (2,219) | 267 |
| Accrued interest payable..... | (8,049) | 2,021 | (3,335) | 579 | 1,667 | (62) |
| Accrued rental income.. | (881) | (291) | 955 | 475 | (360) | 1,252 |
| Rent received in advance, security deposits and other liabilities..... | 2,731 | 3,728 | 1,942 | 3,971 | (471) | (1,088) |
| Cash flows provided by operating activities.. | 25,930 | 25,226 | 31,109 | 51,531 | 29,092 | 45,624 |
| Cash flows from investing activities: | | | | | | |
| Acquisition of or additions to real estate and equipment.. | (366,054) | (27,721) | (14,606) | (30,238) | (33,960) | (11,878) |
| Tenant leasing costs... | 95 | (2,550) | 599 | (4,077) | (3,191) | (1,554) |
| Escrows..... | -- | -- | (28,945) | 9,525 | 307 | (4,992) |
| Change in accounts payable..... | -- | -- | -- | 1,101 | -- | -- |
| Investment in Joint Venture..... | (1,345) | (2,573) | -- | -- | -- | -- |
| Cash from contributed asset..... | 10,510 | -- | -- | -- | -- | -- |
| Cash flows used in investing activities.. | (356,794) | (32,844) | (42,952) | (23,689) | (36,844) | (18,424) |
| Cash flows from financing activities: | | | | | | |
| Net proceeds from sale of common stock..... | 839,209 | -- | -- | -- | -- | -- |
| Owners' contributions.. | -- | 9,330 | 5,317 | 33,279 | 44,661 | 24,323 |
| Owners' distributions.. | -- | (32,125) | -- | (105,619) | (45,101) | (38,620) |
| Borrowings on unsecured line of credit..... | 71,000 | -- | -- | -- | -- | -- |
| Proceeds from mortgage notes payable..... | 220,000 | -- | -- | 117,269 | 1,200 | -- |
| Proceeds (payments) from notes payable-- affiliate..... | (38,833) | 16,716 | 169 | 11,933 | 171 | (236) |
| Repayment of mortgage notes payable..... | (708,090) | (3,799) | (1,464) | (93,695) | (14,641) | (16,445) |
| Accounts receivable-- affiliate..... | -- | (804) | -- | -- | -- | -- |
| Accounts payable-- affiliate..... | (19,983) | 19,983 | -- | -- | -- | -- |
| Escrows..... | 14,934 | (136) | -- | (6,250) | -- | -- |
| Deferred financing costs..... | (12,872) | (35) | (5,577) | (1,628) | 1,040 | (630) |
| Costs related to debt | | | | | | |

| | | | | | | |
|--|------------|-----------|-----------|------------|-----------|-----------|
| extinguishment..... | (8,512) | -- | -- | -- | -- | -- |
| Cash flows provided by (used in) financing activities..... | 356,853 | 9,130 | (1,555) | (44,711) | (12,670) | (31,608) |
| Net increase (decrease) in cash and cash equivalents..... | 25,989 | 1,512 | (13,398) | (16,869) | (20,422) | (4,408) |
| Cash and cash equivalents, beginning of period..... | -- | 8,998 | 25,867 | 25,867 | 46,289 | 50,697 |
| Cash and cash equivalents, end of period..... | \$ 25,989 | \$ 10,510 | \$ 12,469 | \$ 8,998 | \$ 25,867 | \$ 46,289 |
| Supplemental cash flow information: Cash paid for interest..... | \$ 26,032 | \$ 50,917 | \$ 80,775 | \$ 107,700 | \$108,618 | \$ 95,269 |
| Interest capitalized... | \$ 683 | \$ 1,111 | \$ 275 | \$ 366 | \$ 1,543 | \$ -- |
| Supplemental disclosure of noncash transactions: Conversion of owners' equity to notes payable--affiliate.... | -- | -- | -- | \$ 4,918 | \$ -- | \$ -- |
| Net liabilities assumed in connection with the contribution of prop- erties..... | \$ 594,822 | -- | -- | -- | -- | -- |

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

BOSTON PROPERTIES, INC.
AND
BOSTON PROPERTIES PREDECESSOR GROUP

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

1. ORGANIZATION AND BASIS OF PRESENTATION:

Organization

Boston Properties, Inc. (The "Company") a Delaware corporation, was formed to succeed (i) the real estate development, redevelopment, ownership, acquisition, management, operating and leasing business associated with Boston Properties, Inc., a Massachusetts corporation founded in 1970, and (ii) various property partnerships under common control with the predecessor company (collectively, the "Boston Properties Predecessor Group" or the "Predecessor"). The Company intends to qualify as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended.

On June 23, 1997, the Company commenced operations after completing an initial public offering of 36,110,000 common shares (including 4,710,000 shares issued as a result of the exercise of an over-allotment option by the underwriters) (the "Initial Offering"). The 36,110,000 shares of common stock were issued at a price per share of \$25.00, generating gross proceeds of \$902,750. The proceeds to the Company, net of underwriters' discount and offering costs were approximately \$839,209.

The following transactions occurred simultaneously with the completion of the Initial Offering (collectively, the "Formation Transactions").

- . The Company became the sole general partner of Boston Properties Limited Partnership (the "Operating Partnership"). Upon completion of the Initial Offering, the Company contributed substantially all of the net proceeds of the offering in exchange for an approximate 70.66% interest in the Operating Partnership.
- . The Operating Partnership exercised various option and purchase agreements whereby it issued units in the Operating Partnership ("Units") representing an approximate 29.34% limited partnership interest, to the continuing investors in exchange for interests in certain properties.
- . The Company contributed substantially all of its Greater Washington, DC third-party management business to Boston Properties Management, Inc. (the "Development and Management Company"), a subsidiary of the Operating Partnership.
- . The Operating Partnership entered into a participating lease with ZL Hotel LLC. Marriott International, Inc. manages the Company's two hotel properties under the Marriott(R) name. Messrs. Zuckerman and Linde are the sole member-managers of the ZL Hotel LLC and own a 9.8% economic interest in ZL Hotel LLC. ZL Hotel Corp. owns the remaining 90.2% economic interest in ZL Hotel LLC. Certain public charities own all the capital stock of ZL Hotel Corp.
- . The Company, through the Operating Partnership, entered into a \$300 million unsecured credit facility with BankBoston, N.A., as agent (the "Unsecured Line of Credit"). The Unsecured Line of Credit is a recourse obligation of the Operating Partnership and is guaranteed by the Company. The Company has used the Unsecured Line of Credit principally to fund growth opportunities and for working capital purposes. 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.
- . The Operating Partnership utilized \$696,236 of the proceeds of the Offering, together with \$54,000 under the Unsecured Line of Credit, to repay \$707,071 of mortgage indebtedness (\$47,780 of which was paid on July 1, 1997), \$28,843 of indebtedness due to Messrs. Zuckerman and Linde related to development of properties in process and \$14,322 to fund the acquisition of an approximate 170,000 square foot office building located in Quincy, Massachusetts.
- . Messrs. Zuckerman and Linde received an aggregate of 2,583,541 shares.

BOSTON PROPERTIES, INC.
AND
BOSTON PROPERTIES PREDECESSOR GROUP

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS--(CONTINUED)
(DOLLARS IN THOUSANDS)

Basis of Presentation

The accompanying consolidated financial statements of Boston Properties, Inc. include all accounts of the Company and its subsidiaries, including the Operating Partnership as of September 30, 1997 (unaudited) and for the period June 23, 1997 to September 30, 1997 (unaudited). All significant intercompany amounts have been eliminated.

The accompanying combined financial statements of the Boston Properties Predecessor Group comprise interests in properties and the third party commercial real estate development, project management and property management business of Boston Properties, Inc. as of September 30, 1996 and for the period from January 1, 1997 to June 22, 1997 and years ended December 31, 1996, 1995 and 1994. All significant intercompany amounts have been eliminated.

The business combination was structured as an exchange of properties or partnership interests by the Boston Properties Predecessor Group for limited partnership interests in the Operating Partnership, which holds the operating assets of the Company. The Company is the general and majority partner of the Operating Partnership. The Operating Partner holds all of the assets of the Predecessor entities as a result of the business combination. Due to the affiliation of the Predecessor, the business combination was accounted for as a reorganization of entities under common control which is similar to the accounting used for a pooling of interests. All significant intercompany balances and transactions have been eliminated in the consolidated presentation.

Properties

December 31, 1996

The interests in properties at December 31, 1996 included in the accompanying consolidated financial statements consist of 72 commercial real estate properties (the "Properties") aggregating approximately 10.4 million square feet. The Predecessor also owns a 75.0% general partner interest (100% economic interest as a result of a priority of the Predecessor's interest in one of the properties which comprises approximately 122,000 square feet). Additionally, the Predecessor owns a 35.7% controlling general partnership interest in 11 of the properties which comprise approximately 204,500 square feet. The Properties consist of 60 office properties with approximately 7.1 million net rentable square feet, including five office properties currently under development or redevelopment totaling approximately 371,000 net rentable square feet (the "Office Properties"); nine industrial properties with approximately 925,000 net rentable square feet (the "Industrial Properties"); two full service hotels totaling 833 rooms and approximately 750,000 square feet (the "Hotel Properties"); and a 1,170 space parking garage with approximately 332,000 square feet located within the Company's mixed-use development in East Cambridge, Massachusetts (the "Garage Property"). The Properties are primarily located in ten submarkets, including five submarkets in Greater Boston (the East Cambridge, Route 128 NW, Route 128/Massachusetts Turnpike, Route 128 SW and downtown Boston submarkets), five submarkets in Greater Washington, D.C. (the Southwest and West End Washington, D.C., Montgomery County, Maryland, Fairfax County, Virginia and Prince George's County, Maryland Submarkets) and midtown Manhattan (the Park Avenue Submarket). The Predecessors' single largest Property, with approximately 1.0 million net rentable square feet, is an Office Property located in the Park Avenue submarket of midtown Manhattan.

Property Acquisitions

On June 25, 1997, the Company acquired Newport Office Park, for \$21.7 million. The property is an approximately 170,000 square foot office building located in Quincy, Massachusetts.

On September 11, 1997, the Company acquired 280 Park Avenue, a Class A Office Building located in midtown Manhattan. The 1.2 million square foot property was acquired for approximately \$322.6 million. The acquisition was funded by a \$220 million loan from Chase Manhattan Bank and \$102.6 million of cash.

BOSTON PROPERTIES, INC.
AND
BOSTON PROPERTIES PREDECESSOR GROUP

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS--(CONTINUED)
(DOLLARS IN THOUSANDS)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. REAL ESTATE AND EQUIPMENT

Real estate and equipment are stated at depreciated cost. Pursuant to Statement of Financial Accounting Standards Opinion No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", impairment losses are recorded on long-lived assets used in operation, when events and circumstances indicate that the assets might be impaired and the estimated undiscounted cash flows to be generated by those assets are less than the carrying amount of those assets. Upon determination 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 includes the purchase price of property, legal fees, acquisition costs as well as interest, property taxes and other costs incurred during the period of development.

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

| | |
|---|--------------------------------|
| Land improvements..... | 25 to 40 years |
| Building costs..... | 10 to 40 years |
| Tenant improvements..... | Terms of the lease useful life |
| Furniture, fixtures, and equipment..... | 5 to 7 years |

Depreciation expense for corporate furniture, fixtures, and equipment and corporate occupied real property was \$375 and \$417 for the period from January 1, 1997 to June 22, 1997 and the period from June 23, 1997 to September 30, 1997, collectively the period (the "Nine Months Ended") and the nine months ended September 30, 1996, respectively, and \$556, \$588 and \$603 for the years ended December 31, 1996, 1995 and 1994, respectively.

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.

B. 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 and the Predecessor's cash and cash equivalents are held at major commercial banks. There have been no experienced losses to date on any invested cash.

C. ESCROWS

Escrows include amounts established pursuant to various agreements for security deposits, property taxes, insurance and capital improvements.

D. 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 revenues by \$1,171 and decreased revenues by \$955 for the nine months ended September 30, 1997 and 1996, respectively, and decreased revenues by \$475, increased revenues by \$360, and decreased revenues by \$1,252 for the years ended December 31, 1996, 1995 and 1994, respectively.

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.

BOSTON PROPERTIES, INC.
AND
BOSTON PROPERTIES PREDECESSOR GROUP

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS--(CONTINUED)
(DOLLARS IN THOUSANDS)

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

Revenue recognition of fees received for lease terminations are deferred and amortized to income using the straight line method over the remaining original lease term until the space is subsequently leased.

E. OFFERING COSTS

Underwriting commissions and offering costs incurred in connection with the Initial Offering have been reflected as a reduction of additional paid in capital.

F. INCOME TAXES

Prior to June 23, 1997, all of the Properties were owned by partnerships, trusts and an S-corporation, none of which are directly subject to income tax. The tax effect of its activities accrues to the individual partners and or principals of the respective entity.

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

The ongoing operations of these Properties generally will not be subject to Federal income taxes as long as the Company qualifies as a real estate investment trust ("REIT"). A REIT will generally not be subject to Federal income taxation on that portion of its income that qualifies as REIT taxable income to the extent that it distributes such taxable income to its stockholders and complies with certain requirements (including distribution of at least 95% of its taxable income). As a REIT, the Company is allowed to reduce taxable income by all or a portion of its distributions to stockholders. As distributions have exceeded taxable income, no Federal income tax provision (benefit) has been reflected in the accompanying consolidated Financial Statements. State income taxes are not significant.

G. EARNINGS PER SHARE

Earnings per share is calculated based on the weighted average number of common shares outstanding. The assumed exercise of outstanding stock options, using the treasury stock method, is immaterial, and therefore such amounts are not presented.

H. DEFERRED COSTS

Deferred costs include tenant leasing costs and deferred 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 which approximates the effective interest method.

I. INVESTMENT IN JOINT VENTURE

The investment in joint venture represents a 25% interest in an entity which will own two office buildings in Reston, VA for which the Company serves as development manager. Such investment is accounted for under the equity method.

J. INTEREST EXPENSE

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

BOSTON PROPERTIES, INC.
AND
BOSTON PROPERTIES PREDECESSOR GROUP

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS--(CONTINUED)
(DOLLARS IN THOUSANDS)

K. PARTNERS' CAPITAL CONTRIBUTIONS, DISTRIBUTIONS AND PROFITS AND LOSSES

Partners' capital contributions, distributions and profits and losses are allocated in accordance with the terms of individual partnership agreements.

L. USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

M. UNAUDITED INTERIM STATEMENTS

The combined consolidated financial statements as of September 30, 1997 and for the nine months ended September 30, 1997 and 1996 and accompanying footnotes are unaudited. In the opinion of management, all adjustments (consisting solely of normal recurring adjustments) necessary for a fair presentation of such combined financial statements have been included. The results of operations for the periods described above are not necessarily indicative of the Company's future results of operations for the full year ending December 31, 1997.

N. RECLASSIFICATIONS

Certain amounts have been reclassified in the 1996, 1995 and 1994 financial statements in order to conform with the current presentation.

3. MORTGAGE NOTES PAYABLE:

Mortgage notes payable are comprised of 16, 44 and 44 loans at September 30, 1997, December 31, 1996 and 1995, respectively, each of which is collateralized by a building and related land included in real estate assets. The mortgage notes payable are generally due in monthly installments and mature at various dates through September 30, 2012. Interest rates on fixed rate mortgage notes payable aggregating \$689,947, \$1,013,361 and \$929,226 at September 30, 1997, December 31, 1996 and 1995, respectively, range from 7.35% to 9.875% (averaging 7.37% and 8.18% at September 30, 1997, and December 31, 1996, respectively). Interest rates on variable rate mortgage notes payable aggregating \$295,667, \$385,985 and \$446,546 at September 30, 1997, December 31, 1996 and 1995, respectively, range from 0.7% above the London Interbank Offered Rate ("LIBOR"), 5.6% at September 30, 1997 and December 31, 1996 to 1.75% above the LIBOR rate.

The interest rates related to the mortgage notes payable for two properties aggregating \$199,313 at September 30, 1997 and for three properties aggregating, \$610,782 and \$612,657 at December 31, 1996 and 1995, respectively are subject to periodic scheduled rate increases. Interest expense for these mortgage notes payable is computed using the effective interest method. The impact of using this method increased interest expense \$132 and \$161 for the nine months ended September 30, 1997 and 1996, respectively, and \$644, \$1,347 and \$3,131 for the years ended December 31, 1996, 1995 and 1994, respectively. The cumulative liability related to these adjustments is \$782, \$21,013 and \$20,369 at September 30, 1997, December 31, 1996 and 1995, respectively, and is included in mortgage notes payable.

Combined aggregate principal maturities of mortgage notes payable at December 31, 1996 are as follows:

| | DECEMBER 31 |
|-----------|-------------|
| | ----- |
| 1997..... | \$334,784 |
| 1998..... | 219,748 |
| 1999..... | 11,315 |
| 2000..... | 48,040 |
| 2001..... | 153,148 |

BOSTON PROPERTIES, INC.
AND
BOSTON PROPERTIES PREDECESSOR GROUP

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS--(CONTINUED)
(DOLLARS IN THOUSANDS)

Certain mortgage indebtedness aggregating \$707,071 was repaid in conjunction with the Initial Offering of which \$659,291 and \$47,780 was repaid at June 23, 1997 and July 1, 1997, respectively. The repayments, along with (i) the payment of certain related prepayment penalties, (ii) the write-off of the related previously capitalized deferred financing costs, and (iii) the extinguishment of the excess of the mortgage note payable balance over the principal payment required for the 599 Lexington Avenue property (which was a result of the application of the effective interest method to this increasing rate loan), generated a net gain of \$7,925 (net of minority interest share of \$3,291), which has been reflected as an extraordinary gain to the Company in the period from June 23, 1997 to September 30, 1997.

Certain mortgage notes payable are subject to prepayment penalties of varying amounts in the event of an early principal repayment.

4. LEASING ACTIVITIES:

Future minimum lease payments to be received as of December 31, 1996 under noncancelable operating leases, which expire on various dates through 2012, are as follows:

Years ending December 31:

| | |
|-----------------|-----------|
| 1997..... | \$161,817 |
| 1998..... | 146,721 |
| 1999..... | 137,180 |
| 2000..... | 122,164 |
| 2001..... | 110,626 |
| Thereafter..... | 506,398 |

One tenant represented 12%, 15%, 15%, 17% and 16% of the Predecessor's total rental income for the nine months ended September 30, 1997 and 1996 and for the years ended December 31, 1996, 1995, and 1994, respectively.

5. MINORITY INTEREST:

Minority interest in the Operating Partnership relates to the interest in the Operating Partnership that is not owned by the Company.

In conjunction with the formation of the Company, persons contributing interests in properties to the Operating Partnership received Units. Beginning fourteen months after the completion of the offering, the Operating Partnership will, at the request of any Unitholder, be obligated to redeem each Unit held by such Unitholder for, at the option of the Operating Partnership, (i) cash equal to the fair market value of one share of the Company's common stock at the time of redemption, or (ii) one share of the Company's common stock. Such redemptions will cause the Company's percentage ownership in the Operating Partnership to increase.

6. RELATED PARTY TRANSACTIONS:

Notes payable--affiliates consists of amounts funded by affiliates for office buildings under renovation or construction. The notes bear interest at the prime rate plus 1% and are due on demand.

Rental income of \$7,949, \$7,773, \$10,455, \$10,522 and \$10,518 has been received from affiliates for the nine months ended September 30, 1997 and 1996, and for the years ended December 31, 1996, 1995 and 1994, respectively.

BOSTON PROPERTIES, INC.
AND
BOSTON PROPERTIES PREDECESSOR GROUP

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS--(CONTINUED)
(DOLLARS IN THOUSANDS)

Development fees of \$0, \$25, \$25, \$125, and \$478, have been received from affiliates for the nine months ended September 30, 1997 and 1996, and for the years ended December 31, 1996, 1995, and 1994, respectively.

Management fees and other income of \$268, \$314, \$419, \$554, and \$544, have been received from affiliates for the nine months ended September 30, 1997 and 1996, and for the years ended December 31, 1996, 1995, and 1994, respectively.

7. SAVINGS PLAN:

Effective January 1, 1985, the Predecessor adopted a 401(K) Savings Plan (the "Plan") for its employees. Under the Plan, employees, age 18 and older, 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.

The Plan provides that matching employer contributions are to be determined at the discretion of the Predecessor. The Predecessor matches 200% of the first 2% of pay (utilizing pay that is not in excess of \$100). The cost to the Predecessor of this matching for the nine months ended September 30, 1997 and 1996, and for the years ended December 31, 1996, 1995 and 1994, was \$312, \$285, \$359, \$319 and \$216, respectively.

Participants are immediately vested in their pre-tax and after-tax contributions. Participants vest in the Predecessor's matching contributions and earnings thereon over a seven year period.

8. 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. In conjunction with the Offering, the Company granted options with respect to 2,290,000 common shares to directors, officers and employees. All of such options were issued at an exercise price of \$25.00. The term of each of such options is 10 years from the date of grant. In general, one-third of each of the options granted to officers and Mr. Zuckerman are exercisable on each of the third, fourth, and fifth anniversary of the date of grant, respectively.

One-third of the options granted to employees who are not officers will be exercisable on each of the first, second and third anniversary of the date of grant, respectively. Other than the options granted to Mr. Zuckerman, one-half of the options granted to non-employee directors will be exercisable on each of the first and second anniversary of the date of grant, respectively.

As of September 30, 1997, the Company had granted options with respect to 2,290,000 common shares and an additional 2,464,750 common shares were reserved for issuance under the Company's stock option and incentive plan.

9. COMMITMENTS AND CONTINGENCIES:

Legal Matters

The Predecessor is subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are generally covered by insurance. The Predecessor 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 Predecessor.

BOSTON PROPERTIES, INC.
AND
BOSTON PROPERTIES PREDECESSOR GROUP

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS--(CONTINUED)
(DOLLARS IN THOUSANDS)

Environmental Matters

On January 9, 1997, the Predecessor received a Notice of Potential Responsibility ("NOR") related to groundwater contamination at one of the Predecessor's properties located in Massachusetts. The lease with the tenant of the property contains an indemnification from the tenant to the Predecessor for liability due to the tenant's actions. The tenant is currently conducting an investigation. The investigation has identified the presence of hazardous substances in a catch basin along the property line. It is expected that the tenant will take any necessary response actions. The Predecessor expects that any resolution will not have a material impact on the financial position, results of operations or liquidity of the Predecessor.

Development

The Predecessor has entered into contracts for the construction and renovation of projects currently under development. Commitments under these arrangements totaled approximately \$155 million at September 30, 1997.

The Predecessor has future development rights related to the purchase, construction, and completion of approximately 1.6 million square feet of office and industrial space. The Predecessor is required to make minimum deposits of \$1 million during the next six years to maintain these rights. If the Predecessor elects to purchase the land, all deposits would be applied to the purchase price.

Management Contracts

For the years ended December 31, 1996, 1995 and 1994, the hotels were managed pursuant to contracts which expired in 2012 with a national hotel management company. These agreements included base and incentive fee provisions. The fees under these agreements aggregated \$4,974, \$4,410 and \$4,001, respectively.

10. NEWLY ISSUED ACCOUNTING STANDARDS:

Financial Accounting Standards Board Statement No. 128 ("FAS 128") "Earnings Per Share" is effective for financial statements issued for periods ending after December 15, 1997, including interim periods. The Company intends to adopt the requirements of this pronouncement in its financial statements for the year ending December 31, 1997. FAS 128 specified the computation, presentation and disclosure requirements for net income per share. FAS 128 also requires the presentation of diluted net income per share which the Company was not previously required to present under generally accepted accounting principles.

Financial Accounting Standards Board Statement No. 129 ("FAS 129") "Disclosure of Information about Capital Structure" is effective for financial statements issued for periods ending after December 31, 1997. FAS 129 establishes standards for disclosure of information about securities, liquidation preference of preferred stock and redeemable stock.

Financial Accounting Standards Board Statement No. 130 ("FAS 130") "Reporting Comprehensive Income" is effective for fiscal years beginning after December 15, 1997, although earlier application is permitted. The Company intends to adopt the requirements of this pronouncement in its financial statements for the year ending December 31, 1998. FAS 130 establishes standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. FAS 130 requires that all components of comprehensive income shall be reported in the financial statements in the period in which they are recognized. Furthermore, a total amount for comprehensive income shall be displayed in the financial statement where the components of other comprehensive income are reported. The Company was not previously required to present comprehensive income or the components thereof in its financial statements under generally accepted accounting principles.

BOSTON PROPERTIES, INC.
AND
BOSTON PROPERTIES PREDECESSOR GROUP

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS--(CONTINUED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

Financial Accounting Standards Board Statement No. 131 ("FAS 131") "Disclosures about Segments of an Enterprise and Related Information" is effective for financial statements issued for periods beginning after December 15, 1997. FAS 131 requires disclosures about segments of an enterprise and related information regarding the different types of business activities in which an enterprise engages and the different economic environments in which it operates.

The Company does not believe that the implementation of FAS 128, FAS 129, FAS 130 or FAS 131 will have a material impact on its financial statements.

11. 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 which approximate their estimated fair values based upon the remaining maturities for certain debt and interest rates for debt with similar terms and remaining maturities.

12. SUBSEQUENT EVENTS:

On October 23, 1997, the Company acquired 100 East Pratt Street in Baltimore, Maryland for \$137.5 million of cash (including closing costs) and the issuance of 500 shares of the Company's Common Stock. This Class A Office Building consists of 634,829 net rentable square feet and an eight-story parking garage. The acquisition was funded through a draw-down of \$137.5 million under the Unsecured Line of Credit.

On October 29, 1997 and December 15, 1997, the Company declared a dividend of \$.44 per share payable on November 21, 1997 to shareholders of record on November 7, 1997 and \$.405 per share payable on January 28, 1998 to shareholders of record on December 28, 1997, respectively. The dividends relate to the three months ended September 30, 1997 in the amount of \$.405 per share and the period from June 23, 1997 to June 30, 1997 in the amount of \$.035 per share, and the three months ended December 31, 1997, respectively.

On November 11, 1997, the Company entered into a purchase and sale agreement to acquire, for approximately \$174.3 million, Riverfront Plaza, a Class A Office Building with approximately 900,000 net rentable square feet located in Richmond, Virginia.

On November 21, 1997, the Company acquired 875 Third Avenue, for approximately \$209.5 million. The Property is an approximately 682,000 square foot Class A Office Building located in midtown Manhattan, New York.

On November 26, 1997, the Company entered into agreements to acquire, for approximately \$257.9 million, the Mulligan/Griffin Portfolio, a Class A Office Building Portfolio with approximately 1,277,000 net rentable square feet located in Fairfax County, VA and Montgomery County, MD.

On December 3, 1997, the Company filed a registration statement on Form S-11 with the Securities and Exchange Commission with respect to the offering of approximately 14.0 million shares of Common Stock at an estimated offering price of \$33.25 (excluding 2.1 million shares of Common Stock that may be issued upon exercise of the underwriters' overallotment options).

SCHEDULE III

BOSTON PROPERTIES PREDECESSOR GROUP

REAL ESTATE AND ACCUMULATED DEPRECIATION

DECEMBER 31, 1996
(DOLLARS IN THOUSANDS)

| PROPERTY NAME | TYPE | LOCATION | ENCUMBRANCES | INITIAL COST | | COSTS CAPITALIZED SUBSEQUENT TO ACQUISITION |
|--|---------------|--------------------|--------------|--------------|-----------|---|
| | | | | LAND | BUILDINGS | |
| 599 Lexington Avenue | Office | New York, NY | \$430,239 | \$81,040 | \$100,507 | \$ 67,459 |
| 2300 N. Street 10 & 20 Mall Road | Office | NW, Washington, DC | 100,000 | 16,509 | 22,415 | 10,076 |
| 8 Arlington Street | Office | Burlington, MA | 20,215 | 930 | 6,928 | 8,237 |
| 32 Hartwell Ave | Office | Boston, MA | 4,611 | 90 | 1,855 | 133 |
| 91 Hartwell Ave | Office | Lexington, MA | 4,222 | 168 | 1,943 | 2,720 |
| 195 West Street | Office | Lexington, MA | 13,770 | 784 | 6,464 | 1,342 |
| 191 Spring Street | Office | Waltham, MA | 5,856 | 758 | 5,150 | 2,557 |
| 201 Spring Street | Office | Lexington, MA | 23,942 | 5,175 | 27,166 | 17,693 |
| Waltham Office Center | Office | Lexington, MA | -- | 1,500 | 3,637 | -- |
| 204 Second Avenue | Office | Waltham, MA | 11,389 | 422 | 2,719 | 2,926 |
| 170 Tracer Lane | Office | Waltham, MA | 3,374 | 37 | 2,402 | 630 |
| 33 Hayden Avenue | Office | Waltham, MA | 5,146 | 398 | 4,601 | 1,282 |
| 92 Hayden Avenue | Office | Lexington, MA | -- | 266 | 3,234 | 110 |
| 100 Hayden Avenue | Office | Lexington, MA | 11,015 | 230 | 3,145 | 510 |
| Lexington Office Park | Office | Lexington, MA | -- | 364 | 3,603 | 264 |
| Bedford Business Park | Office/ R & D | Bedford, MA | 15,373 | 998 | 1,426 | 9,472 |
| One Cambridge Center | Office | Bedford, MA | 23,500 | 502 | 3,403 | 12,743 |
| Three Cambridge Center | Office | Cambridge, MA | 45,000 | 134 | 25,110 | 3,133 |
| Ten Cambridge Center | Office | Cambridge, MA | 19,000 | 174 | 12,200 | 598 |
| Eleven Cambridge Center | Office | Cambridge, MA | 25,000 | 1,299 | 12,943 | 4,420 |
| Capital Gallery The U.S. International Commission Building | Office | Cambridge, MA | 8,319 | 121 | 5,535 | 392 |
| | Office | SW, Washington DC | 60,751 | 4,725 | 29,560 | 7,033 |
| Subtotal | | SW, Washington DC | 50,000 | 109 | 22,420 | 9,293 |
| | | | \$880,722 | \$116,733 | \$308,366 | \$163,023 |

GROSS AMOUNT CARRIED AT CLOSE OF PERIOD

| PROPERTY NAME | LAND AND IMPROVEMENTS | BUILDING AND IMPROVEMENTS | DEVELOPMENT AND CONSTRUCTION IN PROCESS | | TOTAL | ACCUMULATED DEPRECIATION | YEAR BUILT/ RENOVATED | DEPRECIABLE LIVES (YEARS) |
|----------------------------------|-----------------------|---------------------------|---|-----------|-----------|--------------------------|-----------------------|---------------------------|
| | | | | | | | | |
| 599 Lexington Avenue | \$81,040 | \$167,966 | \$ -- | \$249,006 | \$ 58,567 | 1986 | (1) | |
| 2300 N. Street 10 & 20 Mall Road | 16,509 | 32,491 | -- | 49,000 | 9,001 | 1986 | (1) | |
| 8 Arlington Street | 939 | 15,156 | -- | 16,095 | 4,474 | 1984-86 | (1) | |
| 32 Hartwell Ave | 90 | 1,988 | -- | 2,078 | 770 | 1860-1920/1989 | (1) | |
| 91 Hartwell Ave | 168 | 4,663 | -- | 4,831 | 2,244 | 1968-79/1987-88 | (1) | |
| 195 West Street | 784 | 7,806 | -- | 8,590 | 2,081 | 1985 | (1) | |
| 191 Spring Street | 1,611 | 6,854 | -- | 8,465 | 1,286 | 1990 | (1) | |
| 201 Spring Street | 5,175 | 44,859 | -- | 50,034 | 8,857 | 1971/1995 | (1) | |
| Waltham Office Center | -- | -- | 5,137 | 5,137 | -- | 1997 | N/A | |
| 204 Second Avenue | 425 | 5,642 | -- | 6,067 | 3,004 | 1968-70/1987-88 | (1) | |
| 170 Tracer Lane | 37 | 3,032 | -- | 3,069 | 1,291 | 1981/1993 | (1) | |
| 33 Hayden Avenue | 418 | 5,863 | -- | 6,281 | 2,122 | 1980 | (1) | |
| 92 Hayden Avenue | 266 | 3,344 | -- | 3,610 | 1,517 | 1979 | (1) | |
| 100 Hayden Avenue | 230 | 3,655 | -- | 3,885 | 1,294 | 1968/1984 | (1) | |
| | 364 | 3,867 | -- | 4,231 | 1,132 | 1985 | (1) | |

| | | | | | | | |
|--|-----------|-----------|---------|-----------|------------|---------|-----|
| Lexington Office Park | 1,072 | 10,824 | -- | 11,896 | 3,561 | 1982 | (1) |
| Bedford Business Park | 502 | 16,146 | -- | 16,648 | 5,831 | 1969-80 | (1) |
| One Cambridge Center | 134 | 28,243 | -- | 28,377 | 7,975 | 1987 | (1) |
| Three Cambridge Center | 174 | 12,798 | -- | 12,972 | 3,181 | 1987 | (1) |
| Ten Cambridge Center | 1,868 | 16,794 | -- | 18,662 | 4,882 | 1990 | (1) |
| Eleven Cambridge Center | 121 | 5,927 | -- | 6,048 | 1,975 | 1984 | (1) |
| Capital Gallery | 4,725 | 36,593 | -- | 41,318 | 14,192 | 1981 | (1) |
| The U.S. International Commission Building | 1,569 | 30,253 | -- | 31,822 | 10,762 | 1987 | (1) |
| Subtotal | \$118,221 | \$464,764 | \$5,137 | \$588,122 | \$ 149,999 | | |

SCHEDULE III

BOSTON PROPERTIES PREDECESSOR GROUP

REAL ESTATE AND ACCUMULATED DEPRECIATION

DECEMBER 31, 1996
(DOLLARS IN THOUSANDS)

| PROPERTY NAME | TYPE | LOCATION | ENCUMBRANCES | INITIAL COST | | COSTS CAPITALIZED SUBSEQUENT TO ACQUISITIONS |
|--|--------|-------------------|--------------|--------------|------------|--|
| | | | | LAND | BUILDINGS | |
| Subtotal from previous page | | | \$ 880,722 | \$ 116,733 | \$ 308,366 | \$ 163,023 |
| One Independence Square | Office | SW, Washington DC | 78,700 | \$ 9,356 | \$ 33,701 | \$ 14,170 |
| Two Independence Square | Office | SW, Washington DC | 122,856 | 14,053 | 59,883 | 8,795 |
| Montvale Center | Office | Gaithersburg, MD | 7,992 | 1,574 | 9,786 | 3,433 |
| Democracy Center | Office | Bethesda, MD | 110,100 | 12,550 | 50,015 | 18,392 |
| 7435 Boston Boulevard, Building One | Office | Springfield, VA | 5,564 | 392 | 3,822 | 1,199 |
| 7451 Boston Boulevard, Building Two | Office | Springfield, VA | 2,215 | 249 | 1,542 | 1,460 |
| 7374 Boston Boulevard, Building Four | Office | Springfield, VA | 3,619 | 241 | 1,605 | 462 |
| 8000 Grainger Court, Building Five | Office | Springfield, VA | 7,664 | 366 | 4,282 | 603 |
| 7500 Boston Boulevard, Building Six | Office | Springfield, VA | 6,440 | 138 | 3,749 | 206 |
| 7501 Boston Boulevard, Building Seven | Office | Springfield, VA | -- | 665 | 878 | -- |
| 7601 Boston Boulevard, Building Eight | Office | Springfield, VA | 8,372 | 200 | 3,883 | 453 |
| 7600 Boston Boulevard, Building Nine | Office | Springfield, VA | 5,796 | 127 | 2,839 | 1,386 |
| 7375 Boston Boulevard, Building Ten | Office | Springfield, VA | -- | 23 | 2,685 | 559 |
| 8000 Boston Boulevard, Building Eleven | Office | Springfield, VA | -- | 136 | 3,071 | 88 |
| Subtotal | | | \$1,240,040 | \$ 156,803 | \$ 490,107 | \$ 214,229 |

GROSS AMOUNT CARRIED AT CLOSE OF PERIOD

| PROPERTY NAME | LAND AND IMPROVEMENTS | BUILDING AND IMPROVEMENTS | DEVELOPMENT AND CONSTRUCTION IN PROCESS | TOTAL | ACCUMULATED DEPRECIATION | YEAR BUILT/ RENOVATED | DEPRECIABLE LIVES (YEARS) |
|--------------------------------------|-----------------------|---------------------------|---|-----------|--------------------------|-----------------------|---------------------------|
| | | | | | | | |
| One Independence Square | \$ 9,634 | \$ 47,593 | \$ -- | \$ 57,227 | \$ 9,556 | 1991 | (1) |
| Two Independence Square | 15,038 | 67,693 | -- | 82,731 | 9,228 | 1992 | (1) |
| Montvale Center | 2,399 | 12,394 | -- | 14,793 | 3,384 | 1987 | (1) |
| Democracy Center | 13,695 | 67,262 | -- | 80,957 | 17,710 | 1985-88 | (1) |
| 7435 Boston Boulevard, Building One | 486 | 4,927 | -- | 5,413 | 1,571 | 1982 | (1) |
| 7451 Boston Boulevard, Building Two | 535 | 2,716 | -- | 3,251 | 1,141 | 1982 | (1) |
| 7374 Boston Boulevard, Building Four | 303 | 2,005 | -- | 2,308 | 639 | 1984 | (1) |
| 8000 Grainger Court, Building Five | 453 | 4,798 | -- | 5,251 | 1,509 | 1984 | (1) |
| 7500 Boston Boulevard, Building Six | 282 | 3,811 | -- | 4,093 | 1,174 | 1985 | (1) |

| | | | | | | | |
|--|------------|------------|----------|------------|------------|------|-----|
| 7501 Boston Boulevard, Building Seven 7601 Boston Boulevard, | -- | -- | 1,543 | 1,543 | -- | 1997 | N/A |
| Building Eight 7600 Boston Boulevard, | 378 | 4,158 | -- | 4,536 | 1,270 | 1986 | (1) |
| Building Nine 7375 Boston Boulevard, | 189 | 4,163 | -- | 4,352 | 1,212 | 1987 | (1) |
| Building Ten 8000 Boston Boulevard, | 47 | 3,220 | -- | 3,267 | 894 | 1988 | (1) |
| Building Eleven | 214 | 3,081 | -- | 3,295 | 629 | 1989 | (1) |
| Subtotal | \$ 161,874 | \$ 692,585 | \$ 6,680 | \$ 861,139 | \$ 199,916 | | |

SCHEDULE III

BOSTON PROPERTIES PREDECESSOR GROUP

REAL ESTATE AND ACCUMULATED DEPRECIATION

DECEMBER 31, 1996
(DOLLARS IN THOUSANDS)

| PROPERTY NAME | TYPE | LOCATION | ENCUMBRANCES | INITIAL COST | | COSTS CAPITALIZED SUBSEQUENT TO ACQUISITION |
|--|------------|-----------------------|--------------|--------------|------------|---|
| | | | | LAND | BUILDINGS | |
| Subtotal from previous page | | | \$1,240,040 | \$ 156,803 | \$ 490,107 | \$ 214,229 |
| 7700 Boston Boulevard, Building Twelve Sugarland | Office | Springfield, VA | -- | \$ 1,105 | \$ 1,042 | \$ -- |
| Building One Sugarland | Office | Herndon, VA | -- | 735 | 2,739 | -- |
| Building Two Hilltop Business Center | Office | Herndon, VA | -- | 834 | 3,216 | -- |
| 164 Lexington Road | Office | So. San Francisco, CA | 4,817 | 53 | 492 | 140 |
| 25-33 Dartmouth Street | Office | Billerica, MA | 1,970 | 592 | 1,370 | 127 |
| 40-46 Harvard Street | Industrial | Westwood, MA | 3,296 | 273 | 1,595 | 470 |
| 1950 Stanford Court, Building One | Industrial | Westwood, MA | 5,380 | 351 | 1,782 | 1,347 |
| 6201 Columbia Park, Building Two | Industrial | Landover, MD | 2,662 | 269 | 1,554 | 161 |
| 2000 South Club Drive, Building Three | Industrial | Landover, MD | 5,023 | 505 | 2,746 | 951 |
| 38 Cabot Boulevard | Industrial | Landover, MD | 3,542 | 465 | 2,125 | 702 |
| 430 Rozzi Place | Industrial | Bucks County, PA | -- | 329 | 1,238 | 1,933 |
| 560 Forbes Boulevard | Industrial | So. San Francisco, CA | -- | 24 | 217 | 67 |
| 2391 West Winton Avenue | Industrial | So. San Francisco, CA | -- | 48 | 435 | 133 |
| 17 Hartwell Avenue | Industrial | Hayward, CA | 1,343 | 182 | 1,217 | 41 |
| Fourteen Cambridge Long Wharf | R&D | Lexington, MA | 938 | 26 | 150 | 362 |
| Marriott Cambridge Center | R&D | Cambridge, MA | 6,748 | 110 | 4,483 | -- |
| Cambridge Center N. | Hotel | Boston, MA | 68,600 | 1,752 | 37,534 | 2,216 |
| | Hotel | Cambridge, MA | 61,000 | 478 | 37,918 | 3,734 |
| | Garage | Cambridge, MA | 15,000 | 639 | 11,630 | 527 |
| Subtotal | | | \$1,420,359 | \$ 165,573 | \$ 603,590 | \$ 227,140 |

GROSS AMOUNT CARRIED AT CLOSE OF PERIOD

| PROPERTY NAME | DEVELOPMENT AND CONSTRUCTION | | | TOTAL | ACCUMULATED DEPRECIATION | YEAR BUILT/RENOVATED | DEPRECIABLE LIVES (YEARS) |
|--|------------------------------|---------------------------|------------|------------|--------------------------|----------------------|---------------------------|
| | LAND AND IMPROVEMENTS | BUILDING AND IMPROVEMENTS | IN PROCESS | | | | |
| Subtotal from previous page | \$ 161,874 | \$ 692,585 | \$ 6,680 | \$ 861,139 | \$ 199,916 | | |
| 7700 Boston Boulevard, Building Twelve Sugarland | \$ -- | \$ -- | \$ 2,147 | \$ 2,147 | \$ -- | 1997 | N/A |
| Building One Sugarland | -- | -- | 3,474 | 3,474 | -- | 1985/1997 | N/A |
| Building Two Hilltop Business Center | -- | -- | 4,050 | 4,050 | -- | 1986/1997 | N/A |
| 164 Lexington Road | 53 | 632 | -- | 685 | 260 | early 1970's | (1) |
| 25-33 Dartmouth Street | 592 | 1,497 | -- | 2,089 | 39 | 1995 | (1) |
| 40-46 Harvard Street | 273 | 2,065 | -- | 2,338 | 1,120 | 1966 | (1) |
| 1950 Stanford Court, Building | 351 | 3,129 | -- | 3,480 | 2,244 | 1967 | (1) |

| | | | | | | | |
|---|------------|------------|-----------|------------|------------|--------------|-----|
| One 6201 Columbia Park, Building Two | 350 | 1,634 | -- | 1,984 | 444 | 1986 | (1) |
| 2000 South Club Drive, Building Three | 960 | 3,242 | -- | 4,202 | 1,186 | 1986 | (1) |
| 38 Cabot Boulevard | 859 | 2,433 | -- | 3,292 | 682 | 1988 | (1) |
| 430 Rozzi Place | 329 | 3,171 | -- | 3,500 | 2,709 | 1972/1984 | (1) |
| 560 Forbes Boulevard | 24 | 284 | -- | 308 | 117 | early 1970's | (1) |
| 2391 West Winton Avenue | 48 | 568 | -- | 616 | 234 | early 1970's | (1) |
| 17 Hartwell Avenue | 182 | 1,258 | -- | 1,440 | 858 | 1974 | (1) |
| Avenue Fourteen | 26 | 512 | -- | 538 | 435 | 1968 | (1) |
| Cambridge Long Wharf | 110 | 4,483 | -- | 4,593 | 1,569 | 1983 | (1) |
| Marriott | 1,752 | 39,750 | -- | 41,502 | 14,527 | 1982 | (1) |
| Cambridge Center | 478 | 41,652 | -- | 42,130 | 10,129 | 1986 | (1) |
| Cambridge Center N. | 1,163 | 11,633 | -- | 12,796 | 2,000 | 1990 | (1) |
| Subtotal | \$ 169,424 | \$ 810,528 | \$ 16,351 | \$ 996,303 | \$ 238,469 | | |

SCHEDULE III

BOSTON PROPERTIES PREDECESSOR GROUP

REAL ESTATE AND ACCUMULATED DEPRECIATION

DECEMBER 31, 1996
(DOLLARS IN THOUSANDS)

| PROPERTY NAME | TYPE | LOCATION | ENCUMBRANCES | INITIAL COST | | COSTS CAPITALIZED SUBSEQUENT TO ACQUISITION |
|-----------------------------|-------------|-----------------|--------------|--------------|------------|---|
| | | | | LAND | BUILDINGS | |
| Subtotal from previous page | | | \$1,420,359 | \$ 165,573 | \$ 603,590 | \$ 227,140 |
| Cambridge Master Plan | Development | Cambridge, MA | -- | \$ 1,722 | \$ -- | \$ 1,727 |
| Maryland Master Plan | Development | Landover, MD | -- | 464 | -- | -- |
| Virginia Master Plan | Development | Springfield, VA | -- | 655 | -- | 666 |
| Total | | | \$1,420,359 | \$ 168,414 | \$ 603,590 | \$ 229,533 |

| PROPERTY NAME | GROSS AMOUNT CARRIED AT CLOSE OF PERIOD | | | | ACCUMULATED DEPRECIATION | YEAR BUILT/RENOVATED | DEPRECIABLE LIVES (YEARS) |
|-----------------------------|---|---------------------------|---|--------------|--------------------------|----------------------|---------------------------|
| | LAND AND IMPROVEMENTS | BUILDING AND IMPROVEMENTS | DEVELOPMENT AND CONSTRUCTION IN PROCESS | TOTAL | | | |
| Subtotal from previous page | \$ 169,424 | \$ 810,528 | \$ 16,351 | \$ 996,303 | \$ 238,469 | | |
| Cambridge Master Plan | \$ -- | \$ -- | \$ 3,449 | \$ 3,449 | \$ -- | Various | N/A |
| Maryland Master Plan | -- | -- | 464 | 464 | -- | Various | N/A |
| Virginia Master Plan | -- | -- | 1,321 | 1,321 | -- | Various | N/A |
| Total | \$ 169,424 | \$ 810,528 | \$ 21,585 | \$ 1,001,537 | \$ 238,469 | | |

- (1) Depreciation of the Boston Properties Predecessor Group's buildings and improvements are calculated over lives ranging from the life of the lease to 40 years.
- (2) The aggregate cost and accumulated depreciation for tax purposes was \$1,042,317 and \$412,548, respectively at December 31, 1996.

BOSTON PROPERTIES PREDECESSOR GROUP
REAL ESTATE AND ACCUMULATED DEPRECIATION

DECEMBER 31, 1996
(DOLLARS IN THOUSANDS)

A summary of activity for real estate and accumulated depreciation is as follows:

| | 1996 | 1995 | 1994 |
|--|-------------|-----------|-----------|
| | ----- | ----- | ----- |
| Real estate: | | | |
| Balance at beginning of year..... | \$979,493 | \$952,374 | \$951,693 |
| Improvements and acquisition/development of real estate..... | 28,110 | 29,660 | 9,397 |
| Write-off of fully depreciated assets.. | (6,066) | (2,541) | (8,716) |
| | ----- | ----- | ----- |
| Balance at end of year..... | \$1,001,537 | \$979,493 | \$952,374 |
| | ===== | ===== | ===== |
| Accumulated depreciation: | | | |
| Balance at beginning of year..... | 215,303 | 189,712 | 170,308 |
| Depreciation expense..... | 29,232 | 28,132 | 28,120 |
| Write-off of fully depreciated assets.. | (6,066) | (2,541) | (8,716) |
| | ----- | ----- | ----- |
| Balance at end of year..... | \$238,469 | \$215,303 | \$189,712 |
| | ===== | ===== | ===== |

REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying statement of revenue over certain operating expenses of 280 Park Avenue in midtown Manhattan, New York (the "Property") for the year ended December 31, 1996. This statement is the responsibility of the Property's management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of revenue over certain operating expenses is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of revenue over certain operating expenses was prepared for the purpose of complying with Rule 3-14 of the Securities and Exchange Commission, and excludes certain expenses described in Note 2, and therefore is not intended to be a complete presentation of the Property's revenue and expenses.

In our opinion, the statement referred to above presents fairly, in all material respects, the revenue over certain operating expenses (as described in Note 2) of 280 Park Avenue for the year ended December 31, 1996 in conformity with generally accepted accounting principles.

/s/ Coopers & Lybrand L.L.P.

Boston, Massachusetts
October 17, 1997

280 PARK AVENUE
STATEMENT OF REVENUE
OVER CERTAIN OPERATING EXPENSES

(DOLLARS IN THOUSANDS)

| | FOR THE YEAR ENDED DECEMBER 31, 1996 | FOR THE PERIOD JANUARY 1, 1997 TO SEPTEMBER 11, 1997 |
|--|---|--|
| | ----- | ----- |
| | | (UNAUDITED) |
| Revenue: | | |
| Base rent..... | \$16,786 | \$17,012 |
| Recoveries from tenants..... | 2,600 | 1,707 |
| Other income..... | 59 | 80 |
| | ----- | ----- |
| | 19,445 | 18,799 |
| | ----- | ----- |
| Certain operating expenses (Note 2) | | |
| Utilities..... | 3,777 | 2,644 |
| Janitorial and cleaning..... | 1,839 | 1,609 |
| Security..... | 506 | 393 |
| General and administrative..... | 769 | 605 |
| Repairs and maintenance..... | 3,028 | 2,320 |
| Insurance..... | 250 | 201 |
| Real estate taxes..... | 9,908 | 6,677 |
| | ----- | ----- |
| | 20,077 | 14,449 |
| | ----- | ----- |
| Excess (deficiency) of revenue over certain operating expenses..... | \$ (632) | \$ 4,350 |
| | ===== | ===== |

The accompanying notes are an integral part of the statement.

280 PARK AVENUE
NOTES TO STATEMENT OF REVENUE
OVER CERTAIN OPERATING EXPENSES

(DOLLARS IN THOUSANDS)

1. DESCRIPTION OF THE PROPERTY

The accompanying statement of revenue over certain operating expenses (the "Statement") includes the operations of an approximately 1.2 million square foot office building located at 280 Park Avenue in midtown Manhattan, New York. The property was acquired by Boston Properties, Inc. (the "Company") on September 11, 1997 from Bankers Trust (the "Bank"), an unrelated party. During 1996 and 1997, the Bank, as owner occupant repositioned the Property for sale and reduced their occupancy from approximately 800,000 sq. ft. to 200,000 sq. ft. A significant portion of space occupied by the Bank, as owner occupant, was substantially renovated and leased to outside tenants.

2. BASIS OF ACCOUNTING

The accompanying Statement has been prepared on the accrual basis of accounting. The Statement has been prepared in accordance with Rule 3-14 of Regulation S-X of the Securities and Exchange Commission for real estate properties acquired or to be acquired. Accordingly, this statement excludes revenue attributable to the owner occupied space and certain historical expenses not comparable to the operations of the Property after acquisition such as amortization, depreciation, property management fees, certain owner occupant expenses, corporate expenses and certain other costs not directly related to the future operations of the Property.

3. SIGNIFICANT ACCOUNTING POLICIES

Rental Revenue

Rental income is recognized on the straight-line method over the terms of the related leases. The excess of recognized rentals over amounts due pursuant to lease terms is recorded as accrued rent. The impact of the straight-line rent adjustment increased revenue by approximately \$6.2 million and \$5.2 million for the year ended December 31, 1996 and for the period January 1, 1997 to September 11, 1997 (unaudited), respectively.

Unaudited Interim Information

The statement of revenue over certain operating expenses for the period from January 1, 1997 to September 11, 1997 is unaudited. In the opinion of management, all adjustments necessary for a fair presentation of such statement have been included. The results of operations for the period are not necessarily indicative of the Property's future results of operations.

Risks and Uncertainties

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

280 PARK AVENUE
NOTES TO STATEMENT OF REVENUE
OVER CERTAIN OPERATING EXPENSES

(DOLLARS IN THOUSANDS)

4 DESCRIPTION OF LEASING ARRANGEMENTS

The commercial and office space is leased to tenants under leases with terms that vary in length. Certain leases contain real estate tax reimbursement clauses, operating expenses reimbursement clauses and renewal options. Minimum lease payments due under noncancelable operating leases in effect as of September 11, 1997 (unaudited), for the remainder of 1997 and annually thereafter are as follows:

| | PRO FORMA(1) |
|--------------------------|--------------|
| | ----- |
| 1997 (9/12/97 -12/31/97) | \$ 8,859 |
| 1998 | 31,649 |
| 1999 | 40,025 |
| 2000 | 38,726 |
| 2001 | 35,604 |
| Thereafter | 359,745 |

As of September 12, 1997, three tenants, including Bankers Trust occupied approximately 52% of the leasable square feet and represented 42% of total 1996 Base Rent.

(1) Includes the addition of rent that Bankers Trust will owe under terms of a lease entered into with the Company concurrent with the sale of the Property.

REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying statement of revenue over certain operating expenses of 100 East Pratt Street in Baltimore, Maryland (the "Property") for the year ended December 31, 1996. This statement is the responsibility of the Property's management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of revenue over certain operating expenses is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of revenue over certain operating expenses was prepared for the purpose of complying with Rule 3-14 of the Securities and Exchange Commission, and excludes certain expenses described in Note 2, and therefore is not intended to be a complete presentation of the Property's revenue and expenses.

In our opinion, the statement referred to above presents fairly, in all material respects, the revenue over certain operating expenses (as described in Note 2) of 100 East Pratt Street for the year ended December 31, 1996 in conformity with generally accepted accounting principles.

/s/ Coopers & Lybrand L.L.P.

Boston, Massachusetts
November 3, 1997

100 EAST PRATT STREET
STATEMENT OF REVENUE
OVER CERTAIN OPERATING EXPENSES

(DOLLARS IN THOUSANDS)

| | FOR THE YEAR ENDED DECEMBER 31, 1996 | FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997 |
|---|---|---|
| | ----- | ----- |
| | | (UNAUDITED) |
| Revenue: | | |
| Base rent..... | \$11,826 | \$ 9,218 |
| Recoveries from tenants..... | 2,966 | 2,133 |
| Garage--net..... | 2,220 | 1,706 |
| Other income..... | 353 | 267 |
| | ----- | ----- |
| | 17,365 | 13,324 |
| | ----- | ----- |
| Certain operating expenses: | | |
| Utilities..... | 1,661 | 1,406 |
| Janitorial and cleaning..... | 637 | 504 |
| Security..... | 315 | 255 |
| General and administrative..... | 566 | 424 |
| Repairs and maintenance..... | 1,084 | 811 |
| Insurance..... | 70 | 53 |
| Real estate taxes..... | 2,054 | 1,541 |
| | ----- | ----- |
| | 6,387 | 4,994 |
| | ----- | ----- |
| Excess of revenue over certain operating expenses..... | \$10,978 | \$ 8,330 |
| | ===== | ===== |

The accompanying notes are an integral part of the statement.

100 EAST PRATT STREET
NOTES TO STATEMENT OF REVENUE
OVER CERTAIN OPERATING EXPENSES

(DOLLARS IN THOUSANDS)

1. DESCRIPTION OF THE PROPERTY

The accompanying statement of revenue over certain operating expenses (the "Statement") includes the operations of 100 East Pratt Street, an approximately 634,000 square foot office building located on the inner harbor in downtown Baltimore, Maryland. The Property was acquired on October 23, 1997 from an unrelated third party.

2. BASIS OF ACCOUNTING

The accompanying statement of revenue over certain operating expenses is presented on the accrual basis. This statement has been prepared in accordance with Rule 3-14 of Regulation S-X of the Securities and Exchange Commission for real estate properties acquired or to be acquired. Accordingly, this statement excludes certain historical income and expenses not comparable to the operations of the property after acquisition, such as interest income, depreciation, amortization, and interest expense.

3. SIGNIFICANT ACCOUNTING POLICIES

Rental Revenue

Rental income is recognized on the straight-line method over the terms of the related leases. The excess of recognized rentals over amounts due pursuant to lease terms is recorded as accrued rent. The impact of the straight-line rent adjustment increased revenue by approximately \$361 and decreases revenue by approximately \$318 for the year ended December 31, 1996 and for the nine months ended September 30, 1997 (unaudited), respectively.

Unaudited Interim Information

The combined statement revenue over certain operating expenses for the nine months ended September 30, 1997 is unaudited. In the opinion of management, all adjustments necessary for a fair presentation of such statement have been included. The results of operations for the period are not necessarily indicative of the Property's future results of operations.

Risks and Uncertainties

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. DESCRIPTION OF LEASING ARRANGEMENTS

The commercial and office space is leased to tenants under leases with terms that vary in length. Certain leases contain real estate tax reimbursement clauses, operating expense reimbursement clauses and renewal options. Minimum lease payments to be received during the next five years for noncancelable operating leases in effect at December 31, 1996 are approximately as follows:

| YEAR ENDING DECEMBER 31, ----- | (IN THOUSANDS) ----- |
|--------------------------------------|-------------------------|
| 1997..... | \$12,294 |
| 1998..... | 11,727 |
| 1999..... | 11,435 |
| 2000..... | 11,185 |
| 2001..... | 10,656 |
| Thereafter..... | 39,516 |
| | ----- |
| Total future minimum rentals..... | \$96,813 |
| | ===== |

As of December 31, 1996, two tenants occupied approximately 42% of the leasable square feet and represented approximately 48% of total 1996 Base Rent.

REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying statement of revenue over certain operating expenses of 875 Third Avenue in Midtown Manhattan, New York (the "Property") for the year ended December 31, 1996. This statement is the responsibility of the Property's management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of revenue over certain operating expenses is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of revenue over certain operating expenses was prepared for the purpose of complying with Rule 3-14 of the Securities and Exchange Commission, and excludes certain expenses described in Note 2, and therefore is not intended to be a complete presentation of the Property's revenue and expenses.

In our opinion, the statement referred to above presents fairly, in all material respects, the revenue over certain operating expenses (as described in Note 2) of 875 Third Avenue for the year ended December 31, 1996 in conformity with generally accepted accounting principles.

/s/ Coopers & Lybrand L.L.P.

Boston, Massachusetts
October 17, 1997

875 THIRD AVENUE
STATEMENT OF REVENUE
OVER CERTAIN OPERATING EXPENSES

(DOLLARS IN THOUSANDS)

FOR THE YEAR ENDED FOR THE NINE MONTHS ENDED
DECEMBER 31, 1996 SEPTEMBER 30, 1997

(UNAUDITED)

| | | |
|--|----------|----------|
| Revenue: | | |
| Base rent..... | \$25,255 | \$18,646 |
| Recoveries from tenants..... | 5,813 | 3,799 |
| | ----- | ----- |
| | 31,068 | 22,445 |
| | ----- | ----- |
| Certain operating expenses (Note 2) | | |
| Utilities..... | 1,002 | 859 |
| Janitorial and cleaning..... | 1,159 | 911 |
| Security..... | 347 | 256 |
| General and administrative..... | 530 | 428 |
| Interest..... | 15,750 | 11,813 |
| Repairs and maintenance..... | 999 | 740 |
| Insurance..... | 212 | 161 |
| Real estate taxes..... | 6,365 | 4,831 |
| | ----- | ----- |
| | 26,364 | 19,999 |
| | ----- | ----- |
| Excess of revenue over certain operating expenses..... | \$ 4,704 | \$ 2,446 |
| | ===== | ===== |

The accompanying notes are an integral part of the statement.

875 THIRD AVENUE
NOTES TO STATEMENT OF REVENUE
OVER CERTAIN OPERATING EXPENSES

(DOLLARS IN THOUSANDS)

1. DESCRIPTION OF THE PROPERTY

The accompanying statement of revenue over certain operating expenses (the "Statement") includes the operations of 875 Third Avenue, an approximately 682,000 square foot office building located in midtown Manhattan, New York. The Property will be acquired by Boston Properties, Inc. from an unrelated third party.

2. BASIS OF ACCOUNTING

The accompanying Statement has been prepared on the accrual basis of accounting. The Statement has been prepared in accordance with Rule 3-14 of Regulation S-X of the Securities and Exchange Commission for real estate properties acquired or to be acquired. Accordingly, this statement excludes certain historical expenses not comparable to the operations of the Property after acquisition such as amortization, depreciation, property management fees, certain interest costs, corporate expenses and certain other costs not directly related to the future operations of the Property.

3. SIGNIFICANT ACCOUNTING POLICIES

Rental Revenue

Rental income is recognized on the straight-line method over the terms of the related leases. The excess of recognized rentals over amounts due pursuant to lease terms is recorded as accrued rent. The impact of the straight-line rent adjustment increased revenue by approximately \$1.3 million and \$768 for the year ended December 31, 1996, and the nine months ended September 30, 1997 (unaudited), respectively.

Unaudited Interim Information

The statement of revenue over certain operating expenses for the nine months ended September 30, 1997 is unaudited. In the opinion of management, all adjustments necessary for a fair presentation of such statement have been included. The results of operations for the period are not necessarily indicative of the Property's future results of operations.

Risks and Uncertainties

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. DESCRIPTION OF LEASING ARRANGEMENTS

The commercial and office space is leased to tenants under leases with terms that vary in length. Certain leases contain real estate tax reimbursement clauses, operating expense reimbursement clauses and renewal options. Minimum lease payments to be received during the next five years for noncancelable operating leases in effect at December 31, 1996 are approximately as follows:

| YEAR ENDING DECEMBER 31, ----- | (IN THOUSANDS) ----- |
|--------------------------------------|-------------------------|
| 1997..... | \$22,776 |
| 1998..... | 24,667 |
| 1999..... | 24,716 |
| 2000..... | 22,920 |
| 2001..... | 22,960 |
| Thereafter..... | 22,608 |

875 THIRD AVENUE
NOTES TO STATEMENT OF REVENUE
OVER CERTAIN OPERATING EXPENSES

(DOLLARS IN THOUSANDS)

As of December 31, 1996, 3 tenants occupied approximately 77% of the leasable square feet and represented 84% of total 1996 Base Rent.

5. DEBT ASSUMPTION

In connection with the acquisition, Boston Properties, Inc. will assume a mortgage note (the "Note") encumbering the property of \$180,000 at December 31, 1996. Boston Properties Inc.'s assumption of this mortgage does not provide for any modification to the original terms; therefore, interest expense incurred prior to Boston Properties Inc.'s assumption of the mortgage note is representative of future interest expense. Accordingly, interest expense of \$15,750 for 1996 and \$11,813 for the nine months ended September 30, 1997 (unaudited) is recognized in the accompanying Statement. The Note requires interest only payments through January 1, 2000. Beginning February 1, 2000, the Note requires monthly installments of principal and interest of \$1,416 and matures on January 1, 2003. The interest rate on the note is 8.75%. The note is subject to a prepayment penalty until October 1, 2002 in the event of an early principal repayment.

Principal payments due on the mortgage note during the next five years are approximately as follows:

| | |
|------|-------|
| 1997 | \$ -- |
| 1998 | -- |
| 1999 | -- |
| 2000 | 1,182 |
| 2001 | 1,401 |

REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying statement of revenue over certain operating expenses of Riverfront Plaza in Richmond, Virginia (the "Property") for the year ended December 31, 1996. This statement is the responsibility of the Property's management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of revenue over certain operating expenses is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of revenue over certain operating expenses was prepared for the purpose of complying with Rule 3-14 of the Securities and Exchange Commission, and excludes certain expenses described in Note 2, and therefore is not intended to be a complete presentation of the Property's revenue and expenses.

In our opinion, the statement referred to above presents fairly, in all material respects, the revenue over certain operating expenses (as described in Note 2) of Riverfront Plaza for the year ended December 31, 1996 in conformity with generally accepted accounting principles.

/s/ Coopers & Lybrand L.L.P.

Boston, Massachusetts
November 25, 1997

RIVERFRONT PLAZA
STATEMENT OF REVENUE
OVER CERTAIN OPERATING EXPENSES

(DOLLARS IN THOUSANDS)

FOR THE YEAR ENDED FOR THE NINE MONTHS ENDED
DECEMBER 31, 1996 SEPTEMBER 30, 1997

(UNAUDITED)

| | | |
|---|----------|----------|
| Revenue: | | |
| Base rent..... | \$13,723 | \$11,263 |
| Recoveries from tenants..... | 2,976 | 2,017 |
| Garage--net..... | 2,175 | 1,760 |
| Other income..... | 436 | 382 |
| | ----- | ----- |
| | 19,310 | 15,422 |
| | ----- | ----- |
| Certain operating expenses (Note 2) | | |
| Utilities..... | 1,578 | 1,118 |
| Janitorial and cleaning..... | 741 | 541 |
| Security..... | 339 | 270 |
| General and administrative..... | 360 | 245 |
| Repairs and maintenance..... | 683 | 470 |
| Insurance..... | 164 | 117 |
| Real estate taxes..... | 1,638 | 1,219 |
| | ----- | ----- |
| | 5,503 | 3,980 |
| | ----- | ----- |
| Excess of revenue over certain operating expenses..... | \$13,807 | \$11,442 |
| | ===== | ===== |

The accompanying notes are an integral part of the statement.

RIVERFRONT PLAZA
NOTES TO STATEMENT OF REVENUE
OVER CERTAIN OPERATING EXPENSES

(DOLLARS IN THOUSANDS)

1. DESCRIPTION OF THE PROPERTY

The accompanying statement of revenue over certain operating expenses (the "Statement") includes the operations of an approximately 899,720 square foot office building located in Richmond, Virginia. The Property will be acquired by Boston Properties, Inc. from an unrelated third party.

2. BASIS OF ACCOUNTING

The accompanying Statement has been prepared on the accrual basis of accounting. The Statement has been prepared in accordance with Rule 3-14 of Regulation S-X of the Securities and Exchange Commission for real estate properties acquired or to be acquired. Accordingly, this statement excludes certain historical expenses not comparable to the operations of the Property after acquisition such as amortization, depreciation, property management fees, certain interest costs, corporate expenses, certain bad debts and certain other costs not directly related to the future operations of the Property.

3. SIGNIFICANT ACCOUNTING POLICIES

Rental Revenue

Rental income is recognized on the straight-line method over the terms of the related leases. The excess of recognized rentals over amounts due pursuant to lease terms is recorded as accrued rent. The impact of the straight-line rent adjustment increased revenue by approximately \$621 and \$143 for the year ended December 31, 1996, and the nine months ended September 30, 1997 (unaudited), respectively.

Unaudited Interim Information

The statement of revenue over certain operating expenses for the nine months ended September 30, 1997 is unaudited. In the opinion of management, all adjustments necessary for a fair presentation of such statement have been included. The results of operations for the period are not necessarily indicative of the Property's future results of operations.

Risks and Uncertainties

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. DESCRIPTION OF LEASING ARRANGEMENTS

The commercial and office space is leased to tenants under leases with terms that vary in length. Certain leases contain real estate tax reimbursement clauses, operating expense reimbursement clauses and renewal options. Minimum lease payments to be received during the next five years for noncancelable operating leases in effect at December 31, 1996 are approximately as follows:

| | YEAR ENDING DECEMBER 31, ----- (IN THOUSANDS) |
|-----------------|--|
| 1997..... | \$13,615 |
| 1998..... | 13,870 |
| 1999..... | 13,148 |
| 2000..... | 12,427 |
| 2001..... | 10,574 |
| Thereafter..... | 39,718 |

As of December 31, 1996, two tenants occupied approximately 55% of the leasable square feet and represented 56% of total 1996 Base Rent.

REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying statement of revenue over certain operating expenses of the Mulligan/Griffin Portfolio in Greater Washington, D.C. (the "Portfolio") for the year ended December 31, 1996. This statement is the responsibility of the Properties' management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of revenue over certain operating expenses is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of revenue over certain operating expenses was prepared for the purpose of complying with Rule 3-14 of the Securities and Exchange Commission, and excludes certain expenses described in Note 2, and therefore is not intended to be a complete presentation of the Portfolio's revenue and expenses.

In our opinion, the statement referred to above presents fairly, in all material respects, the revenue over certain operating expenses (as described in Note 2) of the Mulligan/Griffin Portfolio for the year ended December 31, 1996 in conformity with generally accepted accounting principles.

/s/ Coopers & Lybrand L.L.P.

Boston, Massachusetts

November 20, 1997

MULLIGAN/GRIFFIN PORTFOLIO
 STATEMENT OF REVENUE
 OVER CERTAIN OPERATING EXPENSES

(DOLLARS IN THOUSANDS)

FOR THE YEAR ENDED FOR THE NINE MONTHS ENDED
 DECEMBER 31, 1996 SEPTEMBER 30, 1997

 (UNAUDITED)

| | | |
|---|----------|----------|
| Revenue: | | |
| Base rent..... | \$25,548 | \$19,523 |
| Recoveries from tenants..... | 5,440 | 4,042 |
| | ----- | ----- |
| | 30,988 | 23,565 |
| | ----- | ----- |
| Certain operating expenses (Note 2 and 5) | | |
| Utilities..... | 2,264 | 1,664 |
| Janitorial and cleaning..... | 503 | 362 |
| Security..... | 34 | 26 |
| General and administrative..... | 49 | 32 |
| Interest..... | 11,085 | 7,842 |
| Repairs and maintenance..... | 1,255 | 766 |
| Insurance..... | 153 | 116 |
| Real estate taxes..... | 1,456 | 1,208 |
| | ----- | ----- |
| | 16,799 | 12,016 |
| | ----- | ----- |
| Excess of revenue over certain operating expenses..... | \$14,189 | \$11,549 |
| | ===== | ===== |

The accompanying notes are an integral part of the statement.

MULLIGAN/GRIFFIN PORTFOLIO
 NOTES TO STATEMENT OF REVENUE
 OVER CERTAIN OPERATING EXPENSES

(DOLLARS IN THOUSANDS)

1. DESCRIPTION OF PORTFOLIO

The accompanying statement of revenue over certain operating expenses (the "Statement") includes the combined operations of nine office properties known as the Mulligan/Griffin Portfolio, (the "Portfolio") located in the Greater Washington, D.C. area, specifically in the Gaithersburg I-270 and I-270 Rockville submarkets of Montgomery County, Maryland and the Springfield and Reston submarkets of Fairfax County, VA. The Portfolio will be acquired by Boston Properties, Inc. from entities affiliated with Mulligan/Griffin and Associates, Inc, an unrelated third party, and are detailed as follows:

| PROPERTY NAME ----- | NO. OF BUILDINGS | SQUARE FEET ----- |
|--|---------------------|-------------------------|
| Lockheed Martin Building..... | 1 | 255,244 |
| Reston Town Center..... | 2 | 261,046 |
| National Imaging and Mapping Agency Complex..... | 1 | 263,870 |
| Decoverly Two..... | 1 | 77,747 |
| 910 Clopper Road..... | 1 | 180,650 |
| 930 Clopper Road..... | 1 | 60,056 |
| Fullerton Square..... | 2 | 178,841 |

2. BASIS OF ACCOUNTING

The accompanying Statement has been prepared on the accrual basis of accounting. The Statement has been prepared in accordance with Rule 3-14 of Regulation S-X of the Securities and Exchange Commission for real estate properties acquired or to be acquired. Accordingly, this statement excludes certain historical expenses not comparable to the operations of the Portfolio after acquisition such as amortization, depreciation, property management fees, certain interest costs, ground lease payments, corporate expenses and certain other costs not directly related to the future operations of the Portfolio.

3. SIGNIFICANT ACCOUNTING POLICIES

Rental Revenue

Rental income is recognized on the straight-line method over the terms of the related leases. The excess of recognized rentals over amounts due pursuant to lease terms is recorded as accrued rent. The impact of the straight-line rent adjustment increased revenue by approximately \$287 and decreased revenue by approximately \$99 for the year ended December 31, 1996, and the nine months ended September 30, 1997 (unaudited), respectively.

Unaudited Interim Information

The statement of revenue over certain operating expenses for the nine months ended September 30, 1997 is unaudited. In the opinion of management, all adjustments necessary for a fair presentation of such statement have been included. The results of operations for the period are not necessarily indicative of future results of operations.

Risks and Uncertainties

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

MULLIGAN/GRIFFIN PORTFOLIO
NOTES TO STATEMENT OF REVENUE
OVER CERTAIN OPERATING EXPENSES
(DOLLARS IN THOUSANDS)

4. DESCRIPTION OF LEASING ARRANGEMENTS

The space is leased to tenants under leases with terms that vary in length. Minimum lease payments excluding certain real estate tax reimbursement clauses, operating expense reimbursement clauses and renewal options to be received during the next five years for noncancelable operating leases in effect at December 31, 1996 are approximately as follows:

| YEAR ENDING DECEMBER 31, ----- | (IN THOUSANDS) ----- |
|--------------------------------------|-------------------------|
| 1997..... | \$25,809 |
| 1998..... | 29,111 |
| 1999..... | 29,048 |
| 2000..... | 30,041 |
| 2001..... | 29,441 |
| Thereafter..... | 108,981 |

As of December 31, 1996, two tenants occupied approximately 61% of the leasable square feet and represented 87% of total 1996 Base Rent.

5. DEBT ASSUMPTION

In connection with the acquisition, Boston Properties, Inc. will assume certain mortgage notes (the "Notes") encumbering three of the properties totaling \$122,982 at December 31, 1996. Boston Properties Inc.'s assumption of these mortgages does not provide for any modification to the original terms; therefore, interest expense incurred prior to Boston Properties Inc.'s assumption of the mortgage notes is representative of future interest expense. Accordingly, interest expense of \$11,085 for 1996 and \$7,842 for the nine months ended September 30, 1997 (unaudited) is recognized in the accompanying Statement. The Notes require payments of principal and interest through varying terms ranging from July 15, 2002 to February 1, 2005. The interest rate on the Notes range from 6.00% to 9.70%. These Notes are subject to prepayment penalties of varying amounts in the event of an early principal repayment.

Principal payments due on the mortgage notes during the next five years are approximately as follows:

| | |
|-----------|----------|
| 1997..... | \$ 8,940 |
| 1998..... | 9,728 |
| 1999..... | 10,588 |
| 2000..... | 11,524 |
| 2001..... | 12,549 |

[Art Work]

Other Properties Owned by the Company

[Picture of 599 Lexington
Avenue, New York, NY]

[Picture of One and Two Independence
Square, Washington, D.C.]

[Picture of 8000 Grainger Court,
Springfield, Virginia (R&D Property)]

[Picture of Long Wharf Marriott(R)
Hotel, Boston, Massachusetts]

[Picture of 6201 Columbia Park Road
Landover, Maryland (Industrial Property)]

For a summary of property, property type, operating and ownership data regarding the Properties see the "Summary Property Data" table contained herein.

 NO DEALER, SALESPERSON OR OTHER INDIVIDUAL HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATIONS NOT CONTAINED IN THIS PROSPECTUS IN CONNECTION WITH THE OFFERING COVERED BY THIS PROSPECTUS. IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, THE COMMON STOCK IN ANY JURISDICTION WHERE, OR TO ANY PERSON TO WHOM, IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE AN IMPLICATION THAT THERE HAS NOT BEEN ANY CHANGE IN THE FACTS SET FORTH IN THIS PROSPECTUS OR IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF.

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 14,000,000 SHARES

LOGO

BOSTON PROPERTIES, INC.

COMMON STOCK

 PROSPECTUS

 Joint Lead Managers
 and Joint Bookrunners

GOLDMAN, SACHS & CO.
 MERRILL LYNCH & CO.

 BEAR, STEARNS & CO. INC.
 MORGAN STANLEY DEAN WITTER

PAINWEBBER INCORPORATED
PRUDENTIAL SECURITIES INCORPORATED
SALOMON SMITH BARNEY
CHASE SECURITIES INC.

, 1998

+-----+
 +INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A +
 +REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE +
 +SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY +
 +OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT +
 +BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL NOR +
 +THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE +
 +SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE +
 +UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF +
 +ANY SUCH STATE. +
 +-----+

SUBJECT TO COMPLETION, DATED DECEMBER 16, 1997

PROSPECTUS

14,000,000 SHARES
 BOSTON PROPERTIES, INC.

LOGO

COMMON STOCK

Boston Properties, Inc. is one of the largest owners and developers of office properties in the United States, with a significant presence in Greater Boston, Greater Washington, D.C., midtown Manhattan and Baltimore, Maryland. Since the Company's initial public offering in June 1997 (the "Initial Offering"), the Company has acquired three office properties; entered into contracts to acquire ten office properties expected to close in January and February 1998; and is currently developing six properties, consisting of five office properties and one 221 room hotel. The aggregate anticipated investment since the Initial Offering for these acquisitions and developments is approximately \$1.2 billion. The Company owns 92 properties (including the six properties under development and the ten office properties under contract) aggregating approximately 18.1 million square feet. In addition, the Company owns, has under contract or has options to acquire twelve parcels of land that will support approximately 1.5 million square feet of development.

The Company was formed to succeed to the real estate development, redevelopment, acquisition, management, operating and leasing businesses associated with the predecessor company founded by Mortimer B. Zuckerman and Edward H. Linde in 1970. Upon completion of this Offering the Company's management and Board of Directors will own a 24.1% economic interest in the Company, equal to approximately \$570.5 million as of December 1, 1997. The Company is a fully integrated, self-administered and self-managed real estate company and expects to qualify as a real estate investment trust ("REIT") for federal income tax purposes for the year ending December 31, 1997.

All of the shares of the Common Stock offered hereby are being sold by the Company. Of the 14,000,000 shares of Common Stock being offered hereby, 11,200,000 shares are being offered initially in the United States and Canada by the U.S. Underwriters and 2,800,000 shares are being offered initially outside the United States and Canada by the International Managers. See "Underwriting."

The Common Stock is listed on the New York Stock Exchange (the "NYSE") under the symbol "BXP." On December 1, 1997, the reported last sale price of the Common Stock on the NYSE was \$33.25 per share.

SEE "RISK FACTORS" BEGINNING ON PAGE 12 FOR CERTAIN FACTORS RELEVANT TO AN INVESTMENT IN THE COMMON STOCK, INCLUDING:

- . The Company intends to acquire portfolios and individual properties; such acquisitions may not achieve intended returns;
- . The Company intends to develop commercial properties and its return on such investments can be lower than anticipated because properties can cost more to develop, take longer to develop or lease, or lease for lower rent than anticipated;
- . Conflicts of interest exist between the Company and Messrs. Zuckerman and Linde in connection with the Company's operations, including with respect to certain restrictions on the Company's ability to sell or transfer four properties until June 23, 2007 without the consent of Messrs. Zuckerman and Linde; five other properties are subject to similar restrictions for the benefit of others;
- . The Company relies on key personnel whose continued service is not guaranteed, including Messrs. Zuckerman and Linde;
- . Real estate investment and property management are risky as rents can fluctuate and operating costs can increase; and
- . The Company may not be able to refinance indebtedness on favorable terms, and interest rates might increase on amounts drawn under the Company's line of credit.

 THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

PRICE TO UNDERWRITING PROCEEDS TO
 PUBLIC DISCOUNT(1) COMPANY(2)

 Per Share..... \$ \$ \$

Total(3)..... \$ \$ \$

- (1) The Company has agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended. See "Underwriting."
- (2) Before deducting estimated expenses of \$ payable by the Company.
- (3) The Company has granted the U.S. Underwriters a 30-day option to purchase up to an additional 1,680,000 shares of Common Stock, and has granted the International Managers a 30-day option to purchase up to an additional 420,000 shares of Common Stock, on the same terms and conditions as set forth above solely to cover overallocments, if any. If such options are exercised in full, the total Price to Public, Underwriting Discount and Proceeds to Company will be \$, \$ and \$, respectively. See "Underwriting."

The shares of Common Stock are offered by the several Underwriters, subject to prior sale, when, as and if issued and accepted by them, subject to approval of certain legal matters by counsel for the Underwriters. The Underwriters reserve the right to withdraw, cancel or modify such offer and to reject orders in whole or in part. It is expected that delivery of the shares will be made in New York, New York on or about , 1998.

Joint Lead Managers and Joint Bookrunners

GOLDMAN SACHS INTERNATIONAL MERRILL LYNCH INTERNATIONAL

BEAR, STEARNS INTERNATIONAL LIMITED
MORGAN STANLEY DEAN WITTER
PAINWEBBER INCORPORATED
PRUDENTIAL-BACHE SECURITIES
SALOMON SMITH BARNEY INTERNATIONAL
CHASE MANHATTAN INTERNATIONAL LIMITED

The date of this Prospectus is , 1998.

UNDERWRITING

Subject to the terms and conditions in the international purchase agreement (the "International Purchase Agreement"), among the Company and each of the underwriters named below (the "International Managers"), and concurrently with the sale of 11,200,000 shares to the U.S. Underwriters (as defined below), the Company has agreed to sell to each of the International Managers, for whom Goldman Sachs International, Merrill Lynch International, Bear, Stearns International Limited, Morgan Stanley & Co. International Limited, PaineWebber International (UK) Ltd., Prudential-Bache Securities (U.K.) Inc., Smith Barney Inc. and Chase Manhattan International Limited are acting as lead managers (the "Lead Managers"), and each of the International Managers has severally agreed to purchase from the Company, the respective number of shares of Common Stock set forth opposite their respective names:

| UNDERWRITER | NUMBER OF SHARES |
|---|------------------------|
| Goldman Sachs International..... | |
| Merrill Lynch International..... | |
| Bear, Stearns International Limited..... | |
| Morgan Stanley & Co. International Limited..... | |
| PaineWebber International (UK) Ltd. | |
| Prudential-Bache Securities (U.K.) Inc. | |
| Smith Barney Inc. | |
| Chase Manhattan International Limited..... | |
| Total..... | 2,800,000 |
| | ===== |

The Company has also entered into a purchase agreement (the "U.S. Purchase Agreement" and, together with the International Purchase Agreement, the "Purchase Agreements") with certain underwriters in the United States and Canada (the "U.S. Underwriters" and, together with the International Underwriters, the "Underwriters") for whom Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Bear, Stearns & Co. Inc., Morgan Stanley & Co. Incorporated, PaineWebber Incorporated, Prudential Securities Incorporated, Smith Barney Inc. and Chase Securities Inc. are acting as representatives. Subject to the terms and conditions set forth in the U.S. Purchase Agreement and concurrently with the sale of 2,800,000 shares of Common Stock to the International Managers pursuant to the International Purchase Agreement, the Company has agreed to sell to the U.S. Underwriters, and the U.S. Underwriters have severally agreed to purchase from the Company, an aggregate of 11,200,000 shares of Common Stock. The public offering price per share and the total underwriting discount per share are identical under the U.S. Purchase Agreement and the International Purchase Agreement.

In each Purchase Agreement, the several U.S. Underwriters and the several International Managers have agreed, respectively, subject to the terms and conditions set forth in such Purchase Agreement, to purchase all of the shares of Common Stock being sold pursuant to such Purchase Agreement if any of such shares of Common Stock are purchased. Under certain circumstances, the commitments of non-defaulting U.S. Underwriters or International Managers (as the case may be) may be increased. The sale of shares of Common Stock pursuant to the U.S. Purchase Agreement and the International Purchase Agreement are conditioned upon each other.

The Lead Managers have advised the Company that the International Managers propose to offer the Common Stock to the public at the public offering price set forth on the cover page of this Prospectus and to certain banks, brokers and dealers (the "Selling Group") at such price less a concession not in excess of \$ per share. The International Managers may allow, and such dealers may re-allow with the consent of Goldman Sachs International, a discount not in excess of \$ per share on sales to certain other International Managers and members of the Selling Group. After the date of this Prospectus, the public offering price and concession and discount may be changed.

The Company has been informed that the U.S. Underwriters and the International Managers have entered into an agreement (the "Intersyndicate Agreement") providing for the coordination of their activities. Under the terms of the Intersyndicate Agreement, the U.S. Underwriters and the International Managers are permitted to

sell shares of Common Stock to each other for purposes of resale at the public offering price, less an amount not greater than the selling concession. Under the terms of the Intersyndicate Agreement, the International Managers and any dealer to whom they sell shares of Common Stock will not offer to sell or sell shares of Common Stock to persons who are United States persons or Canadian persons or to persons they believe intend to resell to persons who are United States persons or Canadian persons, and the U.S. Underwriters and any dealer to whom they sell shares of Common Stock will not offer to sell or sell shares of Common Stock to persons who are non-United States and non-Canadian persons or to persons they believe intend to resell to non-United States and non-Canadian persons, except in each case for transactions pursuant to such agreement.

The Company has granted to the International Managers an option, exercisable for 30 days after the date of this Prospectus, to purchase up to 420,000 additional shares of Common Stock to cover overallocments, if any, at the public offering price, less the underwriting discount set forth on the cover page of this Prospectus. If the International Managers exercise this option, each International Manager will have a firm commitment, subject to certain conditions, to purchase approximately the same percentage thereof which the number of shares of Common Stock to be purchased by it shown in the foregoing table bears to such International Managers' initial amount reflected in the foregoing table. The Company also has granted an option to the U.S. Underwriters, exercisable during the 30-day period after the date of this Prospectus, to purchase up to 1,680,000 additional shares of Common Stock to cover overallocments, if any, on terms similar to those granted to the International Managers.

In the Purchase Agreements, the Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act.

The Company, the Operating Partnership and certain persons who owned interests in one or more of the Properties prior to the Initial Offering and who received OP Units in exchange for such interests in the Formation Transactions (the "Non-Affiliated Participants") have agreed, subject to certain exceptions, not to sell, offer or contract to sell, grant any option for the sale of, or otherwise dispose of any shares of Common Stock or OP Units, or any securities convertible into or exchangeable for Common Stock or OP Units, for a period of one year from June 1997, without the prior written consent of Goldman, Sachs & Co. and Merrill Lynch, Pierce, Fenner & Smith Incorporated. The Company has granted certain registration rights pursuant to which the Non-Affiliated Participants may require the Company to file a registration statement with the Securities and Exchange Commission with respect to sales of any shares received by the Non-Affiliated Participants in exchange for their OP Units after the expiration of the one-year period.

Messrs. Zuckerman and Linde and the senior officers of the Company who received OP Units and/or shares of Common Stock in the Formation Transactions have agreed, subject to certain exceptions, not to sell, offer or contract to sell, grant any option for the sale of, or otherwise dispose of any shares of Common Stock or OP Units for a period of two years from June 1997, without the prior written consent of Goldman, Sachs & Co. and Merrill Lynch, Pierce, Fenner & Smith Incorporated.

Each of the Company and the International Managers has represented and agreed that (a) it has not offered or sold, and prior to the date six months after the date of this Prospectus will not offer or sell any Shares of Common Stock to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purpose of their businesses or otherwise in circumstances which do not constitute an offer to the public in the United Kingdom for the purposes of the Public Offers of Securities Regulations 1995, (b) it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the shares of Common Stock in, from or otherwise the United Kingdom and (c) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issue or sale of the Common Stock to a person who is of a kind described in Article II(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1995 or is a person to whom the document may otherwise lawfully be issued or passed on.

Until the distribution of the Common Stock is completed, rules of the Securities and Exchange Commission may limit the ability of the Underwriters and certain selling group members to bid for and purchase the Common

Stock. As an exception to these rules, the U.S. Representatives are permitted to engage in certain transactions that stabilize the price of the Common Stock. Such transactions consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the Common Stock.

If the Underwriters create a short position in the Common Stock in connection with this Offering, i.e., if they sell more shares of Common Stock than are set forth on the cover page of this Prospectus, the U.S. Representatives and the International Managers, respectively, may reduce that short position by purchasing Common Stock in the open market. The U.S. Representatives and the International Managers, respectively, may also elect to reduce any short position by exercising all or part of the over-allotment option described above.

The U.S. Representatives and the International Managers, respectively, may also impose a penalty bid on certain Underwriters and selling group members. This means that if the U.S. Representatives or the International Managers purchase shares of Common Stock in the open market to reduce the Underwriters' short position or to stabilize the price of the Common Stock, they may reclaim the amount of the selling concession from the Underwriters and selling group members who sold those shares as part of this Offering.

In general, purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might be in the absence of such purchases. The imposition of a penalty bid might also have an effect on the price of a security to the extent that it were to discourage resales of the security.

Neither the Company nor any of the Underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Common Stock. In addition, none of the Underwriters makes any representation that the U.S. Representatives or the International Managers will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

The Prudential Insurance Company of America, an affiliate of Prudential Securities Incorporated, is the lender with respect to the mortgages on The National Imaging and Mapping Agency Building and The Lockheed Martin Building. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources--Mortgage Indebtedness."

EXPERTS

The combined historical financial statements and financial statement schedule of the Boston Properties Predecessor Group included in this Prospectus and the Registration Statement of which this Prospectus is a part, to the extent and for the periods indicated in their reports and the Statements of Revenue over Certain Operating Expenses of 280 Park Avenue, 100 East Pratt Street, 875 Third Avenue, Riverfront Plaza and the Mulligan/Griffin Portfolio for the year ended December 31, 1996, have been audited by Coopers & Lybrand L.L.P., independent accountants, and are included herein in reliance upon the authority of such firm as experts in accounting and auditing.

In addition, certain statistical information provided under the captions "Prospectus Summary--The Properties" and "Business and Properties" has been prepared by Spaulding & Slye, and is included herein in reliance upon the authority of such firm as expert in, among other things, office and industrial real estate market conditions.

LEGAL MATTERS

Certain legal matters, including the validity of the shares of Common Stock offered hereby, will be passed upon for the Company by Goodwin, Procter & Hoar LLP. In addition, the description of federal income tax consequences contained in this Prospectus under the heading "Federal Income Tax Consequences" is based upon the opinion of Goodwin, Procter & Hoar LLP. Gilbert G. Menna, the sole shareholder of Gilbert G. Menna, P.C., a partner of Goodwin, Procter & Hoar LLP, serves as an Assistant Secretary of the Company. Certain partners of Goodwin, Procter & Hoar LLP or their affiliates, together with Mr. Menna, own approximately 20,000 shares of Common Stock. Goodwin, Procter & Hoar LLP occupies approximately 26,000 square feet at 599 Lexington Avenue under a lease with the Company that expires in 2002.

Certain legal matters will be passed upon for the Underwriters by Skadden, Arps, Slate, Meagher & Flom LLP.

 NO DEALER, SALESPERSON OR OTHER INDIVIDUAL HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATIONS NOT CONTAINED IN THIS PROSPECTUS IN CONNECTION WITH THE OFFERING COVERED BY THIS PROSPECTUS. IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, THE COMMON STOCK IN ANY JURISDICTION WHERE, OR TO ANY PERSON TO WHOM, IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE AN IMPLICATION THAT THERE HAS NOT BEEN ANY CHANGE IN THE FACTS SET FORTH IN THIS PROSPECTUS OR IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF.

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BOSTON PROPERTIES, INC.

COMMON STOCK

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 and Joint Bookrunners

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 MERRILL LYNCH INTERNATIONAL

 BEAR, STEARNS INTERNATIONAL LIMITED
 MORGAN STANLEY DEAN WITTER

PAINWEBBER INCORPORATED
PRUDENTIAL-BACHE SECURITIES
SALOMON SMITH BARNEY INTERNATIONAL
CHASE MANHATTAN INTERNATIONAL LIMITED

, 1998

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 30. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table itemizes the expenses incurred by the Company in connection with the offering of the shares of Common Stock being registered hereby. All of the amounts shown are estimates, except the Securities and Exchange Commission Registration Fee.

| ITEM ---- | AMOUNT ----- |
|---|----------------------|
| Securities and Exchange Commission Registration Fee..... | \$ 157,000 |
| NASD Fee..... | 30,500 |
| New York Stock Exchange Listing Fee..... | 49,000 |
| Transfer Agent's and Registrar's Fees..... | 2,500 |
| Printing Fees..... | 300,000 |
| Legal Fees and Expenses (other than Blue Sky)..... | 175,000 |
| Accounting Fees and Expenses..... | 200,000 |
| Blue Sky Fees and Expenses (including fees of counsel)..... | 20,000 |
| Miscellaneous Expenses..... | 270,000 |
| | ----- |
| Total..... | \$1,204,000 ===== |

ITEM 31. SALES TO SPECIAL PARTIES.

See Item 32.

ITEM 32. RECENT SALES OF UNREGISTERED SECURITIES.

On April 8, 1997, the Operating Partnership was formed with Boston Properties, Inc., a Massachusetts Corporation ("BP-Massachusetts"), as general partner and an affiliate as a limited partner. The sale of the interests in the Operating Partnership was made in reliance on Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act").

On April 9 and 15, 1997, the Company entered into an Omnibus Option Agreement (or, in the case of one entity, a similar agreement) with a total of 80 individuals (the "Individuals") and entities ("Entities") (including entities such as trusts or limited partnerships in which one or more of the Individuals may have the primary economic or a controlling interest). None of the Entities was formed for the purpose of entering into the Omnibus Option Agreement and acquiring OP Units. Such agreement provides that the Operating Partnership can, at its option and without any further action by such Individuals or Entities, acquire all or any of the interests of the Individuals or Entities in the 74 Properties (collectively, the "Interests"). The right of the Operating Partnership to acquire all or any of the Interests from the Individuals and Entities and to issue OP Units in exchange therefor is subject only to the fulfillment of conditions (principally, the completion of the Offering) beyond the control of the Individuals and Entities. The total number of OP Units that will be issued to the Individuals and Entities will depend on the final offering price of a share of Common Stock in the Offering. Such agreement was entered into and will be consummated in reliance on Section 4(2) of, and Regulation D under, the Securities Act.

On April 11, 1997, BP-Massachusetts and Boston Properties, Inc., a Delaware corporation ("BP-Delaware"), and the Operating Partnership, entered into a number of agreements (including a merger agreement and a contribution agreement) that memorializes (i) the issuance of Common Stock by BP-Delaware to the stockholders of BP-Massachusetts (Messrs. Zuckerman and Linde) upon consummation of a reincorporation merger in connection with the Formation Transactions and (ii) the contribution to the Operating Partnership of

the proceeds of the Offering and the management and development operations currently held by BP-Massachusetts. Such agreements were entered into and will be consummated in reliance on Section 4(2) of the Securities Act.

On September 2, 1997, the Operating Partnership and the Company entered into a Contribution Agreement with Kenvic Associates, a New York general partnership, pursuant to which the Operating Partnership agreed to acquire all of Kenvic Associates' right, title and interest in and to 875 Third Avenue, New York, New York, in exchange for the issuance by the Operating Partnership of 890,869 OP Units, subject to adjustment based on the average closing price of the Common Stock for the ten trading days prior to and including December 31, 1998. The Operating Partnership acquired 875 Third Avenue and issued 890,869 OP Units to Kenvic Associates on November 21, 1997.

On October 23, 1997, in connection with the Company's acquisition of 100 East Pratt Street, the Company issued 500 shares of Common Stock to International Business Machines Corporation, one of the sellers of the Property.

ITEM 33. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

The Company's Certificate, as amended, and Bylaws provide certain limitations on the liability of the Company's directors and officers for monetary damages to the Company. The Certificate and Bylaws obligate the Company to indemnify its directors and officers, and permit the Company to indemnify its employees and other agents, against certain liabilities incurred in connection with their service in such capacities. These provisions could reduce the legal remedies available to the Company and the stockholders against these individuals. See "Certain Provisions of Delaware Law and The Company's Certificate and Bylaws--Limitation of Liability and Indemnification."

The Company's Certificate limits the liability of the Company's directors and officers to the Company to the fullest extent permitted from time to time by Delaware law. The DGCL permits, but does not require, a corporation to indemnify its directors, officers, employees or agents and expressly provides that the indemnification provided for under the DGCL shall not be deemed exclusive of any indemnification right under any bylaw, vote of stockholders or disinterested directors, or otherwise. The DGCL permits indemnification against expenses and certain other liabilities arising out of legal actions brought or threatened against such persons for their conduct on behalf of the corporation, provided that each such person acted in good faith and in a manner that he reasonably believed was in or not opposed to the corporation's best interests and in the case of a criminal proceeding, had no reasonable cause to believe his or her conduct was unlawful. The DGCL does not allow indemnification of directors in the case of an action by or in the right of the corporation (including stockholder derivative suits) unless the directors successfully defend the action or indemnification is ordered by the court.

The Company has entered into indemnification agreements with each of its directors and executive officers. The indemnification agreements require, among other matters, that the Company indemnify its directors and officers to the fullest extent permitted by law and advance to the directors and officers all related expenses, subject to reimbursement if it is subsequently determined that indemnification is not permitted. Under these agreements, the Company must also indemnify and advance all expenses incurred by directors and officers seeking to enforce their rights under the indemnification agreements and may cover directors and officers under the Company's directors' and officers' liability insurance. Although the form of indemnification agreement offers substantially the same scope of coverage afforded by law, it provides additional assurance to directors and officers that indemnification will be available because, as a contract, it cannot be modified unilaterally in the future by the Board of Directors or the Stockholders to eliminate the rights it provides. It is the position of the SEC that indemnification of directors and officers for liabilities under the Securities Act of 1933, as amended (the "Securities Act") is against public policy and unenforceable pursuant to Section 14 of the Securities Act.

ITEM 34. TREATMENT OF PROCEEDS FROM STOCK BEING REGISTERED.

Not applicable.

ITEM 35. FINANCIAL STATEMENTS AND EXHIBITS.

(b) Exhibits. The following is a complete list of Exhibits filed or incorporated by reference as part of this Registration Statement.

| EXHIBIT NO. | DESCRIPTION |
|-------------|--|
| +1.1 | --Form of U.S. Purchase Agreement |
| +1.2 | --Form of International Purchase Agreement |
| *3.1 | --Form of Amended and Restated Certificate of Incorporation of the Company |
| *3.2 | --Form of Amended and Restated Bylaws of the Company |
| *4.1 | --Form of Shareholder Rights Agreement dated as of June , 1997 between the Company and BankBoston, N.A., as Rights Agent. |
| *4.2 | --Form of Certificate of Designation for Series E Junior Participating Cumulative Preferred Stock, par value \$.01 per share |
| *4.3 | --Form of Common Stock Certificate |
| +5.1 | --Opinion of Goodwin, Procter & Hoar LLP regarding legality of the shares of the Common Stock issued |
| +8.1 | --Opinion of Goodwin, Procter & Hoar LLP regarding tax matters |
| *10.1 | --Form of Amended and Restated Agreement of Limited Partnership of the Operating Partnership |
| *10.2 | --1997 Stock Option and Incentive Plan |
| *10.3 | --Form of Noncompetition Agreement between the Company and Mortimer B. Zuckerman |
| *10.4 | --Form of Employment and Noncompetition Agreement between the Company and Edward H. Linde |
| *10.5 | --Form of Employment Agreement between the Company and certain executive officers |
| *10.6 | --Form of Indemnification Agreement between the Company and each of its directors and executive officers |
| *10.7 | --Omnibus Option Agreement by and among Boston Properties Limited Partnership (the "Operating Partnership") and the Grantors named therein dated as of April 9, 1997 |
| *10.8 | --Revolving Credit Agreement with BankBoston, N.A. |
| *10.9 | --Form of Registration Rights Agreement among the Company and the persons named therein |
| *10.10 | --Form of Lease Agreement dated as of June , 1997 between Edward H. Linde and Mortimer B. Zuckerman, as Trustees of Downtown Boston Properties Trust, and ZL Hotel LLC |
| *10.11 | --Form of Lease Agreement dated as of June , 1997 between Edward H. Linde and Mortimer B. Zuckerman, as Trustees of Two Cambridge Center Trust, and ZL Hotel LLC |
| *10.12 | --Option Agreement between Boston Properties Limited Partnership and Square 36 Properties Limited Partnership dated April 15, 1997 |
| *10.13 | --Form of Certificate of Incorporation of Boston Properties Management, Inc. |
| *10.14 | --Form of By-laws of Boston Properties Management, Inc. |
| *10.15 | --Form of Limited Liability Agreement of ZL Hotel LLC |
| *10.16 | --Form of Option Agreement to Acquire the Property known as Sumner Square |
| *10.17 | --Loan Modification Agreement between Lexreal Associates and Mitsui Seimei America Corporation relating to loan secured by 599 Lexington Avenue |
| *10.18 | --Loan Modification and Extension Agreement by and between Southwest Market Limited Partnership, a District of Columbia limited partnership, Mortimer B. Zuckerman and Edward H. Linde and the Sumitomo Bank, Limited, for One Independence Square, dated as of September 26, 1994 |
| *10.19 | --Loan Modification and Extension Agreement by and among Southwest Market Limited Partnership, a District of Columbia limited partnership, Mortimer B. Zuckerman and Edward H. Linde and the Sumitomo Bank, Limited, for Two Independence Square, dated as of September 26, 1994 |
| *10.20 | --Construction Loan Agreement by and between the Sumitomo Bank, Limited and Southwest Market Limited Partnership, dated as of August 21, 1990 |
| *10.21 | --Construction Loan Agreement by and between the Sumitomo Bank, Limited and Southwest Market Limited Partnership for Two Independence Square, dated as of February 22, 1991 |
| *10.22 | --Consent and Loan Modification Agreement regarding One Independence Square between the Sumitomo Bank, Limited and Southwest Market Limited Partnership dated as of June , 1997 |
| *10.23 | --Consent and Loan Modification Agreement regarding Two Independence Square between the Sumitomo Bank, Limited and Southwest Market Limited Partnership dated as of June , 1997 |
| *10.24 | --Form of Amended and Restated Loan Agreement between Square 36 Office Joint Venture and the Sanwa Bank Limited dated as of June, 1997 |
| *10.25 | --Indemnification Agreement between Boston Properties Limited Partnership and Mortimer B. Zuckerman and Edward H. Linde |

| EXHIBIT NO. | DESCRIPTION |
|-------------|---|
| *10.26 | --Compensation Agreement between the Company and Robert Selsam, dated as of August 10, 1995 relating to 90 Church Street |
| (5)10.27 | --Contribution Agreement dated as of September 2, 1997 by and among the Operating Partnership, the Company and Kenvic Associates. |
| (5)10.28 | --Lock-Up and Registration Rights Agreement dated November 21, 1997 by and among the Operating Partnership, the Company and Kenvic Associates. |
| (5)10.29 | --Agreement dated November 21, 1997 by and between the Operating Partnership and Kenvic Associates. |
| (5)10.30 | --Note and Mortgage Modification and Spreader Agreement between John Hancock, as lender and Boston Properties Limited Partnership, as borrower. |
| (2)10.31 | --Agreement between Bankers Trust Company as seller and Boston Properties Limited Partnership, as purchaser, dated September 11, 1997 |
| (1)10.32 | --Term loan agreement between Chase Manhattan Bank, as lender and Boston Properties Limited Partnership, as borrower, dated September 11, 1997 |
| (1)10.33 | --Interest Guarantee and Agreement between Chase Manhattan Bank, as lender and Boston Properties Limited Partnership, as borrower, dated September 11, 1997 |
| (1)10.34 | --Net Cash Flow Shortfall Guarantee and Agreement between Chase Manhattan Bank, as lender and Boston Properties Limited Partnership, as borrower, dated September 11, 1997 |
| (1)10.35 | --Hazardous Material Guaranty and Indemnification Agreement between Chase Manhattan Bank, as lender and Boston Properties Limited Partnership, as borrower, dated September 11, 1997 |
| (2)10.36 | --Swap Transaction Agreement between the Chase Manhattan Bank and Boston Properties, Inc. dated November 4, 1997 |
| (3)10.37 | --Amended and Restated Real Estate Purchase and Sale Contract Between International Business Machines Corporation, as seller, and Boston Properties Limited Partnership, as buyer, dated October 20, 1997 |
| (4)10.38 | --First Amendment to Revolving Credit Agreement dated July 29, 1997 by and among the Company, BankBoston, N.A., and the subsidiaries of the Company and lending institutions named therein. |
| (4)10.39 | --Second Amendment to Revolving Credit Agreement dated July 30, 1997 by and among the Company, BankBoston, N.A., and the subsidiaries of the Company and lending institutions named therein. |
| (4)10.40 | --Third Amendment to Revolving Credit Agreement dated September 11, 1997 by and among the Company, BankBoston N.A., and the subsidiaries of the Company and lending institutions named therein. |
| (4)10.41 | --Fourth Amendment to Revolving Credit Agreement dated October 31, 1997 by and among the Company, BankBoston, N.A., and the subsidiaries of the Company and lending institutions named therein. |
| (5)10.42 | --Environmental Indemnity and Agreement made by Boston Properties Limited Partnership in favor of John Hancock Mutual Life Insurance Company. |
| (5)10.43 | --Indemnification Agreement made by Boston Properties Limited Partnership in favor of John Hancock Mutual Life Insurance Company. |
| 10.44 | --Consolidation, Extension and Modification Agreement dated as of May 11, 1988 by and between Kenvic Associates and John Hancock Mutual Life Insurance Company. |
| 10.45 | --Modification Agreement dated as of May 30, 1990 by and between Kenvic Associates and John Hancock Mutual Life Insurance Company. |
| 10.46 | --Note and Mortgage Modification Agreement dated as of July 23, 1992 by and between Kenvic Associates and John Hancock Mutual Life Insurance Company. |
| 10.47 | --Note and Mortgage Modification and Spreader Agreement dated as of December 29, 1995 by and between Kenvic Associates and John Hancock Mutual Life Insurance Company. |
| 10.48 | --Contribution Agreement dated November 26, 1997 among the Operating Partnership, Boston Properties LLC and the contributors named therein. |
| +21.1 | --Schedule of Subsidiaries of the Company |
| 23.1 | --Consent of Coopers & Lybrand, L.L.P. |
| (5)23.2 | --Consent of Spaulding & Slye |
| (5)23.3 | --Consent of Insignia/Edward S. Gordon Co., Inc. |
| (5)23.4 | --Consent of Pinnacle Advisory Group |
| (5)23.5 | --Consent of Colliers Pinkard |
| (5)23.6 | --Consent of Harrison & Bates |
| (5)23.7 | --Consent of Landauer Hospitality Group |
| +23.8 | --Consent of Goodwin, Procter & Hoar llp (included in Exhibits 5.1 and 8.1) |

*Incorporated herein by reference to the Company's Registration Statement on Form S-11 (No. 333-25279)

+To be filed by amendment.

(1) Incorporated herein by reference to the Company's Current Report on Form 8-K/A filed November 14, 1997.

(2) Incorporated herein by reference to the Company's Current Report on Form 8-K/A-2 filed November 25, 1997.

(3) Incorporated herein by reference to the Company's Current Report on Form 8-

K/A filed November 14, 1997.

(4) Incorporated herein by reference to the Company's Current Report on Form 8-K filed November 26, 1997.

(5) Previously filed.

ITEM 36. UNDERTAKINGS.

(a) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(b) The undersigned registrant hereby undertakes to provide to the underwriter at the closing specified in the underwriting agreements, certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

(c) The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purposes of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, BOSTON PROPERTIES, INC. CERTIFIES THAT IT HAS REASONABLE GROUNDS TO BELIEVE THAT IT MEETS ALL OF THE REQUIREMENTS FOR FILING ON FORM S-11 AND HAS DULY CAUSED THIS AMENDMENT NO. 1 TO REGISTRATION STATEMENT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED, IN THE CITY OF BOSTON, THE COMMONWEALTH OF MASSACHUSETTS, ON THIS 15TH DAY OF DECEMBER, 1997.

Boston Properties, Inc.

/s/ Edward H. Linde

By: _____
 NAME: EDWARD H. LINDE
 TITLE: PRESIDENT AND CHIEF
 EXECUTIVE OFFICER

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THIS AMENDMENT TO REGISTRATION STATEMENT HAS BEEN SIGNED BY THE FOLLOWING PERSONS IN THE CAPACITIES AND ON THE DATES INDICATED.

| SIGNATURE | TITLE | DATE |
|--|---|-------------------|
| * ----- MORTIMER B. ZUCKERMAN | Chairman of the Board of Directors | December 15, 1997 |
| /s/ Edward H. Linde ----- EDWARD H. LINDE | President and Chief Executive Officer, Director (Principal Executive Officer) | December 15, 1997 |
| /s/ David G. Gaw ----- DAVID G. GAW | Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer) | December 15, 1997 |
| * ----- ALAN J. PATRICOF | Director | December 15, 1997 |
| * ----- IVAN G. SEIDENBERG | Director | December 15, 1997 |
| * ----- MARTIN TURCHIN | Director | December 15, 1997 |
| *s/ Edward H. Linde ----- EDWARD H. LINDE, AS ATTORNEY-IN- FACT | | |

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| (5)23.2 | --Consent of Spaulding & Slye |
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(1) Incorporated herein by reference to the Company's Current Report on Form 8-K/A filed November 14, 1997.

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(3) Incorporated herein by reference to the Company's Current Report on Form 8-

K/A filed November 14, 1997.

(4) Incorporated herein by reference to the Company's Current Report on Form 8-K filed November 26, 1997.

(5) Previously filed.

CONSOLIDATION, EXTENSION AND
MODIFICATION AGREEMENT

THIS AGREEMENT MADE as of the 11th day of May, 1988, by and between KENVIC ASSOCIATES ("Mortgagor"), a New York general partnership having its principal office and place of business at 875 Third Avenue, New York, New York 10022 and JOHN HANCOCK MUTUAL LIFE INSURANCE COMPANY ("Mortgagee"), a Massachusetts corporation having its principal office at John Hancock Place, Post Office Box 111, Boston, Massachusetts 02117, Attention: City Mortgage and

Real Estate Department .

W I T N E S S E T H T H A T :

WHEREAS, Mortgagor is on the date of delivery hereof the owner of fee title to the premises described in Schedule A hereto, including the Declarations, Declaration of Zoning Lot Restrictions, and the easements more particularly described in such Schedule A (collectively, the "Land");

WHEREAS, Mortgagor is on the date of delivery hereof the owner of the fee interest in all buildings, structures, and other improvements now or hereafter located on the Land; and

WHEREAS, Mortgagee is on the date of delivery hereof the owner and holder of the following mortgages (collectively, the "Existing Mortgages"):

(a) the mortgages (collectively, "Mortgage A"), described in Schedule B hereto as assigned, consolidated, spread, modified and extended as set forth in such Schedule B; on which there is the unpaid principal sum of \$105,660,435.32, and

(b) Mortgage ("Mortgage B"), dated the date hereof, from Mortgagor to Mortgagee, securing a note, dated May 12, 1988, in the original principal amount of \$71,339,564.68, which Mortgage B is intended to be recorded in the Office of the City Register of New York County (the "Register's Office") prior to the recordation of this Consolidation, Extension and Modification Agreement, dated as

of May 11, 1988, between Mortgagor and Mortgagee (the "Consolidation Agreement");

WHEREAS, all of the notes and bonds secured by the Existing Mortgages (the "Existing Notes") have been transferred to Mortgagee and Mortgagee is at the time of delivery hereof the owner and holder of all of the Existing Notes;

WHEREAS, Mortgagor acknowledges and certifies that there is now due and owing on the Existing Notes, and secured by the Existing Mortgages, the aggregate unpaid principal amount of \$180,000,000, interest thereon having been paid to date;

WHEREAS, Mortgagor acknowledges and certifies that there are no defenses or offsets to any of the Existing Notes or the Existing Mortgages;

WHEREAS, the lien of the Existing Mortgages has been spread to encumber the easements, declarations and other matters and Mortgagor's rights therein and thereunder (collectively, the "Easements"), more particularly described in Schedule A, Parcel B;

AND WHEREAS, it has been agreed by and between Mortgagor and Mortgagee that the Existing Notes shall be consolidated and modified as hereinafter set forth so as to constitute a single indebtedness and that the Existing Mortgages shall be consolidated, extended and modified as hereinafter set forth so as to constitute a single first lien on the Mortgaged Premises (as hereinafter defined), securing the Notes (as hereinafter defined), in the total amount of \$180,000,000 (the Existing Mortgages, as so consolidated, extended and modified, being herein called the "Mortgage", and the Existing Notes, as so consolidated and modified in the FORM of Exhibit 1 attached hereto, together with any notes or other securities issued in exchange therefor or in replacement thereof, being herein called the "Notes");

NOW, THEREFORE, in consideration of the premises and of the mutual covenants herein contained, and in order to secure the payment of the principal and premium, if any, and interest on the Notes, the payment of all other indebtedness which the Mortgage by its terms secures and compliance with all of the terms thereof and of

the Notes, to consolidate the liens of the Existing Mortgages and, as so consolidated, to modify the terms, provisions, covenants and conditions of the Existing Mortgages, to consolidate the Existing Notes and, as so consolidated, to modify the terms of the Existing Notes, including the time and manner of payment of the principal and premium, if any, and interest on each thereof and modify the amounts of such interest, all as herein set forth, and in order to confirm the liens of the Existing Mortgages, as so consolidated, and to effect and further confirm the grant, bargain, sale, mortgage, warrant, pledge, assignment, transfer and conveyance to Mortgagee, and to its successors and assigns, of the property described in the Granting Clause of the Mortgage, Mortgagor agrees with Mortgagee as follows:

Part A. Consolidation, Extension and Modification of Existing Notes.

The obligations evidenced and represented by the Existing Notes are hereby consolidated each with the other so as to constitute a single indebtedness in the amount of \$180,000,000, and, as so consolidated, the Existing Notes are hereby extended, modified and restated to (a) bear interest from May 12, 1988 at

the rate of 9.75% per annum; (b) bear interest, while any default exists

hereunder, at the rate of 14.75% per annum; (c) provide that interest only,

computed from May 12, 1988 to and including May 31, 1988, shall be paid in arrears on June 1, 1988; (d) provide for payment in (i) 60 monthly installments

of interest only on the first day of each calendar month commencing July 1, 1988, each such installment to be in the amount of \$1,462,500, and (ii) 60

monthly installments of combined principal and interest on the first day of each calendar month commencing July 1, 1993, each of the first 59 of such installments to be in the amount of \$1,546,500 and the final such installment to be in an amount sufficient to pay the entire unpaid principal amount thereof together with interest accrued thereon or otherwise payable in respect thereof as provided in the Notes; (e) provide for the application of each installment of

combined principal and interest, first, to the payment of interest accrued on the unpaid principal amount thereof, and, then, to the reduction of the unpaid principal amount thereof; (f) be payable in full on June 1, 1998; (g) be subject

to prepayment as provided in Article 1 of the Mortgage; and (h) be in the form

of Exhibit 1 attached hereto.

Part B. Consolidation, Extension and Modification of Existing

Mortgages. The liens of the Existing Mortgages are hereby consolidated each with

the other so as to constitute a single first mortgage with the same , intent and
like effect as if one mortgage covering all of the Mortgaged Premises had been
executed and delivered by Mortgagor to secure the consolidated indebtedness in
the principal amount of \$180,000,000, and, as so consolidated, the Existing
Mortgages are each hereby modified and amended in their respective entireties to
read as follows (capitalized terms hereafter appearing shall have the respective
meanings set forth in this Consolidation Agreement, except as otherwise
specified), provided that the execution and delivery of the Mortgage shall not

in any manner impair the lien of the Existing Mortgages and such lien shall
continue in full force and effect:

TO SECURE THE PAYMENT when and as due and payable of the principal of
and premium, if any, and interest on the Notes outstanding on the date of
recordation of the Consolidation Agreement in the aggregate principal amount of
\$180,000,000, and to secure the payment of all other indebtedness which this
Mortgage by its terms secures and compliance with all of the terms hereof and of
the Notes, Mortgagor does hereby grant, bargain, sell, mortgage, warrant,
pledge, assign, transfer and convey to Mortgagee, and to its successors and
assigns, the following property (the "Mortgaged Premises"):

(a) the Land, including, without limitation, the Easements;

(b) all additional lands, estates and development rights hereafter
acquired by Mortgagor for use in connection with the Land and the development of
the Land and all additional lands and estates therein which may, from time to
time, by supplemental mortgage or otherwise, be expressly made subject to the
lien hereof;

(c) the improvements, structures and buildings and any alterations
thereto or replacements thereof, now or hereafter erected upon the Land, all
fixtures, fittings, appliances, apparatus, equipment, machinery, material and
articles of personal property and replacements thereof, now or at any time
hereafter affixed to, attached to, placed upon or used in any way in connection
with the complete and comfortable use, enjoyment, occupancy or operation of the
Land or such improvements,

structures or buildings, including, without limitation, partitions, furnaces, boilers, oil burners, radiators and piping, coal stokers, plumbing and bathroom fixtures, refrigeration, air conditioning and sprinkler systems, wash-tubs, sinks, gas and electric fixtures, stoves, ranges, ovens, disposals, dishwashers, hood and fan combinations, carpeting, drapes, lobby furnishings, awnings, screens, window shades, elevators, motors, dynamos, refrigerators, kitchen cabinets, incinerators, kitchen equipment, laundry equipment (including, without limitation, washers and dryers), plants and shrubbery, pool furniture and equipment, exercise equipment and all other equipment and machinery, appliances, fittings, and fixtures of every kind located in or used in the operation of the improvements, structures or buildings standing on such premises, together with any and all replacements thereof and additions thereto (collectively, the "Improvements"), excluding however trade fixtures and other articles of personal property owned by tenants under the Space Leases (as defined below);

(d) all leases, whether written or oral, of the Land or the Improvements, or any part thereof or interest therein, now or hereafter entered into by Mortgagor (the "Space Leases"), and all right, title and interest of the Mortgagor, its successors and assigns therein and thereunder, including, without limitation, cash or securities deposited thereunder to secure the performance by the lessees of their obligations thereunder, and the right upon the happening of any default hereunder to receive and collect the rents or maintenance charges thereunder;

(e) all agreements, contracts, certificates, instruments, franchises, permits, licenses and other documents, now or hereafter entered into, and all rights therein and thereto, respecting or pertaining to the use, occupation, construction, management or operation of the Mortgaged Premises and any part thereof and any structures or buildings thereon (now or hereafter erected) or respecting any business or activity conducted on the Mortgaged Premises and any part thereof and all right, title and interest of Mortgagor therein and thereunder, including, without limitation, the right upon the happening of any default hereunder, to receive and collect any sums payable to Mortgagor thereunder;

(f) all development rights, air rights, all rights of way or use, streets, ways, alleys, passages, sewer rights, water courses, water rights, privileges, franchises, servitudes, easements, tenements, hereditaments and appurtenances now or hereafter belonging or appertaining to any of the foregoing;

(g) all rents, issues and profits, if any, arising from any of the foregoing; and

(h) all proceeds of the conversion, voluntary or involuntary, of any of the foregoing into cash or liquidated claims, including, without limitation, proceeds of insurance and condemnation awards.

AND without limiting any of the other provisions of this Mortgage, Mortgagor expressly grants to Mortgagee, as secured party, a security interest in all of those portions of the Mortgaged Premises which are or may be subject to the New York Uniform Commercial Code provisions applicable to secured transactions.

NOTWITHSTANDING anything in this Mortgage to the contrary, the maximum amount of principal indebtedness as consolidated (exclusive of any interest, premium or sums as may be advanced by Mortgagee pursuant hereto) secured by this Mortgage on execution, or which by any contingency may be secured by this Mortgage at any time hereafter, is the principal amount of \$180,000,000.

TO HAVE AND TO HOLD the Mortgaged Premises unto Mortgagee, its successors and assigns forever.

Mortgagor and Mortgagee agree that the Corner Parcel (as defined in Section 2.10) and the Mortgagor's interest therein (including Mortgagor's leasehold estate and its beneficial and contractual rights, title and interest in and to the fee of the Corner Parcel) do not constitute part of the Mortgaged Premises, and the lien of this Mortgage shall not and is not intended to cover any portion of the Corner Parcel or interest therein other than the easements, air rights and declarations set forth in Schedule A, Parcel B to the extent they burden the Corner Parcel and benefit the premises described in Schedule A, Parcel A.

ARTICLE 1

The Notes

1.01. Payment of Notes. Mortgagor will duly and punctually pay (a)

the principal of and premium, if any, and interest on the Notes at the time outstanding in accordance with the terms thereof and hereof, and (b) when and as

due and payable from time to time as provided herein, all other sums payable hereunder or secured hereby, together with, to the extent permitted by applicable law, interest at the rate of 14.75% per annum on any such sums as shall not be paid when due and payable from the date when due and payable (whether during a grace period, if any, or otherwise) until payment thereof.

1.02. Exchange of Notes. Mortgagor will issue, in exchange for any

Note or Notes surrendered to it for such purpose, a new Note or Notes, in such denomination or denominations and payable to the order of such person or persons as the holder may request, dated the date to which interest has been paid on the surrendered Note or Notes, in aggregate principal amount equal to the aggregate unpaid principal amount of the surrendered Note or Notes, having a like maturity date, providing for monthly installments of interest only or monthly installments of combined principal and interest, as the case may be, each such installment on each new Note to be in an amount which bears the same proportion to the aggregate amount of monthly installments of interest only or monthly installments of combined principal and interest, as the case may be, payable on the surrendered Note or Notes that the principal amount of such new Note bears to the aggregate unpaid principal amount of the surrendered Note or Notes and otherwise substantially in the form of Exhibit 1 hereto, with appropriate variations where necessary. No such exchange shall be deemed to be an extinguishment or cancellation of the indebtedness evidenced by the Note or Notes surrendered for exchange or any part of such indebtedness or be deemed to be the creation or substitution of new indebtedness, it being expressly understood and agreed that each such new Note shall merely be evidence of the indebtedness or portion thereof theretofore evidenced by the surrendered Note or Notes.

1.03. Replacement of Notes. Upon receipt of evidence, together with

an indemnity, both reasonably

satisfactory to Mortgagor of the loss, theft, destruction or mutilation of any Note and, in the case of any such mutilation, upon surrender and cancellation of such Note, Mortgagor, at its expense, will issue, in lieu thereof, and with like effect as provided in section 1.02, a new Note, dated the date to which interest on such lost, stolen, destroyed or mutilated Note has been paid, in principal amount equal to the unpaid principal amount thereof and otherwise of like tenor.

1.04. Amortization Schedule. Upon any exchange or replacement of any

Note by the holder thereof pursuant to section 1.02 or 1.03, Mortgagor will deliver to such holder an amortization schedule with respect to such Note prepared by Financial Publishing Company of Boston (or a similar organization offering comparable services and satisfactory to such holder), setting forth the amounts of principal and interest payable on such Note on each date on which an installment is due after the date of such Note.

1.05. Prepayment of Notes. (a) If the Notes are paid prior to the

stated maturity date thereof for any reason other than as a result of (i) a
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declaration or acceleration following the occurrence of an Event of Default (as hereinafter defined), (ii) the application by Mortgagee of any net insurance
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proceeds received by it following any damage to or destruction of the Mortgaged Premises, or (iii) the application by Mortgagee of any net award received by it

following a Taking (as hereinafter defined) (collectively, a "Non-Voluntary Prepayment"), Mortgagor hereby agrees to pay the premium provided herein and in the Notes. Mortgagor acknowledges that Mortgagee, in making the loan evidenced by the Notes (the "loan") is relying on Mortgagor's creditworthiness and its agreement to repay the Notes in strict accordance with the terms set forth therein. Mortgagor acknowledges that Mortgagee would not make the loan without full and complete assurance by Mortgagor of its agreement to abide by the terms thereof and its further agreement not to voluntarily prepay all or any part of the principal of the Notes prior to the final maturity date thereof, except as set forth herein and in the Notes. Therefore, any prepayment of the Notes other than a Non-Voluntary Prepayment will prejudice Mortgagee's ability to meet its obligations and to earn the return on the funds advanced to Mortgagor, which Mortgagee intended and expected to earn when it agreed to make the loan and will also result

in other loss and additional expenses to Mortgagee. Accordingly, in recognition of the foregoing and in consideration of Mortgagee making the loan at the interest rate and for the term set forth in the Notes, Mortgagor hereby expressly (x) waives any and all rights it may have under applicable law to

voluntarily prepay without charge or premium all or any part of the Notes, and (y) agrees that if, for any reason other than a Non-Voluntary Prepayment,

prepayment of all or any part of the principal of the Notes is made by or on behalf of Mortgagor, then Mortgagor or any other party making any such prepayment shall be obligated to pay, concurrently therewith, a premium in the amount set forth below, and the payment of such premium shall be a condition to the making of such prepayment and shall be secured by this Mortgage. Without limiting the scope of the foregoing provisions, the provisions of this paragraph shall constitute both a waiver of any right Mortgagor may have to repay the loan without charge and an agreement by Mortgagor to pay the premium set forth below except in the event of a Non-Voluntary Prepayment, and Mortgagor hereby declares that Mortgagee's agreement to make the loan to Mortgagor at the interest rate and for the term set forth in the Notes constitutes adequate consideration for this waiver and agreement by Mortgagor. Notwithstanding anything contained in this subparagraph to the contrary, Mortgagor shall not have the right to voluntarily prepay the Notes prior to June 1, 1993.

(b) On June 1, 1993 and on any day thereafter, upon not less than 30 nor more than 60 days' prior written notice to Mortgagee, Mortgagor may, at its option, prepay the entire (but not less than the entire) aggregate principal amount of the Notes at the time outstanding, at the principal amount so prepaid, together with unpaid interest on the Notes accrued to the date of such prepayment, plus a premium equal to the greater of:

(i) the product obtained by multiplying (x) the difference obtained

by subtracting from 9.75% the yield rate on United States Treasury Notes due on or about the maturity date of the Notes as such yield rate is reported in The Wall Street Journal or other similar publication on the

fifth business day preceding the prepayment date or, if no yield rate on United States Treasury Notes is obtainable, at the yield rate of the issue most closely equivalent to United States Treasury Notes,

as determined by Mortgagee in its sole discretion and (y) the number of years and fraction thereof remaining from the prepayment date to the scheduled maturity date of the Notes, and (z) the amount of the prepaid principal balance; and

(ii) 1% of the amount of the prepaid principal balance.

(c) On January 15, 1998 and on any day thereafter, upon not less than 30 days' prior written notice and on the condition that Mortgagor is not at the time of such notice or at any time thereafter in default under this Mortgage or the Notes, Mortgagor may prepay the entire (but not less than the entire) aggregate principal amount of the Notes at the time outstanding, at the principal amount so prepaid, together with unpaid interest on the Notes accrued to the date fixed for such prepayment, without premium.

(d) The entire unpaid and outstanding aggregate principal amount of the Notes shall mature and become due and payable on the date fixed for prepayment, together with the applicable premium and interest accrued and unpaid on such date except that any notice of prepayment given by Mortgagor may be withdrawn by Mortgagor, provided that (i) no withdrawal of a prepayment notice has been made during the preceding 24 months and (ii) all costs and expenses of Mortgagee and Mortgagor incurred in connection with such notice of prepayment and such withdrawal, including, without limitation, attorneys' fees, shall have been paid in full and indemnified against by Mortgagor.

(e) Except as specifically set forth in this section 1.05 and in Article 3 of this Mortgage, the Notes may not be prepaid in whole or in part.

ARTICLE 2

Ownership, Condition, etc., of Mortgaged Premises

2.01. Title to Mortgaged Premises; etc. Mortgagor represents and warrants that (a) it is the absolute owner of the legal and beneficial title to the Land and the Improvements and to all other property included with-

in the Mortgaged Premises and has good and marketable title in fee simple absolute to the Mortgaged Premises, subject in each case only to the items set forth in Schedule C to the Consolidation Agreement (the "Permitted Encumbrances"), (b) it has good and lawful right, power and authority to execute

this Mortgage and to mortgage the Mortgaged Premises and to assign its right, title and interest as landlord under the Space Leases, all as provided herein, (c) this Mortgage and the Consolidation Agreement have been duly executed and

delivered by the duly authorized general partners of Mortgagor, and each constitutes the legal, valid and binding obligation of Mortgagor, enforceable in accordance with its terms, (d) except as otherwise consented to in writing by

Mortgagee, all Space Leases are subject and subordinate to this Mortgage and (e)

Mortgagor at its expense will warrant and defend to Mortgagee such title to the Mortgaged Premises and the lien and interest of Mortgagee thereon and therein against all claims and demands and will maintain and preserve such lien and will keep this Mortgage a first lien upon and a first priority security interest in the Mortgaged Premises, subject only to Permitted Encumbrances and prior, at all times, to all Space Leases.

2.02. Title Insurance Proceeds. All proceeds received by Mortgagee

for any loss under the title insurance policy or policies delivered to Mortgagee prior to or concurrently with the execution and delivery of this Mortgage or otherwise in connection with this Mortgage, or under any title insurance policy or policies delivered to Mortgagee in substitution therefor or in replacement thereof, shall be the property of Mortgagee.

2.03. Recordation. Mortgagor, at its expense, will at all times

cause this Mortgage and any instruments amendatory hereof or supplemental hereto and any instruments of assignment hereof or thereof (and any appropriate financing statements or other instruments and continuations thereof with respect to any thereof) to be recorded, registered and filed and to be kept recorded, registered and filed, in such manner and in such places, and will pay all such recording, registration, filing fees and other charges, and will comply with all such statutes and regulations as may be required by law in order to establish, preserve, perfect and protect the lien of this Mortgage as a valid, direct first mortgage lien on and first priority perfected security interest in the Mortgaged Premises, subject only to Permitted Encum-

branches. Mortgagor will pay or cause to be paid, and will indemnify Mortgagee and each holder of any Note in respect of, all taxes (including interest and penalties) at any time payable in connection with the filing and recording of this Mortgage and any and all supplements and amendments thereto. Mortgagor, at its expense, will furnish to Mortgagee, upon request, an opinion of counsel satisfactory to Mortgagee, specifying the action taken by Mortgagor to comply with this section 2.03 since the date of this Mortgage or the last such request hereunder, or stating that no such action is necessary.

2.04. Payment of Impositions, etc. Subject to section 2.07 (relating

to permitted contests), Mortgagor will pay or cause to be paid within thirty (30) days after the same becomes a lien, but in any event before the same would become delinquent and before any fine, penalty, interest or cost may be added for non-payment, all taxes, assessments, water and sewer rates, charges, license fees, inspection fees and other governmental levies or payments, of every kind and nature whatsoever, general and special, ordinary and extraordinary, unforeseen as well as foreseen, which at any time may be assessed, levied, confirmed, imposed or which may become a lien upon the Mortgaged Premises, or any portion thereof, or which are payable with respect thereto, or upon the rents, issues, income or profits thereof, or on the occupancy, operation, use, possession or activities thereof, whether any or all of the same, be levied directly or indirectly or as excise taxes or as income taxes, and all taxes, assessments or charges which may be levied on the Notes, or the interest thereon (collectively, the "Impositions"). Mortgagor will deliver to Mortgagee, upon request, copies of official receipts or other satisfactory proof evidencing such payments.

2.05. Insurance and Legal Requirements. Subject to section 2.07

(relating to permitted contests), Mortgagor, at its expense, will comply, or cause compliance with

(a) all provisions of any insurance policy covering or applicable to the Mortgaged Premises or any part thereof, all requirements of the issuer of any such policy, and all orders, rules, regulations and other requirements of the National Board of Fire Underwriters (or any other body exercising similar functions) applicable to or affecting the Mortgaged

Premises or any part thereof or any use or condition of the Mortgaged Premises or any part thereof (collectively, the "Insurance Requirements"), and

(b) all laws, statutes, codes, acts, ordinances, orders, judgments, decrees, injunctions, rules, regulations, permits, licenses, authorizations, directions and requirements of all governments, departments, commissions, boards, courts, authorities, agencies, officials and officers, foreseen or unforeseen, ordinary or extraordinary, and all instruments of record, which now or at any time hereafter may be applicable to the Mortgaged Premises or any part thereof, or any of the adjoining sidewalks, curbs, vaults and vault space, if any, streets or ways, or any use or condition of the Mortgaged Premises or any part thereof (collectively, the "Legal Requirements");

whether or not compliance therewith shall require structural changes in or interference with the use and enjoyment of the Mortgaged Premises or any part thereof.

2.06. Liens, etc. Mortgagor will not directly or indirectly create

or permit or suffer to be created or to remain, and will promptly discharge or cause to be discharged, any mortgage, lien, encumbrance or charge on, pledge of, security interest in or conditional sale or other title retention agreement with respect to the Mortgaged Premises or any part thereof or the Land or the interest of Mortgagor or Mortgagee therein or any rents or other sums arising therefrom, other than (a) Permitted Encumbrances, (b) liens of mechanics,

materialmen, suppliers or vendors or rights thereto incurred in the ordinary course of the business of Mortgagor for sums not yet due or any such liens or rights thereto which are at the time being contested as permitted by section 2.07, provided, that adequate provision for the payment of such sums shall have

been made and (c) one or more mortgages which are completely subject and

subordinate to this Mortgage, provided that (i) the net annual income from

operations of the Mortgaged Premises (which shall mean the income after deducting all operating expenses, provisions for all taxes and reserves and all other proper deductions, provided that for purposes of calculating the net

annual income from operations no deduction shall be made for (x) debt service on

this Mortgage or any subordinate mortgage, (y) depreciation on the Improvements

and

(z) the amortization of any expenses incurred for real estate brokerage

commissions and tenant improvements in connection with the leasing of space in the Mortgaged Premises) as determined solely by Mortgagee based upon statements prepared by certified public accountants acceptable to Mortgagee (which statements may be for the most recent 12-month period available), shall be not less than 110% of the sum of (1) the annual payments of principal and interest

required to be made by Mortgagor to Mortgagee pursuant to the terms of this Mortgage and the Notes secured hereby and (2) the annual payments of principal

and interest required to be made pursuant to the terms of all such subordinate mortgages and the notes secured thereby, (ii) each such mortgage and all right,

title and interest thereunder of the mortgagee thereunder, including, without limitation, any rights to insurance proceeds, condemnation awards and assignment of occupancy leases, shall at all times be and remain subject and subordinate to this Mortgage and to the right, title and interest of Mortgagee hereunder and under any other instruments and agreements delivered in connection therewith and to any modifications or supplements hereto or thereto as of the date of such subordinate mortgage, (iii) each such mortgage shall prohibit the mortgagee

thereunder from joining as parties defendant, in any suit to enforce its rights thereunder, any tenant under any Space Lease, unless the prior written consent of Mortgagee is obtained, (iv) each such mortgage shall not violate or conflict

with the terms of any Space Lease, and (v) Mortgagor shall deliver a copy of

each such mortgage to Mortgagee for Mortgagee's inspection at least 15 days prior to Mortgagor's entering into each such mortgage. Mortgagor will not postpone the payment of any sums for which liens of mechanics, materialmen, suppliers or vendors or rights thereto have been incurred (unless such liens or rights thereto are at the time being contested as permitted by section 2.07), or enter into any contract under which payment of such sums is postponable (unless such contract expressly provides for the legal, binding and effective waiver of any such liens or rights thereto), in either case, for more than 120 days after the completion of the action giving rise to such liens or rights thereto.

2.07. Permitted Contests. After prior written notice to Mortgagee,

Mortgagor at its expense may contest, or cause to be contested, by appropriate legal proceedings conducted in good faith and with due dili-

gence, the amount or validity or application, in whole or in part, of any Imposition, Legal Requirement or Insurance Requirement or any lien, encumbrance or charge referred to in section 2.06, provided, that (a) in the case of an unpaid Imposition, lien, encumbrance or charge, such proceedings shall suspend the collection thereof from Mortgagor, Mortgagee, the Mortgaged Premises and any rent or other income therefrom and shall not interfere with the payment of any such rent or income, (b) neither the Mortgaged Premises nor any rent or other income therefrom nor any part thereof or interest therein would be in any danger of being sold, forfeited, lost or interfered with, (c) in the case of a Legal Requirement, neither Mortgagor nor Mortgagee would be in any danger of any civil or criminal liability for failure to comply therewith, (d) Mortgagor shall have furnished such security, if any, as may be required in the proceedings or as may reasonably be requested by Mortgagee, (e) the nonpayment of the whole or any part of any Imposition will not result in the delivery of a tax deed to the Mortgaged Premises or any part thereof because of such non-payment, (f) the payment of any sums required to be paid under the Notes or under this Mortgage (other than any unpaid Imposition, lien, encumbrance or charge at the time being contested in accordance with this section 2.07) shall not be interfered with or otherwise affected, and (g) in the case of any Insurance Requirement, the failure of Mortgagor to comply therewith shall not affect the validity of any insurance required to be maintained by Mortgagor under section 3.01.

2.08. Deposits for Impositions. Mortgagor will pay or cause to be paid, to Mortgagee or at the option of Mortgagee, to an escrow agent designated by Mortgagee, on dates upon which interest on the Notes is payable, such amounts as Mortgagee from time to time estimates are necessary to create and maintain a reserve fund to be held by Mortgagee or such escrow agent without interest, except such interest as may be required by applicable law, from which, subject to this section 2.08, to pay before the same become due, all Impositions (including, without limitation, all taxes, assessments, liens and charges on or against the Mortgaged Premises and any part thereof) and hazard insurance premiums, provided that Mortgagor shall not be required to deposit amounts into the reserve fund on account of hazard insurance premiums to the extent that Mortgagor delivers to Mortgagee prepaid hazard insurance policies for the ensu-

ing year at least 60 days prior to the expiration of the existing hazard insurance policies. Payments from such reserve fund for such purposes may be made at Mortgagee's discretion even though subsequent owners of the Mortgaged Premises or any part thereof may benefit thereby. In the event of any default under the terms of this Mortgage, any part or all of such reserve fund may be applied to any part of the indebtedness secured hereby and in refunding any part of such reserve fund, Mortgagee may deal with whomever is represented to be the owner of the Mortgaged Premises or such part thereof at that time. If one month prior to the due date of any of the aforementioned obligations the amounts then on deposit therefor shall be insufficient for the payment of such obligation in full, Mortgagor within ten (10) days after written notice from Mortgagee shall deposit the amount of the deficiency with or as directed by Mortgagee.

2.09. Space Leases. 2.09.1 Subordination of Space Leases;

Attornment. Except as otherwise consented to in writing by Mortgagee, all Space

Leases shall be made expressly subject and subordinate to this Mortgage and to any modification, renewal, extension or increase of this Mortgage and shall contain provisions obligating the tenants thereunder, at Mortgagee's option, to attorn to Mortgagee in the event Mortgagee succeeds to the interest of Mortgagor under such Space Leases.

2.09.2. Terms of Space Leases. Mortgagor shall not enter into any

Space Lease, or thereafter amend in any way the terms of any thereof, without the prior written approval of Mortgagee, which approval shall not be unreasonably withheld only with respect to any Space Lease of retail space with total annual rent of \$50,000 or less. Mortgagee agrees to enter into a nondisturbance and attornment agreement in the form provided by Mortgagee with any tenant occupying one or more entire floors of the Mortgaged Premises, provided that (a) such Space Lease is in all respects satisfactory to Mortgagee,

(b) such tenant furnishes an acceptance letter in form satisfactory to Mortgagee

and (c) at the option of Mortgagee, the Space Lease is assigned to Mortgagee on

a form prescribed by Mortgagee. Each Space Lease shall be a bona fide lease

entered into on an arm's-length basis with a party not affiliated with Mortgagor, provided that Mortgagor may use a reasonable amount of space in the

Improvements in connection with its operation and management of the Mortgaged Premises.

2.09.3. Assignment of Leases. Mortgagor hereby assigns to Mortgagee

all of its right, title and interest as landlord under each Space Lease now existing or hereafter entered into, and all rents and other sums payable to Mortgagor under each such Space Lease, together with the right to collect and receive the same, provided that, if and so long as no Event of Default (as

defined in section 5.01) shall have occurred and be continuing, Mortgagor shall have the right to exercise its rights and perform its obligations as landlord under the Space Leases and to collect and receive such rents and other sums for its own uses and purposes. Upon the occurrence of an Event of Default all such rents and other sums shall be collected and held by Mortgagee and shall be applied as provided in section 5.10 and Mortgagee or its agent shall have the right to enter upon the Mortgaged Premises for the purposes of such collection.

2.09.4. Further Assignments. Mortgagor shall, by separate

instrument, assign to Mortgagee, upon request, as further security for the indebtedness secured hereby, Mortgagor's interest as lessor under any or all Space Leases and Mortgagor's interests in all agreements, contracts, licenses and permits affecting the Mortgaged Premises, such assignments to be made by instruments in form satisfactory to Mortgagee; but no such assignment shall be construed as a consent by Mortgagee to any lease, agreement, contract, license or permit so assigned, or to impose upon Mortgagee any obligations with respect thereto.

2.09.5. Modifications. Mortgagor shall neither cancel any of the

Space Leases now or hereafter in effect, nor terminate or accept a surrender thereof, nor reduce the payment of the rent thereunder, nor modify any of the provisions thereof (except if necessary to conform with the requirements of section 2.09.1), nor grant any consent or waiver thereunder, nor accept any prepayment of rent thereunder (except any amount which may be required to be prepaid by the terms of any such Space Lease) without first obtaining, on each such occasion, the written approval of Mortgagee.

2.09.6. Performance. Mortgagor shall faithfully keep and perform all

of the obligations of the landlord under all of the Space Leases now or hereafter in effect, and shall not permit to accrue to any tenant under any such Space Lease any right to prepay rent pur-

suant to the terms of any such Space Lease other than the usual prepayment of rent as would result from the acceptance on the first day of each month of the rent for the ensuing month, according to the terms of the various Space Leases. Mortgagor will send written notice (by certified mail, return receipt requested) of the terms of this section 2.09, together with a copy of this Mortgage, to the owners of the leasehold estates under any Space Leases in existence prior to the recordation hereof. (The Mortgaged Premises being located in New York State, reference is made to Section 291-f of the Real Property Law in applying the provisions of section 2.09.)

2.09.7. Rent Roll. Mortgagor shall furnish to Mortgagee, within ten

(10) days after a request by Mortgagee to do so, which requests may not be made with unreasonable frequency, a certified statement containing the names of all lessees of the Mortgaged Premises or any part thereof, the term of their respective leases, the space occupied, the rents or maintenance charges (collectively referred to herein as "rent") payable and the securities deposited thereunder, together with true copies of each lease and any amendments and supplements thereto.

2.09.8. No Commingling. All securities, if any, deposited by lessees

of the Mortgaged Premises shall be treated as trust funds not to be commingled with any other funds of Mortgagor and Mortgagee shall, upon demand, furnish to Mortgagee satisfactory evidence of compliance with this provision, together with a verified statement of all securities deposited by the lessees.

2.09.9. Successor Not Bound. To the extent not so provided by

applicable law, each Space Lease of the Mortgaged Premises, or any part thereof, shall provide that, in the event of the enforcement by Mortgagee of the remedies provided for by law or by this Mortgage, any person succeeding to the interest of Mortgagor as a result of such enforcement shall not be bound by any payment of rent or additional rent for more than one month in advance.

2.10. Use of Mortgaged Premises, etc. 2.10.1 Use of Mortgaged

Premises. Mortgagor shall use and operate the Mortgaged Premises, or shall cause

such premises to be used and operated, solely as a first-class office building with approximately 662,973 square feet of

leaseable area, of which approximately 35,058 square feet shall be retail space, and for no other purpose. Mortgagor shall not make or suffer any improper or offensive use of the Mortgaged Premises or any part thereof and will not use or permit to be used any part of the Mortgaged Premises for any dangerous, noxious, offensive or unlawful trade or business or for any purpose which will reduce the value of the Mortgaged Premises in any respect. Mortgagor will not do or permit any act or thing which is contrary to any Legal Requirement or Insurance Requirement, or which might impair the value or usefulness of the Mortgaged Premises or any part thereof, or commit or permit any waste of the Mortgaged Premises or any part thereof, and will not cause or maintain any nuisance in, at or on the Mortgaged Premises. Mortgagor at its expense will promptly comply with all rights of way or use, privileges, franchises, servitudes, licenses, easements, tenements, hereditaments and appurtenances forming a part of the Mortgaged Premises and all instruments creating or evidencing the same, in each case, to the extent compliance therewith is required of Mortgagor under the terms thereof. Mortgagor will not take any action which results in a forfeiture or termination of the rights afforded to Mortgagor under any such instruments and will not, without the prior written consent of Mortgagee, amend in any material respect any of such instruments. Mortgagor shall at all times comply with any instruments of record at the time in force affecting the Mortgaged Premises or any part thereof and shall procure, maintain and comply with all permits, licenses and other authorizations required for any use of the Mortgaged Premises or any part thereof then being made, and for the proper erection, installation, operation and maintenance of the Improvements or any part thereof.

2.10.2. Construction of Building Addition. Promptly upon the

expiration or earlier termination of the lease noted in Memorandum of Lease from Rosa A. Cordes and Henry G. Barteld to 873 Third Avenue Corp., dated May 6, 1959, recorded in the Register's Office in Liber 5076 at page 302, in respect of the land and buildings (the "Existing Buildings") located on the parcel of land more particularly described in Schedule D hereto (the "Corner Parcel"), Mortgagor will at its own expense commence and promptly and diligently prosecute to completion, demolition of the Existing Buildings and will thereafter construct, develop and complete on such Corner Parcel, a new structure (the "Building Addition"), all as

provided in and in accordance with the terms of the Declaration, dated January 7, 1981, made by Kenvic Associates, Arnold J. Rabinor, Marvin B. Tepper and Kenneth Gladstone, recorded in the Register's Office in Reel 556 at page 541 and in Reel 556 at page 1281, as modified by Modification to Declaration, dated as of June 14, 1982, between Kenvic Associates and 875 Third Associates, recorded in the Register's Office in Reel 653 at page 1315 and as further modified by Second Modification to Declaration, dated as of December 7, 1983, between Kenvic Associates and 875 Third Associates, recorded in the Register's Office in Reel 745 at page 533 (the "Special Permit Declaration"), as the Special Permit Declaration may be amended from time to time subsequent to the date hereof with the consent of the City of New York and Mortgagee, which consent will not be unreasonably withheld by Mortgagee. The Building Addition shall be constructed in accordance with plans and specifications approved by Mortgagee (which approval will not be unreasonably withheld) and shall be completed and maintained in accordance therewith, provided that if any requirements of Mortgagee shall conflict with requirements of governmental authorities having jurisdiction, the requirements of such governmental authorities shall take precedence over the requirements of Mortgagee. Such demolition and construction shall (a) be effected with due diligence, in a good and workmanlike manner and in compliance with all Legal Requirements and Insurance Requirements, and (b) be made under the supervision of a qualified architect or engineer.

2.11. Utility Services. Mortgagor will pay or cause to be paid all ----- charges for all public and private utility services, all public or private rail and highway services, all public or private communications services and all sprinkler systems and protective services at any time rendered to or in connection with the Mortgaged Premises or any part thereof, will comply or cause compliance with all contracts relating to any such services, and will do all other things required for the maintenance and continuance of all such services.

2.12. Maintenance and Repair, etc. Subject to section 2.13, ----- Mortgagor will keep or cause to be kept all presently and subsequently erected or acquired Improvements and the sidewalks, curbs, vaults and vault space, if any, located on or adjoining the same, and the streets and ways adjoining the same, in good and substantial

order and repair and in such a fashion that the value and utility of the Mortgaged Premises will not be diminished, and, at its sole cost and expense, will promptly make or cause to be made all necessary and appropriate repairs, replacements and renewals thereof, whether interior or exterior, structural or nonstructural, ordinary or extraordinary, foreseen or unforeseen. All repairs, replacements and renewals shall be equal in quality and class to the original Improvements. Mortgagor's obligation to repair shall include the obligation to rebuild in the event of damage or destruction however caused. Mortgagor at its expense will do or cause to be done all shoring of foundations and walls of any building or other Improvements on the Mortgaged Premises and (to the extent permitted by law) of the ground adjacent thereto, and every other act necessary or appropriate for the preservation and safety of the Mortgaged Premises by reason of or in connection with any excavation or other building operation upon the Mortgaged Premises and upon any adjoining property, whether or not Mortgagor shall, by any Legal Requirement, be required to take such action or be liable for failure to do so.

2.13. Alterations, Changes, etc. So long as no Event of Default shall

have occurred and be continuing, Mortgagor and any tenant or subtenant under a Space Lease shall have the right at any time and from time to time to make or cause to be made reasonable alterations of and additions to the Mortgaged Premises or any part thereof, provided that any alteration or addition (a) shall

not change the general character of the Mortgaged Premises or reduce the fair market value thereof below its value immediately before such alteration or addition, or impair the usefulness of the Mortgaged Premises, (b) is effected

with due diligence, in a good and workmanlike manner and in compliance with all Legal Requirements and Insurance Requirements, (c) is promptly and fully paid

for, or caused to be paid for, by Mortgagor or by any tenant or subtenant under a Space Lease, (d) is made by Mortgagor, in case the estimated cost of such

alteration or addition exceeds \$100,000, or is made by any tenant or subtenant under a Space Lease, in case the estimated cost of such alteration or addition exceeds \$250,000, in any such case only after Mortgagee shall have consented thereto, (e) is made under the supervision of a qualified architect or engineer

and (f) is made only after Mortgagor or any tenant or subtenant under a Space Lease

shall have furnished to Mortgagee a performance bond or other security reasonably satisfactory to Mortgagee.

2.14. Acquired Property Subject to Lien. All property at any time

acquired by Mortgagor and required by this Mortgage to become subject to the lien hereof, including any property acquired as provided in section 2.13, whether such property is acquired by exchange, purchase, construction or otherwise, shall forthwith become subject to the lien of this Mortgage without further action on the part of Mortgagor or Mortgagee. Mortgagor, at its expense, will execute and deliver to Mortgagee (and will record and file as provided in section 2.03) an instrument supplemental to this Mortgage, satisfactory in substance and form to Mortgagee, whenever such an instrument is, in the opinion of Mortgagee, necessary or desirable under applicable law to subject to the lien of this Mortgage all right, title and interest of Mortgagor in and to all property required by this Mortgage to be subjected to the lien hereof and acquired by Mortgagor since the date of this Mortgage or the date of the most recent supplemental instrument so subjecting property to the lien hereof, whichever is later.

2.15. No Claims Against Mortgagee, etc. Nothing contained in this

Mortgage shall constitute any consent or request by Mortgagee, express or implied, for the performance of any labor or services or the furnishing of any materials or other property in respect of the Mortgaged Premises or any part thereof, or be construed to permit the making of any claim against Mortgagee in respect of labor or services or the furnishing of any materials or other property or any claim that any lien based on the performance of such labor or services or the furnishing of any such materials or other property is prior to the lien of this Mortgage.

2.16. Indemnification Against Liabilities. Mortgagor will protect,

indemnify, save harmless and defend Mortgagee from and against any and all liabilities, obligations, claims, damages, penalties, causes of action, costs and expenses (including, without limitation, attorneys' fees and expenses) imposed upon or incurred by or asserted against Mortgagee by reason of (a) ownership of a mortgagee's interest in the Mortgaged Premises, (b) any accident, injury to or death of persons or loss of or damage to or loss of the use of property occurring on or about the Mortgaged Premises or any part

thereof or the adjoining sidewalks, curbs, vaults and vault spaces, if any, streets, alleys or ways, (c) any use, nonuse or condition of the Mortgaged

Premises or any part thereof or the adjoining sidewalks, curbs, vaults and vault spaces, if any, streets, alleys or ways, (d) any failure on the part of

Mortgagor to perform or comply with any of the terms of this Mortgage, (e)

performance of any labor or services or the furnishing of any materials or other property in respect of the Mortgaged Premises or any part thereof made or suffered to be made by or on behalf of Mortgagor, (f) any negligence or tortious

act on the part of Mortgagor or any of its agents, contractors, lessees, licensees or invitees, (g) any work in connection with any alterations, changes,

new construction or demolition of the Mortgaged Premises or any part thereof, (h) any other relationship that has arisen or may arise between Mortgagee and

Mortgagor or the Mortgaged Premises as a result of the delivery of this Mortgage or any other action contemplated hereby or by any other document executed in connection herewith, or (i) any claim, action or other proceeding brought by or

on behalf of any other person against Mortgagee as the holder of, or by reason of its interest in, any sum deposited or paid hereunder, including, without limitation, the deposit referred to in section 2.08, the insurance proceeds and condemnation awards referred to in section 3.02 and the other amounts applied pursuant to section 5.10. If any action or proceeding be commenced to which action or proceeding the Mortgagee is made a party by reason of the execution of this Mortgage or the Notes, or in which it becomes necessary to defend or uphold the lien of this Mortgage, all reasonable sums paid by Mortgagee in connection with such litigation shall be paid by Mortgagor to Mortgagee as hereinafter provided. Mortgagor will pay and save Mortgagee harmless against any and all liability with respect to any intangible personal property tax or similar imposition of the State of New York or any subdivision or authority thereof now or hereafter in effect, to the extent that the same may be payable by Mortgagee in respect of this Mortgage or the Notes. All amounts payable to Mortgagee under this section 2.16 shall be deemed indebtedness secured by this Mortgage and any such amounts which are not paid within ten (10) days after written demand therefor by Mortgagee shall bear interest at the rate of 14.75% per annum from the date advanced by Mortgagee. In case any action, suit or proceeding is brought against Mortgagee by reason of any such occurrence, Mortgagor, upon request of Mort-

gagee, will, at Mortgagor's expense, resist and defend such action, suit or proceeding or cause the same to be resisted or defended by counsel designated by Mortgagor and approved by Mortgagee. The obligations of Mortgagor under this section 2.16 shall survive any discharge of this Mortgage and payment in full of the Notes.

2.17. Assignment of Rents. The assignment of rents, income and other

benefits contained in the Granting Clause shall constitute an absolute and present assignment, subject, however, to the conditional permission given herein to Mortgagor to collect and use such rents, income and other benefits. Upon the occurrence of an Event of Default (as hereinafter defined), such permission shall terminate and shall not be reinstated upon a cure of such Event of Default without Mortgagee's express written consent. Such assignment shall be fully operative without any further action on the part of either party and the Mortgagee shall be entitled, at its option, upon the occurrence of an Event of Default hereunder, to all rents, income and other benefits from the Mortgaged Premises, whether or not Mortgagee takes possession of the Mortgaged Premises. Mortgagor hereby further grants to Mortgagee the right, at Mortgagee's option, upon the occurrence of an Event of Default to (a) enter upon and take possession

of the Mortgaged Premises for the purpose of collecting the said rents, income and other benefits, (b) dispossess by the usual summary proceedings any tenant

defaulting in the payment thereof to Mortgagee, (c) let the Mortgaged Premises

or any part thereof, and (d) apply such rents, income and other benefits, after

payment of all necessary charges and expenses, on account of the indebtedness and other sums secured hereby. Such assignment and grant shall continue in effect until the indebtedness and other sums secured hereby are paid, the execution of this Mortgage constituting and evidencing the irrevocable consent of Mortgagor to the entry upon and taking possession of the Mortgaged Premises by Mortgagee pursuant to such grant, whether or not foreclosure has been instituted. Neither the exercise of any rights under this paragraph by Mortgagee nor the application of any such rents, income or other benefits to the indebtedness and other sums secured hereby, shall cure or waive any default, Event of Default, or notice of default hereunder or invalidate any act done pursuant hereto or to any such notice, but shall be cumulative with all other rights and remedies.

2.18. The Declarations, Transit Authority Agreement and Permit. 2.18.1

Performance by Mortgagor. Mortgagor, as declarant with Arnold J. Rabinor, Marvin

B. Tepper, Kenneth Gladstone and 875 Third Associates under the Special Permit Declaration; as party to the Declaration of Zoning Lot Restrictions, dated January 7, 1981, made by Mortgagor, Arnold J. Rabinor, Marvin B. Tepper and Kenneth Gladstone, recorded in the Register's Office in Reel 552 at page 737 (the "Zoning Declaration"); as party to the Agreement, dated as of December 6, 1982, entered into among Mortgagor, 875 Third Associates, the New York City Transit Authority and The Chase Manhattan Bank, N.A. (the "Transit Authority Agreement"); as holder of the special permit granted by the New York City Board of Estimate (the "Special Permit"); and as declarant under the Declaration of Easement, dated as of July 17, 1984, made by Mortgagor and recorded in the Register's Office (the "Declaration of Easement") (the Special Permit Declaration, Zoning Declaration, Transit Authority Agreement, Special Permit and Declaration of Easement being hereinafter collectively referred to as the "Declarations"), covenants that Mortgagor will:

(a) diligently perform and observe all of the terms, conditions and covenants of each of the Declarations required to be performed and observed by Mortgagor, to the end that all things shall be done which are necessary to keep unimpaired Mortgagor's rights under each of the Declarations;

(b) promptly notify Mortgagee in writing of any default by any party in performance and observance of any of the terms, conditions or covenants to be performed or observed under any of the Declarations;

(c) promptly notify Mortgagee in writing of the giving of any notice in connection with any default in the observance of any terms, covenants or conditions of any of the Declarations; and

(d) not surrender any of its rights or interests in and under any of the Declarations or enter into any agreement (whether oral or written) modifying, supplementing or amending any of the Declarations without the prior written consent of Mortgagee.

Mortgagor covenants that no release or forbearance of any of the obligations of Mortgagor under any of the Declarations, pursuant to any of the Declarations or otherwise, shall release Mortgagor from any of its obligations under this Mortgage, including, without limitation, its obligations under paragraph (a) of this section 2.18.1.

2.18.2 Mortgagee's Right to Cure. Mortgagee shall have the right (but -----

shall not be obligated) to take any action Mortgagee deems necessary or desirable to prevent or to cure any default by Mortgagor in the performance of or compliance with any of its obligations under any of the Declarations. Upon receipt by Mortgagee of any written notice of default by Mortgagor or any other interested party under any of the Declarations, Mortgagee may rely thereon and take any action as aforesaid to cure such default even though the existence of such default or the nature thereof be questioned or denied by Mortgagor or by any party on their behalf. Mortgagor hereby expressly grants to Mortgagee, and agrees that Mortgagee shall have, the absolute and immediate right to enter in and upon the Mortgaged Premises or any part thereof to such extent and as often as Mortgagee or any other interested party, in its sole discretion, deems necessary or desirable in order to prevent or to cure any such default by Mortgagor or any other interested party. Mortgagee may pay and expend such sums of money as Mortgagee in its sole discretion deems necessary for any such purpose, and Mortgagor hereby agrees to pay to Mortgagee, immediately and without demand, all such sums so paid and expended by Mortgagee, together with interest thereon from the date of each such payment at the rate of 14.75% per annum. All sums so paid and expended by Mortgagee, and the interest thereon, shall be added to and be secured by the lien of this Mortgage and Mortgagee shall provide Mortgagor with evidence of such payment.

2.18.3 Assignment of Rights. As further security for the repayment of -----

the indebtedness secured hereby and for the performance of the covenants contained herein and in each of the Declarations, Mortgagor hereby assigns to Mortgagee all of its rights, privileges and prerogatives under each of the Declarations to terminate, cancel, modify, change, supplement, alter or amend any of the Declarations and any such termination, cancellation, modification, change, supplement, alteration or amendment without the prior and written consent thereto by Mortgagee shall be void and of no force and effect, provided, -----

that so long as there is no continuing breach of or default under any of the covenants or agreements herein to be performed by Mortgagor, or in the performance by Mortgagor of any of the terms, covenants and conditions in any of the Declarations, Mortgagee shall have no right to terminate, cancel, modify, change, supplement, alter or amend any of the Declarations without the prior written consent of Mortgagor.

ARTICLE 3

Insurance; Damage, Destruction or Taking; etc.

3.01. Insurance. 3.01.1 Risks to be Insured. Mortgagor will, at its

expense, maintain or cause to be maintained with insurers approved by Mortgagee (a) insurance with respect to the Improvements against loss or damage by fire,

flood, lightning and such other risks as are included under standard "all-risk" policies, in amounts sufficient to prevent Mortgagor or Mortgagee from becoming a co-insurer of any partial loss under the applicable policies, but in any event in amounts not less than 100% of the then full insurable value (actual replacement value including any increased costs of construction) of the Improvements, as determined by Mortgagor in accordance with generally accepted insurance practice and approved by Mortgagee, or, upon the request of Mortgagee, as determined at Mortgagor's expense by the insurer or insurers or by an expert approved by Mortgagee, (b) public liability, including personal injury and

property damage, insurance applicable to the Mortgaged Premises in such amounts as are usually carried by prudent persons operating similar properties in the same general locality, but in any event with a single limit of not less than \$1,000,000 for any one claim with respect to personal injury, a combined single limit of not less than \$3,000,000 per occurrence and \$1,000,000 for all claims for property damage with respect to any one occurrence, together with umbrella liability insurance coverage of not less than \$50,000,000, (c) explosion

insurance in respect of any steam and pressure boilers and similar apparatus located in the Mortgaged Premises in such amounts as are usually carried by prudent persons operating similar properties in the same general locality, but in any event in an amount not less than \$1,000,000, (d) war risk insurance (to

the extent obtainable from the United States Government or any agency thereof), (e)

workers compensation insurance to the full extent required by applicable law for all employees of Mortgagor engaged in any work on or about the Mortgaged Premises and employer's liability insurance in such amounts as are usually carried by prudent persons operating similar properties in the same general locality, but in any event with a limit of not less than \$500,000 for each occurrence, (f) business interruption and rental value insurance in an amount at

least equal to the gross earnings and rental value of the Mortgaged Premises and the extra expense that could result from the cessation of business conducted by Mortgagor at the Mortgaged Premises for at least twelve months (that is, the aggregate amount of all rentals and other consideration payable under the Space Leases in effect from time to time for a period of twelve months plus extra expenses), (g) all-risk, builders' risk insurance with respect to the Mortgaged

Premises during any period during which there is any construction work being performed, (h) if the Land or any part thereof is designated as being in an area

requiring flood insurance, insurance against loss or damage caused by flood in such amounts as is usually carried by persons operating similar properties in the same general locality, but in any event in an amount not less than required by such designation, and (i) such other insurance with respect to the Mortgaged

Premises in such amounts and against such insurable hazards as Mortgagee from time to time may reasonably require by written notice to Mortgagor.

3.01.2. Policy Provisions. All insurance maintained by Mortgagor

pursuant to section 3.01.1, shall (a) (except for worker's compensation

insurance) name Mortgagor and Mortgagee as insureds as their respective interests may appear, (b) (except for worker's compensation and public liability

insurance) provide that the proceeds for any losses shall be adjusted by Mortgagor subject to the approval of Mortgagee in the event the proceeds shall exceed \$50,000, and shall be payable to Mortgagee, to be held and applied as provided in section 3.03, (c) include effective waivers by the insurer of all

rights of subrogation (whether or not the payment of an additional premium is required) against any named insured, the indebtedness secured by this Mortgage and the Mortgaged Premises and all claims for insurance premiums against Mortgagee, (d) provide that any losses shall be payable notwithstanding (i) any

act, failure to act or negligence of or violation of warranties, declarations or conditions contained in such policy by any named insured,

(ii) the occupation or use of the Mortgaged Premises for purposes more hazardous than permitted by the terms thereof, (iii) any foreclosure or other action or proceeding taken by Mortgagee pursuant to any provision of this Mortgage, or (iv) any change in title or ownership of the Mortgaged Premises, (e) provide that no cancellation, reduction in amount or material change in coverage thereof shall be effective until at least 30 days after receipt by Mortgagee of written notice thereof, and (f) be reasonably satisfactory in all other respects to

Mortgagee. Any insurance maintained pursuant to this section 3.01 may be evidenced by blanket insurance policies covering the Mortgaged Premises and other properties or assets of Mortgagor or entities controlling, controlled by or under common control with Mortgagor, provided that any such policy shall specify the portion, if less than all, of the total coverage of such policy that is allocated to the Mortgaged Premises and shall in all other respects comply with the requirements of this Section 3.01.

3.01.3. Delivery of Policies, etc. Mortgagor will deliver to

Mortgagee, promptly upon request, (a) the originals of all policies evidencing all insurance required to be maintained under section 3.01.1 (or, in the case of blanket policies, certified copies of the original policies by the insurers together with a counterpart of each blanket policy), and (b) evidence as to the payment of all premiums due thereon (with respect to public liability insurance policies, all installments for the current year due thereon to such date), provided that Mortgagee shall not be deemed by reason of its custody of such policies to have knowledge of the contents thereof. Mortgagor will also deliver to Mortgagee, promptly upon request, a certificate of the managing general partner of Mortgagor (an "Officer's Certificate") setting forth the particulars as to all such insurance policies and certifying that the same comply with the requirements of this section, that all premiums due thereon have been paid and that the same are in full force and effect. Mortgagor will also deliver to Mortgagee a new policy or certificate of insurance acceptable to Mortgagee as replacement for any expiring policy at least 60 days prior to the date of such expiration. In the event Mortgagor shall fail to effect or maintain any insurance required to be effected or maintained pursuant to the provisions of this section 3.01, Mortgagor will indemnify Mortgagee against damage, loss or liability resulting from all risks for

which such insurance should have been effected or maintained. The obligations of Mortgagor to indemnify Mortgagee in such a manner shall survive any discharge of the Mortgage and payment in full of the Notes.

3.01.4. Separate Insurance. Mortgagor will not take out separate insurance concurrent in form or contributing in the event of loss with that required to be maintained pursuant to this Article 3.

3.02. Damage, Destruction or Taking; Mortgagor to Give Notice; Assignment of Awards. In case of (a) any damage to or destruction of the Mortgaged Premises or any part thereof, or (b) any taking (whether for permanent or temporary use) of all or any part of the Mortgaged Premises or any interest therein or right accruing thereto, as the result of or in lieu or in anticipation of the exercise of the right of condemnation or eminent domain, or a change of grade affecting the Mortgaged Premises or any part thereof (a "Taking"), or the commencement of any proceedings or negotiations which might result in any such Taking, Mortgagor will promptly give written notice thereof to Mortgagee, generally describing the nature and extent of such damage or destruction or of such Taking or the nature of such proceedings or negotiations and the nature and extent of the Taking which might result therefrom, as the case may be. Mortgagee shall be entitled to all insurance proceeds payable on account of such damage or destruction and to all awards or payments allocable to the Mortgaged Premises on account of such Taking and Mortgagor hereby irrevocably assigns, transfers and sets over to Mortgagee all rights of Mortgagor to any such proceeds, award or payment and irrevocably authorizes and empowers Mortgagee, at its option, subject to the terms of clause (b) of section 3.01.2 in the name of Mortgagor or otherwise, to file and prosecute what would otherwise be Mortgagor's claim for any such proceeds, award or payment and, subject to section 5.18, to collect, receipt for and retain the same for disposition in accordance with section 3.03 and 3.04. Mortgagor will pay all reasonable costs and expenses incurred by Mortgagee in connection with any such damage, destruction or Taking and seeking and obtaining any insurance proceeds, award or payment in respect thereof.

3.03. Application of Proceeds. 3.03.1. Insurance Proceeds. Except with respect to a Total Destruction, Mortgagee shall apply all amounts received by

it under any insurance policy required to be maintained by Mortgagor under section 3.01.1(a) as follows:

First: to the payment of the reasonable costs and expenses of the

recovery of such proceeds (including, without limitation, attorneys' fees) and any taxes, assessments or charges, prior to the lien of this Mortgage, which Mortgagee may consider it necessary or desirable to pay;

Second: to the payment to Mortgagor or as Mortgagor may direct, unless

Mortgagor is in default hereunder (in which case all such proceeds shall be paid to Mortgagee), from time to time as Restoration (as defined in section 3.05) progresses, to pay (or reimburse Mortgagor for) the cost of Restoration, upon written request of Mortgagor accompanied by evidence reasonably satisfactory to Mortgagee that an amount equal to the amount requested (a) either is then due and payable or has been paid and (b) is

properly a part of such cost, and that the balance of such proceeds or awards remaining after making the payment requested will be sufficient to pay the balance of the cost of Restoration, provided that the payment of

such proceeds to Mortgagor shall also be subject to reasonable regulation by Mortgagee with respect to the use of such funds and the disbursement thereof and, provided further that Mortgagor shall not be entitled to

receive and Mortgagee shall not be required to pay to Mortgagor any such proceeds received with respect to a loss, damage or destruction as to which the insurance company paying such proceeds denies liability to a named insured; and

Third: upon receipt by Mortgagee of evidence reasonably satisfactory

to it that Restoration has been completed and the cost thereof paid in full, and that there are no mechanic's or similar liens for labor or materials supplied in connection therewith, the balance, if any, of such proceeds or awards shall, unless Mortgagor is in default hereunder (in which case all of such balance shall be paid to Mortgagee) be paid over or assigned to Mortgagor or as it may direct.

3.03.2. Taking Awards. Except with respect to a Total Taking,

Mortgagee may, at its option, apply all

net awards received by it on account of any Taking in any one or more of the following ways: (a) to fulfill any of the covenants contained herein as

Mortgagee may determine, or (b) released to Mortgagor as appropriate for

application to the cost of Restoration, or (c) released to Mortgagor, or (d)

regardless of whether part or all of the indebtedness secured hereby shall then be matured or unmatured, as provided in clauses First, Second, Third and Fourth

of section 3.04. If Mortgagee shall apply any net awards as permitted by clause (d) of this subsection 3.03.2 to the payment of principal and interest at the time outstanding on the Notes, and if as a result of such application of such award, Mortgagor shall be required to refinance the indebtedness secured by this Mortgage in order to effect Restoration, Mortgagor may thereupon prepay the entire (but not less than the entire) principal amount of the Notes at the time outstanding, together with accrued interest, in accordance with the terms of the Notes.

3.04. Total Taking and Total Destruction. In case of (a) a Taking of

all or substantially all of the Mortgaged Premises (any such Taking being herein called a "Total Taking"), (b) any material damage to or destruction of all or

substantially all of the Mortgaged Premises (any such damage or destruction being herein called a "Total Destruction"), in any case which, in the sole discretion of Mortgagee, renders the Mortgaged Premises remaining after such Taking, damage or destruction unsuitable for restoration for use as property of substantially the same value, condition, character and general utility as the Mortgaged Premises prior to such Taking, damage or destruction or (c) any title

insurance proceeds received by Mortgagee under section 2.02 then the proceeds of insurance, the net awards and the proceeds of title insurance received by Mortgagee or Mortgagor on account of such Total Taking or Total Destruction or pursuant to section 2.02 shall be applied as follows:

First: to the payment of the reasonable costs and expenses of the

recovery of such proceeds or awards (including, without limitation, attorneys' fees) and any taxes, assessments or charges, prior to the lien of this Mortgage, which Mortgagee may consider it necessary or desirable to pay;

Second: to the payment of any indebtedness secured by this Mortgage,

other than indebtedness

with respect to the Notes at the time outstanding, which Mortgagee may consider it necessary or desirable to pay;

Third: to the payment of all amounts of principal and interest at the

time outstanding on the Notes (whether or not at the time due and payable by reason of maturity or as an installment of interest or as an installment of combined principal and interest or by reason of any prepayment requirement or by declaration or acceleration or otherwise), including interest at the rate of 14.75% per annum if there shall have occurred and be continuing an Event of Default, as defined herein, and, in any event, at the rate of 14.75% per annum on any overdue principal and (to the extent permitted under applicable law) on any overdue interest; and in case such moneys shall be insufficient to pay in full the amounts so due and unpaid upon the Notes at the time outstanding or in accordance with the Notes, then, first, to the payment in full of such amounts of interest, without

preference or priority of any payment of interest over any other payment of interest or of any Note over any other Note, and second, to the payment in

full of such amounts of principal, without preference or priority of any installment or amount of principal over any other installment or amount of principal or of any Note over any other Note; all such payments of principal and interest to be made ratably to the holders of the Notes entitled thereto; and

Fourth: the balance, if any, held by Mortgagee after payment in full

of all amounts referred to in subdivisions First, Second and Third above,

shall, unless a court of competent jurisdiction may otherwise direct by final order not subject to appeal be paid to or upon the direction of Mortgagor.

3.05. Restoration. In case of any Taking (other than a Total Taking)

or any damage to or destruction of the Mortgaged Premises or any part thereof (other than a Total Destruction), Mortgagor will commence or cause to be commenced, promptly and with due diligence, at its expense, whether or not the insurance proceeds for such damage or destruction or the award for such Taking shall be sufficient for such purpose and in the case of an award whether or not such award shall be made avail-

able to Mortgagee, the replacement, repair or restoration of the Mortgaged Premises as nearly as practicable (in the case of a Taking, after giving effect to any reduction in area caused thereby) to the value, condition, character and general utility thereof immediately prior to such damage, destruction or Taking (such replacement, repair, rebuilding and restoration, being herein called "Restoration").

ARTICLE 4

Miscellaneous Covenants of Mortgagor

4.01. Inspection, etc. Mortgagor will permit Mortgagee and any

representatives designated by Mortgagee, to visit and inspect the Mortgaged Premises or any part thereof and, at Mortgagee's expense, to inspect the books of account of Mortgagor and all other property, books and records relating to the Mortgaged Premises and to make copies thereof and extracts therefrom, and as often as may reasonably be requested by Mortgagee and at Mortgagee's expense, to cause such books and records to be audited by independent public accountants selected by Mortgagee to discuss its affairs, finances and accounts with, and to be advised as to the same by, any partner, and any employee or independent accountant of Mortgagor, all at such reasonable times and intervals as from time to time may be requested. Mortgagee shall not have any duty to make any such inspection and shall not incur any liability or obligation for not making any such inspection or, once having undertaken any such inspection, for not making the same carefully or properly, or for not completing the same: nor shall the fact that such inspection may not have been made by Mortgagee relieve Mortgagor of any obligations that it may otherwise have under this Mortgage.

4.02. Certificates. 4.02.1. Certificate as to No Default. Within ten

(10) days after a request therefor by Mortgagee, which requests Mortgagee may not make with unreasonable frequency, Mortgagor will furnish to Mortgagee a certificate of its managing general partner certifying the principal amount then outstanding on the Notes and the date to which interest has been paid and certifying that there is no condition or event which constitutes an Event of Default or which, after notice or

lapse of time or both, would constitute an Event of Default or, if any such condition or event exists, specifying the nature and period of existence thereof and what action Mortgagor is taking or proposes to take with respect thereto.

4.02.2. Notice of Event of Default, Default or Claimed Default.

Mortgagor will deliver to Mortgagee without request or demand:

(a) immediately upon becoming aware of the existence of any condition or event which constitutes an Event of Default or which, after notice or lapse of time or both, would constitute an Event of Default, a notice specifying the nature and period of existence thereof and what action Mortgagor is taking or causing to be taken or proposes to take or to cause to be taken with respect thereto; and

(b) immediately upon becoming aware that the holder of any indebtedness of Mortgagor or any tenant under any Space Lease or any other person has given notice or taken any other action with respect to a claimed default thereunder or Event of Default or default hereunder or under any other mortgage, indenture, lease, assignment, agreement or other instrument to which Mortgagor is a party or by which it or the Mortgaged Premises may be bound or affected, a notice specifying the notice given or action taken by such holder, tenant or other person and the nature of the claimed default or Event of Default and what action Mortgagor is taking or causing to be taken or proposes to take or to cause to be taken with respect thereto.

4.02.3. Certificate of Mortgagee. Mortgagee will deliver to Mortgagor

the certificate to which Mortgagor is entitled pursuant to Section 274-a of the Real Property Law.

4.03. No Credit for Payment of Taxes. Mortgagor shall not be entitled

to any credit against the principal or premium, if any, or interest on the Notes or any other sum which may become payable under the terms thereof or hereof by reason of the payment of any tax on the Mortgaged Premises or any part thereof or by reason of the payment of any other Imposition, and shall not apply for or claim any deduction from the taxable value

of the Mortgaged Premises or any part thereof by reason of this Mortgage.

4.04. Financial Statements. Mortgagor shall deliver or cause to be delivered to Mortgagee, not later than three months after the end of each fiscal year of Mortgagor, statements in detail satisfactory to Mortgagee, certified by the managing general partner of Mortgagor and by a firm of certified public accountants reasonably acceptable to Mortgagee, of annual income and expenses with respect to the ownership and operation of the Mortgaged Premises for such fiscal year, setting forth in comparative form the figures for the previous fiscal year. In addition to the foregoing, Mortgagor shall deliver to Mortgagee, with reasonable promptness, such information and data with respect to the business, operations, affairs, prospects, condition, properties and assets of Mortgagor and the Mortgaged Premises as from time to time may reasonably be requested.

4.05. Use of Mortgagee's Name. Mortgagor shall not use Mortgagee's name or the name of any person controlling, controlled by or under common control with the Mortgagee in connection with the Mortgaged Premises or any of Mortgagor's activities, except as such use may be required by applicable Legal Requirement.

ARTICLE 5

Events of Default; Remedies, etc.

5.01. Events of Default; Automatic Acceleration of Notes; Declaration of Notes Due. (A) The following events shall constitute events of default and are herein sometimes called "Events of Default":

(a) if Mortgagor shall default in the due and punctual payment of any principal of or premium, if any, or interest on any Note when and as due and payable (whether at maturity or as an installment of interest or as an installment of combined principal and interest or by reason of any prepayment requirement or by declaration or acceleration or otherwise); or

(b) if Mortgagor shall default in the payment, when and as due and payable, of any indebtedness or other sum payable pursuant to this Mortgage and such failure shall continue for more than 5 days after written notice (regardless of the source) thereof, provided, however, that such grace

period of 5 days after notice shall cease to be available if three or more payments of any sums due are not paid when and as the same become due and payable; or

(c) if Mortgagor shall default in the due performance or observance of any term of section 2.01, 2.03, 2.04, 2.06, 2.08, 2.10.2 or Article 3 and such failure shall continue for more than 15 days after Mortgagor has received written notice thereof from any source; or

(d) if Mortgagor shall default in the due performance or observance of any of the terms of this Mortgage or any Note, other than those referred to in subdivisions (a), (b) and (c) of paragraph (A) of this section 5.01, and such failure shall continue for more than 30 days after Mortgagor receives notice (regardless of the source of such notice) or knowledge of such failure (or, if such failure cannot with due diligence and dispatch be wholly cured within 30 days, Mortgagor shall fail promptly upon receipt of such notice or knowledge to commence with due diligence and dispatch the curing of such default or, having so commenced the curing of such default, shall thereafter fail to prosecute and complete the same with due diligence and dispatch); or

(e) if any warranty, representation or other statement made by or on behalf of Mortgagor in or pursuant to this Mortgage is false, incorrect or misleading in any material respect; or

(f) if any Event of Default (as defined in the Lease, dated as of March 25, 1981 between Mortgagor and 875 Third Associates, as amended by First Amendment to Lease, dated as of July 17, 1984 between Mortgagor and 875 Third Associates and Second Amendment to Lease, dated as of May 11, 1988, between Mortgagee and Mortgagor (the "Corner Parcel Lease")) under the Corner Parcel Lease shall occur and be

continuing, or the Corner Parcel Lease shall for any reason be or become void or unenforceable; or

(g) if, during any period in which Mortgagor does not have a Permanent Certificate of Occupancy for the Improvements, Mortgagor shall fail to furnish Mortgagee with a renewal or a substitute Temporary Certificate of Occupancy running for not less than 90 days, no later than 5 days prior to the expiration of the Temporary Certificate of Occupancy then in effect;

(h) if Mortgagor or any general partner of Mortgagor or any other owner of the Mortgaged Premises or any part thereof or interest therein shall make a general assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts as they become due or shall be generally not paying its debts as they become due, or shall commence a case under the federal bankruptcy laws, or shall file a voluntary petition in bankruptcy, or shall be adjudicated a bankrupt or insolvent, or shall file any petition or answer seeking for itself, or consenting to, or acquiescing in, any reorganization, arrangement, composition, adjustment, liquidation, dissolution or similar relief under any present or future statute, law or regulation, or shall file any answer admitting or shall fail timely to deny or contest the material allegations of a petition against it for any such relief, or shall seek or consent to or acquiesce in the appointment of any trustee, receiver or liquidator of Mortgagor or such general partner or such owner or any material part of its properties or Mortgagor or such general partner or such owner shall take any action for the purpose of any of the foregoing; or

(i) if, within 30 days after the commencement of any proceeding against Mortgagor or any other owner of the Mortgaged Premises or any part thereof or interest therein seeking any reorganization, arrangement, composition, adjustment, liquidation, dissolution or similar relief under any present or future statute, law or regulation, such proceedings shall not have been dismissed, or if, within 30 days after the appointment, without the consent or acquiescence of Mortgagor or any such general partner or any such owner, of any trustee, custodian, re-

ceiver or liquidator of Mortgagor or such general partner or such owner or of all or any material part of its properties, such appointment shall not have been vacated, or if, without the consent or acquiescence of Mortgagor or any such general partner or any such owner, an order shall be entered constituting an order for relief or approving a petition for relief or reorganization or any other petition seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or other similar relief under any present or future statute, law or regulation; or

(j) if Mortgagor shall directly or indirectly create or permit or suffer to be created or to remain, any mortgage, lien, encumbrance or charge on, pledge of, security interest in or conditional sale or other title retention agreement with respect to the Mortgaged Premises or any part thereof or the Land or the interest of Mortgagor or Mortgagee therein or any rents or other sums arising therefrom other than those encumbrances and liens permitted by section 2.06 and other than this Mortgage; or

(k) if Mortgagor shall default (as principal or surety) in the payment of any principal of or premium, if any, or interest on any indebtedness for borrowed money secured by a subordinate mortgage on the Mortgaged Premises or any part thereof or in the due performance or observance of any of the terms of any such indebtedness or of any mortgage, indenture or other agreement or instrument relating thereto beyond any grace period provided with respect thereto; or

(1) if subsequent to the date of this Mortgage the law of the State of New York shall be changed by statutory enactment, judicial decision, regulation or otherwise, so as (i) to deduct from the value of land for the

purpose of taxation (for state, county, municipal or other purpose) any lien or charge thereon, or (ii) to change the taxation of deeds of trust,

mortgages or debts secured by land or the manner of collecting any such taxation, and thereafter, within 30 days following receipt of a written request from Mortgagee, Mortgagor shall have failed to enter into a lawful, binding and enforceable agreement with Mortgagee, satisfactory in substance

and form to Mortgagee, obligating Mortgagor to reimburse Mortgagee for any increase in taxation imposed on Mortgagee or any holder of any of the Notes by reason of any of the foregoing; or

(m) if a final judgment shall be entered against Mortgagor, and if, within 60 days after entry thereof, such judgment shall not have been discharged or execution thereof stayed pending appeal, or if, within 60 days after the expiration of any such stay, such judgment shall not have been discharged; or

(n) if Mortgagor or any of its successors or assigns shall, voluntarily or by operation of law, directly or indirectly (including, without limitation, by a transfer, conveyance or other disposition of all or any shares of stock or other ownership interests in Mortgagor or in any entity owning, directly or indirectly, all or any shares of stock or other ownership interests in Mortgagor or in any such entity), sell, transfer, convey or otherwise dispose of all or any part of the Mortgaged Premises, unless (i) at least 15 days prior to such sale, transfer, conveyance or

disposition, Mortgagor shall notify Mortgagee of such transaction, (ii)

Mortgagee shall consent thereto in writing, which consent may be withheld by Mortgagee in its absolute discretion, (iii) subject to the provisions of

Section 5.02 hereof, the original Mortgagor executing this Mortgage shall remain primarily liable for the indebtedness secured hereby and the performance of all the terms, covenants and conditions of this Mortgage, (iv) Mortgagee is furnished with certified copies of the documentation

effecting such transfer or encumbrance within 5 days after such transaction, and (v) the transferee(s) execute(s) this Mortgage as a

security agreement and such financing statements and other documents, certificates and instruments as may be required by Mortgagee, so that Mortgagee will have a valid and perfected security interest in all personal property acquired by any successors and assigns of Mortgagor for use in or upon such conveyed property and delivers all such documents, certificates and instruments to Mortgagee within 5 days after such sale, conveyance, transfer or disposition, provided, however, that (1) the prior written

consent of Mortgagee shall not be

required for a sale, transfer or assignment by the present general partners of Mortgagor (or the present principals of such general partners) of their direct or indirect partnership interests in Mortgagor so long as any such sale, transfer or assignment is made solely to the other present general partners of Mortgagor (or the present principals of such general partners) or to an entity wholly owned by any of the other present general partners of Mortgagor (or the present principals of such general partners) or to the beneficiaries of the estate of the present general partners of Mortgagor (or the present principals of such general partners) or to any family members of the present general partners of Mortgagor (or the present principals of such general partners) or to an entity wholly owned by any family members of the present general partners of Mortgagor (or the present principals of such general partners) directly by sale, gift or devise or through the establishment of a trust for the benefit of such family members, provided that with respect to any sale, transfer or assignment

pursuant to this clause (1) the present managing general partner of
mortgagor (or any successor managing general partner reasonably acceptable to Mortgagee) remains as the managing general partner of Mortgagor, (2) the

prior written consent of Mortgagee shall not be required for a sale, transfer or assignment, following the death of any present partner or principal of Gladwater Associates, of the interest of such deceased partner or principal in Gladwater Associates by the estate of such deceased partner or principal, (3) the prior written consent of Mortgagee shall not be

required for a sale, transfer or assignment (not otherwise permitted under clause (1) or (2) above) by the general partners of Mortgagor of not more than 49% of the partnership interests in Mortgagor, provided that with

respect to any sale, transfer or assignment pursuant to this clause (3) (x)

the present managing general partner of Mortgagor (or any successor managing general partner reasonably acceptable to Mortgagee) remains as the managing general partner of Mortgagor, (y) no more than a 50% interest in the then

managing general partner is sold, transferred or assigned and (z) prior to

(or simultaneously with) each such sale, transfer or assignment, Mortgagor shall pay to Mortgagee, in immedi-

ately available funds, a fee equal to 1% of the then outstanding balance of the principal indebtedness evidenced by the Notes, and (4) Mortgagor may

(to the extent not otherwise permitted under clause (1), (2) or (3) above) sell, transfer, convey, or otherwise dispose of all (but not less than all) of the Mortgaged Premises or a tenancy-in-common interest in all (but not less than all) of the Mortgaged Premises or sell, transfer, convey or otherwise dispose of all or any shares of stock or other ownership interests in Mortgagor or in any entity owning, directly or indirectly, all or any shares of stock or other ownership interests in Mortgagor or in any such entity, provided that with respect to any sale, transfer, conveyance

or disposition pursuant to this clause (4) (x) the prior written consent of

Mortgagee is obtained, which consent shall not be unreasonably withheld if the sale, transfer, conveyance or disposition is made to a purchaser whose financial responsibility and managerial qualifications are reasonably satisfactory to Mortgagee, (y) prior to (or simultaneously with) each such

sale, transfer, conveyance or disposition, Mortgagor shall pay to Mortgagee, in immediately available funds, a fee equal to 1% of the then outstanding balance of the principal indebtedness evidenced by the Notes, and (z) the requirements of clauses (i), (iii), (iv), and (v) of this

paragraph (n) are satisfied.

(B) Upon the occurrence of any one or more of the Events of Default described in subdivisions (h) and (i) of paragraph (A) of this section 5.01, the Notes and all other indebtedness secured hereby shall automatically become immediately due and payable, together with accrued interest thereon, without declaration, presentment, demand, protest, notice or other requirements of any kind, all of which are expressly waived.

(C) Upon the occurrence of any one or more of the Events of Default described in subdivisions (a) through (g) and (j) through (n) of paragraph (A)

of this section 5.01, then and in any such event Mortgagee may at any time thereafter (unless all Events of Default shall theretofore have been remedied, and all costs and expenses, including, without limitation, attorneys' fees and expenses, incurred by or on behalf of Mortgagee shall have been paid in full by Mortgagor) declare, by written

notice to Mortgagor, all the Notes and all other indebtedness secured hereby to be due and payable upon the date specified in such notice, and upon such date the same shall become due and payable, together with accrued interest thereon, without presentment, demand, protest, notice or other requirements of any kind, all of which are hereby waived.

(D) Mortgagor will pay on demand all costs and expenses (including, without limitation, attorneys' fees and expenses) incurred by or on behalf of Mortgagee in enforcing this Mortgage or any other collateral documents securing the Notes or any Note or occasioned by any default or Event of Default under this Mortgage.

(E) Upon the occurrence and during the continuance of an Event of Default, interest at the rate of 14.75% per annum shall be due and payable on the principal of and (to the extent permitted by law) interest on the Notes at the time outstanding and all other indebtedness secured hereby.

5.02. Legal Proceedings; Foreclosure; Limitation on Mortgagor's

Liability. If an Event of Default shall have occurred and be continuing,

Mortgagee at any time may, at its election, proceed at law or in equity or otherwise to enforce the payment of Notes at the time outstanding in accordance with the terms hereof and thereof and to foreclose the lien of this Mortgage as against all or any part of the Mortgaged Premises or proceed to take either of such actions, and to have the same sold under the judgment or decree of a court of competent jurisdiction. Notwithstanding the foregoing, in any action brought to enforce the obligation of Mortgagor under the Notes to pay the indebtedness evidenced by the Notes or the premium, if any, or any interest thereon or to enforce the obligations of Mortgagor to pay any indebtedness or obligation created or arising under this Mortgage or the Notes, the judgment or decree shall be enforceable against such party only to the extent of its interest in the property covered by this Mortgage or subject to any other security instrument securing the Notes, and any such judgment shall not be subject to execution on, nor be a lien on, assets of such party or any general or limited partner, officer, director or shareholder or any principal of such party, disclosed or undisclosed, other than its interest in the property

covered by this Mortgage or subject to any other security instrument securing the Notes.

5.03. Power of Sale. If the unpaid principal amount of and interest on

the Notes at the time outstanding shall have become due and payable (whether at maturity or as an installment of interest or as an installment of combined principal and interest or by reason of any prepayment requirement or by declaration or acceleration or otherwise) and shall not have been paid, Mortgagee may sell, assign, transfer and deliver the whole or, from time to time, any part of the Mortgaged Premises, or any interest in any part thereof, at any private sale or at public auction, with or without demand, advertisement or notice, for cash, on credit or for other property, for immediate or future delivery, and for such price or prices and on such terms as Mortgagee in its uncontrolled discretion may determine, or as may be required by law.

5.04. Mortgagee Authorized to Execute Deeds, etc. Mortgagor

irrevocably appoints Mortgagee the true and lawful attorney of Mortgagor, in its name and stead and on its behalf, for the purpose of effectuating any sale, assignment, transfer or delivery for the enforcement hereof, whether pursuant to power of sale, foreclosure or otherwise, to execute and deliver all such deeds, bills of sale, assignments and other instruments as Mortgagee may consider necessary or appropriate, with full power of substitution, Mortgagor hereby ratifying and confirming all that its said attorney or any substitute shall lawfully do by virtue hereof. Nevertheless, if so requested by Mortgagee or any purchaser, Mortgagor will ratify and confirm any such sale, assignment, transfer or delivery by executing and delivering to Mortgagee or such purchaser all such proper deeds, bills of sale, assignments, releases and other instruments as may be designated in any such request.

5.05. Purchase of Mortgaged Premises by Mortgagee or Noteholder.

Mortgagee or any successor holder of any Note may be a purchaser of the Mortgaged Premises or of any part thereof or of any interest therein at any sale thereof, whether pursuant to power of sale, foreclosure or otherwise, and may apply upon the purchase price thereof the indebtedness secured hereby owing to such purchaser, to the extent of such purchaser's distributive share of the purchase price. Any such purchaser shall,

upon any such purchase, acquire good title to the properties so purchased, free of the lien of this Mortgage and free of all rights of redemption in Mortgagor.

5.06. Receipt a Sufficient Discharge to Purchaser. Upon any sale of

the Mortgaged Premises or any part thereof or any interest therein, whether pursuant to power of sale, foreclosure or otherwise, the receipt of Mortgagee or the officer making the sale under judicial proceedings shall be a sufficient discharge to the purchaser for the purchase money, and such purchaser shall not be obliged to see to the application thereof.

5.07. Waiver of Appraisalment, Valuation, etc. Mortgagor hereby waives,

to the fullest extent it may lawfully do so, the benefit of all appraisalment, valuation, stay, extension and redemption laws now or hereafter in force and all rights of marshalling in the event of any sale of the Mortgaged Premises or any part thereof or any interest therein.

5.08. Sale a Bar Against Mortgagor. Any sale of the Mortgaged Premises

or any part thereof or any interest therein under or by virtue of this Mortgage, whether pursuant to foreclosure or power of sale or otherwise, shall forever be a perpetual bar against Mortgagor.

5.09. Notes to Become Due on Sale. Upon any sale or foreclosure by

Mortgagee under or by virtue of this Mortgage, whether pursuant to foreclosure or power of sale or otherwise, the entire unpaid principal amount of the Notes at the time outstanding shall, if not previously declared due and payable, immediately become due and payable, together with interest accrued thereon and all other indebtedness which this Mortgage by its terms secures, subject to the provisions of section 5.02.

5.10. Application of Proceeds of Sale and Other Moneys. The proceeds

of any sale of the Mortgaged Premises or any part thereof or any interest therein under or by virtue of this Mortgage, whether pursuant to foreclosure, power of sale, or otherwise, and, except as provided in section 3.03, all other moneys at any time held by Mortgagee as part of the Mortgaged Premises, shall be applied as follows:

First: to the payment of all reasonable costs and expenses of such

sale (including, without limitation, the cost of evidence of title and the costs and expenses, if any, of taking possession of, retaining custody over, repairing, maintaining and preserving the Mortgaged Premises or any part thereof prior to such sale), all reasonable costs and expenses of any receiver of the Mortgaged Premises or any part thereof, and any taxes, assessments or charges, prior to the lien of this Mortgage, which Mortgagee may consider it necessary or desirable to pay;

Second: to the payment of any indebtedness secured by this Mortgage,

other than indebtedness with respect to the Notes at the time outstanding, which Mortgagee may consider it necessary or desirable to pay;

Third: to the payment of all amounts of principal and interest at the

time due and payable on the Notes at the time outstanding (whether due by reason of maturity or as an installment of interest or as an installment of combined principal and interest or by reason of any prepayment requirement or by declaration or acceleration or otherwise), including interest at the rate of 14.75% per annum if there shall have occurred and be continuing an Event of Default, as defined herein, and, in any event, at the rate of 14.75% on any overdue principal and (to the extent permitted under applicable law) on any overdue interest; and in case such moneys shall be insufficient to pay in full the amounts so due and unpaid upon the Notes at the time outstanding, then, first, to the payment in full of all such

amounts of interest, without preference or priority of any payment of interest over any other payment of interest or of any Note over any other Note, and, second, to the payment in full of all such amounts of principal

without preference or priority of any installment or amount of principal over any other installment or amount of principal or of any Note over any other Note; all such payments of principal and interest to be made ratably to the holders of the Notes entitled thereto; and

Fourth: the balance, if any, held by Mortgagee after payment in full

of all amounts referred to in

subdivisions First, Second and Third above, shall, unless a court of

competent jurisdiction may otherwise direct by final order not subject to
appeal, be paid to or upon the direction of Mortgagor.

5.11. Appointment of Receiver. If an Event of Default shall have

occurred and be continuing, Mortgagee shall, as a matter of right, be entitled to the appointment of a receiver for all or any part of the Mortgaged Premises, whether such receivership be incidental to a proposed sale of the Mortgaged Premises or otherwise, and Mortgagor hereby consents to the appointment of such a receiver and will not oppose any such appointment.

5.12. Possession, Management and Income. If an Event of Default shall

have occurred and be continuing, Mortgagee, upon five days notice to Mortgagor, may enter upon and take possession of the Mortgaged Premises or any part thereof by force, summary proceeding, ejectment or otherwise and may remove Mortgagor and all other persons and any and all property therefrom and may hold, operate, maintain, repair, preserve and manage the same and receive all earnings, income, rents, issues and proceeds accruing with respect thereto or any part thereof. Mortgagee shall be under no liability for or by reason of any such taking of possession, entry, removal or holding, operation or management, except that any amounts so received by Mortgagee shall be applied to pay all reasonable costs and expenses of so entering upon, taking possession of, holding, operating, maintaining, repairing, preserving and managing the Mortgaged Premises or any part thereof, and any taxes, assessments or other charges prior to the lien of this Mortgage which Mortgagee may consider it necessary or desirable to pay, and any balance of such amounts shall be applied as provided in section 5.10.

5.13. Right of Mortgagee to Perform Mortgagor's Covenants, etc. If

Mortgagor shall fail to make any payment or perform any act required to be made or performed hereunder, Mortgagee, after notice to and demand upon Mortgagor (except in an emergency, in which case without notice to or demand upon Mortgagor), and without waiving or releasing any obligation or default, may (but shall be under no obligation to) at any time thereafter make such payment or perform such act for the account and at the expense of Mortgagor, and may enter upon the Mortgaged Premises for such purpose and take all

such action thereon as, in Mortgagee's opinion, may be necessary or appropriate therefor. No such entry and no such action shall be deemed an eviction of any lessee of the Mortgaged Premises or any part thereof. All sums so paid by Mortgagee and all costs and expenses (including, without limitation, attorneys' fees and expenses) so incurred, together with interest thereon at the rate of 14.75% per annum from the date of payment or incurrence, shall constitute additional indebtedness secured by this Mortgage and shall be paid by Mortgagor to Mortgagee on demand.

5.14. Remedies, etc., Cumulative. Each right, power and remedy of

Mortgagee and the holders of the Notes provided for in this Mortgage or now or hereafter existing at law or in equity or by statute or otherwise shall be cumulative and concurrent and shall be in addition to every other right, power or remedy provided for in this Mortgage or now or hereafter existing at law or in equity or by statute or otherwise, and the exercise or beginning of the exercise by Mortgagee or the holder of any Note of any one or more of the rights, powers or remedies provided for in this Mortgage or now or hereafter existing at law or in equity or by statute or otherwise shall not preclude the simultaneous or later exercise by Mortgagee or the holder of any Note of any or all such other rights, powers or remedies.

5.15. Attorneys' Fees, etc. Mortgagor shall pay to Mortgagee on demand

any costs and expenses, including attorneys' fees and expenses, paid or incurred by Mortgagee in connection with the collection of any amount payable by Mortgagor to Mortgagee hereunder or under the Notes, whether or not any legal proceeding is commenced hereunder or thereunder and whether or not any default or Event of Default shall have occurred and is continuing, together with interest thereon at the rate of 14.75% per annum from the date of payment or incurrence by Mortgagor until paid by Mortgagor.

5.16. Provisions Subject to Applicable Law. All rights, powers and

remedies provided in this Mortgage may be exercised only to the extent that the exercise thereof does not violate any applicable provisions of law and are intended to be limited to the extent necessary so that they will not render this Mortgage invalid, unenforceable or not entitled to be recorded, registered or filed under the provisions of any applicable law. If any

term of this Mortgage or any application thereof shall be invalid or unenforceable, the remainder of this Mortgage and any other application of such term shall not be affected thereby.

5.17. No Waiver, etc. No failure by Mortgagee or any holder of any

Note to insist upon the strict performance of any term hereof or thereof, or to exercise any right, power or remedy consequent upon a breach hereof or thereof, shall constitute a waiver of any such term or of any such breach. No waiver of any breach shall affect or alter this Mortgage, which shall continue in full force and effect with respect to any other then existing or subsequent breach. By accepting payment of any amount secured hereby after its due date, neither Mortgagee nor any holder of any Note shall be deemed to waive its right either to require prompt payment when due of all other amounts payable hereunder or to declare a default for failure to effect such prompt payment.

5.18. Compromise of Actions, etc. Any action, suit or proceeding

brought by Mortgagee pursuant to any of the terms of this Mortgage or otherwise, and any claim made by Mortgagee hereunder may be compromised, withdrawn or otherwise dealt with by Mortgagee without any notice to or approval of Mortgagor.

ARTICLE 6

Representations and Warranties

Mortgagor represents and warrants that, as of the date of delivery of the Consolidation Agreement:

6.01. Organization, Standing, etc., of Mortgagor. Mortgagor is a

general partnership duly organized, validly existing and in good standing under the laws of the State of New York and has all requisite power and authority to own and operate its properties, to carry on its business as now conducted and proposed to be conducted, to execute, deliver and perform this Mortgage and the Consolidation Agreement and to issue and sell the Notes. This Mortgage and the Consolidation Agreement have been duly authorized by all necessary action on the part of Mortgagor.

6.02. Compliance With Other Instruments, etc. The execution,

delivery, recordation and performance of this Mortgage and the Consolidation Agreement and the consummation of the transactions contemplated hereby and thereby (including, without limitation, the issue and sale of the Notes and the modification thereof) will not contravene, result in any violation of, result in a breach of, be in conflict with or constitute a default or event of default under any term or provision of its partnership agreement or of any term or condition of any contract, agreement, lease or instrument, judgment, decree, order, statute, rule, regulation, ordinance, franchise, certificate, permit or the like applicable to Mortgagor or the Mortgaged Premises or any part thereof or by which Mortgagor or its properties or assets may be bound or affected.

6.03. Governmental Consent. No consent, approval, order or

authorization of, or designation, registration, declaration or filing with, or notice to or action to be taken in respect of any governmental or public authority, body or agency is required in connection with the valid execution, delivery and performance by Mortgagor of this Mortgage or the Consolidation Agreement or the carrying out of any of the transactions contemplated hereby or thereby (including, without limitation, the issue and sale of the Notes and the modification thereof) except the recordation of this Mortgage with the Register's Office and the filing of all necessary financing statements with respect thereto.

6.04. Litigation, etc. There is no action, suit, proceeding or

investigation pending or threatened, or any basis therefor known to Mortgagor which questions the validity of the Existing Mortgages, the Existing Notes, the Consolidation Agreement, this Mortgage or the Notes, or any action taken or to be taken pursuant thereto. No notice has been received from any governmental authority of any proceeding to condemn, purchase or otherwise acquire the Mortgaged Premises or any part thereof or interest therein and, to the best of Mortgagor's knowledge, no such proceeding is contemplated.

6.05. No Violations, etc. To the best of its knowledge, Mortgagor is

in compliance in all material respects with all governmental laws, rules and regulations and other requirements which are applicable to the Mortgaged Premises or any part thereof, or any use or

condition of the Mortgaged Premises or any part thereof. Mortgagor has no knowledge of any violation, nor is there any notice or other record of violation, of any zoning, health, safety, building, environmental, or other statute, ordinance, rule, regulation or restriction applicable to the Mortgaged Premises or any part or use thereof.

6.06. Space Leases. Except as otherwise consented to in writing by

Mortgagee, all Space Leases are expressly subject and subordinate to this Mortgage and to any modification, renewal, extension or increase thereof and contain provisions obligating the lessees thereunder, at Mortgagee's option, to attorn to Mortgagee in the event Mortgagee succeeds to the interest of the lessor under such Space Leases.

6.07. Declarations and Permits. Mortgagor has performed or complied

with all of the terms, covenants and conditions of each of the Declarations required to be performed and observed by Mortgagor. There is no present Legal Requirement or instrument of record which prohibits or would interfere with Mortgagor's construction, development, completion and operation of the Building Addition other than the lease referred to in the first sentence of Section 2.10.2 and the requirement that Mortgagor obtain applicable building permits and licenses (which building permits and licenses Mortgagor has no reason to believe will not be issued).

6.08. Offering of the Notes. Neither Mortgagor nor anyone acting on

its behalf has directly or indirectly offered any Note or any part thereof or any similar security for sale to, or solicited any offer to buy any of the same from, anyone other than Mortgagee or prior holders of the Notes. Neither Mortgagor nor anyone acting on its behalf has taken or will take any action which would subject the issuance of the Notes to the provisions of section 5 of the Securities Act of 1933, as amended.

6.09. Use of Proceeds. Mortgagor has applied and will apply the

proceeds of the Notes for such purpose as does not and will not constitute a use of any part thereof, directly or indirectly, for the purpose of purchasing or carrying any "margin stock" within the meaning of Regulation G, 12 C.F.R. Part 207, as amended, and no part of the proceeds of the Notes was used or will be

used for the purpose (whether immediate, incidental or ultimate) of "purchasing" or "carrying" any "margin stock" within the meaning of such Regulation G or for the purpose of reducing or retiring any indebtedness which was originally incurred for any such purpose. Mortgagor does not own or have any present intention of acquiring any such margin security and will not otherwise take or permit any action which would involve a violation of such Regulation G or any other Regulation of the Board of Governors of the Federal Reserve System.

6.10. Rent Roll. The Mortgagor has heretofore delivered to Mortgagee

a recent Rent Roll (the "Rent Roll") which accurately lists and describes all Space Leases of the Mortgaged Premises or any part thereof and the lessees, rents and terms thereunder) existing on the date hereof, as well as amendments, supplements or modifying agreements, if any, existing with respect thereto. Mortgagor has performed or complied with all of the terms, covenants and conditions of each Space Lease required to be performed or complied with by Mortgagor thereunder. There exists no offset or defense against the payment of any rent due, and there has been no prepayment of rent or payment of any advance rent due, under any such Space Lease (except as otherwise indicated in such Rent Roll). No such Space Lease has been cancelled, terminated, amended or modified, and there are no rental credits or concessions allowed to any tenant pursuant to any such Space Lease except as shown in the Space Leases approved by Mortgagee. Each such Space Lease (except as otherwise indicated in such Rent Roll) is in full force and effect and constitutes the legal, valid and binding obligations of the parties thereto, enforceable in accordance with its terms, and no default or accrued right of termination on the part of any party thereto exists under any such Space Lease.

6.11. Licenses; Permits. All certificates, permits, licenses,

approvals and other authorizations which are necessary or appropriate to permit the use and occupancy of the Mortgaged Premises and which are required to be obtained from any board, agency or department, whether governmental or otherwise, having jurisdiction over the Mortgaged Premises, have been duly obtained and are in full force and effect.

6.12. Easements and Utility Services. Mortgagor has all easements,

including those for use, mainte-

nance, repair and replacement of and access to structures, facilities or space for support, mechanical systems, roads, utilities (including water and sewage disposal) and any other private or municipal improvements, services and facilities necessary or appropriate to the proper operation, repair, maintenance, occupancy or use of the Improvements as a first-class office building with retail and office space.

6.13. Disclosure. Neither this Mortgage nor any other document or certificate furnished to Mortgagee or to special counsel for Mortgagee in connection with the transactions contemplated hereby contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained therein or herein not misleading.

ARTICLE 7

Miscellaneous

7.01. Further Assurances. Mortgagor at its expense will execute, acknowledge and deliver or cause to be executed, acknowledged and delivered all such instruments and take all such action as Mortgagee from time to time may reasonably request for the better assuring to Mortgagee the properties and rights now or hereafter subjected to the lien hereof or assigned hereunder or intended so to be. Notwithstanding any other provision of this Mortgage, Mortgagor hereby agrees that, without notice to or the consent of Mortgagor, Mortgagee may file with the appropriate public officials such financing statements or similar documents as are or may become necessary to perfect and continue the perfection of the security interest granted by this Mortgage.

7.02. Additional Security. Without notice to or consent of Mortgagor, and without impairment of the lien and rights created by this Mortgage, Mortgagee may accept (but Mortgagor shall not be obligated to furnish) from Mortgagor or from any other person additional security for the Notes at the time outstanding. Neither the giving of this Mortgage nor the acceptance of any such additional security shall prevent Mortgagee from resorting, first, to such additional security, or, first, to the security created by this Mortgage, or concurrently to

both, in any case without affecting Mortgagee's lien and rights under this Mortgage.

7.03. Partial Release, etc. Mortgagee, at any time and from time to -----
time, without liability therefor, and without prior notice to Mortgagor, may reconvey any part of the Mortgaged Premises, consent to the making of any map or plat thereof, join in granting any easement thereon or join in any extension agreement or agreement subordinating the lien of this Mortgage or enter into any other agreement in connection with the Mortgaged Premises.

7.04. Notices, etc. All notices, demands, requests, consents, -----
approvals and other instruments under this Mortgage or the Notes shall be in writing and shall be deemed to have been actually or properly given if and when mailed by first-class registered or certified mail, return receipt requested, postage prepaid, addressed (a) if to Mortgagor, to Mortgagor's address set forth -----
on the first page hereof, or at such other address as Mortgagor may have designated by notice to Mortgagee, (b) if to Mortgagee originally named herein, -----
to John Hancock Mutual Life Insurance Company, John Hancock Place, P. O. Box 111, Boston, Massachusetts 02117, Attention: City Mortgage and Real Estate -----
Department, or at such other address as Mortgagee may have designated by notice -----
to Mortgagor, or (c) if to any holder of any Note, other than Mortgagee -----
originally named herein, at such address as such holder may have designated by notice to Mortgagor, or, until an address is so designated, to and at the address of the last holder of such Note so designating an address to Mortgagor. The foregoing insertion of Mortgagor's mailing address shall be deemed to be a request by Mortgagor that a copy of any notice of default and of any notice of sale hereunder be mailed to Mortgagor at such address as provided by law.

7.05. Amendments and Waivers. This Mortgage, the Notes, and any term -----
hereof or thereof may be amended, discharged or terminated and the observance of any term of this Mortgage or the Notes may be waived (either generally or in a particular instance and either retroactively or prospectively) only by an instrument in writing signed by Mortgagor and Mortgagee.

7.06. Expenses. Mortgagor will pay or cause to be paid (a) the cost -----
of filing and recording of this

Mortgage, the Consolidation Agreement and Uniform Commercial Code financing statements and any other documents to be filed or recorded in connection with the execution and delivery hereof or thereof; (b) all taxes (including interest

and penalties) at any time payable in connection with the execution and delivery of this Mortgage, the Consolidation Agreement and any other instruments or agreements related hereto or thereto, any amendment or waiver relating hereto or thereto, the issue and acquisition of the Notes and, where applicable, such filing and recording (Mortgagor agreeing to indemnify Mortgagee and each holder of any Note in respect of such taxes, interest and penalties); (c) the cost of

Mortgagor's performance of and compliance with the terms and conditions of this Mortgage and of the other instruments mentioned herein; (d) the cost of

delivering to the home office of each holder of any Note, insured to its satisfaction, its Notes and any Notes delivered to any such holder upon any exchange or surrender of any Note, and of any such holder's delivering any Note, insured to its satisfaction, for any such exchange or surrender; (e) the cost of

title insurance, reinsurance, accountants' and engineers' and any other certificates, security interest searches, and surveys required hereby or delivered in connection herewith; (f) the fees, expenses and disbursements of

all of Mortgagee's counsel in connection with the subject matter of this Mortgage and any amendments or waivers hereunder; and (g) all out-of-pocket

expenses incurred by Mortgagee in connection herewith. Mortgagor shall indemnify and hold Mortgagee and any holder of any Note harmless from and against all claims in respect of all fees of brokers and finders payable in connection with this Mortgage and the execution and delivery of the Consolidation Agreement.

7.07. Miscellaneous. All the terms of this Mortgage shall apply to

and be binding upon the respective successors and assigns of Mortgagor, and all persons claiming under or through Mortgagor or any such successor or assign, and shall inure to the benefit of and be enforceable by Mortgagee and its successors and assigns and any successor holders of any of the Notes at the time outstanding. This Mortgage is made subject to the trust fund provisions of Section 13 of the New York Lien Law. The headings and table of contents in this Mortgage are for convenience of reference only and shall not limit or otherwise affect any of the terms hereof. This Mortgage may be executed in several counterparts, each of which

shall be an original, but all of which shall constitute one and the same instrument. This Mortgage shall be construed and enforced in accordance with and governed by the laws of the State of New York.

Part C. Effect of Consolidation, Extension and Modification Agreement.

It is expressly understood and agreed that this Consolidation, Extension and Modification Agreement is given and recorded for the purposes of perfecting the Existing Mortgages, consolidating the liens of the Existing Mortgages, modifying the terms, provisions, covenants and conditions of each thereof, modifying the terms of the Existing Notes, including the time and manner of payment of the principal of and the premium, if any, and interest thereon and modifying the amount of such interest and confirming the liens of the Existing Mortgages, all as provided herein. The terms, covenants and conditions of the Existing Mortgages and the Existing Notes are in their entirety modified and superseded by the terms, covenants and conditions of this Consolidation, Extension and Modification Agreement. No part of the indebtedness evidenced by the Existing Notes and secured by the Existing Mortgages shall be disturbed, discharged, cancelled or impaired by the execution of this Consolidation, Extension and Modification Agreement or the delivery of any Notes pursuant to section 1.02 or 1.03 in exchange for the Existing Notes or any other Notes, it being the intention of the parties hereto that no such exchange shall create a new or further principal

indebtedness other than the principal indebtedness secured by or which under secured under any contingency may become secured by the Existing Mortgages.

IN WITNESS WHEREOF, the parties hereto have caused this Consolidation, Extension and Modification Agreement to be duly executed as of the day and year first above written.

MORTGAGOR:

KENVIC ASSOCIATES, A NEW YORK
GENERAL PARTNERSHIP

By: Gladwater Associates, a New York
Limited Partnership, as a
General Partner of Kenvic
Associates

By /s/ Kenneth Gladstone

Kenneth Gladstone,
as a General Partner
of Gladwater Associates

By /s/ Lucille Gladstone

Lucille Gladstone
as a General Partner
of Gladwater Associates

By: Vic Associates, a New York
Limited Partnership, as a General
Partner of Kenvic Associates

By General Chemical Supply
Co., Inc., as a General Partner
of Vic Associates

By /s/ Edwin H. Baker

Edwin H. Baker
President

MORTGAGEE:

[Corporate Seal]

JOHN HANCOCK MUTUAL LIFE
INSURANCE COMPANY

Attest:

By: /s/ Robert E. Ietha

Title: Senior Mortgage Investment Officer

By: /s/ Barry Sanborn

Assistant Secretary

SCHEDULE A

Description of Land

Parcel A

ALL that certain lot, piece or parcel of land, situate, lying and being in the Borough of Manhattan, City, County and State of New York, bounded and described as follows:

BEGINNING at the corner formed by the intersection of the easterly side of Third Avenue with the northerly side of East 52nd Street; running thence

NORTHERLY along the easterly line of Third Avenue, 120 feet 5 inches; thence

EASTERLY parallel with the northerly line of East 52nd Street, 80 feet 0 inches; thence

NORTHERLY parallel with the easterly line of Third Avenue, 80 feet 5 inches to a point in the southerly line of East 53rd Street; thence

EASTERLY along the southerly line of East 53rd Street, 100 feet 0 inches; thence

SOUTHERLY parallel with the easterly line of Third Avenue, 90 feet 0 inches; thence

WESTERLY parallel with the northerly line of East 52nd Street, 20 feet 0 inches; thence

SOUTHERLY parallel with the easterly line of Third Avenue, 110 feet 10 inches to a point in the northerly line of East 52nd Street; thence

WESTERLY along the northerly line of East 52nd Street, 160 feet 0 inches to the point or place of BEGINNING.

Parcel B

The rights, licenses, easements and privileges relating to the above-described parcels of Land which are and have been granted with respect thereto in the following instruments:

1. Easement for Light, Air and View, dated January 23, 1981, by and between The Salvation Army, Kenvic Associates, Arnold J. Rabinor and Marvin B. Tepper, recorded in the Register's Office in Reel 555 at page 1233.
2. Easement for Light and Air, dated January 7, 1981, by Kenvic Associates, Arnold J. Rabinor and Marvin B. Tepper, recorded in the Register's Office in Reel 555 at page 1245.
3. Easement for Light and Air, dated January 5, 1981, by Kenvic Associates, Arnold J. Rabinor and Marvin B. Tepper, recorded in the Register's Office in Reel 558 at page 460.
4. Declaration of Zoning Lot Restrictions, dated January 7, 1981, by Kenvic Associates, Arnold J. Rabinor, Marvin B. Tepper and Kenneth Gladstone, recorded in the Register's Office in Reel 552 at page 737.
5. Declaration, dated January 7, 1981, made by F.E.G. Realty Corp., recorded in the Register's Office in Reel 556 at page 539.
6. Declaration, dated January 7, 1981, made by Kenvic Associates, Arnold J. Rabinor, Marvin B. Tepper and Kenneth Gladstone, recorded in the Register's Office in Reel 556 at page 541 and in Reel 556 at page 1281, as modified by Modification to Declaration, dated as of June 14, 1982, between Kenvic Associates and 875 Third Associates recorded in the Register's Office in Reel 653 at page 1315, as further modified by Second Modification to Declaration, dated as of December 7, 1983, between Kenvic Associates and 875 Third Associates recorded in the Register's Office in Reel 745 at page 533.

7. Declaration of Easement, dated July 17, 1984, made by Kenvic Associates, and recorded in the Register's Office on July 18, 1984 in Reel 814 at page 1202.

AIR RIGHTS PARCEL - LOT 41 PARCEL B (METERS AND BOUNDS DESCRIPTION)

ALL THAT CERTAIN LOT, PIECE OR PARCEL OF LAND, SITUATE, LYING AND BEING IN THE BOROUGH OF MANHATTAN, CITY, COUNTY AND STATE OF NEW YORK, BOUNDED AND DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT 180 FEET EAST OF THE CORNER FORMED BY THE INTERSECTION ON OF THE EASTERLY SIDE OF THIRD AVENUE WITH THE SOUTHERLY SIDE OF EAST 63RD STREET MEASURED ALONG THE SOUTHERLY SIDE OF EAST 53RD STREET:

????? ?? ??? EASTERLY ALONG ?? NORTHERLY SIDE OF EAST 53RD STREET, ?? ?????;

THENCE SOUTHERLY PARALLEL WITH THE EASTERLY SIDE OF THIRD AVENUE 90 FEET;

THENCE WESTERLY PARALLEL WITH THE SOUTHERLY SIDE OF EAST 53RD STREET 20 FEET;

THENCE NORTHERLY PARALLEL WITH THE EASTERLY SIDE OF THIRD AVENUE 90 FEET TO THE POINT OR PLACE OF BEGINNING.

LOT 7

BEGINNING AT A POINT ON THE NORTHERLY SIDE OF FIFTY-SECOND STREET DISTANT ONE HUNDRED AND SIXTY FEET EASTERLY FROM THE CORNER FORMED BY THE INTERSECTION OF SAID NORTHERLY SIDE OF FIFTY SECOND STREET WITH THE EASTERLY SIDE OF THIRD AVENUE;

RUNNING THENCE NORTHERLY PARALLEL WITH THE EASTERLY SIDE OF THIRD AVENUE ONE HUNDRED AND TEN FEET, TEN INCHES, MORE OR LESS TO A POINT DISTANT NINETY FEET IN A STRAIGHT LINE PARALLEL WITH THE SAID EASTERLY SIDE OF THIRD AVENUE FROM THE SOUTHERLY SIDE OF FIFTY THIRD STREET;

THENCE EASTERLY PARALLEL WITH THE SAID NORTHERLY SIDE OF FIFTY SECOND STREET EIGHTY FEET;

THENCE SOUTHERLY PARALLEL WITH THE SAID EASTERLY SIDE OF THIRD AVENUE ONE HUNDRED AND TEN FEET, TEN INCHES, TO THE NORTHERLY SIDE OF FIFTY SECOND STREET;

AND THENCE WESTERLY ALONG THE SAID NORTHERLY SIDE OF FIFTY SECOND STREET EIGHTY FEET TO THE POINT OR PLACE OF BEGINNING.

LOTS 45 & 47

ALL THAT CERTAIN LOT, PIECE OR PARCEL OF LAND, SITUATE, LYING AND BEING IN THE BOROUGH OF MANHATTAN, CITY, COUNTY AND STATE OF NEW YORK, BOUNDED AND DESCRIBED AS FOLLOWS:

BEGINNING AT THE CORNER FORMED BY THE INTERSECTION OF THE EASTERLY LINE OF THIRD AVENUE WITH THE SOUTHERLY LINE OF EAST 53RD STREET;

THENCE EASTERLY ALONG THE SOUTHERLY LINE OF EAST 53RD STREET, 80 FEET 0 INCHES;

THENCE SOUTHERLY PARALLEL WITH THE EASTERLY LINE OF THIRD AVENUE, 80 FEET 3 INCHES;

THENCE WESTERLY PARALLEL WITH THE SOUTHERLY LINE OF EAST 53RD STREET, 80 FEET 0 INCHES TO A POINT IN THE EASTERLY LINE OF THIRD AVENUE;

THENCE NORTHERLY ALONG THE EASTERLY LINE OF THIRD AVENUE 80 FEET 5 INCHES TO THE POINT OR PLACE OF BEGINNING.

SCHEDULE B

Description of Mortgage A

1. Mortgages

(a) Mortgage ("Mortgage 1"), dated May 1, 1961, executed by Tillie Feldman to Raymond A. Hasbrouck, securing a note of even date therewith in the principal amount of \$160,000, recorded in the Register's Office on May 17, 1961, in Liber 5971, Page 291;

(b) Mortgage ("Mortgage 2"), dated October 3, 1961, executed by Montor Realty Corp. to Max M. Vas, Sam Wolf and Frances Wolf, securing a note of even date therewith in the principal amount of \$42,300, recorded in the Register's Office on October 5, 1961, in Liber 6002, Page 12;

(c) Mortgage ("Mortgage 3"), dated July 31, 1963, executed by Samuel Gruber to Bankers Life Company, securing a note of even date therewith in the principal amount of \$64,100, recorded in the Register's Office on August 5, 1963, in Liber 6196, Page 37;

(d) Mortgage ("Mortgage 4"), dated March 31, 1970, executed by C.B.B. Realty Corp. to Cortelyou Realty Corporation, securing a note of even date therewith in the principal amount of \$275,000, recorded in the Register's Office on March 31, 1970, in Reel 169, Page 1013;

(e) Mortgage ("Mortgage 5"), dated December 16, 1959, from Drury Lane Equities, Inc. to David Fischhoff, securing a note of even date therewith in the principal amount of \$17,500, recorded in the Register's Office on December 17, 1959 in Mortgage Book 5866, Page 422;

(f) Mortgage ("Mortgage 6"), dated March 30, 1970, from HMW Holding Corp. to Hester M. Walsh, securing a note of even date therewith in the principal amount of \$207,000, recorded in the Register's Office on March 31, 1970 in Reel 169, Page 879;

(g) Mortgage ("Mortgage 7"), dated August 17, 1945, from Joseph Renkel, Inc. to Broadway Savings Bank, securing a bond of even date therewith in the principal

amount of \$15,000, recorded in the Register's Office on August 18, 1945 in Liber 4762, Page 365;

(h) Mortgage ("Mortgage 8"), dated June 12, 1958, from Joseph Renkel, Inc. to Broadway Savings Bank, securing a note of even date therewith in the principal amount of \$10,000, recorded in the Register's Office on June 13, 1958 in Mortgage Book 5753, Page 617;

(i) Mortgage ("Mortgage 9"), dated March 12, 1962, from 216 E. 53rd Street Corp. to Phoenix Mutual Life Insurance Company ("Phoenix Mutual") securing a note of even date therewith in the principal amount of \$42,640, recorded in the Register's Office on March 15, 1962 in Liber 6039, Page 12;

(j) Mortgage ("Mortgage 10"), dated July 14, 1964 from 216 E. 53rd Street Corp. to Phoenix Mutual, securing a note of even date therewith in the principal amount of \$10,000, recorded in the Register's Office on July 15, 1964 in Liber 6299, Page 8;

(k) Mortgage ("Mortgage 11"), dated March 14, 1969, from East 53rd Street Corporation to Sutton Associates, securing a note of even date therewith in the principal amount of \$146,750, recorded in the Register's Office on March 18, 1969 in Reel 134, Page 413;

(l) Mortgage ("Mortgage 12"), dated May 16, 1955, from J.K.F. Realty Corporation to Maybelle Stolzky, Samuel L. Stolzky and Nathaniel Seligman, as Trustees, securing a note of even date therewith in the principal amount of \$43,000, recorded in the Register's Office on May 17, 1955 in Liber 5541, Page 660;

(m) Mortgage ("Mortgage 13"), dated May 16, 1956, from J.K.F. Realty Corporation to Woman's Division of Christian Service of the Board of Missions of the Methodist Church ("Woman's Division"), securing a note of even date therewith in the principal amount of \$7,000, recorded in the Register's Office on May 18, 1956 in Liber 5617, Page 216;

(n) Mortgage ("Mortgage 14"), dated January 26, 1961, from 2187 8th Avenue Corp. ("2187 Corp.") to Phoenix Mutual, securing a note of even date therewith in the principal amount of \$19,000, recorded in the Register's Office on January 30, 1961 in Liber 5947, Page 487;

(o) Mortgage ("Mortgage 15"), dated May 4, 1956, from Sinne Realty Corporation ("Sinne") to Theresa White, securing a note of even date therewith in the principal amount of \$23,000, recorded in the Register's Office on May 8, 1956 in Liber 5615, Page 36;

(p) Mortgage ("Mortgage 16"), dated February 11, 1959, from Joseph Lesawyer and William H. McCarthy to American Irving Savings Bank ("American Irving"), securing a note of even date therewith in the principal amount of \$14,000, recorded in the Register's Office on February 16, 1959 in Liber 5804, Page 326;

(q) Mortgage ("Mortgage 17"), dated February 13, 1969, from Wideningyre Properties Corp. ("Wideningyre") to American Bank & Trust Company, securing a note of even date therewith in the principal amount of \$51,279.49 and recorded in the Register's Office on February 17, 1969 in Reel 131, Page 428;

(r) Mortgage ("Mortgage 18"), dated May 27, 1960, from Rupeg Realty Corp. ("Rupeg") to Chemical Bank New York Trust Company ("Chemical"), securing a note of even date therewith in the principal amount of \$430,000 and recorded in the Register's Office on May 31, 1960 in Liber 5898, Page 548;

(s) Mortgage ("Mortgage 19"), dated October 27, 1970, from Linguist Realty Corp. ("Linguist") to Edward W. Leckerling ("Leckerling"), securing a note of even date therewith in the principal amount of \$535,000 and recorded in the Register's Office on November 2, 1970 in Reel 187, Page 817;

(t) Mortgage ("Mortgage 20"), dated November 16, 1962, from Montclair Leasing Corp. ("Montclair") to Chemical, securing a note of even date therewith in the principal amount of \$292,500 and recorded in the Register's Office on November 23, 1962 in Liber 6110, Page 462;

(u) Mortgage ("Mortgage 21"), dated January 20, 1972, from Dorell Properties, Inc. to Jack D. Roggen ("Roggen") and Ruth Baron ("Baron"), securing a note of even date therewith in the principal amount of \$560,619.64, and recorded in the Register's Office on January 21, 1972 in Reel 229, Page 1244;

(v) Mortgage ("Mortgage 22"), dated December 20, 1957, from 937 Madison Ave. Corp. to The Amalgamated Bank of New York ("The Amalgamated Bank"), securing a note of even date therewith in the principal amount of \$30,000, recorded in the Register's Office on December 23, 1957 in Liber 5722, Page 18;

(w) Mortgage ("Mortgage 23"), dated January 21, 1963, from 937 Madison Ave. Corp. to The Amalgamated Bank, securing a note of even date therewith in the principal amount of \$18,934.52, recorded in the Register's Office on January 22, 1963 in Liber 6131, Page 263;

(x) Mortgage ("Mortgage 24"), dated July 26, 1971, from Vertland Realty Corp., Reba Associates, Inc., Woas Properties Corp., JL 229 Corp., Portadown Corporation, Wideningyre Properties and Zalkay Properties, Inc. to Salbian Realty Co., Inc., securing a note of even date therewith in the principal amount of \$5,000,000, recorded in the Register's Office on July 28, 1971 in Reel 212, Page 814;

(y) Mortgage ("Mortgage 25"), dated July 18, 1972, from Siltan Development Corp. and Mathilde Rauch to Irving Trust Company, securing a note of even date therewith in the principal amount of \$1,514,390.19, recorded in the Register's Office on July 21, 1972 in Reel 247, Page 639;

(z) Mortgage ("Mortgage 26"), dated August 11, 1975, from Siltan Development Corp. and Mathilde Rauch to Tishman Realty & Construction Co., Inc., securing a note of even date therewith in the principal amount of \$675,000, recorded in the Register's Office on August 15, 1975 in Reel 348, Page 1342.

(aa) Building Loan Mortgage ("Mortgage 27"), dated as of November 24, 1980, executed by Kenvic Associates ("Kenvic"), Arnold J. Rabinor and Marvin B. Tepper to The Chase Manhattan Bank (National Association) ("Chase"), securing a note of even date therewith in the principal amount of \$3,165,000, recorded in the Register's Office on November 26, 1980, in Reel 545, Page 905;

(bb) Building Loan Mortgage ("Mortgage 28"), dated as of March 3, 1981, executed by Kenvic to Chase, securing a note of even date therewith in the principal

amount of \$2,500,000, recorded in the Register's Office on March 12, 1981, in Reel 558, Page 413;

(cc) Building Loan Mortgage ("Mortgage 29"), dated as of March 25, 1981, executed by Kenvic and 875 Third Associates ("875") to Chase, securing a note of even date therewith in the principal amount of \$38,660,000, recorded in the Register's Office on April 2, 1981, in Reel 560, page 1577;

(dd) Building Loan Mortgage ("Mortgage 30"), dated as of March 25, 1981, executed by Kenvic and 875 to Chase, securing a note of even date therewith in the principal amount of \$14,000,000, recorded in the Register's Office on April 2, 1981, in Reel 560, Page 1527;

(ee) Building Loan Mortgage ("Mortgage 31"), dated as of March 25, 1981, executed by Kenvic and 875 to Chase, securing a note of even date therewith in the principal amount of \$3,750,000, recorded in the Register's Office on April 2, 1981, in Reel 560, Page 1728;

(ff) Building Loan Mortgage ("Mortgage 32"), dated as of March 25, 1981, executed by 875 and Kenvic to Chase, securing a note of even date therewith in the principal amount of \$3,750,000, recorded in the Register's Office on April 2, 1981, in Reel 560, Page 1764;

(gg) Mortgage ("Mortgage 33"), dated as of September 2, 1982, executed by 875 and Kenvic to Chase, securing a note of even date therewith in the principal amount of \$12,000,000, recorded in the Register's Office on September 8, 1982, in Reel 637, Page 1657;

(hh) Mortgage ("Mortgage 34"), dated as of August 5, 1983, executed by 875 and Kenvic to Chase securing a note of even date therewith in the principal amount of \$2,000,000, recorded in the Register's Office on August 26, 1983, in Reel 712, Page 980;

(ii) Mortgage ("Mortgage 35"), dated as of October 5, 1983, executed by 875 and Kenvic to Chase, securing a note of even date therewith in the principal amount of \$925,000, recorded in the Register's Office on October 6, 1983, in Reel 724, Page 463;

(jj) Mortgage ("Mortgage 36"), dated as of November 28, 1983, executed by 875 and Kenvic to Chase,

securing a note of even date therewith in the principal amount of \$3,325,000, recorded in the Register's Office on December 5, 1983, in Reel 742, Page 150;

(kk) Mortgage ("Mortgage 37"), dated as of November 28, 1983, executed by 875 and Kenvic to Chase, securing a note of even date therewith in the principal amount of \$750,000, recorded in the Register's Office on December 5, 1983, in Reel 742, Page 122;

(ll) Mortgage ("Mortgage 38"), dated as of February 24, 1984, executed by 875 and Kenvic to Chase, securing a note of even date therewith in the principal amount of \$4,000,000, recorded in the Register's Office on February 27, 1984, in Reel 767, Page 1542; and

(mm) Mortgage ("Mortgage 39"), dated as of July 17, 1984, executed by Kenvic to John Hancock Mutual Life Insurance Company ("Hancock"), securing a note of even date therewith in the principal amount of \$13,000,000, recorded in the Register's Office on July 18, 1984, in Reel 814, Page 1248.

2. Assignments and Consolidations

(a) Mortgage 1 was assigned by Raymond A. Hasbrouck to Bankers Life Company pursuant to an Assignment, dated June 12, 1963, recorded in the Register's Office on August 5, 1963, in Liber 6196, Page 33;

(b) Mortgage 2 was assigned by Max M. Vas, Sam Wolf and Frances Wolf to Bankers Life Company pursuant to an Assignment, dated June 5, 1963, recorded in the Register's Office on August 5, 1963, in Liber 6196, Page 35;

(c) Mortgages 1, 2 and 3 were consolidated and extended by Agreement, dated July 31, 1963, between Samuel Gruber and Bankers Life Company, recorded in the Register's Office on August 12, 1963, in Liber 6198, Page 189;

(d) Mortgage 4 was assigned by Cortelyou Realty Corporation to C.B.B. Realty Corp., by Assignment, dated April 3, 1970, recorded in the Register's Office on April 22, 1970, in Reel 171, Page 1461;

(e) Mortgages 1, 2 and 3, as consolidated and extended, were assigned by Bankers Life Company to Irving Trust Company, pursuant to an Assignment, dated July 13, 1972, recorded in the Register's Office on July 21, 1972, in Reel 247, Page 690;

(f) Mortgage 4 was assigned by C.B.B. Realty Corp. to Irving Trust Company by Assignment, dated July 13, 1972, recorded in the Register's Office on July 21, 1972, in Reel 247, Page 697;

(g) Mortgage 5 was assigned by David Fischhoff to William Fastenberg pursuant to Assignment, dated December 16, 1959, recorded in the Register's Office on December 17, 1959, in Liber 5866, Page 426;

(h) Mortgage 5 was assigned by William Fastenberg to Edward Breger pursuant to Assignment, dated December 17, 1969, recorded in the Register's Office on December 29, 1969, in Reel 161, Page 394;

(i) Mortgage 5 was assigned by Edward E. Breger to Irving Trust Company pursuant to Assignment, dated July 15, 1972, recorded in the Register's Office on July 21, 1972, in Reel 247, Page 652;

(j) Mortgage 6 was assigned by Hester M. Walsh to Irving Trust Company pursuant to Assignment, dated June 26, 1972, recorded in the Register's Office on July 21, 1972, in Reel 247, Page 654;

(k) Mortgages 7 and 8 were consolidated, extended and modified by Agreement, dated June 12, 1958, between Broadway Savings Bank and Joseph Renkel, Inc. and recorded in the Register's Office on June 13, 1958, in Liber 5753, Page 625;

(l) Mortgages 7 and 8, as consolidated, extended and modified, were assigned by Broadway Savings Bank to Phoenix Mutual, pursuant to Assignment dated March 9, 1962, recorded in the Register's Office on March 15, 1962, in Liber 6039, Page 8;

(m) Mortgages 7, 8 and 9 were consolidated by the terms of Mortgage 9;

(n) Mortgages 7, 8, 9 and 10 were consolidated by the terms of Mortgage 10;

(o) Mortgages 7, 8, 9 and 10 were assigned by Phoenix Mutual to Irving Trust Company by Assignment, dated July 6, 1972 and recorded in the Register's Office on July 21, 1972, in Reel 247, Page 648;

(p) Mortgage 11 was assigned by Sutton Associates to Irving Trust Company, pursuant to Assignment dated July 14, 1972 and recorded in the Register's Office on July 21, 1972, in Reel 247, Page 680;

(q) Mortgage 12 was assigned by Maybelle Stolitzky, Samuel L. Stolitzky and Nathaniel Seligman, as Trustees, to Woman's Division, pursuant to Assignment, dated May 15, 1956 and recorded in the Register's Office on May 18, 1956, in Liber 5617, Page 199;

(r) Mortgages 12 and 13 were consolidated by Agreement, dated May 16, 1956, between Woman's Division and J.K.F. Realty Corporation, and recorded in the Register's Office on May 18, 1956, in Liber 5617, Page 220;

(s) Mortgages 12 and 13, as consolidated, were assigned by Woman's Division to Phoenix Mutual, pursuant to Assignment, dated December 29, 1960 and recorded in the Register's Office on January 30, 1961, in Liber 5947, Page 495;

(t) Mortgages 12, 13 and 14 were consolidated and extended by the terms of Mortgage 14;

(u) Mortgages 12, 13 and 14 were assigned by Phoenix Mutual to Irving Trust Company pursuant to Assignment, dated July 11, 1972 and recorded in the Register's Office on July 24, 1972, in Reel 247, Page 905;

(v) Mortgage 15 was assigned by Theresa White to American Irving, pursuant to Assignment dated February 2, 1959 and recorded in the Register's Office on February 16, 1959, in Liber 5804, Page 331;

(w) Mortgages 15 and 16 were consolidated by Agreement, dated February 11, 1959, between Joseph Lesawyer, William H. McCarthy and American Irving and recorded in the Register's Office on February 25, 1959, in Liber 5806, Page 287;

(x) Mortgages 15 and 16 were assigned by American Savings Bank (successor in interest to American

Irving) to American Bank & Trust Company pursuant to Assignment, dated February 5, 1969 and recorded in the Register's Office on February 17, 1969, in Reel 131, Page 432;

(y) Mortgages 15, 16, and 17 were consolidated by Agreement, dated February 13, 1969, between Wideningyre and American Bank and Trust Company and recorded in the Register's Office on February 17, 1969, in Reel 131, Page 434;

(z) Mortgages 15, 16 and 17 were assigned by American Bank & Trust Company to Madison Associates pursuant to Assignment dated August 20, 1970 and recorded in the Register's Office on August 24, 1970, in Reel 182, Page 586;

(aa) Mortgages 15, 16 and 17 were assigned by Madison Associates to Irving Trust Company pursuant to Assignment dated July 18, 1972 and recorded in the Register's Office on July 21, 1972, in Reel 247, Page 662;

(bb) Mortgage 19 was assigned by Leckerling to Irving Trust Company by Assignment, dated June 13, 1972 and recorded in the Register's Office on July 21, 1972, in Reel 247, Page 707;

(cc) Mortgages 18 and 20 were consolidated by Agreement, dated November 16, 1962, between Chemical and Montclair Leasing Corp. and recorded in the Register's Office on December 10, 1962, in Liber 6116, Page 115;

(dd) Mortgages 18 and 20 were assigned by Chemical to Comptroller of the State of New York, as Trustee of the New York State Employees' Retirement System ("Comptroller") pursuant to Assignment, dated January 28, 1963 and recorded in the Register's Office on February 1, 1963, in Liber 6136, Page 73;

(ee) Mortgages 18 and 20 were modified by Extension Agreement, dated January 31, 1963, between the Comptroller and Montclair Leasing Corp., recorded in the Register's Office on February 4, 1963, in Liber 6136, Page 240;

(ff) Mortgages 18 and 20 were assigned by the Comptroller to Irving Trust Company, pursuant to Assign-

ment, dated July 19, 1972 and recorded in the Register's Office on July 21, 1972, in Reel 247, Page 637;

(gg) Mortgages 22 and 23 were consolidated pursuant to Agreement, dated January 21, 1963, between 937 Madison Ave. Corp. and The Amalgamated Bank, recorded in the Register's Office on January 22, 1963, in Liber 6131, Page 269;

(hh) Mortgages 22 and 23 were assigned by The Amalgamated Bank to Board of National Missions of the United Presbyterian Church In The United States of America ("National Missions"), pursuant to Assignment, dated March 26, 1968 and recorded in the Register's Office on March 29, 1968, in Liber 290, Page 23;

(ii) Mortgages 22 and 23 were extended by Agreement, dated March 28, 1968, between National Missions and 937 Madison Ave. Corp., recorded in the Register's Office on March 29, 1968, in Liber 290, Page 25;

(jj) Mortgages 22 and 23 were assigned by National Missions to Roggen and Baron pursuant to Assignment, dated January 18, 1972 and recorded in the Register's Office on January 31, 1972, in Reel 230, Page 424;

(kk) Mortgages 21, 22 and 23 were consolidated by the terms of Mortgage 21.

(ll) Mortgages 21, 22 and 23 were assigned by Roggen and Baron to Irving Trust Company pursuant to Assignment, dated June 30, 1972 and recorded in the Register's Office on July 21, 1972, in Reel 247, Page 695;

(mm) Mortgage 24 was assigned by Salbian Realty Co., Inc. to Irving Trust Company pursuant to Assignment, dated July 18, 1972 and recorded in the Register's Office on July 21, 1972, in Reel 247, Page 660;

(nn) Mortgages 1 through 25, inclusive, were consolidated by the terms of Mortgage 25;

(oo) Mortgages 1 through 25, inclusive, were modified by Agreement, dated April 1, 1975, between Mathilde Rauch, Siltan Development Corp. and Irving Trust Company, recorded in the Register's Office on April 24, 1975, in Reel 340, Page 496;

(pp) Mortgages 1 through 25, inclusive, were modified by Agreement, dated April 1, 1979, between Irving Trust Company and Gladwater Associates, Kenvic, Arnold Rabinor and Marvin B. Tepper, recorded in the Register's Office on February 21, 1980, in Reel 514, Page 1801;

(qq) Mortgages 1 through 25, inclusive, were assigned by Irving Trust Company to Chase, pursuant to Assignment, dated March 26, 1981, recorded in the Register's Office on April 2, 1981, in Reel 560, Page 1563;

(rr) Mortgage 26 was assigned by Tishman Realty & Construction Co., Inc. to Teeco Properties L.P. pursuant to Assignment, dated September 30, 1978, recorded in the Register's Office on October 24, 1978, in Reel 457, Page 1647;

(ss) Mortgage 26 was assigned by Teeco Properties L.P. to Kenneth Gladstone pursuant to Assignment, dated January 7, 1980, recorded in the Register's Office on January 16, 1980, in Reel 510, Page 958;

(tt) Mortgage 26 was assigned by Kenneth Gladstone to Chase, pursuant to Assignment, dated March 25, 1981, recorded in the Register's Office on April 2, 1981, in Reel 560, Page 1575;

(uu) Mortgages 1 through 29, inclusive, were consolidated, modified, spread, assumed and subordinated by Consolidation, Modification, Spreader, Assumption and Subordination Agreement, dated March 25, 1981, between Kenvic, 875 and Chase, recorded in the Register's Office on April 2, 1981, in Reel 560, Page 1613;

(vv) Mortgages 1 through 38, inclusive, were released and discharged, solely in part, by two separate Partial Releases of Mortgage, dated as of July 17, 1984 and executed by Chase, recorded in the Register's Office on July 18, 1984, in Reel 814, Page 1146 and Reel 814, Page 1160;

(ww) Mortgages 1 through 38, inclusive, were assigned by Chase to Hancock, pursuant to Assignment, dated July 17, 1984, and recorded in the Register's Office on July 18, 1984, in Reel 814, Page 1235; and

(xx) Mortgages 1 through 39, inclusive, were consolidated, extended, spread and modified by Consolidation, Extension, Spreader and Modification Agreement, dated as of July 17, 1984, between Kenvic and Hancock, recorded in the Register's Office on July 18, 1984, in Reel 814, Page 1255.

SCHEDULE C

Permitted Encumbrances

1. Reservations contained in Easement for Light, Air and View, dated January 23, 1981, by and between The Salvation Army, Kenvic Associates, Arnold J. Rabinor and Marvin B. Tepper, recorded in the Register's Office in Reel 555 at page 1233.
2. Reservations contained in Easement for Light and Air, dated January 7, 1981, by Kenvic Associates, Arnold J. Rabinor and Marvin B. Tepper, recorded in the Register's Office in Reel 555 at page 1245.
3. Reservations contained in Easement for Light and Air, dated January 5, 1981, by Kenvic Associates, Arnold J. Rabinor and Marvin B. Tepper, recorded in the Register's Office in Reel 558 at page 460.
4. Declaration of Zoning Lot Restrictions, dated January 7, 1981 made by Kenvic Associates, Arnold J. Rabinor, Marvin B. Tepper and Kenneth Gladstone, recorded in the Register's Office in Reel 552 at page 737.
5. Declaration, dated January 7, 1981, made by F.E.G. Realty Corp., recorded in the Register's Office in Reel 556 at page 539.
6. Declaration dated January 7, 1981, made by Kenvic Associates, Arnold J. Rabinor, Marvin B. Tepper and Kenneth Gladstone, recorded in the Register's Office in Reel 556 at page 541 and in Reel 556 at page 1281, as modified by Modification to Declaration, dated as of June 14, 1982, between Kenvic Associates and 875 Third Associates recorded in the Register's Office in Reel 653 at page 1315, as further modified by Second Modification to Declaration, dated as of December 7, 1983, between Kenvic Associates and 875 Third Associates recorded in the Register's Office in Reel 745 at page 533.
7. Matters shown on Survey made by Earl B. Lovell -S.P. Beicher, Inc., dated June 22, 1983, as amended through April 1, 1988.

SCHEDULE D

Description of Corner Parcel

ALL that certain plot, piece or parcel of land, situate, lying and being in the Borough of Manhattan, City and State of New York, bounded and described as follows:

BEGINNING at the corner formed by the intersection of the Easterly line of Third Avenue with the Southerly line of East 53rd Street; running thence

EASTERLY along the Southerly line of East 53rd Street, 80 feet 0 inches; thence

SOUTHERLY parallel with the Easterly line of Third Avenue, 80 feet 5 inches; thence

WESTERLY parallel with the Southerly line of East 53rd Street, 80 feet 0 inches to a point in the Easterly line of Third Avenue; thence

NORTHERLY along the Easterly line of Third Avenue, 80 feet 5 inches to the point or place of BEGINNING.

KENVIC ASSOCIATES

9.75% Secured Note

\$180,000,000

New York, New York
May 12, 1988

FOR VALUE RECEIVED, KENVIC ASSOCIATES (the "Maker"), a general partnership formed under the laws of the State of New York, promises to pay to JOHN HANCOCK MUTUAL LIFE INSURANCE COMPANY (the "Payee") or order, the principal sum of ONE HUNDRED AND EIGHTY MILLION dollars (\$180,000,000) with interest (computed on the basis of a 360-day year of twelve 30-day months) on the unpaid balance of such principal amount from the date hereof (i) so long as no Event of

Default (as defined in the Mortgage referred to below) shall have occurred and be continuing, at the rate of nine and seventy-five one-hundredths per centum (9.75%) per annum, and (ii) after such an Event of Default shall have occurred

--
and while it be continuing, at the rate of fourteen and seventy-five one-hundredths per centum (14.75%) per annum, until such principal amount shall become due and payable (whether at maturity or on a date fixed for any installment payment or any prepayment or by declaration or acceleration or otherwise), payable in installments as provided below, and with interest on any overdue principal (whether during a grace period, if any, or otherwise) (including any overdue prepayment of principal) and premium, if any, and (to the extent permitted under applicable law) on any overdue interest (whether during a grace period, if any, or otherwise), at the rate of fourteen and seventy-five one-hundredths per centum (14.75%) per annum until paid, payable as provided below or, at the option of the holder hereof, on demand.

Payments of principal, premium, if any, and interest in respect of this Note shall be made in lawful money of the United States of America at the home office of the above-named Payee at John Hancock Place, P.O. Box 111, Boston, Massachusetts 02117, or at such other place within the United States as the holder hereof shall have designated to the Maker in writing.

This Note shall be payable (i) in one installment of interest only on June 1, 1988 consisting of in-

terest for the period from May 12, 1988 to and including May 31, 1988 and (ii)

in 60 monthly installments of interest only on the first day of each calendar month commencing July 1, 1988, each such installment to be in the amount of \$1,462,500, and (iii) in 60 monthly installments of combined principal and

interest on the first day of each calendar month commencing July 1, 1993, each of the first 59 of such installments to be in the amount of \$1,546,500 and to be applied, first, to the payment of interest accrued on the unpaid principal amount hereof to the due date of such installment and, then, to the reduction of such unpaid principal amount, and the final installment, due on June 1, 1998, to be in an amount sufficient to pay the entire unpaid principal amount hereof, together with all interest accrued thereon.

This Note evidences the same indebtedness that has been evidenced and secured by the notes and mortgages defined, respectively, as the "Existing Notes" and the "Existing Mortgages" in the Consolidation, Extension and Modification Agreement, dated as of May 11, 1988, between the Maker and the Payee (the "Consolidation Agreement"). The Existing Notes and the Existing Mortgages were consolidated, extended and modified by the Consolidation Agreement, and this Note does not represent any additional indebtedness other than the indebtedness which is included or under any contingency may be secured by the Existing Notes.

The holder of this Note is entitled to the benefits of the security provided for in the Existing Mortgages, as so consolidated, extended and modified (collectively, the "Mortgage"), and to which reference is made for a description of the properties and rights included in such security, the nature of such security and the rights of the holder of this Note and the Maker in respect of such security. The holder of this Note may enforce the agreements of the Maker contained in the Mortgage and the Consolidation Agreement and exercise the remedies provided for thereby or otherwise in respect thereof, all in accordance with the terms thereof.

On June 1, 1993 and on any day thereafter, upon not less than 30 nor more than 60 days prior written notice to Payee, Maker may, at its option, prepay the entire (but not less than the entire) aggregate principal of this Note at the time outstanding, at the principal amount so prepaid, together with unpaid interest on this

Note accrued to the date of such prepayment plus a premium equal to the greater of

- (i) the product obtained by multiplying (x) the difference obtained by subtracting from 9.75% the yield rate on United States Treasury Notes due on or about the maturity date of the Notes as such yield rate is reported in The Wall Street Journal or other similar publication on the fifth business day preceding the prepayment date or, if no yield rate on United States Treasury Notes is obtainable, at the yield rate of the issue most closely equivalent to United States Treasury Notes, as determined by Payee in its sole discretion and (y) the number of years and fraction thereof remaining from the prepayment date to the scheduled maturity date of this Note, and (z) the amount of the prepaid principal balance; and
- (ii) 1% of the amount of the prepaid principal balance.

In addition, on January 15, 1998 and on any day thereafter, upon not less than 30 days prior written notice and on the condition that Maker is not at the time of such notice or at any time thereafter in default under this Note or the Mortgage, Maker may prepay the entire (but not less than the entire) aggregate principal of this Note at the time outstanding, at the principal amount so prepaid, together with unpaid interest on this Note accrued to the date fixed for such prepayment, without premium.

The entire unpaid and outstanding aggregate principal amount of this Note shall mature and become due and payable on the date fixed for prepayment, together with the applicable premium and interest accrued on such date, except that any notice of prepayment given by Maker may be withdrawn by Maker provided that (i) no withdrawal of prepayment notice has been made during the preceding 24 months and (ii) all costs and expenses of Maker and Payee incurred in connection with such notice of prepayment and such withdrawal, including without limitation, attorneys' fees, shall have been paid in full and indemnified against by Maker. Except as specifically set forth in this Note and in Section 1.05 and Article 3 of the Mortgage, this Note may not be prepaid in whole or in part.

In case an Event of Default as described in subdivisions (h) and (i) of paragraph (A) of section 5.01 of the Mortgage shall occur, the unpaid balance of the principal of this Note shall automatically become immediately due and payable in the manner and with the effect provided in the Mortgage. In case an Event of Default as described in subdivision (a) through (g) or (j) through (n) of paragraph (A) of Section 5.01 of the Mortgage shall occur, the unpaid balance of the principal of this Note may be declared and become due and payable in the manner and with the effect provided in the Mortgage.

The undersigned waives presentment, protest and demand, notice of protest, demand and dishonor and nonpayment of this Note and agrees to pay all costs of collection when incurred, including attorneys' fees, and to perform and comply with each of the covenants, conditions, provisions and agreements contained in every instrument now evidencing or securing said indebtedness. No extension of the time for the payment of this Note or any installment thereof made by agreement with any person now or hereafter liable for the payment of this Note shall operate to release, discharge, modify, change or affect the undersigned's liability under this Note, either in whole or in part, unless the undersigned shall be a party to such agreement.

All obligations to pay real property or other taxes, assessments, insurance premiums, impositions and all other charges or fees relating to or arising from the ownership, operation or occupancy of the Mortgaged Premises shall be the sole responsibility of Maker.

In any action brought to enforce the obligation of Maker to pay the indebtedness evidenced by this Note or the premium, if any, or interest thereon or to enforce the obligations of a party executing the Consolidation Agreement to pay any indebtedness or obligation created or arising under the Consolidation Agreement, the Mortgage or this Note, or, unless otherwise provided therein, any other instrument securing this Note, the judgment or decree shall be enforceable against such party only to the extent of its interest in the property covered by the Mortgage or subject to any other security instrument securing this Note and the income therefrom, and any such judgment shall not be subject to execution on, nor be a lien on, assets of such party other than its interest in

the property covered by the Mortgage or subject to any other security instrument securing this Note.

This Note shall be governed and construed by the laws of the State of New York, the situs of the Mortgaged Premises. Notwithstanding any provision contained herein, or in any instrument now or hereafter securing the indebtedness evidenced hereby, Maker's total liability for payments in the nature of interest shall not exceed the limits now imposed by the usury laws of the

State of New York or by exceptions thereto or exemptions therefrom.

IN WITNESS WHEREOF, this Note has been duly executed by Maker hereof.

KENVIC ASSOCIATES, A NEW YORK
GENERAL PARTNERSHIP

By: Gladwater Associates, a
New York Limited Partnership,
as a General Partner of
Kenvic Associates

By _____
Kenneth Gladstone,
as a General Partner of
Gladwater Associates

By _____
Lucille Gladstone,
as a General Partner of
Gladwater Associates

By: Vic Associates, a New York
Limited Partnership, as a
General Partner of Kenvic
Associates

[Corporate Seal]

By General Chemical and
Supply Co., Inc. as a
General Partner of
Vic Associates

Attest:

By: _____ By: _____
Name: Edwin H. Baker
Title: President

Address of Maker: 875 Third Avenue,
New York, New York

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STATE OF NEW YORK)
 : ss.:
COUNTY OF NEW YORK)

On this day of May, 1988, before me personally came Kenneth Gladstone and Lucille Gladstone, to me known to be the persons who executed the foregoing instrument, and who, being duly sworn by me, did depose and say that they are the General Partners of Gladwater Associates, a Limited Partnership duly organized under the laws of the State of New York, having its principal place of business at 875 Third Avenue, New York, New York 10022; that said Limited Partnership is a General Partner of KENVIC ASSOCIATES, a General Partnership duly organized under the laws of the State of New York, having its principal place of business at 875 Third Avenue, New York, New York 10022; and that they have authority to sign the foregoing instrument in the firm name of Gladwater Associates, as a General Partner of, and for and in behalf of, KENVIC ASSOCIATES, and they acknowledged to me that they executed the same as the act and deed of said firms for the uses and purposes therein mentioned.

 /s/ Teresa G. Bush

 Notary Public

[Notarial Seal]

 TERESA G. BUSH
 Notary Public, State of New York
 No. 31-4872336
 Qualified in New York County
 Commission Expires December 29, 1988

STATE OF NEW YORK)
 : ss.:
COUNTY OF NEW YORK)

On this day of May, 1988, before me personally came Edwin H. Baker, to me known, and who, being duly sworn by me, did depose and say that he resides at [illegible]; that he is the President of General Chemical and Supply Co., Inc., a [illegible] corporation, the General Partner of Vic Associates, a Limited Partnership duly organized under the laws of the State of New York; having its principal place of business at [illegible]; that Vic Associates is a General Partner of KENVIC ASSOCIATES, a General Partnership duly organized under the laws of the State of New York, having its principal place of business at 875 Third Avenue, New York, New York 10022; that General Chemical and Supply Co., Inc., acting as a General Partner of, and for and in behalf of, Vic Associates, acting as a General Partner of, and for and in behalf of, KENVIC ASSOCIATES executed the foregoing instrument as the act and deed of said firms for the uses and purposes therein mentioned.

/s/ Teresa G. Bush

Notary Public

[Notarial Seal]

TERESA G. BUSH
Notary Public, State of New York
No.31-4872338
Qualified in New York County
Commission Expires December 29, 1988

COMMONWEALTH OF MASSACHUSETTS)
 : ss.:
COUNTY OF SUFFOLK)

On this 9TH day of May, 1988, before me personally came ROBERT E. LETHAM, to me known to be the person who executed the foregoing instrument, and who, being duly sworn by me, did depose and say that he resides at 58 Essex St. Weymouth, MA. 02188; that he is JOHN HANCOCK MUTUAL LIFE INSURANCE COMPANY, the corporation described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the Board of Directors of said corporation, and that he signed his name thereto by like order.

 /s/ Marie C. O'Brien

 Notary Public

[Notarial Seal]

?????? Investment

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KENVIC ASSOCIATES,

Mortgagor,

and

JOHN HANCOCK MUTUAL LIFE INSURANCE COMPANY,

Mortgagee.

CONSOLIDATION, EXTENSION
AND MODIFICATION AGREEMENT

Dated as of May 11, 1988

This instrument affects real and personal property situated in the State of New York, in Section 5, Block 1326, Lots 1, 7 Air Rights, and Air Rights 41 on the Tax Map of the County of New York and easement rights over Lots 45 and 47 and said Tax Map.

=====

RECORD AND RETURN TO:

Peter R. Schwartz, Esq.
Debevoise & Plimpton
875 Third Avenue
New York, New York 10022

MODIFICATION AGREEMENT

THIS AGREEMENT made as of the 30th day of May, 1990, by and between KENVIC ASSOCIATES ("Mortgagor"), a New York general partnership having its principal office and place of business at 875 Third Avenue, New York, New York 10022 and JOHN HANCOCK MUTUAL LIFE INSURANCE COMPANY ("Mortgagee"), a Massachusetts corporation having its principal office at John Hancock Place, Post Office Box 111, Boston, Massachusetts 02117, Attention: City Mortgage and Real Estate Department.

W I T N E S S E T H T H A T:
- - - - -

WHEREAS, Mortgagor is on the date of delivery hereof the owner of fee title to the premises described in Schedule A hereto, including the Declarations, Declaration of Zoning Lot Restrictions, and the easements more particularly described in such Schedule A (collectively, the "LAND");

WHEREAS, Mortgagor is on the date of delivery hereof the owner of the fee interest in all buildings, structures, and other improvements now or hereafter located on the Land; and

WHEREAS, Mortgagee is on the date of delivery hereof the owner and holder of those certain mortgages more particularly described in the Consolidation, Extension and Modification Agreement (the "Consolidation Agreement"), dated as of May 11, 1988, between Mortgagor and Mortgagee and recorded in the Office of the Register of the City of New York (the "Register's Office") on May 18, 1988 in Reel 1403 at page 1793, which mortgages were consolidated pursuant to the Consolidation Agreement so as to constitute a single first lien on the property described therein in the amount of \$180,000,000; and

WHEREAS, Mortgagor and Mortgagee desire to modify the Consolidation Agreement in the manner herein set forth;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, Mortgagor agrees with Mortgagee as follows:

1. Modification of Section 2.10.2 The first sentence of Section

2.10.2 of the Consolidation Agreement is deleted in its entirety and the following is substituted in lieu thereof:

Promptly upon the expiration or earlier termination of the lease noted in Memorandum of Lease from Rosa A. Cordes and Henry G. Barteld to 873 Third Avenue Corp., dated May 6, 1959, recorded in the Register's Office in Liber 5076 at page 302, in respect of the land and buildings (the "Existing Buildings") located on the parcel of land more particularly described in Schedule D hereto (the "Corner Parcel"), Mortgagor will at its own expense commence and promptly and diligently prosecute to completion, demolition of the Existing Buildings and will thereafter construct, develop and complete on such Corner Parcel, a new structure (the "Building Addition"), all as provided in and in accordance with the terms of the Declaration, dated January 7, 1981, made by Kenvic Associates, Arnold J. Rabinor, Marvin B. Tepper and Kenneth Gladstone, recorded in the Register's Office in Reel 556 at page 541 and in Reel 556 at page 1281, as modified by Modification of Declaration, dated as of June 14, 1982, between Kenvic Associates and 875 Third Associates, recorded in the Register's Office in Reel 653 at page 1315, as further modified by Second Modification to Declaration, dated as of December 7, 1983, between Kenvic Associates and 875 Third Associates, recorded in the Register's Office in Reel 745 at page 533 and as further modified by Third Modification to Declaration, dated as of May 30, 1990, by Kenvic Associates, to be recorded in the Register's Office immediately prior to the recordation of the Modification Agreement (the "Modification Agreement"), dated as of May 30, 1990, between Mortgagor and Mortgagee, as such Declaration may be further amended from time to time subsequent to the date of the Modification Agreement with the consent of the City of New York and Mortgagee, which consent will not be unreasonably withheld by Mortgagee (said Declaration, as amended and hereinafter amended from time to time

in accordance with the terms hereof, is herein referred to as the "Special Permit Declaration").

2. Modification of Section 2.18. Section 2.18 of the Consolidation

Agreement is hereby amended by inserting, immediately after the phrase "as party to the Declaration of Zoning Lot Restrictions, dated January 7, 1981, made by Mortgagor, Arnold J. Rabinor, Marvin B. Tepper and Kenneth Gladstone, recorded in the Register's Office in Reel 552 at page 737" and before the phrase "(the "Zoning Declaration")", the following:

" , as such Declaration of Zoning Lot Restrictions may be modified and amended from time to time subsequent to the date hereof with the consent of Mortgagee and, if required, the City of New York"

Section 2.18 of the Consolidation Agreement is further amended by inserting, immediately after the phrase "as party to the Agreement, dated as of December 6, 1982, entered into among Mortgagor, 875 Third Associates, the New York City Transit Authority and The Chase Manhattan Bank, N.A." and before the phrase "("the Transit Authority Agreement")", the following:

" , as such Agreement may be modified and amended from time to time subsequent to the date hereof with the consent of the New York City Transit Authority and MORTGAGEE"

Section 2.18 of the Consolidation Agreement is further amended by inserting, immediately after the phrase "as holder of the special permit granted by the New York City Board of Estimate" and before the phrase "(the "Special Permit")", the following:

" , as such special permit may be modified and amended from time to time subsequent to the date hereof with the consent of the City of New York"

Section 2.18 of the Consolidation Agreement is further amended by inserting, immediately after the phrase "as declarant under the Declaration of Easement, dated as of July 17, 1984, made by Mortgagor and recorded in the Register's Office" and before the phrase "(the "Declaration of Easement")", the following:

", as such Declaration of Easement may be modified and amended from time to time subsequent to the date hereof with the consent of Mortgagee and, if required, the City of New York".

3. Modification of Schedule A. Item 6 of Schedule A, Parcel B, of

the Consolidation Agreement is hereby amended by deleting the period at the end thereof and inserting the following:

", as further modified by Third Modification to Declaration, dated as of May 30, 1990, by Kenvic Associates, to be recorded in the Register's Office, as such Declaration may be further amended from time to time with the consent of the City of New York and Mortgagee."

4. Representations and Warranties. The representations and

warranties contained in Sections 6.01, 6.02, 6.03, 6.04, 6.05, 6.06, 6.07, 6.11 and 6.12 of the Consolidation Agreement are hereby deemed modified so that all references therein to the Consolidation Agreement shall be deemed to refer to the Consolidation Agreement as modified by this Modification Agreement and Mortgagor hereby repeats and reaffirms such representations and warranties as of the date hereof.

5. Ratification. Except as herein expressly modified, the

Consolidation Agreement, and all terms, provisions and covenants thereof, are and shall remain in full force and effect and are hereby ratified and confirmed.

IN WITNESS WHEREOF, the parties hereto have caused this Modification Agreement to be duly executed as of the day and year first above written.

MORTGAGOR:

KENVIC ASSOCIATES, A NEW YORK
GENERAL PARTNERSHIP

By: Gladwater Associates, a New York
Limited Partnership, as a
General Partner of Kenvic
Associates

By/s/Kenneth Gladstone

Kenneth Gladstone,
as a General Partner
of Gladwater Associates

By/s/Lucille Gladstone

Lucille Gladstone,
as a General Partner
of Gladwater Associates

By: Vic Associates, a New York
Limited Partnership, as a General
Partner of Kenvic Associates

By General Chemical and Supply
Co., Inc., as General Partner
of Vic Associates

By/s/ Edwin H. Baker

Edwin H. Baker
President

MORTGAGEE:

[Corporate SEAL]

JOHN HANCOCK MUTUAL LIFE
INSURANCE COMPANY

Attest:

By /s/ Robert E. Latta

Title: Senior Mortgage Investment Officer

By /s/ Barry P. Sanborn

Assistant Secretary

SCHEDULE A

Description of Land

Parcel A

ALL that certain lot, piece or parcel of land, situate, lying and being in the Borough of Manhattan, City, County and State of New York, bounded and described as follows:

BEGINNING at the corner formed by the intersection of the easterly side of Third Avenue with the northerly side of East 52nd Street; running thence

NORTHERLY along the easterly line of Third Avenue, 120 feet 5 inches; thence

EASTERLY parallel with the northerly line of East 52nd Street, 80 feet 0 inches; thence

NORTHERLY parallel with the easterly line of Third Avenue, 80 feet 5 inches to a point in the southerly line of East 53rd Street; thence

EASTERLY along the southerly line of East 53rd Street, 100 feet 0 inches; thence

SOUTHERLY parallel with the easterly line of Third Avenue, 90 feet 0 inches; thence

WESTERLY parallel with the northerly line of East 52nd Street, 20 feet 0 inches; thence

SOUTHERLY parallel with the easterly line of Third Avenue, 110 feet 10 inches to a point in the northerly line of East 52nd Street; thence

WESTERLY along the northerly line of East 52nd Street, 160 feet 0 inches to the point or place of BEGINNING.

Parcel B

The rights, licenses, easements and privileges relating to the above-described parcels of Land which are and have been granted with respect thereto in the following instruments:

1. Easement for Light, Air and View, dated January 23, 1981, by and between The Salvation Army, Kenvic Associates, Arnold J. Rabinor and Marvin B. Tepper, recorded in the Register's Office in Reel 555 at page 1233, as such Easement may be further amended from time to time with the consent of Mortgagee and, if required, the City of New York.
2. Easement for Light and Air, dated January 7, 1981, by Kenvic Associates, Arnold J. Rabinor and Marvin B. Tepper, recorded in the Register's Office in Reel 555 at page 1245, as such Easement may be further amended from time to time with the consent of Mortgagee and, if required, the City of New York.
3. Easement for Light and Air, dated January 5, 1981, by Kenvic Associates, Arnold J. Rabinor and Marvin B. Tepper, recorded in the Register's Office in Reel 558 at page 460, as such Easement may be further amended from time to time with the consent of Mortgagee and, if required, the City of New York.
4. Declaration of Zoning Lot Restrictions, dated January 7, 1981, by Kenvic Associates, Arnold J. Rabinor, Marvin B. Tepper and Kenneth Gladstone, recorded in the Register's Office in Reel 552 at page 737, as such Declaration may be further amended from time to time with the consent of the City of New York and Mortgagee.
5. Declaration, dated January 7, 1981, made by F.E.G. Realty Corp., recorded in the Register's Office in Reel 556 at page 539, as such Declaration may be further amended from time to time with the consent of the City of New York and Mortgagee.
6. Declaration, dated January 7, 1981, made by Kenvic Associates, Arnold J. Rabinor, Marvin B. Tepper and Kenneth Gladstone, recorded in the Register's Office in Reel 556 at page 541 and in Reel 556 at page 1281, as modified by Modification to Declaration, dated as of June 14, 1982, between Kenvic Associates and 875

Third Associates recorded in the Register's Office in Reel 653 at page 1315, as further modified by Second Modification to Declaration, dated as of dated as of December 7, 1983, between Kenvic Associates and 875 Third Associates recorded in the Register's Office in Reel 745 at page 533, as further modified by Third Modification to Declaration, dated as of May 30, 1990, by Kenvic Associates, as such Declaration may be further amended from time to time with the consent of the City of New York and Mortgagee.

7. Declaration of Easement, dated July 17, 1984, made by Kenvic Associates, and recorded in the Register's Office on July 18, 1984 in Reel 814 at page 1202, as such Declaration of Easement may be further amended from time to time with the consent of Mortgagee and, if required, the City of New York.

SCHEDULE B

(a) Mortgage ("Mortgage 1"), dated May 1, 1961, executed by Tillie Feldman to Raymond A. Hasbrouck, securing a note of even date therewith in the principal amount of \$160,000, recorded in the Register's Office on May 17, 1961, in Liber 5971, Page 291, Mortgage Tax Paid \$800.00;

(b) Mortgage ("Mortgage 2"), dated October 3, 1961, executed by Montor Realty Corp. to Max M. Vas, Sam Wolf and Frances Wolf, securing a note of even date therewith in the principal amount of \$42,300, recorded in the Register's Office on October 5, 1961, in Liber 6002, Page 12, Mortgage Tax Paid \$291.50;

(c) Mortgage ("Mortgage 3"), dated July 31, 1963, executed by Samuel Gruber to Bankers Life Company, securing a note of even date therewith in the principal amount of \$64,100, recorded in the Register's Office on August 5, 1963, in Liber 6196, Page 37, Mortgage Tax Paid \$320.50;

(d) Mortgage ("Mortgage 4"), dated March 31, 1970, executed by C.B.B. Realty Corp. to Cortelyou Realty Corporation, securing a note of even date therewith in the principal amount of \$275,000, recorded in the Register's Office on March 31, 1970, in Reel 169, Page 1013, Mortgage Tax Paid \$2,062.50;

(e) Mortgage ("Mortgage 5"), dated December 16, 1959, from Drury Lane Equities, Inc. to David Fischhoff, securing a note of even date therewith in the principal amount of \$17,500, recorded in the Register's Office on December 17, 1959 in Mortgage Book 5866, Page 422, Mortgage Tax Paid \$87.50;

(f) Mortgage ("Mortgage 6"), dated March 30, 1970, from HMW Holding Corp. to Hester M. Walsh, securing a note of even date therewith in the principal amount of \$207,000, recorded in the Register's Office on March 31, 1970 in Reel 169, Page 879, Mortgage Tax Paid \$1,552.50;

(g) Mortgage ("Mortgage 7"), dated August 17, 1945, from Joseph Renkel, Inc. to Broadway Savings Bank, securing a bond of even date therewith in the principal amount of \$15,000, recorded in the Register's Office on August 18, 1945 in Liber 4762, Page 365, Mortgage Tax Paid \$75.00;

(h) Mortgage ("Mortgage 8"), dated June 12, 1958, from Joseph Renkel, Inc. to Broadway Savings Bank, securing a note of even date therewith in the principal amount of \$10,000, recorded in the Register's Office on June 13, 1958 in Mortgage Book 5753, Page 617, Mortgage Tax Paid \$50.00;

(i) Mortgage ("Mortgage 9"), dated March 12, 1962, from 216 E. 53rd Street Corp. to Phoenix Mutual Life Insurance Company ("Phoenix Mutual") securing a note of even date therewith in the principal amount of \$42,640, recorded in the Register's Office on March 15, 1962 in Liber 6039, Page 12, Mortgage Tax Paid \$213.00;

(j) Mortgage ("Mortgage 10"), dated July 14, 1964 from 216 E. 53rd Street Corp. to Phoenix Mutual, securing a note of even date therewith in the principal amount of \$10,000, recorded in the Register's Office on July 15, 1964 in Liber 6299, Page 8, Mortgage Tax Paid \$50.00;

(k) Mortgage ("Mortgage 11"), dated March 14, 1969, from East 53rd Street Corporation to Sutton Associates, securing a note of even date therewith in the principal amount of \$146,750, recorded in the Register's Office on March 18, 1969 in Reel 134, Page 413, Mortgage Tax Paid \$733.50;

(l) Mortgage ("Mortgage 12"), dated May 16, 1955, from J.K.F. Realty Corporation to Maybelle Stolzky, Samuel L. Stolzky and Nathaniel Seligman, as Trustees, securing a note of even date therewith in the principal amount of \$43,000, recorded in the Register's Office on May 17, 1955 in Liber 5541, Page 660, Mortgage Tax Paid \$215.00;

(m) Mortgage ("Mortgage 13"), dated May 16, 1956, from J.K.F. Realty Corporation to Woman's Division of Christian Service of the Board of Missions of the Methodist Church ("Woman's Division"), securing a note of even date therewith in the principal amount of \$7,000, recorded in the Register's Office on May 18, 1956 in Liber 5617, Page 216, Mortgage Tax Paid \$35.00;

(n) Mortgage ("Mortgage 14"), dated January 26, 1961, from 2187 8th Avenue Corp. ("2187 Corp.") to Phoenix Mutual, securing a note of even date therewith in the

principal amount of \$19,000, recorded in the Register's Office on January 30, 1961 in Liber 5947, Page 487, Mortgage Tax Paid \$95.00;

(o) Mortgage ("Mortgage 15"), dated May 4, 1956, from Sinne Realty Corporation ("Sinne") to Theresa White, securing a note of even date therewith in the principal amount of \$23,000, recorded in the Register's Office on May 8, 1956 in Liber 5615, Page 36, Mortgage Tax Paid \$115.00;

(p) Mortgage ("Mortgage 16"), dated February 11, 1959, from Joseph Lesawyer and William H. McCarthy to American Irving Savings Bank ("American Irving"), securing a note of even date therewith in the principal amount of \$14,000, recorded in the Register's Office on February 16, 1959 in Liber 5804, Page 326, Mortgage Tax Paid \$70.00;

(q) Mortgage ("Mortgage 17"), dated February 13, 1969, from Wideningyre Properties Corp. ("Wideningyre") to American Bank & Trust Company, securing a note of even date therewith in the principal amount of \$51,279.49 and recorded in the Register's Office on February 17, 1969 in Reel 131, Page 428, Mortgage Tax Paid \$256.50;

(r) Mortgage ("Mortgage 18"), dated May 27, 1960, from Rupeg Realty Corp. ("Rupeg") to Chemical Bank New York Trust Company ("Chemical"), securing a note of even date therewith in the principal amount of \$430,000 and recorded in the Register's Office on May 31, 1960 in Liber 5898, Page 548, Mortgage Tax Paid \$2,150.00;

(s) Mortgage ("Mortgage 19"), dated October 27, 1970, from Linguist Realty Corp. ("Linguist") to Edward W. Leckerling ("Leckerling"), securing a note of even date therewith in the principal amount of \$535,000 and recorded in the Register's Office on November 2, 1970 in Reel 187, Page 817, Mortgage Tax Paid \$4,012.50;

(t) Mortgage ("Mortgage 20"), dated November 16, 1962, from Montclair Leasing Corp. ("Montclair") to Chemical, securing a note of even date therewith in the principal amount of \$292,500 and recorded in the Register's Office on November 23, 1962 in Liber 6110, Page 462, Mortgage Tax Paid \$1,462.50;

(u) Mortgage ("Mortgage 21"), dated January 20, 1972, from Dorell Properties, Inc. to Jack D. Roggen ("Roggen") and Ruth Baron ("Baron"), securing a note of even date therewith in the principal amount of \$560,619.64, and recorded in the Register's Office on January 21, 1972 in Reel 229, Page 1244, Mortgage Tax Paid \$7,007.50;

(v) Mortgage ("Mortgage 22"), dated December 20, 1957, from 937 Madison Ave. Corp. to The Amalgamated Bank of New York ("The Amalgamated Bank"), securing a note of even date therewith in the principal amount of \$30,000, recorded in the Register's Office on December 23, 1957 in Liber 5722, Page 18, Mortgage Tax Paid \$150.00;

(w) Mortgage ("Mortgage 23"), dated January 21, 1963, from 937 Madison Ave. Corp. to The Amalgamated Bank, securing a note of even date therewith in the principal amount of \$18,934.52, recorded in the Register's Office on January 22, 1963 in Liber 6131, Page 263, Mortgage Tax Paid \$94.50;

(x) Mortgage ("Mortgage 24"), dated July 26, 1971, from Vertland Realty Corp., Reba Associates, Inc., Woas Properties Corp., JL 229 Corp., Portadown Corporation, Wideningyre Properties and Zalkay Properties, Inc. to Salbian Realty Co., Inc., securing a note of even date therewith in the principal amount of \$5,000,000, recorded in the Register's Office on July 28, 1971 in Reel 212, Page 814, Mortgage Tax Paid \$37,500.00;

(y) Mortgage ("Mortgage 25"), dated July 18, 1972, from Siltan Development Corp. and Mathilde Rauch to Irving Trust Company, securing a note of even date therewith in the principal amount of \$1,514,390.19, recorded in the Register's Office on July 21, 1972 in Reel 247, Page 639, Mortgage Tax Paid \$18,930.00;

(z) Mortgage ("Mortgage 26"), dated August 11, 1975, from Siltan Development Corp. and Mathilde Rauch to Tishman Realty & Construction Co., Inc., securing a note of even date therewith in the principal amount of \$675,000, recorded in the Register's Office on August 15, 1975 in Reel 348, Page 1342, Mortgage Tax Paid \$8,437.50;

(aa) Building Loan Mortgage ("Mortgage 27"), dated as of November 24, 1980, executed by Kenvic As-

sociates ("Kenvic"), Arnold J. Rabinor and Marvin B. Tepper to The Chase Manhattan Bank (National Association) ("Chase"), securing a note of even date therewith in the principal amount of \$3,165,000, recorded in the Register's Office on November 26, 1980, in Reel 545, Page 905, Mortgage Tax Paid \$47,475.00;

(bb) Building Loan Mortgage ("Mortgage 28"), dated as of March 3, 1981, executed by Kenvic to Chase, securing a note of even date therewith in the principal amount of \$2,500,000, recorded in the Register's Office on March 12, 1981, in Reel 558, Page 413, Mortgage Tax Paid \$37,500.00;

(cc) Building Loan Mortgage ("Mortgage 29"), dated as of March 25, 1981, executed by Kenvic and 875 Third Associates ("875") to Chase, securing a note of even date therewith in the principal amount of \$38,660,000, recorded in the Register's Office on April 2, 1981, in Reel 560, page 1577, Mortgage Tax Paid \$579,900.00;

(dd) Building Loan Mortgage ("Mortgage 30"), dated as of March 25, 1981, executed by Kenvic and 875 to Chase, securing a note of even date therewith in the principal amount of \$14,000,000, recorded in the Register's Office on April 2, 1981, in Reel 560, Page 1527, Mortgage Tax Paid \$210,000.00;

(ee) Building Loan Mortgage ("Mortgage 31"), dated as of March 25, 1981, executed by Kenvic and 875 to Chase, securing a note of even date therewith in the principal amount of \$3,750,000, recorded in the Register's Office on April 2, 1981, in Reel 560, Page 1728, Mortgage Tax Paid \$56,250.00;

(ff) Building Loan Mortgage ("Mortgage 32"), dated as of March 25, 1981, executed by 875 and Kenvic to Chase, securing a note of even date therewith in the principal amount of \$3,750,000, recorded in the Register's Office on April 2, 1981, in Reel 560, Page 1764, Mortgage Tax Paid \$56,250.00;

(gg) Mortgage ("Mortgage 33"), dated as of September 2, 1982, executed by 875 and Kenvic to Chase, securing a note of even date therewith in the principal amount of \$12,000,000, recorded in the Register's Office on September 8, 1982, in Reel 637, Page 1657, Mortgage Tax Paid \$270,000.00;

(hh) Mortgage ("Mortgage 34"), dated as of August 5, 1983, executed by 875 and Kenvic to Chase, securing a note of even date therewith in principal amount of \$2,000,000, recorded in the Register's Office on August 26, 1983, in Reel 712, Page 980, Mortgage Tax Paid \$45,000.00;

(ii) Mortgage ("Mortgage 35"), dated as of October 5, 1983, executed by 875 and Kenvic to Chase, securing a note of even date therewith in principal amount of \$925,000, recorded in the Register's Office on October 6, 1983, in Reel 724, Page 463, Mortgage Tax Paid \$20,812.50;

(jj) Mortgage ("Mortgage 36"), dated as of November 28, 1983, executed by 875 and Kenvic to Chase, securing a note of even date therewith in principal amount of \$3,325,000, recorded in the Register's Office on December 5, 1983, in Reel 742, Page 150, Mortgage Tax Paid \$74,812.50;

(kk) Mortgage ("Mortgage 37"), dated as of November 28, 1983, executed by 875 and Kenvic to Chase, securing a note of even date therewith in principal amount of \$750,000, recorded in the Register's Office on December 5, 1983, in Reel 742, Page 122, Mortgage Tax Paid \$16,875.00;

(ll) Mortgage ("Mortgage 38"), dated as of February 24, 1984, executed by 875 and Kenvic to Chase, securing a note of even date therewith in principal amount of \$4,000,000, recorded in the Register's Office on February 27, 1984, in Reel 767, Page 1542, Mortgage Tax Paid \$90,000.00;

(mm) Mortgage ("Mortgage 39"), dated as of July 17, 1984, executed by Kenvic to John Hancock Mutual Life Insurance Company ("Hancock"), securing a note of even date therewith in the principal amount of \$13,000,000, recorded in the Register's Office on July 18, 1984, in Reel 814, Page 1248, Mortgage Tax Paid \$292,500.00;

(nn) Mortgage ("Mortgage 40"), dated as of May 11, 1988, from Mortgagor to Hancock, securing a note dated May 12, 1988, in the original principal amount of \$71,339,564.68, recorded in the Register's Office on

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KENVIC ASSOCIATES,
Mortgagor,
and
JOHN HANCOCK MUTUAL LIFE INSURANCE COMPANY, Mortgagee.

CHICAGO TITLE INSURANCE COMPANY (3)

MODIFICATION AGREEMENT

Dated as of May 30, 1990

This instrument affects real and personal property situated in the State of New York, in Section 5, Block 1326, Lots '1, 7 and 41 on the Tax Map of the County of New York and easement rights over Lots 45 and 47 on said Tax Map.

RECORD AND RETURN TO:

Peter R. Schwartz, Esq.
Debevoise & Plimpton
875 Third Avenue
New York, New York 10022

STATE OF NEW YORK)
 : ss.:
COUNTY OF NEW YORK)

On this 31st day of May, 1990, before me personally came Edwin H. Baker, to me known, and who, being duly sworn by me, did depose and say that he resides at 21 Alta Lane Chafpaqua: that he is the President of General/Chemical and Supply Co., Inc., a Delaware corporation, the General Partner of Vic Associates, a Limited Partnership duly organized under the laws of the State of New York, having its principal place of business at Gordon Hurwitz Detowday, Clat, 101 Park Avenue, N.Y, N.Y 10178 ; that Vic Associates is a General Partner of KENVIC ASSOCIATES, a General Partnership duly organized under the laws of the State of New York, having its principal place of business at 875 Third Avenue, New York, New York 10022; that General Chemical and Supply Co., Inc., acting as a General Partner of, and in behalf of, Vic Associates, acting as a General Partner of, and for and in behalf of, KENVIC ASSOCIATES executed the foregoing instrument as the act and deed of said firms for the uses and purposes therein mentioned.

/s/ Stephen Helman

Notary Public

[Notarial Seal]

STEPHEN HELMAN
NOTARY PUBLIC, STATE OF NEW YORK
NO. 4735750
QUALIFIED IN QUEENS COUNTY
COMMISSION EXPIRES APRIL 30, 1991

STATE OF NEW YORK)
 : ss.:
COUNTY OF NEW YORK)

On this 31st day of May, 1990, before me personally came Kenneth Gladstone and Lucille Gladstone, to me known to be the persons who executed the foregoing instrument, and who, being duly sworn by me, did depose and say that they are the General Partners of Gladwater Associates, a Limited Partnership duly organized under the laws of the State of New York, having its principal place of business at 875 Third Avenue, New York, New York 10022; that said Limited Partnership is a General Partner of KENVIC ASSOCIATES, a General Partnership duly organized under the laws of the State of New York, having its principal place of business at 875 Third Avenue, New York, New York 10022; and that they have authority to sign the foregoing instrument in the firm name of Gladwater Associates, as a General Partner of, and for and in behalf of, KENVIC ASSOCIATES, and they acknowledged to me that they executed the same as the act and deed of said firms for the uses and purposes therein mentioned.

/s/ Ann V. Maschin

Notary Public

[Notarial Seal)

ANN V. MASCHIN
NOTARY PUBLIC, STATE OF NEW YORK
NO. 41-4953299
QUALIFIED IN QUEENS COUNTY
COMMISSION EXPIRES.....

COMMONWEALTH OF MASSACHUSETTS)
 : ss.:
COUNTY OF SUFFOLK)

On this 4th day of June, 1990, before me personally came Robert E. Latham, to me known to be the person who executed the foregoing instrument, and who, being duly sworn by me, did depose and say that he resides at 590 Essex Street, Weymouth, Massachusetts, that he is Senior Mortgage Investment Officer of JOHN HANCOCK MUTUAL LIFE INSURANCE COMPANY, the corporation described in which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the Board of Directors of said corporation, and that he signed his name thereto by like order.

/s/ Marie C. O'Brien

Notary Public

[Notarial Seal]

MARIE C. O'BRIEN, NOTARY PUBLIC
MY COMMISSION EXPIRES AUGUST 9, 1996

May 18, 1988, in Reel 1403 at Page 1779, Mortgage Tax Paid \$1,605,141.00; and

(00) All of the above mortgages numbered 1 to 40 inclusive were, pursuant to a Consolidation, Extension and Modification Agreement, dated as of May 11, 1988, between Kenvic Associates and Hancock, consolidated into one mortgage lien for \$180,000,000.00, recorded in the Register's office on May 18, 1988 in Reel 1403 at Page 1793.

NOTE AND MORTGAGE MODIFICATION AGREEMENT

NOTE AND MORTGAGE MODIFICATION AGREEMENT, dated as of July 23, 1992, between KENVIC ASSOCIATES ("Mortgagor"), a New York general partnership, having an address at 875 Third Avenue, New York, New York 10022, and JOHN HANCOCK MUTUAL LIFE INSURANCE COMPANY ("Mortgagee"), a Massachusetts corporation, having its principal office at John Hancock Place, Post Office Box 111, Boston, Massachusetts 02117, Attention: Mortgage Investments Department, T-53.

WITNESSETH THAT:

WHEREAS, Mortgagor is on the date of delivery hereof the owner of fee title to a parcel of land and the improvements thereon known as 875 Third Avenue, New York, New York and the easements appurtenant thereto, all as more particularly described in Schedule A hereto;

WHEREAS, Mortgagee is on the date hereof the owner and holder of the mortgages described in Schedule B hereto, which mortgages were consolidated, extended and modified pursuant to that certain Consolidation, Extension and Modification Agreement (the "Consolidation Agreement"), dated as of May 11, 1988, between Mortgagor and Mortgagee, recorded in the Office of the City Register, New York County, in Reel 1403, Page 1779, so as to form a single first lien in the amount of \$180,000,000, and were further modified pursuant to that certain Modification Agreement, dated as of May 30, 1990, between Mortgagor and Mortgagee, recorded on June 28, 1990 in the Office of the City Register, New York County, in Reel 1705, Page 1760;

WHEREAS, the Mortgage (as such term is defined in the Consolidation Agreement) secures, among other things, the payment of the principal of and premium, if any, and interest on the Notes (as such term is defined in the Consolidation Agreement) in accordance with the terms of the Notes and the Mortgage; and

WHEREAS, Mortgagor and Mortgagee desire to modify the terms for the payment of the principal of and interest on the Notes as set forth herein.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby

acknowledged, Mortgagor and Mortgagee hereby agree as follows:

1. Modification of Monthly Payments. Commencing with the monthly

installment of principal and interest due and payable on July 1, 1993, and ending with the monthly installment of principal and interest due and payable on January 1, 1996, in lieu of the monthly payments of combined principal and interest in the amount of \$1,546,500 each as provided in the Notes, Mortgagor shall pay to Mortgagee on each Installment Payment Date (as such term is defined in the Notes) occurring during such period, in the manner set forth in the Notes and the Mortgage, interest only payments in an amount equal to \$1,462,500 each, to be applied to accrued interest on the Notes. From and after February 1, 1996, Mortgagor shall pay to Mortgagee the regular monthly installments of combined principal and interest in the amount of \$1,546,500 each at the times and in the manner set forth in the Notes and the Mortgage. On June 1, 1998, Mortgagor shall pay to Mortgagee the entire unpaid principal amount of the Notes, together with all interest accrued thereon, and other sums payable in respect of the Notes and the Mortgage.

2. Restriction on Distributions. (a) Mortgagor shall not directly

or indirectly pay, make, declare or set apart any sum for any payment or other distribution, directly or indirectly, in respect of any partnership interest in Mortgagor or on account of the purchase, redemption or other acquisition of any partnership interest in Mortgagor (a "Restricted Payment"), except that Mortgagor may pay, make or set apart and distribute to its partners on the fifth day of each month a Restricted Payment in an amount not to exceed the Available Amount (as hereinafter defined) if (i) there does not exist any Event of Default
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at the time of such Restricted Payment and (ii) Mortgagor shall have given to
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Mortgagee five days' prior written notice thereof.

(b) As used in this Section 2, the following terms shall have the following meanings:

"Available Amount" shall mean the amount by which Gross Receipts (as

hereinafter defined) for the preceding calendar month exceeds the sum of (i) the
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Operating Payments (as hereinafter defined) for the preceding calendar month,
(ii) the monthly payment of interest and,
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if applicable, principal required to be paid under the Notes during the preceding calendar month, (iii) the amount of any deposits required pursuant to

Section 2.08 of the Mortgage for the payment of Impositions (as defined in the Mortgage) and hazard insurance premiums during the preceding calendar month, (iv) any other amounts required to be paid by Mortgagor during the preceding

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calendar month pursuant to the Mortgage or the Notes, (v) the monthly payment of

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interest and, if applicable, principal on any subordinate mortgage or security interest affecting the Mortgaged Premises (as defined in the Mortgage) and (vi)

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such amounts as Mortgagee may reasonably determine from time to time are necessary to establish a reserve fund for the payment of costs of tenant improvements and leasing commissions as the same will become due and payable during the ensuing six (6) months with respect to new or renewal leases for the Mortgaged Premises.

"Gross Receipts" shall mean an amount equal to the aggregate of all

amounts received by Mortgagor or any affiliate of Mortgagor as cash or cash equivalents from any source relating to or on account of the Mortgaged Premises, including, without limitation, rents of all kinds (including, without limitation, base, fixed, percentage and additional rents), all amounts received pursuant to escalation or contribution provisions and expense reimbursements, all income and revenue of a non-rental nature, all cancellation fees and forfeited security or other deposits, all insurance proceeds (other than insurance proceeds applied by Mortgagee in accordance with Sections 3.03(b) or (d) of the Mortgage and, if the insurance proceeds are delivered to Mortgagor for restoration of the Mortgaged Premises, the portion of the insurance proceeds used to restore the Mortgaged Premises (the "Excluded Insurance Proceeds")), all proceeds from a condemnation or other taking under the threat of eminent domain (other than condemnation proceeds applied by Mortgagee in accordance with Sections 3.03(b) or (d) of the Mortgage and, if the condemnation proceeds are delivered to Mortgagor for restoration of the Mortgaged Premises, the portion of the condemnation proceeds used to restore the Mortgaged Premises (the "Excluded Condemnation Proceeds")), all proceeds of a financing or sale of the Mortgaged Premises or any part thereof or interest therein and interest income and all other payments received.

"Operating Payments" shall mean all cash expenditures relating to the

operation, management and

maintenance of the Mortgaged Premises, including, without limitation, payments for salaries and other payroll costs of employees of Mortgagor for their services in the operation and maintenance of the Mortgaged Premises, payments under service contracts with independent contractors for operating and maintaining the Mortgaged Premises, payments for utility charges for the Mortgaged Premises, payments for insurance premiums with respect to the Mortgaged Premises, payments with respect to ordinary and routine maintenance and repair of the Mortgaged Premises, including materials and supplies relating thereto, license fees or other governmental taxes applicable to the Mortgaged Premises, payments on account of management fees, attorneys fees and accountant fees, but excluding from Operating Payments the following payments with respect to the Mortgaged Premises: (i) interest or amortization payments under any

mortgage or security interest affecting the Mortgaged Premises, (ii) payments to Mortgagor or affiliates of Mortgagor to the extent such payments exceed the amount that would have been paid to an independent third party for providing the same service, (iii) all non-cash charges for items such as depreciation and amortization and (iv) the Excluded Insurance Proceeds and the Excluded Condemnation Proceeds (as such terms are defined in the definition of Gross Receipts).

3. No Waiver. Nothing contained in this Agreement shall be deemed to constitute a waiver by Mortgagee of its rights under the Mortgage if any payment is not made strictly in accordance with the terms of the Notes or the Mortgage, as modified hereby. Nothing contained in this Agreement shall be deemed to constitute a waiver by Mortgagee of any right or remedy available to Mortgagee arising out of a default by Mortgagor under the Notes or the Mortgage, as modified hereby.

4. Recording Fees, etc. Mortgagor will pay or cause to be paid all recording fees and taxes payable in connection with the execution, delivery and recording of this Agreement, the cost of any endorsement required by Mortgagee to the title insurance policy held by Mortgagee and the fees and expenses of Mortgagee's special counsel in connection with the preparation, execution and delivery hereof.

5. Ratification. Except as herein modified, the terms and conditions of the Mortgage and the Notes are hereby ratified and confirmed in their entirety.

6. Successors and Assigns. This Agreement and all of the covenants

herein shall be deemed to be covenants running with the land and shall bind and
inure to the benefit of the parties hereto and their successors and assigns.

7. Counterparts. This Agreement may be executed in several

counterparts, each of which shall constitute one and the same instrument.

8. Lien Law. This Agreement is made subject to the trust fund

provisions of Section 13 of the New York Lien Law.

IN WITNESS WHEREOF, the parties hereto have caused this Note and Mortgage Modification Agreement to be duly executed as of the day and year first above written.

MORTGAGOR:

KENVIC ASSOCIATES, A New York
General Partnership

By: Gladwater Associates, a New
York Limited Partnership, as a
General Partner of Kenvic
Associates

By: /s/ Kenneth Gladstone

Kenneth Gladstone,
as a General Partner of
Gladwater Associates

By: /s/ Lucille Gladstone

Lucille Gladstone,
as a General Partner of
Gladwater Associates

By: Third & 52nd Associates, as a
General Partner of Gladwater
Associates

By: /s/ Robert Gladstone

Robert Gladstone, as a
General Partner of Third &
52nd Associates

By: Vic Associates, a New York
Limited Partnership, as a
General Partner of Kenvic
Associates

By: General Chemical And Supply
Co., Inc., as a General
Partners of Vic Associates

By: /s/ Edwin H. Baker

Edwin H. Baker
President

MORTGAGEE:

JOHN HANCOCK MUTUAL LIFE INSURANCE
COMPANY, a Massachusetts corporation

By: /s/ Paul T. Rennie

Name: Paul T. Rennie
Title: Second Vice President

SCHEDULE A

Description of Land

Parcel A

ALL that certain lot, piece or parcel of land, situate, lying and being in the Borough of Manhattan, City, County and State of New York, bounded and described as follows:

BEGINNING at the corner formed by the intersection of the easterly side of Third Avenue with the northerly side of East 52nd Street; running thence

NORTHERLY along the easterly line of Third Avenue, 120 feet 5 inches; thence

EASTERLY parallel with the northerly line of East 52nd Street, 80 feet 0 inches; thence

NORTHERLY parallel with the easterly line of Third Avenue, 80 feet 5 inches to a point in the southerly line of East 53rd Street; thence

EASTERLY along the southerly line of East 53rd Street, 100 feet 0 inches; thence

SOUTHERLY parallel with the easterly line of Third Avenue, 90 feet 0 inches; thence

WESTERLY parallel with the northerly line of East 52nd Street, 20 feet 0 inches; thence

SOUTHERLY parallel with the easterly line of Third Avenue, 110 feet 10 inches to a point in the northerly line of East 52nd Street; thence

WESTERLY along the northerly line of East 52nd Street, 160 feet 0 inches to the point or place of BEGINNING.

Parcel B

The rights, licenses, easements and privileges relating to the above-described parcels of Land which are and have been granted with respect thereto in the following instruments:

1. Easement for Light, Air and View, dated January 23, 1981, by and between The Salvation Army, Kenvic Associates, Arnold J. Rabinor and Marvin B. Tepper, recorded in the Register's Office in Reel 555 at page 1233, as such Easement may be further amended from time to time with the consent of Mortgagee and, if required, the City of New York.
2. Easement for Light and Air, dated January 7, 1981, by Kenvic Associates, Arnold J. Rabinor and Marvin B. Tepper, recorded in the Register's Office in Reel 555 at page 1245, as such Easement may be further amended from time to time with the consent of Mortgagee and, if required, the City of New York.
3. Easement for Light and Air, dated January 5, 1981, by Kenvic Associates, Arnold J. Rabinor and Marvin B. Tepper, recorded in the Register's Office in Reel 558 at page 460, as such Easement may be further amended from time to time with the consent of Mortgagee and, if required, the City of New York.
4. Declaration of Zoning Lot Restrictions, dated January 7, 1981, by Kenvic Associates, Arnold J. Rabinor, Marvin B. Tepper and Kenneth Gladstone, recorded in the Register's Office in Reel 552 at page 737, as such Declaration may be further amended from time to time with the consent of the City of New York and Mortgagee.
5. Declaration, dated January 7, 1981, made by F.E.G. Realty Corp., recorded in the Register's Office in Reel 556 at page 539, as such Declaration may be further amended from time to time with the consent of the City of New York and Mortgagee.
6. Declaration, dated January 7, 1981, made by Kenvic Associates, Arnold J. Rabinor, Marvin B. Tepper and Kenneth Gladstone, recorded in the Register's Office in Reel 556 at page 541 and in Reel 556 at page 1281,

as modified by Modification to Declaration, dated as of June 14, 1982, between Kenvic Associates and 875 Third Associates recorded in the Register's Office in Reel 653 at page 1315, as further modified by Second Modification to Declaration, dated as of December 7, 1983, between Kenvic Associates and 875 Third Associates recorded in the Register's Office in Reel 745 at page 533, as further modified by Third Modification to Declaration, dated as of May 30, 1990, by Kenvic Associates, as such Declaration may be further amended from time to time with the consent of the City of New York and Mortgagee.

7. Declaration of Easement, dated July 17, 1984, made by Kenvic Associates, and recorded in the Register's Office on July 18, 1984 in Reel 814 at page 1202, as such Declaration of Easement may be further amended from time to time with the consent of Mortgagee and, if required, the City of New York.

SCHEDULE B

1. Mortgages

(a) Mortgage ("Mortgage 1"), dated May 1, 1961, executed by Tillie Feldman to Raymond A. Hasbrouck, securing a note of even date therewith in the principal amount of \$160,000, recorded in the Register's Office on May 17, 1961, in Liber 5971, Page 291;

(b) Mortgage ("Mortgage 2"), dated October 3, 1961, executed by Montor Realty Corp. to Max M. Vas, Sam Wolf and Frances Wolf, securing a note of even date therewith in the principal amount of \$42,300, recorded in the Register's Office on October 5, 1961, in Liber 6002, Page 12;

(c) Mortgage ("Mortgage 3"), dated July 31, 1963, executed by Samuel Gruber to Bankers Life Company, securing a note of even date therewith in the principal amount of \$64,100, recorded in the Register's Office on August 5, 1963, in Liber 6196, Page 37;

(d) Mortgage ("Mortgage 4"), dated March 31, 1970, executed by C.B.B. Realty Corp. to Cortelyou Realty Corporation, securing a note of even date therewith in the principal amount of \$275,000, recorded in the Register's Office on March 31, 1970, in Reel 169, Page 1013;

(e) Mortgage ("Mortgage 5"), dated December 16, 1959, from Drury Lane Equities, Inc. to David Fischhoff, securing a note of even date therewith in the principal amount of \$17,500, recorded in the Register's Office on December 17, 1959 in Mortgage Book 5866, Page 422;

(f) Mortgage ("Mortgage 6"), dated March 30, 1970, from HMW Holding Corp. to Hester M. Walsh, securing a note of even date therewith in the principal amount of \$207,000, recorded in the Register's Office on March 31, 1970 in Reel 169, Page 879;

(g) Mortgage ("Mortgage 7"), dated August 17, 1945, from Joseph Renkel, Inc. to Broadway Savings Bank, securing a bond of even date therewith in the principal amount of \$15,000, recorded in the Register's Office on August 18, 1945 in Liber 4762, Page 365;

(h) Mortgage ("Mortgage 8"), dated June 12, 1958, from Joseph Renkel, Inc. to Broadway Savings Bank,

securing a note of even date therewith in the principal amount of \$10,000, recorded in the Register's Office on June 13, 1958 in Mortgage Book 5753, Page 617;

(i) Mortgage ("Mortgage 9"), dated March 12, 1962, from 216 E. 53rd Street Corp. to Phoenix Mutual Life Insurance Company ("Phoenix Mutual") securing a note of even date therewith in the principal amount of \$42,640, recorded in the Register's Office on March 15, 1962 in Liber 6039, Page 12;

(j) Mortgage ("Mortgage 10"), dated July 14, 1964 from 216 E. 53rd Street Corp. to Phoenix Mutual, securing a note of even date therewith in the principal amount of \$10,000, recorded in the Register's Office on July 15, 1964 in Liber 6299, Page 8;

(k) Mortgage ("Mortgage 11"), dated March 14, 1969, from East 53rd Street Corporation to Sutton Associates, securing a note of even date therewith in the principal amount of \$146,750, recorded in the Register's Office on March 18, 1969 in Reel 134, Page 413;

(l) Mortgage ("Mortgage 12"), dated May 16, 1955, from J.K.F. Realty Corporation to Maybelle Stolitzy, Samuel L. Stolitzy and Nathaniel Seligman, as Trustees, securing a note of even date therewith in the principal amount of \$43,000, recorded in the Register's Office on May 17, 1955 in Liber 5541, Page 660;

(m) Mortgage ("Mortgage 13"), dated May 16, 1956, from J.K.F. Realty Corporation to Woman's Division of Christian Service of the Board of Missions of the Methodist Church ("Woman's Division"), securing a note of even date therewith in the principal amount of \$7,000, recorded in the Register's Office on May 18, 1956 in Liber 5617, Page 216;

(n) Mortgage ("Mortgage 14"), dated January 26, 1961, from 2187 8th Avenue Corp. ("2187 Corp.") to Phoenix Mutual, securing a note of even date therewith in the principal amount of \$19,000, recorded in the Register's Office on January 30, 1961 in Liber 5947, Page 487;

(o) Mortgage ("Mortgage 15"), dated May 4, 1956, from Sinne Realty Corporation ("Sinne") to Theresa White, securing a note of even date therewith in the

principal amount of \$23,000, recorded in the Register's Office on May 8, 1956 in Liber 5615, Page 36;

(p) Mortgage ("Mortgage 16"), dated February 11, 1959, from Joseph Lesawyer and William H. McCarthy to American Irving Savings Bank ("American Irving"), securing a note of even date therewith in the principal amount of \$14,000, recorded in the Register's Office on February 16, 1959 in Liber 5804, Page 326;

(q) Mortgage ("Mortgage 17"), dated February 13, 1969, from Wideningyre Properties Corp. ("Wideningyre") to American Bank & Trust Company, securing a note of even date therewith in the principal amount of \$51,279.49 and recorded in the Register's Office on February 17, 1969 in Reel 131, Page 428;

(r) Mortgage ("Mortgage 18"), dated May 27, 1960, from Rupeg Realty Corp. ("Rupeg") to Chemical Bank New York Trust Company ("Chemical"), securing a note of even date therewith in the principal amount of \$430,000 and recorded in the Register's Office on May 31, 1960 in Liber 5898, Page 548;

(s) Mortgage ("Mortgage 19"), dated October 27, 1970, from Linguist Realty Corp. ("Linguist") to Edward W. Leckerling ("Leckerling"), securing a note of even date therewith in the principal amount of \$535,000 and recorded in the Register's Office on November 2, 1970 in Reel 187, Page 817;

(t) Mortgage ("Mortgage 20"), dated November 16, 1962, from Montclair Leasing Corp. ("Montclair") to Chemical, securing a note of even date therewith in the principal amount of \$292,500 and recorded in the Register's Office on November 23, 1962 in Liber 6110, Page 462;

(u) Mortgage ("Mortgage 21"), dated January 20, 1972, from Dorell Properties, Inc. to Jack D. Roggen ("Roggen") and Ruth Baron ("Baron"), securing a note of even date therewith in the principal amount of \$560,619.64, and recorded in the Register's Office on January 21, 1972 in Reel 229, Page 1244;

(v) Mortgage ("Mortgage 22"), dated December 20, 1957, from 937 Madison Ave. Corp. to The Amalgamated Bank of New York ("The Amalgamated Bank"),

securing a note of even date therewith in the principal amount of \$30,000, recorded in the Register's Office on December 23, 1957 in Liber 5722, Page 18;

(w) Mortgage ("Mortgage 23"), dated January 21, 1963, from 937 Madison Ave. Corp. to The Amalgamated Bank, securing a note of even date therewith in the principal amount of \$18,934.52, recorded in the Register's Office on January 22, 1963 in Liber 6131, Page 263;

(x) Mortgage ("Mortgage 24"), dated July 26, 1971, from Vertland Realty Corp., Reba Associates, Inc., Woas Properties Corp., JL 229 Corp., Portadown Corporation, Wideningyre Properties and Zalkay Properties, Inc. to Salbian Realty Co., Inc., securing a note of even date therewith in the principal amount of \$5,000,000, recorded in the Register's Office on July 28, 1971 in Reel 212, Page 814;

(y) Mortgage ("Mortgage 25"), dated July 18, 1972, from Siltan Development Corp. and Mathilde Rauch to Irving Trust Company, securing a note of even date therewith in the principal amount of \$1,514,390.19, recorded in the Register's Office on July 21, 1972 in Reel 247, Page 639;

(z) Mortgage ("Mortgage 26"), dated August 11, 1975, from Siltan Development Corp. and Mathilde Rauch to Tishman Realty & Construction Co., Inc., securing a note of even date therewith in the principal amount of \$675,000, recorded in the Register's Office on August 15, 1975 in Reel 348, Page 1342.

(aa) Building Loan Mortgage ("Mortgage 27"), dated as of November 24, 1980, executed by Kenvic Associates ("Kenvic"), Arnold J. Rabinor and Marvin B. Tepper to The Chase Manhattan Bank (National Association) ("Chase"), securing a note of even date therewith in the principal amount of \$3,165,000, recorded in the Register's Office on November 26, 1980, in Reel 545, Page 905;

(bb) Building Loan Mortgage ("Mortgage 28"), dated as of March 3, 1981, executed by Kenvic to Chase, securing a note of even date therewith in the principal amount of \$2,500,000, recorded in the Register's Office on March 12, 1981, in Reel 558, Page 413;

(cc) Building Loan Mortgage ("Mortgage 29"), dated as of March 25, 1981, executed by Kenvic and 875 Third Associates ("875") to Chase, securing a note of even date therewith in the principal amount of \$38,660,000, recorded in the Register's Office on April 2, 1981, in Reel 560, Page 1577;

(dd) Building Loan Mortgage ("Mortgage 30") dated as of March 25, 1981, executed by Kenvic and 875 to Chase, securing a note of even date therewith in the principal amount of \$14,000,000, recorded in the Register's Office on April 2, 1981, in Reel 560, Page 1527;

(ee) Building Loan Mortgage ("Mortgage 31"), dated as of March 25, 1981, executed by Kenvic and 875 to Chase, securing a note of even date therewith in the principal amount of \$3,750,000, recorded in the Register's Office on April 2, 1981, in Reel 560, Page 1728;

(ff) Building Loan Mortgage ("Mortgage 32"), dated as of March 25, 1981, executed by 875 and Kenvic to Chase, securing a note of even date therewith in the principal amount of \$3,750,000, recorded in the Register's Office on April 2, 1981, in Reel 560, Page 1764

(gg) Mortgage ("Mortgage 33"), dated as of September 2, 1982, executed by 875 and Kenvic to Chase, securing a note of even date therewith in the principal amount of \$12,000,000, recorded in the Register's Office on September 8, 1982, in Reel 637, Page 1657;

(hh) Mortgage ("Mortgage 34"), dated as of August 5, 1983, executed by 875 and Kenvic to Chase, securing a note of even date therewith in the principal amount of \$2,000,000, recorded in the Register's Office on August 26, 1983, in Reel 712, Page 980;

(ii) Mortgage ("Mortgage 35"), dated as of October 5, 1983, executed by 875 and Kenvic to Chase, securing a note of even date therewith in the principal amount of \$925,000, recorded in the Register's Office on October 6, 1983, in Reel 724 Page 463

(jj) Mortgage ("Mortgage 36"), dated as of November 28, 1983, executed by 875 and Kenvic to Chase, securing a note of even date therewith in the principal amount of \$3,325,000, recorded in the Register's Office on December 5, 1983, in Reel 742, Page 150;

(kk) Mortgage ("Mortgage 37"), dated as of November 28, 1983, executed by 875 and Kenvic to Chase, securing a note of even date therewith in the principal amount of \$750,000, recorded in the Register's Office on December 5, 1983, in Reel 742, Page 122;

(ll) Mortgage ("Mortgage 38"), dated as of February 24, 1984, executed by 875 and Kenvic to Chase, securing a note of even date therewith in the principal amount of \$4,000,000, recorded in the Register's Office on February 27, 1984, in Reel 767, Page 1542;

(mm) Mortgage ("Mortgage 39"), dated as of July 17, 1984, executed by Kenvic to John Hancock Mutual Life Insurance Company ("Hancock"), securing a note of even date therewith in the principal amount of \$13,000,000, recorded in the Register's Office on July 18, 1984, in Reel 814, Page 1248; and

(nn) Mortgage ("Mortgage 40"), dated as of May 11, 1988, executed by Kenvic to Hancock, securing a note dated May 12, 1988, in the original principal amount of \$71,339,564.68, recorded in the Register's Office on May 18, 1988, in Reel 1403 at Page 1779.

2. Assignments and Consolidations

(a) Mortgage 1 was assigned by Raymond A. Hasbrouck to Bankers Life Company pursuant to an Assignment, dated June 12, 1963, recorded in the Register's Office on August 5, 1963, in Liber 6196, Page 33;

(b) Mortgage 2 was assigned by Max M. Vas, Sam Wolf and Frances Wolf to Bankers Life Company pursuant to an Assignment, dated June 5, 1963, recorded in the Register's Office on August 5, 1963, in Liber 6196, Page 35;

(c) Mortgages 1, 2 and 3 were consolidated and extended by Agreement, dated July 31, 1963, between Samuel Gruber and Bankers Life Company, recorded in the Register's Office on August 12, 1963, in Liber 6198, Page 189;

(d) Mortgage 4 was assigned by Cortelyou Realty Corporation to C.B.B. Realty Corp., by Assignment, dated April 3, 1970, recorded the Register's Office on April 22, 1970, in Reel 171, Page 1461;

(e) Mortgage 1, 2 and 3, as consolidated and extended, were assigned by Bankers Life Company to Irving Trust Company, pursuant to an Assignment, dated July 13, 1972 recorded in the Register's Office on July 21, 1972, in Reel 247, Page 690;

(f) Mortgage 4 was assigned by C.B.B. Realty Corp. to Irving Trust Company by Assignment, dated July 13, 1972, recorded in the Register's Office on July 21, 1972, in Reel 247, Page 697;

(g) Mortgage 5 was assigned by David Fischhoff to William Fastenberg pursuant to Assignment, dated December 16, 1959, recorded in the Register's Office on December 17, 1959 in Liber 5866, Page 426;

(h) Mortgage 5 was assigned by William Fastenberg to Edward Breger pursuant to Assignment, dated December 17, 1969, recorded in the Register's Office on December 29, 1969, in Reel 161, Page 394;

(i) Mortgage 5 was assigned by Edward E. Breger to Irving Trust Company pursuant to Assignment, dated July 15, 1972, recorded in the Register's Office on July 21, 1972, in Reel 247, Page 652;

(j) Mortgage 6 was assigned by Hester M. Walsh to Irving Trust Company pursuant to Assignment, dated June 26, 1972, recorded in the Register's Office on June 21, 1972, in Reel 247, Page 654;

(k) Mortgages 7 and 8 were consolidated, extended and modified by Agreement, dated June 12, 1958, between Broadway Savings Bank and Joseph Renkel, Inc. and recorded in the Register's Office on June 13, 1958, in Liber 5753, Page 625;

(l) Mortgages 7 and 8, as consolidated, extended and modified, were assigned by Broadway Savings Bank to Phoenix Mutual, pursuant to Assignment dated March 9, 1962, recorded in the Register's Office on March 15, 1962, in Liber 6039, Page 8;

(m) Mortgages 7, 8 and 9 were consolidated by the terms of Mortgage 9;

(n) Mortgages 7, 8, 9 and 10 were consolidated

by the terms of Mortgage 10;

(o) Mortgages 7, 8, 9 and 10 were assigned by Phoenix Mutual to Irving Trust Company by Assignment, dated July 6, 1972 and recorded in the Register's Office on July 21, 1972, in Reel 247, Page 648;

(p) Mortgage 11 was assigned by Sutton Associates to Irving Trust Company, pursuant to Assignment dated July 14, 1972 and recorded in the Register's Office on July 21, 1972, in Reel 247, Page 680;

(q) Mortgage 12 was assigned by Maybelle Stolitzky, Samuel L. Stolitzky and Nathaniel Seligman, as Trustees, to Woman's Division, pursuant to Assignment, dated May 15, 1956 and recorded in the Register's Office on May 18, 1956, in Liber 5617, Page 199;

(r) Mortgages 12 and 13 were consolidated by Agreement, dated May 16, 1956, between Woman's Division and J.K.F. Realty Corporation, and recorded in the Register's Office on May 18, 1956, in Liber 5617, Page 220;

(s) Mortgages 12 and 13, as consolidated, were assigned by Woman's Division to Phoenix Mutual, pursuant to Assignment, dated December 29, 1960 and recorded in the Register's Office on January 30, 1961, in Liber 5947, Page 495;

(t) Mortgages 12, 13 and 14 were consolidated and extended by the terms of Mortgage 14;

(u) Mortgages 12, 13 and 14 were assigned by Phoenix Mutual to Irving Trust Company pursuant to Assignment, dated July 11, 1972 and recorded in the Register's Office on July 24, 1972, in Reel 247, Page 905;

(v) Mortgage 15 was assigned by Theresa White to American Irving, pursuant to Assignment dated February 2, 1959 and recorded in the Register's Office on February 16, 1959, in Liber 5804, Page 331;

(w) Mortgages 15 and 16 were consolidated by Agreement, dated February 11, 1959, between Joseph Lesawyer, William H. McCarthy and American Irving and recorded in the Register's Office on February 25, 1959, in Liber 5806, Page 287;

(x) Mortgages 15 and 16 were assigned by American Savings Bank (successor in interest to American Irving) to American Bank & Trust Company pursuant to Assignment, dated February 5, 1969 and recorded in the Register's Office on February 17, 1969, in Reel 131, Page 432;

(y) Mortgages 15, 16, and 17 were consolidated by Agreement, dated February 13, 1969, between Wideningyre and American Bank and Trust Company and recorded in the Register's Office on February 17, 1969, in Reel 131, Page 434;

(z) Mortgages 15, 16 and 17 were assigned by American Bank & Trust Company to Madison Associates pursuant to Assignment dated August 20, 1970 and recorded in the Register's Office on August 24, 1970, in Reel 182, Page 586;

(aa) Mortgages 15, 16 and 17 were assigned by Madison Associates to Irving Trust Company pursuant to Assignment dated July 18, 1972 and recorded in the Register's Office on July 21, 1972, in Reel 247, Page 662;

(bb) Mortgage 19 was assigned by Leckerling to Irving Trust Company by Assignment, dated June 13, 1972 and recorded in the Register's Office on July 21, 1972, in Reel 247, Page 707;

(cc) Mortgages 18 and 20 were consolidated by Agreement, dated November 16, 1962, between Chemical and Montclair Leasing Corp. and recorded in the Register's Office on December 10, 1962, in Liber 6116, Page 115;

(dd) Mortgages 18 and 20 were assigned by Chemical to Comptroller of the State of New York, as Trustee of the New York State Employees' Retirement System ("Comptroller") pursuant to Assignment, dated January 28, 1963 and recorded in the Register's Office on February 1, 1963, in Liber 6136, Page 73;

(ee) Mortgages 18 and 20 were modified by Extension Agreement, dated January 31, 1963, between the Comptroller and Montclair Leasing Corp., recorded in the Register's Office on February 4, 1963, in Liber 6136, Page 240;

(ff) Mortgages 18 and 20 were assigned by the Comptroller to Irving Trust Company, pursuant to Assignment, dated July 19, 1972 and recorded in the Register's Office on July 21, 1972, in Reel 247, Page 637;

(gg) Mortgages 22 and 23 were consolidated pursuant to Agreement, dated January 21, 1963, between 937 Madison Ave. Corp. and The Amalgamated Bank, recorded in the Register's Office on January 22, 1963, in Liber 6131, Page 269;

(hh) Mortgages 22 and 23 were assigned by The Amalgamated Bank to Board of National Missions of the United Presbyterian Church In The United States of America ("National Missions"), pursuant to Assignment, dated March 26, 1968 and recorded in the Register's Office on March 29, 1968, in Liber 290, Page 23;

(ii) Mortgages 22 and 23 were extended by Agreement, dated March 28, 1968, between National Missions and 937 Madison Ave. Corp., recorded in the Register's Office on March 29, 1968, in Liber 290, Page 25;

(jj) Mortgages 22 and 23 were assigned by National Missions to Roggen and Baron pursuant to Assignment, dated January 18, 1972 and recorded in the Register's Office on January 31, 1972, in Reel 230, Page 424;

(kk) Mortgages 21, 22 and 23 were consolidated by the terms of Mortgage 21.

(ll) Mortgages 21, 22 and 23 were assigned by Roggen and Baron to Irving Trust Company pursuant to Assignment, dated June 30, 1972 and recorded in the Register's Office on July 21, 1972, in Reel 247, Page 695;

(mm) Mortgage 24 was assigned by Salbian Realty Co., Inc. to Irving Trust Company pursuant to Assignment, dated July 18, 1972 and recorded in the Register's Office on July 21, 1972, in Reel 247, Page 660;

(nn) Mortgages 1 through 25, inclusive, were consolidated by the terms of Mortgage 25;

(oo) Mortgages 1 through 25, inclusive, were modified by Agreement, dated April 1, 1975, between Mathilde Rauch, Siltan Development Corp. and Irving Trust

Company, recorded in the Register's Office on April 24, 1975, in Reel 340, Page 496;

(pp) Mortgages 1 through 25, inclusive, were modified by Agreement, dated April 1, 1979, between Irving Trust Company and Gladwater Associates, Kenvic, Arnold Rabinor and Marvin B. Tepper, recorded in the Register's Office on February 21, 1980, in Reel 514, Page 1801;

(qq) Mortgages 1 through 25, inclusive, were assigned by Irving Trust Company to Chase, pursuant to Assignment, dated March 26, 1981, recorded in the Register's Office on April 2, 1981, in Reel 560, Page 1563;

(rr) Mortgage 26 was assigned by Tishman Realty & Construction Co., Inc. to Teeco Properties L.P. pursuant to Assignment, dated September 30, 1978, recorded in the Register's Office on October 24, 1978, in Reel 457, Page 1647;

(ss) Mortgage 26 was assigned by Teeco Properties L.P. to Kenneth Gladstone pursuant to Assignment, dated January 7, 1980, recorded in the Register's Office on January 16, 1980, in Reel 510, Page 958;

(tt) Mortgage 26 was assigned by Kenneth Gladstone to Chase, pursuant to Assignment, dated March 25, 1981, recorded in the Register's Office on April 2, 1981, in Reel 560, Page 1575;

(uu) Mortgages 1 through 29, inclusive, were consolidated, modified, spread, assumed and subordinated by Consolidation, Modification, Spreader, Assumption and Subordination Agreement, dated March 25, 1981, between Kenvic, 875 and Chase, recorded in the Register's Office on April 2, 1981, in Reel 560, Page 1613;

(vv) Mortgages 1 through 38, inclusive, were released and discharged, solely in part, by two separate Partial Releases of Mortgage, dated as of July 17, 1984 and executed by Chase, recorded in the Register's Office on July 18, 1984, in Reel 814, Page 1146 and Reel 814, Page 1160;

(ww) Mortgages 1 through 38, inclusive, were assigned by Chase to Hancock, pursuant to Assignment, dated July 17, 1984, and recorded in the Register's Office on July 18, 1984, in Reel 814, Page 1235;

(xx) Mortgages 1 through 39, inclusive, were consolidated, extended, spread and modified by Consolidation, Extension, Spreader and Modification Agreement, dated as of July 17, 1984, between Kenvic and Hancock, recorded in the Register's Office on July 18, 1984, in Reel 814, Page 1255; and

(yy) Mortgages 1 through 40, inclusive, were consolidated, extended and modified by Consolidation, Extension and Modification Agreement, dated as of May 11, 1988, between Kenvic and Hancock, recorded in the Register's Office on May 18, 1988 in Reel 1403 at Page 1793.

COMMONWEALTH OF MASSACHUSETTS)
 : ss.:
COUNTY OF SUFFOLK)

On this 21st day of July, 1992, before me came Paul T. Rennie, to me known to be the person who executed the foregoing instrument, and who, being duly sworn by me, did depose and say that he resides at 46 Tinson Rd., #4, Quincy, MA 02169; that he is a Second Vice President of JOHN HANCOCK MUTUAL LIFE INSURANCE COMPANY, the corporation described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the Board of Directors of said corporation, and that he signed his name thereto by like order.

Marie O. O'Brien

Notary Public

MARIE C. O'BRIEN, NOTARY PUBLIC
MY COMMISSION EXPIRES AUGUST 9, 1996

[Notarial Seal]

STATE OF NEW YORK)
 : ss. :
COUNTY OF NEW YORK)

On this 23 day of July, 1992, before me personally came Kenneth Gladstone and Lucille Gladstone, to me known to be the persons who executed the foregoing instrument, and who, being duly sworn by me, did depose and say that they are the General Partners of Gladwater Associates, a Limited Partnership duly organized under the laws of the State of New York, having its principal place of business at 875 Third Avenue, New York, New York 10022; that said Limited Partnership is a General Partner of KENVIC ASSOCIATES, a General Partnership duly organized under the laws of the State of New York, having its principal place of business at 875 Third Avenue, New York, New York 10022; and that they have authority to sign the foregoing instrument in the firm name of Gladwater Associates, as a General Partner of, and for and in behalf of, KENVIC ASSOCIATES, and they acknowledged to me that they executed the same as the act and deed of said firms for the uses and purposes therein mentioned.

FRANIA B. SHELLEY

Notary Public

(Notarial Seal)

FRANIA B. SHELLEY
NOTARY PUBLIC, STATE OF N.Y
NO. 31-4878542
QUALIFIED IN NEW YORK COUNTY
CERTIFICATE FILED IN NEW YORK COUNTY
COMMISSION EXPIRES NOVEMBER 24, 1992

STATE OF NEW YORK)
 : ss.:
COUNTY OF NEW YORK)

On this 23 day of July, 1992, before me personally came Robert Gladstone, to me known to be the person who executed the foregoing instrument and who, being duly sworn by me, did depose and say that he is the General Partner of Third & 52nd Associates, a New York general partnership, one of the General Partners of Gladwater Associates, a Limited Partnership duly organized under the laws of the State of New York, having its principal place of business at 875 Third Avenue, New York, New York 10022; that Gladwater Associates is a General Partner of KENVIC ASSOCIATES, a General Partnership duly organized under the laws of the State of New York, having its principal place of business at 875 Third Avenue, New York, New York 10022, and that he had authority to sign the foregoing instrument in the firm name of Third & 52nd Associates, acting as a General Partner of, and for and in behalf of, Gladwater Associates, acting as a General Partner of, and for and in behalf of, KENVIC ASSOCIATES, and acknowledged to me that executed the foregoing instrument as the act and deed of said firms for the uses and purposes therein mentioned.

/s/ Frania B. Shelley

Notary Public

(Notarial Seal)

FRANIA B. SHELLEY
NOTARY PUBLIC, STATE OF NEW YORK
NO. 31-4878542
QUALIFIED IN NEW YORK COUNTY
CERTIFICATE FILED IN NEW YORK COUNTY
COMMISSION EXPIRES NOVEMBER ?????

Dated as of July 23, 1992

This instrument affects real and personal property situated in the State of New York, in the County of New York, City of New York, in Section 5, Block 1326, part of Lot 1 (including, without limitation, [COPY ILLEGIBLE] Lots 7 and 41 and easement rights over old Lots 45 and 47) on the Tax Map of the County of New York.

Street Address: 859-875 Third Avenue
New York, New York

#9201-00645

RECORD AND RETURN TO:

Peter R. Schwartz, Esq.
Debevoise & Plimpton
875 Third Avenue
New York, New York 10022

NOTE AND MORTGAGE MODIFICATION AND SPREADER AGREEMENT

NOTE AND MORTGAGE MODIFICATION AND SPREADER AGREEMENT, dated as of December 29, 1995, between KENVIC ASSOCIATES ("Mortgagor"), a New York

general partnership, having an address c/o Madison Equities, 875 Third Avenue, New York, New York 10022, and JOHN HANCOCK MUTUAL LIFE INSURANCE COMPANY ("Mortgagee"), a Massachusetts corporation, having its principal office at

John Hancock Place, Post Office Box 111, Boston, Massachusetts 02117, Attention: Real Estate Investment Group, T-53.

WITNESSETH THAT:

WHEREAS, Mortgagor is, on the date of delivery hereof, (a) the owner of fee title to a parcel of land and the improvements thereon known as 875 Third Avenue, New York, New York and the easements appurtenant thereto (collectively, the "Fee Parcel"), all as more particularly described in Exhibit

A-1 hereto, and (b) the lessee under the Corner Parcel Lease for the Corner

Parcel and all Improvements thereon (as such terms are defined in the Mortgage, as hereinafter defined), which Corner Parcel is contiguous to the Fee Parcel and is more particularly described on Exhibit A-2 hereto;

WHEREAS, Mortgagee is on the date hereof the owner and holder of the mortgages described in Exhibit B hereto, which mortgages were consolidated,

extended and modified pursuant to that certain Consolidation, Extension and Modification Agreement (the "Consolidation Agreement"), dated as of May 11,

1988, between Mortgagor and Mortgagee, recorded on May 14, 1988 in the Office of the City Register, New York County (the "Register's Office") in Reel 1403,

Page 1793, so as to form a single first lien on the Mortgaged Premises in the amount of \$180,000,000, and were further modified (i) pursuant to that certain Modification Agreement, dated as of May 30, 1990, between Mortgagor and Mortgagee, recorded on June 25, 1990 in the Register's Office in Reel 1705, Page 1760 (the "1990 Modification Agreement"), and (ii) pursuant to that certain

Note and Mortgage Modification Agreement, dated as of July 23, 1992, between Mortgagor and Mortgagee, recorded on July 30, 1992 in the Register's Office in Reel 1892, Page 434 (the "1992 Modification Agreement");

WHEREAS, the Mortgage (as such term is defined in Section 11 hereof) secures, among other things, the payment of the principal of and premium, if any, and interest on the Notes

(as such term is defined in Section 11 hereof) in accordance with the terms of the Notes and the Mortgage;

WHEREAS, Mortgagor and Mortgagee desire to spread the lien of the Mortgage from the Fee Parcel to cover both the Fee Parcel and the leasehold estate of Mortgagor in and to the Corner Parcel (including the Improvements thereon) pursuant to the Corner Parcel Lease; and

WHEREAS, Mortgagor and Mortgagee desire to further modify certain terms and conditions of the Notes and the Mortgage in the manner set forth herein.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Mortgagor and Mortgagee hereby agree as follows:

1. Definitions.

(a) Any capitalized term used in this Agreement and not defined herein shall have the respective meaning assigned to such term in the Notes or in the Mortgage. Each term defined below, when used in this Agreement, in the Mortgage, the Notes or in any of the other Loan Documents, shall have its respective meaning set forth below.

(b) "Affiliate" or "affiliate" of a Person shall mean any Person

which directly or indirectly controls, is controlled by or is under common control with such Person. The term "control" shall mean the possession, directly or indirectly, of the power or ability to direct or cause the direction of the management or policies of a Person, whether through the ownership of voting securities, partnership interests or other beneficial interests or by contract or otherwise.

(c) The term "Application" shall mean the Application by Mortgagor

to Mortgagee dated October 2, 1995 and countersigned by Mortgagee on October 16, 1995.

(d) The term "Assignment of Leases" shall mean the Assignment of

Leases, dated as of May 11, 1988, between Mortgagor and Mortgagee, recorded in the Register's Office on May 18, 1988 in Reel 1403, Page 1899, as amended, modified or supplemented from time to time.

(e) The term "Assignment of Rents" shall mean the Assignment of

Rents, dated as of May 11, 1988, between Mortgagor and Mortgagee, recorded in the Register's Office on May 18, 1988 in Reel 1403, Page 1886, as amended, modified or supplemented from time to time.

(f) The term "Borrower's Certificate" shall mean the Borrower's

Certificate, dated as of the date hereof, executed and delivered by Mortgagor in connection with this Agreement.

(g) The term "Cash Collateral Agreement" shall mean the Cash

Collateral Agreement, dated as of the date hereof, between Mortgagor and Mortgagee, as amended, modified or supplemented from time to time.

(h) The term "Controlling Party" shall mean any Person or Persons,

whether directly or indirectly, exercising control over the business, management and operations of, or having the right to make, direct or veto significant business decisions for, Mortgagor, including (without limitation) through ownership or acquisition of equity interests or other beneficial interests in Mortgagor, through the exercise of rights contained in the Governing Documents of Mortgagor, through the amendment or modification of the Governing Documents of Mortgagor, or otherwise by contract or agreement, provided that a Person

shall not be deemed to be a Controlling Party solely by virtue of its acting as manager or managing agent of the Mortgaged Premises.

(i) The term "Corner Parcel Lease" shall mean the Lease, dated as

of March 25, 1981 between Mortgagor (as lessor) and 875 Third Avenue Associates (as lessee), the lessee's interest in which was assigned to Mortgagor and the lessor's interest in which was assigned to Mortgagee on July 17, 1984, as such lease was amended by a First Amendment to Lease, dated as of July 17, 1984 between Mortgagor (as lessor) and 875 Third Associates (as lessee), and a Second Amendment to Lease, dated as of May 11, 1988, a Third Amendment to Lease, dated as of May 30, 1990, a Fourth Amendment to Lease, dated as of July 23, 1992, and a Fifth Amendment to Lease, dated as of the date hereof, each between Mortgagee (as lessor) and Mortgagor (as lessee), and as such Lease may hereafter be amended, modified, supplemented or assigned.

(j) The term "Declarations" shall mean, collectively, the Zoning

Declaration, the Transit Authority Agreement, the Special Permit and the Declaration of Easement (as such terms are defined in Section 2.18 of the Mortgage) as amended, modified or supplemented from time to time.

(k) The term "Environmental Indemnity" shall mean the

Environmental Indemnity and Agreement, dated as of the date hereof, between Mortgagor and Mortgagee, as amended, modified or supplemented from time to time, which agreement has been attached hereto as Exhibit D and shall be deemed to be

incorporated in, and made a part of, the Mortgage.

(l) The term "Fifth Amendment to Lease" shall mean the Fifth

Amendment to Lease, dated as of the date hereof, between Mortgagee (as lessor) and Mortgagor (as lessee), with respect to the Corner Parcel Lease.

(m) The term "Governing Documents" of a Person shall mean (as

applicable) the articles or certificate of incorporation, by-laws, business certificate, limited partnership certificate, articles of organization, general partnership agreement, limited partnership agreement, joint venture agreement, operating agreement or other organizational and/or governing documents of such Person.

(n) The term "Loan Documents" shall mean, collectively, the Notes,

the Consolidation Agreement, the Mortgage, the 1990 Modification Agreement, the 1992 Modification Agreement, this Agreement, the Cash Collateral Agreement, the Environmental Indemnity, the Borrower's Certificate, the Assignment of Rents, the Assignment of Leases, the Side Letter, and any other documents, instruments or agreements entered into pursuant to any such documents, or in connection therewith.

(o) The term "1995 Modification Documents" shall mean,

collectively, this Agreement, the Cash Collateral Agreement, the Environmental Indemnity, the Borrower's Certificate, the Fifth Amendment to Lease and all other documents, instruments or agreements entered into pursuant thereto or in connection therewith.

(p) The term "Permitted Controlling Party" shall mean (i) Lucille

Gladstone, (ii) a Gladstone Entity, as defined in Section 5 hereof, or (iii) any Person the financial capacity, creditworthiness, property management ability and expertise, and general reputation of which, as a potential Controlling Party, shall be subject to the prior written approval of Mortgagee, which approval shall not be unreasonably withheld, delayed or conditioned.

(q) The term "Permitted Transferee" shall mean any transferee

pursuant to a Transfer made in accordance with subparagraphs (A)(i), (A)(ii) or (A)(iii) of Section 5.01(n) of the Mortgage (as amended by Section 5 of this Agreement).

(r) The term "Person" shall mean an individual, partnership,

corporation, limited liability company, trust, unincorporated association, joint venture, or other entity of whatever nature.

(s) The term "Side Letter" shall mean the letter agreement, dated

as of the date hereof, between Mortgagor and

Mortgagee relating to real property tax escrow payments and certain other matters.

(t) The term "Title Commitment" shall mean the Commitment for

Title Insurance (Title No. NY950545) relating to the Mortgaged Premises, dated as of December 29, 1995, issued by Commonwealth Land Title Insurance Company.

2. Modification of Notes.

(a) The section of the Consolidation Agreement entitled "Part A.

Consolidation, Extension and Modification of Existing Notes", set forth on page

3 of the Consolidation Agreement, is hereby amended to provide that the Existing Notes have been modified and extended to (i) bear interest at the rate of 8.75% per annum from and after January 1, 1996; (ii) bear interest, while any Event of Default exists under the Notes or the Mortgage, at the rate of 13.75% per annum from and after January 1, 1996; (iii) provide for payment (A) on January 10, 1996, of interest due under the Notes at the rate of 9.75% per annum for the period from December 1, 1995 through and including December 31, 1995, (B) on the first day of each calendar month commencing on February 1, 1996 and ending on January 1, 2000, of installments of interest only in the amount of One Million Three Hundred Twelve Thousand Five Hundred Dollars (\$1,312,500) each, to be applied to accrued interest on the Notes, (C) on the first day of each calendar month from and after February 1, 2000 through and including December 1, 2002, of installments of combined principal and interest in the amount of One Million Four Hundred Sixteen Thousand Sixty Dollars and Seventy-Three Cents (\$1,416,060.73), with each of such installments to be applied first to the payment of accrued interest under the Notes, and then to the reduction of the outstanding principal amount due under the Notes, and (D) on January 1, 2003, of the entire outstanding principal amount due under the Notes, together with all interest accrued thereon, and all other sums and amounts payable in respect of the Notes and the Mortgage; (iv) be subject to prepayment as provided in Article 1 of the Mortgage, as amended pursuant to Section 3 hereof, and (v) be in the form of Exhibit 1 attached to the Consolidation Agreement, as such Exhibit 1 shall be amended pursuant to Sections 2(b) and 2(c) of this Agreement.

(b) The Notes, and the form of Note attached as Exhibit 1 to the Consolidation Agreement, shall be amended by deleting the first seven (7) paragraphs of language therefrom (beginning with "FOR VALUE RECEIVED . . ." and ending with ". . . accrued to the date fixed for such prepayment, without premium."), and by inserting, in lieu thereof, the text set forth on Exhibit C

attached hereto.

(c) The Notes, and the form of Note attached as Exhibit 1 to the Consolidation Agreement, shall be amended by deleting the twelfth (12th) paragraph therefrom (beginning with "In any action brought . . ." and ending with " . . . other security instrument securing this Note."), and by inserting, in lieu thereof, the following:

"The liability of Maker under this Note shall be subject to the terms and conditions set forth in Section 7 of the Note and Mortgage Modification and Spreader Agreement, dated as of December 29, 1995, between Maker and Payee, as amended, modified or supplemented from time to time."

3. Prepayment Provisions. The terms of Section 1.05 of the

Mortgage (entitled "Prepayment of Notes") shall be amended as follows:

(a) In Section 1.05(b) of the Mortgage, the number "60" shall be deleted and, in lieu thereof, the number "90" shall be inserted.

(b) In Section 1.05(b)(i)(x) of the Mortgage, the reference to "9.75%" shall be deleted and, in lieu thereof, "8.911%" shall be inserted.

(c) In Section 1.05(c) of the Mortgage, the reference to "January 15, 1998" shall be deleted and, in lieu thereof, "October 1, 2002" shall be inserted.

4. Mortgage to Be Spread.

(a) The term "Land", as defined and used in the Mortgage, shall be

amended to include (without limitation) the Corner Parcel described on Exhibit

A-2 hereto, to the extent of Mortgagor's right, title and interest therein

pursuant to the Corner Parcel Lease.

(b) The term "Mortgaged Premises", as defined and used in the

Mortgage, shall be amended to include, without limitation, all right, title and interest of Mortgagor in and to the Corner Parcel pursuant to the Corner Parcel Lease, including (without limitation) the Improvements thereon and the Space Leases applicable to the Corner Parcel and the Improvements thereon.

(c) The Mortgage and the lien thereof is hereby spread to cover all right, title and interest of Mortgagor in and to the Corner Parcel pursuant to the Corner Parcel Lease, including

(without limitation) Mortgagor's right, title and interest in and to the Improvements thereon and the Space Leases applicable to the Corner Parcel and the Improvements thereon.

(d) The paragraph immediately preceding Article 1 of the Mortgage (which paragraph begins with the language "Mortgagor and Mortgagee agree that the Corner Parcel . . .", and ends with the language ". . . premises described in Schedule A, Parcel A") shall be deleted from the Mortgage in its entirety.

(e) Mortgagor shall at all times promptly and fully observe, keep and perform, or cause to be observed, kept and performed, all agreements, terms, covenants and conditions contained in the Corner Parcel Lease by the lessee therein to be kept and performed within all applicable notice and grace periods, and all terms to be performed by Mortgagor under those agreements and instruments binding upon Mortgagor (as lessee thereunder) and affecting or pertaining to the Corner Parcel and described in Items 5B, 5C, 5D, 5I, 5J, 5M, 5N and 9 on Schedule B to the Title Commitment. Mortgagor further covenants that it will not do or permit anything to be done, the doing of which, or refrain from doing anything, the omission of which, will be an Event of Default under the Corner Parcel Lease. Mortgagor shall provide Mortgagee with a copy of any notice, communication, plan, specification or other instrument or document received or given by it in any way relating to or affecting the Corner Parcel Lease and which may materially adversely affect the estate of the lessor or the lessee in or under the Corner Parcel Lease or in the real estate thereby demised; give Mortgagee immediate notice of any receipt by it of any notice of default from the lessor thereunder, unless Mortgagee or an Affiliate of Mortgagee is the lessor thereunder; furnish to Mortgagee within fifteen (15) days any and all information which it may reasonably request concerning the performance by Mortgagor of the agreements, terms, conditions, and covenants of the Corner Parcel Lease; and permit Mortgagee or its agents or representatives, at all reasonable times during normal business hours and on reasonable prior notice, to meet with Mortgagor's agents, employees or representatives concerning such performance. The covenants and obligations set forth in this Section 4(e) shall be deemed to be covenants and obligations of Mortgagor under the Mortgage.

5. Sales, Transfers, etc. (a) Subparagraph (iv) of Section 5.01(n)

shall be amended and restated, in its entirety, as follows:

"(iv) Mortgagee is furnished by Mortgagor with true, correct and complete copies of the documentation effecting

such transfer or encumbrance within 5 days after such transaction,".

(b) Section 5.01(n) of the Mortgage shall be further amended by deleting therefrom the language beginning with "provided, however" on the second line from the bottom of page 40 of the Mortgage through the end of such Section 5.01(n) on page 42 of the Mortgage, and by inserting, in lieu thereof, the following:

"provided, however, that if

(1) there shall be no default by Mortgagor in the performance of Mortgagor's obligations under the Notes, the Mortgage, the Consolidation Agreement, the Cash Collateral Agreement, the Environmental Indemnity or any of the other Loan Documents;

(2) at least thirty (30) days prior to any proposed sale, assignment, conveyance, disposition, transfer or other transaction modifying the Interests (as hereinafter defined) held by any Person in Mortgagor or in any Constituent Party (as hereinafter defined) (each such proposed sale, assignment, conveyance, disposition or other transaction being hereinafter referred to as a "Transfer"), Mortgagee shall be provided with

written notice of such Transfer together with a diagram showing the structure of Mortgagor and all parties (each, a "Constituent Party" and collectively, "Constituent Parties")

holding partnership interests or other ownership interests, equitable interests or other beneficial interests, whether direct or indirect ("Interests"), in Mortgagor after the

contemplated Transfer, and a list of the names, types of Interests and percentages of ownership of all owners of Interests in Mortgagor and in any Constituent Parties after the contemplated Transfer, and with respect to a Transfer other than one under subparagraph (D) below, an administrative fee of \$1,500, which shall be deemed fully earned upon receipt; and

(3) all fees and costs incurred by Mortgagee in connection with the Transfer, including without limitation, reasonable fees and disbursements of Mortgagee's outside counsel, shall be paid by

Mortgagor at or prior to the closing of the Transfer;

then the provisions of subparagraphs (i), (ii) and (v) of this Section 5.01(n) shall not apply to, and the consent of Mortgagee shall not be required for, any of the Transfers described in subparagraphs (A) through (F) below which may occur from time to time:

(A) a Transfer of

(i) any limited partnership interest in Vic Associates to another existing limited partner of Vic Associates as of the date hereof; or

(ii) any interest held by Lucille Gladstone or Kenneth Gladstone in Mortgagor or in a Constituent Party of Mortgagor, or any limited partnership interest held by any Person in a Constituent Party, (a) to a holder of such interest as trustee by testamentary or inter vivos

transfer for the benefit of themselves or members of their immediate family, (b) by testamentary or inter vivos gifts

or bequests to members of the immediate family of the grantor, (c) by intestate distributions, (d) by distributions upon the termination of a trust to the members of the immediate family of such transferor, or (e) to conservators or other legal representatives pursuant to court order upon the disabilities of any such transferor, provided that at all times following any Transfer described in this subparagraph (ii) a Permitted Controlling Party shall be the Controlling Party of Mortgagor;

(B) a Transfer by any Person of Interests in Mortgagor or in any Constituent Party (not otherwise permitted under clause (A) above), provided that, after such Transfer,

(i) no more than a 49% direct or indirect beneficial interest in Mortgagor (not including Transfers solely between Lucille Gladstone and Kenneth Gladstone and not

including Transfers described in subparagraphs (C) and (F) below) has been Transferred (in the aggregate) since December 29, 1995;

(ii) a Permitted Controlling Party is the Controlling Party of Mortgagor at all times subsequent to such Transfer; and

(iii) no more than a 49% direct or indirect beneficial interest in any other general partner of Mortgagor (not including Transfers solely between Lucille Gladstone and Kenneth Gladstone and not including Transfers described in subparagraphs (C) and (F) below) has been Transferred (in the aggregate) since December 29, 1995;

(C) any conversion by Lucille Gladstone and Kenneth Gladstone of their direct and indirect interests in Mortgagor into either (x) a limited liability company, or (y) a limited partnership with a corporate general partner, provided that, with respect to any Transfer described in the preceding clauses (x) or (y), the level of control exercised by Lucille Gladstone over the business, management and operations of either such entity and Mortgagor, and the beneficial interests of Lucille Gladstone and Kenneth Gladstone therein, shall not be modified in connection with or as a result of any such conversion (any such limited liability company or limited partnership complying with the terms of this subparagraph being referred to herein as a "Gladstone Entity"), and provided further that nothing in this subparagraph (C) is intended to limit the right of the Constituent Parties to enter into any transactions permitted under subparagraph (A) above following such conversion;

(D) the conversion of Mortgagor into a limited liability company, provided that the Interests in Mortgagor held by the Constituent Parties of Mortgagor, and the level of control exercised by Lucille Gladstone over the business, management and operations of

Mortgagor, shall not be modified in connection with or as a result of any such conversion, and provided that Mortgagor shall enter into any amendments to the Mortgage or any of the Loan Documents, as may be reasonably requested by Mortgagee, in order to reflect the conversion of Mortgagor from a general partnership to a limited liability company, and provided further that nothing in this subparagraph (D) is intended to limit the right of the Constituent Parties to enter into any transactions permitted under subparagraph (A) above following such conversion;

(E) the conversion by Vic Associates into a limited liability company, provided that the Interest of any Person in Vic Associates shall not be increased or reduced in connection with any such conversion, and provided further that nothing in this subparagraph (E) is intended to limit the right of the Constituent Parties to enter into any transactions permitted under subparagraph (A) above following such conversion;

(F) any Transfer by the transferee in any transaction described in subparagraph (A) or (C) above back to the original transferor in such transaction.

(c) As used in this Section 5, (i) 'immediate family' of Lucille Gladstone or Kenneth Gladstone shall mean such Person's spouse and any lineal descendants of such Person and (ii) the 'immediate family' of any other Person shall mean such Person's spouse, any lineal descendants of such Person and any siblings or spouses of such lineal descendants."

(d) Upon written request from Mortgagor, Mortgagee shall confirm to Mortgagor in writing that a Transfer complies with the provisions of this Section 5 if such Transfer in fact complies with such provisions.

6. One Time Assumption. Notwithstanding anything to the contrary

set forth in the Mortgage or the Notes, Mortgagor shall have the right to Transfer all (but not less than all) of the Mortgaged Premises, or Transfer all of the stock or other Interests in Mortgagor or in every Constituent Party, provided that:

(a) such Transfer under this Section 6 may occur only one time during the term of the Mortgage;

(b) such Transfer shall be subject to Mortgagee's prior written approval of the proposed transferee's financial capacity, creditworthiness, proven ability to manage property of the type and nature of the Mortgaged Premises, and the proposed transferee's general reputation in the community;

(c) as of the date of Mortgagor's written notice to Mortgagee of the Transfer and as of the closing date of the Transfer, there is no default by Mortgagor in the payment of principal, interest or any other amounts due to Mortgagee under any of the Loan Documents, nor is there any outstanding Event of Default with respect to any of Mortgagor's other obligations under the Mortgage or any of the Loan Documents;

(d) there is no financing being obtained by the transferee in connection with the Transfer which will be secured by a mortgage on the Mortgaged Premises or a security interest in any ownership interests, equitable interests or other beneficial interests in the transferee entity;

(e) at least sixty (60) days prior to the closing of the proposed transfer, Mortgagee receives a written request for approval from Mortgagor (including a description of the proposed terms of the Transfer), together with a diagram showing the structure of the proposed transferee entity and all of its constituent entities after the contemplated Transfer and a list of the names, types of interests and ownership percentages of all parties to have ownership interests in the transferee entity or any constituent entity, financial statements for all such entities and an administrative fee of \$5,000, which shall be deemed fully earned on the date of receipt and shall be retained by Mortgagee regardless of whether or not the Transfer occurs and whether or not Mortgagee's approval is given;

(f) at the closing of the proposed Transfer, the proposed transferee executes and delivers to Mortgagee, in the event of a Transfer of the Mortgaged Premises and in connection with any other Transfer (to the extent reasonably requested by Mortgagee), (i) an agreement under which the transferee assumes the obligations of Mortgagor under the Loan Documents and which contains an exculpation clause equivalent to the exculpation clause set forth in Section 7 of this Agreement (except for the language in Section 7(a)(iv) beginning with "or for the matters" on the fourth line thereof through the end of such subparagraph 7(a)(iv), which language shall be omitted from such agreement with the transferee), (ii) a separate environmental indemnity agreement containing substantially similar provisions

to the Environmental Indemnity, and (iii) such other documents as Mortgagee may reasonably require in order that the Mortgagee may obtain the full benefits to which it is entitled under the Notes, the Mortgage and the other Loan Documents, each of which shall be in form and substance satisfactory to Mortgagee (in the exercise of Mortgagee's reasonable discretion) provided that, in connection with the agreements described in this subparagraph (f), Mortgagee shall not be required to exculpate any current or future Constituent Parties of Mortgagor or any transferee entity from personal liability for environmental matters other than those Constituent Parties specifically referenced in Section 7(a)(iv) hereof;

(g) at least fifteen (15) days prior to the closing of the proposed Transfer, Mortgagee and its counsel shall have received a joint written notice from Mortgagor (or the relevant Constituent Parties) and the proposed transferee that the terms of the Transfer described in the notice given to Mortgagee in accordance with subparagraph (e) above are the actual terms of the Transfer, together with evidence of casualty insurance for the Mortgaged Premises, all corporate, partnership or other organizational documents relating to the proposed transferee, and all certificates, legal opinions to Mortgagee from the transferee's outside counsel, and other documents which Mortgagee shall have reasonably requested, and, as of the closing of the proposed Transfer, such documents shall be in form and substance approved by Mortgagee, which approval shall not be unreasonably withheld, delayed or conditioned, provided that, if

any of the foregoing documents or materials shall not be satisfactory to Mortgagee, then Mortgagee shall give Mortgagor a written notice setting forth Mortgagee's objections within twenty (20) days after Mortgagee's receipt of such documents or materials;

(h) Mortgagee shall be provided with a written report prepared by or on behalf of Mortgagor, approved by Mortgagee, which approval shall not be unreasonably withheld, delayed or conditioned, of the anticipated change (if any) in the real property taxes on the Mortgaged Premises as a result of the proposed Transfer and which report shall state that the net annual income from operations of the Mortgaged Premises for the 12 months immediately following the Transfer is projected to be not less than 105% of the annual payments of principal and interest under the Notes and the Mortgage (net annual income from operations meaning the income of Mortgagor after deducting all operating expenses, real property taxes (as anticipated to be increased due to the Transfer, if such is the case) and reserves and all other appropriate expenses, based upon financial statements prepared by Mortgagor's independent certified public

accountants for the most recent 12 month period available, provided that in

calculating net annual income from operations for purposes of this subparagraph (h) no deduction shall be made for (x) debt service on the Mortgage or any subordinate mortgage permitted by Mortgagee, (y) depreciation on the Improvements and (z) the amortization of any expenses incurred for real estate brokerage commissions and tenant improvements in connection with the leasing of space in the Mortgaged Premises);

(i) Mortgagee shall be provided with evidence reasonably satisfactory to Mortgagee that the proposed transferee has consented in writing to the jurisdiction of the state and federal courts located in the State of New York and has waived any defenses of sovereign immunity;

(j) Mortgagee shall receive a transfer fee equal to one percent (1%) of the then outstanding principal balance due under the Notes and the Mortgage, which transfer fee shall be payable at or prior to the closing of the Transfer (and against which the administrative fee described in subparagraph (e) above shall be credited);

(k) Mortgagee shall be provided with a title insurance report (or, if Mortgagee shall reasonably request, an endorsement to Mortgagee's title insurance policy) for the Mortgaged Premises in form and substance and from a title insurance company approved by Mortgagee (which approval shall not be unreasonably withheld, delayed or conditioned), and with a copy of the recorded deed (if applicable) promptly after Transfer;

(l) all of Mortgagee's reasonable fees and costs in connection with the Transfer, including, without limitation, reasonable fees and disbursements of Mortgagee's outside counsel, shall be paid by Mortgagor.

Nothing in this Section 6 is intended to limit the right of Mortgagor or the Constituent Parties to engage in the Transfers described in Section 5 of this Agreement without the necessity of obtaining Mortgagee's consent thereto (but subject to compliance with all other provisions of such Section 5).

7. Liability of Mortgagor.

(a) In any action brought at law or in equity to enforce the obligations of Mortgagor to pay any indebtedness or to perform any other monetary obligation or any non-monetary obligation created or arising under the Consolidation Agreement, the Mortgage, the Notes, the Assignment of Leases, the

Assignment of Rents, the Cash Collateral Agreement, the Environmental Indemnity or under any of the other Loan Documents, the judgment or decree shall be enforceable against Mortgagor only to the extent of its interest in the Mortgaged Premises (or the property subject to such other instrument or agreement described above), and Mortgagee shall not seek or claim recourse against any other assets of Mortgagor or against any Constituent Party or any principal, member, officer, director, shareholder or equity owner of any Constituent Party and any such judgment shall not be subject to execution on, nor be a lien on, assets of Mortgagor (or of its Constituent Parties or any principal, member, officer, director, shareholder or other equity owners of its Constituent Parties) other than the Mortgaged Premises (or the property subject to such other instrument or agreement described above), provided that the

foregoing shall not relieve Mortgagor or any other Person of any liability for, nor prejudice or limit the rights of Mortgagee by reason of, any of the following:

- (i) fraud or misrepresentation of Mortgagor, and physical waste of the Mortgaged Premises arising from the gross negligence or wilful misconduct of Mortgagor;
- (ii) any rents, issues or profits collected more than one (1) month in advance of their due dates;
- (iii) any Misapplication (as hereinafter defined) of loan proceeds, rents, issues or profits, security deposits, any other payments from tenants or occupants (including without limitation, lease termination fees), insurance proceeds or condemnation awards;
- (iv) liability under environmental covenants, environmental conditions and environmental indemnifications contained in the Mortgage or in the Environmental Indemnity, or for the matters set forth in the Environmental Certificate, dated as of October 30, 1995, delivered by Mortgagor to Mortgagee, provided that in no event shall Lucille Gladstone, Kenneth Gladstone, Gladwater Associates, Vic Associates, General Chemical and Supply Co., Inc. (or any principal, officer, director, shareholder or equity owner of General Chemical and Supply Co., Inc.) or any Permitted Transferee have any personal liability for the matters described in this subparagraph (iv);

- (v) personalty or fixtures which Mortgagor, directly or through an agent, removed from the Mortgaged Premises and which were not replaced by items of equal or greater utility than the personalty or fixtures so removed, unless such personalty or fixtures so removed are unnecessary to properly operate the Mortgaged Premises or are obsolete, provided that, for purposes of this subparagraph (v), neither a receiver for the Mortgaged Premises appointed solely by or at the request of Mortgagee, an agent appointed solely by Mortgagee, nor the Mortgagee acting as mortgagee-in-possession, shall be deemed to be an agent of Mortgagor;
- (vi) any amount equal to the sum of all payments made by Mortgagor to holders of subordinate mortgages (not consented to in writing by Mortgagee) on the Mortgaged Premises during any period in which Mortgagor is in default of payment of principal or interest under the Notes or of any escrow payments required under the Mortgage in respect of real property taxes or assessments; or
- (vii) reasonable attorney's fees, court costs and other expenses incurred by Mortgagee in connection with the successful enforcement of Mortgagor's personal liability as set forth herein.

(b) As used in Section 7, the term "Misapplication" shall mean (1) the distribution or payment of cash flow by Mortgagor to, or for the benefit of, any of Mortgagor's Constituent Parties, or to any holder of a mortgage on the Mortgaged Premises subordinate to the Mortgage, which mortgage has not been consented to in writing by Mortgagee (a "Distribution"), at such time as

Mortgagor has failed to pay or cause to be paid any of the following: (A) the principal and interest then due under the Notes and Mortgage, (B) any other amounts then due under the Notes, the Mortgage, the Cash Collateral Agreement, or any other Loan Documents, or (C) any amounts then due in connection with the operation, management, maintenance and repair of the Mortgaged Premises, including (without limitation) amounts then due for tenant improvements or other capital expenditures, real property taxes or assessments (provided, however, Mortgagor shall be deemed to have paid real property taxes to the extent of payments made by Mortgagor into escrow pursuant to the Tax Processing Agreement) insurance premiums, salaries, service contracts, utilities, or labor or material

for work performed at or for the benefit of the Mortgaged Premises, or (2) the use by Mortgagor of security deposits, insurance proceeds, condemnation awards or other restricted funds for purposes other than the purposes set forth in any lease, contract or other agreement binding upon Mortgagor and governing the use of such funds. Notwithstanding the foregoing, the following circumstances alone shall not constitute a "Misapplication": if Mortgagor shall pay a Distribution, at such time as there shall be no outstanding Event of Default, and amounts are then due and owing by Mortgagor either (1) for capital improvement costs, tenant improvement costs or other items for which Mortgagor has submitted a Withdrawal Request (as defined in the Cash Collateral Agreement) and for which Mortgagor is then entitled to receive amounts under the Cash Collateral Agreement (provided that Mortgagor shall promptly pay such expenditures upon receipt of such funds from the Cash Collateral Account) or (2) for expenditures incurred for materials (the cost of which is reimburseable under the Cash Collateral Agreement) purchased or in fabrication and to be delivered pursuant to binding contracts reasonably committed to at the time of execution taking into account sums on deposit in the Cash Collateral Account.

(c) In Section 5.02 of the Mortgage, (i) the words "Limitation on Mortgagor's Liability" are hereby deleted from the caption of such Section 5.02, and (ii) the entire second sentence of such Section 5.02 is hereby deleted.

8. Certain Additional Modifications.

(a) The "Restrictions on Distributions" set forth in Section 2 of the 1992 Modification Agreement are hereby terminated and are of no further force or effect.

(b) Section 2.06 of the Mortgage is hereby amended (i) by deleting subparagraph (c) from Section 2.06 of the Mortgage, and (ii) by deleting the word "and" before the commencement of such subparagraph 2.06(c) and by inserting, in lieu thereof, a period.

(c) Section 2.09.7 of the Mortgage shall be amended and restated, in its entirety, to read as follows:

"2.09.7. Rent Roll. Mortgagor shall furnish to Mortgagee,

together with the annual financial statements of Mortgagor described in Section 4.04 of this Mortgage, and within ten (10) days after a written request by Mortgagee to do so, a statement certified by the managing general partner of Mortgagor (or, by the manager of Mortgagor if Mortgagor has

converted to a limited liability company in accordance with the terms of the Mortgage) containing, for all Space Leases, the name of the lessee, lease commencement and expiration dates, square footage, annual rent, operating expenses and real estate tax contributions (collectively, "rent"), and security deposits, and, if requested in writing by Mortgagee, true copies of each lease and any amendments and supplements thereto, provided that Mortgagee shall not make more than one (1) written request per calendar year for a certified rent roll in accordance with this Section 2.09.7 in addition to the certified rent roll delivered by Mortgagor with Mortgagor's annual financial statements, as provided above."

(d) Section 2.10 of the Mortgage is amended by deleting the first sentence of Section 2.10.1 and, in lieu thereof, inserting the following:

"Mortgagor shall use and operate the Mortgaged Premises, or shall cause such Premises to be used and operated, solely as a first-class, Class A office building with office space (currently consisting of approximately 687,376 square feet of leasable area) and retail space (currently consisting of approximately 31,751 square feet of leasable area) and for no other purpose."

(e) The Mortgage is hereby amended by adding the following after the end of Section 2.18.3 of the Mortgage:

"2.19. Modifications to Governing Documents. The Governing

Documents of Mortgagor shall not be amended, modified or supplemented in any respect so as to (x) materially change the provisions thereof governing control over the business, management and operations of Mortgagor, or (y) impose disproportionate or preferential allocations, distributions or returns for the benefit of any Constituent Party of Mortgagor, without the prior written consent of Mortgagee, which consent shall not be unreasonably withheld, delayed or conditioned, provided that, within twenty (20) days of Mortgagee's receipt of written notice from Mortgagor as to any such proposed modification, Mortgagee shall respond in writing to Mortgagor as to whether such proposed modification is acceptable to Mortgagee and if not, setting forth Mortgagee's objections thereto. Notwithstanding the foregoing, Mortgagor shall have the right, upon prior written notice to Mortgagee but without the necessity

of obtaining Mortgagee's consent, to make modifications to the Governing Documents of Mortgagor in order to specifically reflect the occurrence of any of the Transfers permitted in Section 5 of this Agreement.

2.20. Managing or Leasing Agent. Without the prior written

consent of Mortgagee, which consent shall not be unreasonably withheld, delayed or conditioned, Mortgagor shall not hire or retain a managing agent, leasing agent, or other firm or company to provide management or leasing services to the Mortgaged Premises, provided that the hiring or retention of any Affiliate of a Permitted Controlling Party to provide such services shall not require Mortgagee's consent.

2.21. Controlling Party. Notwithstanding anything to the

contrary set forth in this Agreement, the Mortgage or in any other Loan Document, in no event shall the Controlling Party be any Person other than a Permitted Controlling Party.

2.22. Existence. Mortgagor shall preserve and maintain its

existence as a general partnership (or, if applicable and if in accordance with this Agreement, as a limited liability company or limited partnership) under the laws of the State in which it is organized and its rights, franchises, licenses and privileges material to its business."

(f) Section 4.04 of the Mortgage shall be amended and restated, in its entirety, to read as follows:

"4.04. Financial Statements. Mortgagor shall deliver or cause

to be delivered to Mortgagee, not later than four (4) months after the end of each fiscal year of Mortgagor, audited financial statements in detail reasonably satisfactory to Mortgagee, of annual income and expenses with respect to the ownership and operation of the Mortgaged Premises for such fiscal year, setting forth in comparative form the figures for the previous fiscal year. Such statements shall be (a) accompanied by a certification from the managing general partner of Mortgagor (or, by the manager of Mortgagor if Mortgagor has converted to a limited liability company in accordance with the terms of the Mortgage), that, to the best of such Person's knowledge, such statements fairly reflect the financial condition of Mortgagor

as of the date thereof, and (b) certified by an independent certified public accounting firm that is a member of the American Institute of Certified Public Accountants and that is otherwise approved by Mortgagee, which approval shall not be unreasonably withheld, delayed or conditioned. In addition to the foregoing, Mortgagor shall deliver to Mortgagee, with reasonable promptness, such information and data with respect to the business, operations, affairs, prospects, condition, properties and assets of Mortgagor and the Mortgaged Premises as Mortgagee may reasonably request from time to time.

(g) Section 7.04 of the Mortgage shall be amended and restated, in its entirety, to read as follows:

"7.04. Notices, etc. All notices, demands, requests, consents, -----
approvals and other instruments under this Mortgage or the Notes shall be in writing and shall be deemed to have been actually or properly given if and when mailed by first-class registered or certified mail, return receipt requested, postage prepaid, or by personal delivery (with a receipt obtained therefor) or recognized overnight courier service, addressed (a) if to Mortgagor, to

Mortgagor's address set forth on the first page hereof, or at such other address as Mortgagor may have designated by notice to Mortgagee, with a copy to Warshaw Burstein Cohen Schlesinger & Kuh, LLP, 555 Fifth Avenue, New York, N.Y. 10017, Attention, Thomas J. Malmud, Esq., and to Gordon Altman Butowsky Weitzen Shalov and Wein, 114 West 47th Street, New York, N.Y. 10036, Attention Stephen Helman, Esq. or to such other firms as Mortgagor may direct in writing, (b) if to Mortgagee originally named herein, to John Hancock Mutual

Life Insurance Company, John Hancock Place, P.O. Box 111, Boston, Massachusetts 02117, Attention: Real Estate Investment Group, Floor

T-53, or at such other address as Mortgagee may have designated by notice to Mortgagor, or (c) if to any holder of any Note, other than

Mortgagee originally named herein, at such address as such holder may have designated by notice to Mortgagor, or, until an address is so designated, to and at the address of the last holder of such Note so designating an address to Mortgagor. The foregoing insertion of Mortgagor's mailing address shall be deemed to be a request by Mortgagor that a copy of

any notice of default and of any notice of sale hereunder be mailed to Mortgagor at such address as provided by law."

(h) Mortgagor and Mortgagee covenant and agree that all representations, warranties, covenants, liabilities and obligations of Mortgagor under the Environmental Indemnity (attached as Exhibit C hereto) and under any ----- of the 1995 Modification Documents shall be deemed to be incorporated in the Mortgage and shall be secured by the lien of the Mortgage and by any lien created by, or arising under, any other Loan Document.

9. Cross-Defaults. Mortgagor shall comply in all respects with -----

Mortgagor's covenants and obligations under this Agreement, the Cash Collateral Agreement, the Environmental Indemnity, the Assignment of Rents, the Assignment of Leases, and all of the other Loan Documents, and any default by Mortgagor in the performance and observance of its covenants and obligations under any of such documents shall (subject to any notice and cure provisions specifically set forth in such documents, or, if none are set forth in such documents, subject to the notice and cure provisions contained in Section 5.01(d) of the Mortgage) be deemed to be an Event of Default by Mortgagor under the Mortgage.

10. Modification Agreement Governs. In the event of any conflict -----

or inconsistency between this Agreement and the terms and conditions of the Mortgage, the Notes, or any other Loan Document, then the terms and conditions of this Agreement shall govern and prevail, and the conflicting or inconsistent terms and conditions of the Mortgage, the Notes or such other Loan Document shall be deemed to be amended accordingly.

11. References to "Mortgage" and "Notes". From and after the date -----

hereof, (a) all references herein, in the Consolidation Agreement, the Mortgage, the Notes or in any other Loan Document to "the Mortgage" and to "this Mortgage" shall be deemed to refer to the Consolidation Agreement as amended by the 1990 Modification Agreement, the 1992 Modification Agreement, and by this Agreement, and as hereafter amended, modified or supplemented from time to time, and (b) all references herein and in the Consolidation Agreement, the Mortgage, the Notes or in any other Loan Document to "the Notes" or "this Note" shall be deemed to refer to the Notes, as amended by the 1990 Modification Agreement, the 1992 Modification Agreement, and by this Agreement, and as hereafter amended, modified or supplemented from time to time.

12. No Offsets or Defenses. Mortgagor hereby represents and -----

warrants that, as of the date hereof, (a) the outstanding principal amount owing under the Notes and secured by the Mortgage is One Hundred and Eighty Million Dollars

(\$180,000,000.00), which amount Mortgagor covenants to pay in accordance with all of the terms and provisions of the Notes and the Mortgage; and (b) Mortgagor has no offsets or defenses to the Mortgage, the Note or any of the Loan Documents of any kind whatsoever (and Mortgagor hereby expressly waives any and all of the same).

13. Representations and Warranties.

(a) This Agreement and the other 1995 Modification Documents have been duly executed by the Mortgagor and each constitutes the legal, valid and binding obligation of Mortgagor, enforceable against Mortgagor in accordance with its terms, except as limited by applicable bankruptcy, insolvency, moratorium, reorganization and similar laws affecting the rights of creditors generally, and except as limited by equitable principles of general application;

(b) No authorization, consent, approval, license or formal exemption from, nor any filing, declaration or registration with, any federal, state, local or foreign court, governmental agency or regulatory authority or any other person or entity is required in connection with the making and performance by Mortgagor of this Agreement the other 1995 Modification Documents, except for such consents, approvals and authorizations which have already been obtained.

(c) Mortgagor hereby restates and reconfirms, as of the date hereof, all of the representations and warranties contained in Article 6 of the Mortgage, provided that references therein to "this Mortgage and the Consolidation Agreement" shall mean, for purposes of such restatement, this Note and Mortgage Modification and Spreader Agreement and the other 1995 Modification Documents, except that:

- (i) the following shall be added at the beginning of Section 6.03, Section 6.04 and Section 6.13: "To the best of Mortgagor's knowledge,";
- (ii) the second sentence of Section 6.07 and all of Section 6.09 of the Mortgage are deleted;
- (iii) at the beginning of each of the two sentences of Section 6.05, there is inserted the following: "Except as previously disclosed in writing to Mortgagee,";
- (iv) in Section 6.07 there is inserted after the word "the" in line 2 of said Section the word "material";

- (v) in Section 6.10 there is inserted after the word "the" in line 9 of said Section the word "material"; and
- (vi) the periods at the end of the third, fourth and fifth sentences of Section 6.10 of the Mortgage are deleted and replaced by the following: ", except as previously disclosed in writing to Mortgagee."

(d) Mortgagor represents and warrants to Mortgagee that, to the best of Mortgagor's knowledge, Mortgagor has disclosed to Mortgagee all facts material to the Mortgaged Premises, the Mortgagor, and the Mortgagor's business operations.

(e) Mortgagor represents and warrants to Mortgagee that, as of the date hereof, Lucille Gladstone is the only Controlling Party of Mortgagor.

(f) The reference in Section 5.01(e) of the Mortgage to "any warranty, representation or other statement made by or on behalf of Mortgagor in or pursuant to this Mortgage" shall include, without limitation, the representations and warranties of Mortgagor set forth in this Section 13 (as reconfirmed and restated) and in the Environmental Indemnity, the Borrower's Certificate and any other 1995 Modification Document.

(g) A representation or warranty made in this Section 13 "to the best of Mortgagor's knowledge" means that Mortgagor shall be deemed to have made a reasonable investigation and inquiry with respect to such representation or warranty.

(h) The meaning of the term "material", as used in this Section 13, shall be determined solely as of the date of this Agreement.

14. Additional Obligations of Mortgagor.

(a) Mortgagor shall obtain, within 90 days after the date hereof, all consents, approvals or certifications required from any governmental body under all applicable laws and regulations with respect to the fuel storage tanks located at the Mortgaged Premises, and Mortgagor shall promptly provide Mortgagee with a copy of any such approval, consent or certification promptly after Mortgagor's receipt thereof.

(b) Mortgagor shall obtain, within 120 days after the date hereof, a temporary certificate of occupancy relating to the sixth (6th) floor of the Improvements located on the Fee Parcel, and a permanent certificate of occupancy relating to the entire

Improvements located on the Fee Parcel, and Mortgagor shall provide Mortgagee with a copy of such certificates of occupancy promptly after Mortgagor's receipt thereof, provided that if such temporary or permanent certificate of occupancy cannot with due diligence and dispatch be obtained with such 120 day period, then such 120 day period shall be deemed extended for such period as Mortgagor shall attempt to obtain such temporary or permanent certificate of occupancy with due diligence and dispatch. Upon request by Mortgagee, Mortgagor shall provide Mortgagee with written reports as to the status of Mortgagor's efforts to obtain the certificates of occupancy described in this Section 14(b). In amplification of, and not in limitation of, the provisions of Section 2.16 of the Mortgage, Mortgagor shall protect, indemnify, save harmless and defend Mortgagee from and against any and all liabilities, obligations, claims, damages, penalties, causes of action, costs and expenses (including, without limitation, reasonable attorneys' fees and expenses) imposed upon or incurred by or asserted against Mortgagee by reason of Mortgagor's failure to comply with the provisions of this Section 14(b). The foregoing indemnification obligation of Mortgagor under this Section 14(b) shall survive any discharge of this Mortgage and payment in full of the Notes. The provisions of Section 2.16 of the Mortgage shall be applicable to any action or proceeding brought by Mortgagor pursuant to this Section 14(b).

(c) In accordance with Section 4.01 of the Mortgage, Mortgagor shall fully cooperate with any inspection, review or audit conducted by Mortgagee of the Mortgaged Premises and its operations, and Mortgagor acknowledges that Mortgagee shall have the right (but not the obligation) to conduct any such audit, inspection or review as frequently as monthly.

15. Same Indebtedness; Maximum Principal Amount.

(a) Mortgagor and Mortgagee hereby certify that this Agreement secures the same indebtedness as is secured by the Consolidation Agreement as amended by the 1990 Modification and 1992 Modification, and no new or further indebtedness is secured by, or under any contingency may be secured by, the Mortgage.

(b) Notwithstanding anything to the contrary contained herein or in the Mortgage, the maximum amount of principal indebtedness secured by the Mortgage at the time of execution hereof, or which under any contingency may become secured by the Mortgage at any time hereafter, is One Hundred and Eighty Million Dollars (\$180,000,000).

(c) This Mortgage, in addition to the maximum principal indebtedness described above, secures interest due under the Notes and Out-of-Pocket Costs expended by the Mortgagee. As used

in this Section 15, "Out-of-Pocket Costs" shall mean (i) any and all sums actually paid or required to be paid by the Mortgagee for real estate taxes, taxes on rents or rentals or insurance premiums as provided in the Mortgage, and any and all other sums actually paid or required to be paid by the Mortgagee pursuant to the terms of the Mortgage to protect and preserve the Mortgaged Premises or the Mortgagee's interest therein, (ii) any and all sums, including, without limitation, judgments, settlements or compromises, reasonable attorneys' fees and other costs and expenses, paid by the Mortgagee in connection with any suit, action, legal proceeding or dispute of any kind, in which the Mortgagee is a party or appears, arising from or related to the lien of the Mortgage, and (iii) any amount, cost or charges with respect to which the Mortgagee becomes subrogated, upon payment, in respect of any lien which may affect the validity or priority of the Mortgage, whether under recognized principles of law or equity, or under express statutory authority.

16. No Waiver. Nothing contained in this Agreement shall be deemed

to constitute a waiver by Mortgagee of its rights under the Mortgage if any payment is not made strictly in accordance with the terms of the Notes or the Mortgage, as modified hereby. Nothing contained in this Agreement shall be deemed to constitute a waiver by Mortgagee of any right or remedy available to Mortgagee arising out of a default by Mortgagor under the Notes or the Mortgage, as modified hereby.

17. Recording Fees, etc. Mortgagor will pay or cause to be paid

all recording fees and taxes payable in connection with the execution, delivery and recording of this Agreement, the cost of any endorsement required by Mortgagee to the title insurance policy held by Mortgagee and the reasonable fees and expenses of Mortgagee's special counsel in connection with the preparation, execution and delivery hereof.

18. Application. Mortgagor and Mortgagee agree that each party has

performed all of its obligations under the Application, and that no obligations under the Application shall survive the execution and delivery of this Agreement, except to the extent expressly provided in this Agreement.

19. Ratification. Except as amended or modified hereby, the terms

and conditions of the Mortgage and the Notes are hereby ratified and confirmed in their entirety.

20. Successors and Assigns. This Agreement and all of the

covenants herein shall be deemed to be covenants running with the land and shall bind and inure to the benefit of the parties hereto and their successors and assigns.

21. Counterparts. This Agreement may be executed in several

counterparts, each of which shall constitute one and the same instrument.

22. Lien Law. This Agreement is made subject to the trust fund

provisions of Section 13 of the New York Lien Law.

23. Further Assurances. Mortgagor, at its expense, will execute,

acknowledge and deliver or cause to be executed, acknowledged and delivered all such instruments and take all such action as Mortgagee from time to time may reasonably request in order that Mortgagee may obtain the full benefits of this Agreement, the Notes, the Mortgage, the Consolidation Agreement, the Assignment of Rents, the Assignment of Leases, the Cash Collateral Agreement, the Environmental Indemnity and the other Loan Documents, and the full benefits of the rights, powers and remedies intended to be granted thereby.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Note and Mortgage Modification and Spreader Agreement to be duly executed as of the day and year first above written.

MORTGAGOR:

KENVIC ASSOCIATES, A New York
General Partnership

By: -----
Kenneth Gladstone, General
Partner of Kenvic Associates

By: -----
Lucille Gladstone, General
Partner of Kenvic Associates

By: Gladwater Associates, a
New York Limited Partnership,
as a General Partner of
Kenvic Associates

By: -----
Kenneth Gladstone,
as a General Partner of
Gladwater Associates

By: -----
Lucille Gladstone,
as a General Partner of
Gladwater Associates

By: Vic Associates, a New York
Limited Partnership, as a
General Partner of Kenvic
Associates

By: General Chemical and
Supply Co., Inc., as a
General Partner of Vic
Associates

By: -----
Title:

MORTGAGEE:

JOHN HANCOCK MUTUAL LIFE INSURANCE
COMPANY, a Massachusetts
corporation

By: _____
Title:

STATE OF NEW YORK)
 :
COUNTY OF NEW YORK) ss:

On this ___ day of December, 1995, before me personally came Kenneth Gladstone and Lucille Gladstone, to me known to be the persons who executed the foregoing instrument, and who, being duly sworn by me, did depose and say that they are general partners of Kenvic Associates, a general partnership duly organized under the laws of the State of New York, having its principal place of business at 875 Third Avenue, New York, New York 10022; and that they have authority to sign the foregoing instrument as general partners of, and for and in behalf of, Kenvic Associates, and they acknowledged to me that they executed the same as the act and deed of said firm.

Notary Public

STATE OF NEW YORK)
 :
 : ss:
COUNTY OF NEW YORK)

On this ___ day of December, 1995, before me personally came Kenneth Gladstone and Lucille Gladstone, to me known to be the persons who executed the foregoing instrument, and who, being duly sworn by me, did depose and say that they are the general partners of Gladwater Associates, a limited partnership duly organized under the laws of the State of New York, having its principal place of business at 875 Third Avenue, New York, New York 10022; that said limited partnership is a general partner of Kenvic Associates, a general partnership duly organized under the laws of the State of New York, having its principal place of business at 875 Third Avenue, New York, New York 10022; and that they have authority to sign the foregoing instrument in the firm name of Gladwater Associates, as a general partner of, and for and in behalf of, Kenvic Associates, and they acknowledged to me that they executed the same as the act and deed of said firms for the uses and purposes therein mentioned.

Notary Public

STATE OF NEW YORK)
 :
 : ss.:
COUNTY OF NEW YORK)

On this____day of December, 1995, before me personally
came_____, to me known, and who, being duly_____ sworn by me,
did depose and say that he resides at_____; that he
is the _____ of General Chemical and Supply Co., Inc., a Delaware
corporation, the general partner of Vic Associates, a limited partnership duly
organized under the laws of the State of New York, having its principal place of
business at 875 Third Avenue, New York, New York 10022; that Vic Associates is a
general partner of Kenvic Associates, a general partnership duly organized under
the laws of the State of New York, having its principal place of business at 875
Third Avenue, New York, New York 10022; that General Chemical and Supply Co.,
Inc., acting as a general partner of, and for and in behalf of, Vic Associates,
acting as a general partner of, and for and in behalf of, Kenvic Associates,
executed the foregoing instrument as the act and deed of said firms for the uses
and purposes therein mentioned.

Notary Public

COMMONWEALTH OF MASSACHUSETTS)
: ss.:
COUNTY OF SUFFOLK)

On this ____ day of December, 1995, before me personally came _____, to me known to be the person who executed the foregoing instrument, and who, being duly sworn by me, did depose and say that he resides at _____; that he is a _____ of John Hancock Mutual Life Insurance Company, the corporation described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the Board of Directors of said corporation, and that he signed his name thereto by like order.

Notary Public

Exhibit A-1

Exhibit B

Consolidated Mortgages

Exhibit C

Amendment and Restatement of First Seven Paragraphs of Notes

"FOR VALUE RECEIVED, KENVIC ASSOCIATES (the "Maker"), a general partnership formed under the laws of the State of New York, promises to pay to JOHN HANCOCK MUTUAL LIFE INSURANCE COMPANY (the "Payee") or order, the principal sum of ONE HUNDRED AND EIGHTY MILLION DOLLARS (\$180,000,000) with interest (computed on the basis of a 360-day year of twelve 30-day months) on the unpaid balance of such principal amount from and after January 1, 1996, (i) so long as

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no Event of Default (as defined in the Mortgage referred to below) shall have occurred and be continuing, at the rate of eight and seventy-five one-hundredths per centum (8.75%) per annum, and (ii) after such an Event of Default shall have

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occurred and while it be continuing, at the rate of thirteen and seventy-five one-hundredths per centum (13.75%) per annum, until such principal amount shall become due and payable (whether at maturity or on a date fixed for any installment payment or any prepayment or by declaration or acceleration or otherwise), payable in installments as provided below, and with interest on any overdue principal (whether during a grace period, if any, or otherwise) (including any overdue prepayment of principal) and premium, if any, and (to the extent permitted under applicable law) on any overdue interest (whether during a grace period, if any, or otherwise), at the rate of thirteen and seventy-five one-hundredths per centum (13.75%) per annum until paid, payable as provided below or, at the option of the holder hereof, on demand.

Payments of principal, premium, if any, and interest in respect of this Note shall be made in lawful money of the United States of America at the home office of the above-named Payee at John Hancock Place, P.O. Box 111, Boston, Massachusetts 02117, or at such other place within the United States as the holder hereof shall have designated to the Maker in writing.

This Note shall be payable by Maker to Payee (i) on January 10, 1996, in an amount equal to interest calculated at an annual rate of 9.75% per annum for the period from December 1, 1995 through and including December 31, 1995, (ii) on the first day of each calendar month commencing on February 1,

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1996 and ending on January 1, 2000, in installments of interest only in the amount of One Million Three Hundred Twelve Thousand Five Hundred Dollars (\$1,312,500) each, to be applied to accrued interest on the Notes, and (iii) on

the first day of each calendar month from and after February 1, 2000 through and including December 1, 2002, in installments of combined principal and

interest in the amount of One Million Four Hundred Sixteen Thousand Sixty Dollars and Seventy-Three Cents (\$1,416,060.73), with each of such installments to be applied first to the payment of accrued interest under the Notes, and then to the reduction of the outstanding principal amount due under the Notes. On January 1, 2003, Mortgagor shall pay to Mortgagee the entire outstanding principal amount due under the Notes, together with all interest accrued thereon, and all other sums and amounts payable in respect of the Notes and the Mortgage.

This Note evidences the same principal indebtedness that has been evidenced and secured by the notes and mortgages defined, respectively, as the "Existing Notes" and the "Existing Mortgages" in the Consolidation, Extension and Modification Agreement, dated as of May 11, 1988, between the Maker and the Payee (the "Consolidation Agreement"), and does not secure any new or further

principal indebtedness. The Existing Notes and the Existing Mortgages were consolidated, extended and modified by the Consolidation Agreement, and this Note does not represent any additional principal indebtedness other than the principal indebtedness which is included or under any contingency may be secured by the Existing Notes. The Consolidation Agreement, as amended by (i) that

certain Modification Agreement, dated as of May 30, 1990, (ii) that certain Note

and Mortgage Modification Agreement, dated as of July 23, 1992, and (iii) that

certain Note and Mortgage Modification and Spreader Agreement, dated as of December 29, 1995, and as further amended, modified or supplemented, from time to time, shall be referred to herein as the "Mortgage".

The holder of this Note is entitled to the benefits of the security provided for in the Mortgage and to which reference is made for a description of the properties and rights included in such security, the nature of such security and the rights of the holder of this Note and the Maker in respect of such security. The holder of this Note may enforce the agreements of the Maker contained in the Mortgage and exercise the remedies provided for thereby or otherwise in respect thereof, all in accordance with the terms thereof.

Upon not less than 30 nor more than 90 days' prior written notice to Payee, Maker may, at its option, prepay the entire (but not less than the entire) aggregate principal of this Note at the time outstanding, at the principal amount so prepaid, together with unpaid interest on this Note accrued to the date of such prepayment plus a premium equal to the greater of

- (i) the product obtained by multiplying (x) the difference

obtained by subtracting from 8.911% the yield rate

on United States Treasury Notes due on or about the maturity date of the Notes as such yield rate is reported in The Wall Street

Journal or other similar publication on the fifth business day

preceding the prepayment date or, if no yield rate on United States Treasury Notes is obtainable, at the yield rate of the issue most closely equivalent to United States Treasury Notes, as determined by Payee in its reasonable discretion and (y) the

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number of years and fraction thereof remaining from the prepayment date to the scheduled maturity date of this Note, and (z) the

-
amount of the prepaid principal balance; and

(ii) 1% of the amount of the prepaid principal balance.

In addition, on October 1, 2002 and on any day thereafter, upon not less than 30 days' prior written notice, Maker may prepay the entire (but not less than the entire) aggregate principal of this Note at the time outstanding, at the principal amount so prepaid, together with unpaid interest on this Note accrued to the date fixed for such prepayment, without premium.

Exhibit D

Environmental Indemnity and Agreement

CONTRIBUTION AGREEMENT

THIS CONTRIBUTION AGREEMENT (this "AGREEMENT") is made as of the 26th day

of November, 1997 (the "Effective Date"), among: (i) BOSTON PROPERTIES LIMITED PARTNERSHIP, a Delaware limited partnership ("BPLP"), (ii) BOSTON PROPERTIES L.L.C., a Delaware limited liability company ("BPLLC"), (iii) JOHN F. GRIFFIN, GEORGE G. MULLIGAN, BARBARA HUPPE, BARRY M. FITZPATRICK, DAVID E. SCHUTT, CHARLES A. SALCETTI, NANCY M. GRIFFIN, CAROLINE A. GRIFFITH, DAVID M. WHITMER, GEORGE H. BEUCHERT, III, CYNTHIA A. BENEDETTI, THE DONALD N. COUPARD REVOCABLE TRUST, and THE PATRICIA E. COUPARD REVOCABLE TRUST (each, individually, an "OWNER," and collectively, the "OWNERS"), and (iv) TECH PARK 270 PHASE III LIMITED PARTNERSHIP, a Maryland limited partnership, TECH PARK 270 LIMITED PARTNERSHIP, a Maryland limited partnership, DISCOVERLY TWO LIMITED PARTNERSHIP, a Maryland limited partnership, RESTON TOWN CENTER OFFICE PARK PHASE ONE LIMITED PARTNERSHIP, a Virginia limited partnership, MGA VIRGINIA 85-1 LIMITED PARTNERSHIP, a Virginia limited partnership, MGA VIRGINIA 86-2 LIMITED PARTNERSHIP, a Virginia limited partnership, DISCOVERLY FOUR LIMITED PARTNERSHIP, a Maryland limited partnership, DISCOVERLY FIVE LIMITED PARTNERSHIP, a Maryland limited partnership, DISCOVERLY SIX LIMITED PARTNERSHIP, a Maryland limited partnership, DISCOVERLY SEVEN LIMITED PARTNERSHIP, a Maryland limited partnership, RESTON CORPORATE CENTER LIMITED PARTNERSHIP, a Virginia limited partnership, and MGA VIRGINIA 86-1 LIMITED PARTNERSHIP, a Virginia limited partnership (each, individually, a "partnership," and collectively, the "PARTNERSHIPS"). (bplp and bpllc are sometimes hereinafter referred to as the "PURCHASERS".)

RECITALS:

A. TECH PARK 270 PHASE III LIMITED PARTNERSHIP, a Maryland limited partnership ("PARTNERSHIP 1"), is the owner of an office building containing approximately 59,838 square feet situated on approximately 4.29 acres of land with 206 parking spaces located at 930 Clopper Road in Gaithersburg, Maryland, as more particularly described on Exhibit A-1 ("PARCEL 1").

B. TECH PARK 270 LIMITED PARTNERSHIP, a Maryland limited partnership ("PARTNERSHIP 2"), is the owner of an office building containing approximately 180,650 square feet and the ground lessee under the terms of that certain Lease dated December 9, 1981, as amended (the

"Aetna Lease") and related loan documents (the "Aetna Loan Documents", which term shall include the Aetna Lease) by and between Aetna Life Insurance Company ("Aetna") and Partnership 2 concerning the approximately 10.68 acres of land with 620 parking spaces located at 910 Clopper Road in Gaithersburg, Maryland, as more particularly described on Exhibit A-2 ("Parcel 2").

C. Discoverly Two Limited Partnership, a Maryland limited partnership ("Partnership 3"), is the owner of an office building containing approximately 77,747 square feet situated on approximately 4.86 acres of land with 267 parking spaces located at 15200 Omega Drive in Rockville, Maryland, known as Discoverly #2, as more particularly described on Exhibit A-3 ("Parcel 3").

D. Reston Town Center Office Park Phase One Limited Partnership, a Virginia limited partnership ("Partnership 4"), is the owner of two office buildings containing an aggregate of approximately 261,046 square feet situated on approximately 17 acres of land with 994 parking spaces located at 12020/30 Sunset Hills Road in Reston, Virginia, as more particularly described on Exhibit A-4 ("Parcel 4").

E. MGA Virginia 85-1 Limited Partnership, a Virginia limited partnership ("Partnership 5") is the owner of an office building containing approximately 255,244 square feet situated on approximately 11 acres of land with 1452 parking spaces located at 12300 Sunrise Valley Drive in Reston, Virginia, known as the LMC Data Center, as more particularly described on Exhibit A-5 ("Parcel 5").

F. MGA Virginia 86-2 Limited Partnership, a Virginia limited partnership ("Partnership 6"), is the owner of an office building containing approximately 263,870 square feet situated on approximately 8 acres of land with 497 parking spaces located at 12310 Sunrise Valley Drive in Reston, Virginia, known as NIMA Reston Center, as more particularly described on Exhibit A-6 ("Parcel 6").

G. Discoverly Six Limited Partnership, a Maryland limited partnership ("Partnership 7"), is the owner of a parcel of undeveloped land containing approximately 3.22 acres and located at 9501 Key West Avenue in Rockville, Maryland, known as Discoverly #3, as more particularly described on Exhibit A-7 ("Parcel 7").

H. Discoverly Five Limited Partnership, a Maryland limited partnership ("Partnership 8"), is the owner of a parcel of undeveloped land containing approximately 6.86 acres and located at 9700 Discoverly Drive in Rockville, Maryland, known as Discoverly #6, as more particularly described on Exhibit A-8 ("Parcel 8").

I. Discoverly Seven Limited Partnership, a Maryland limited partnership ("Partnership 9"), is the owner of a parcel of undeveloped land containing approximately 7.54 acres

and located at 9509 Key West Avenue in Rockville, Maryland, known as Decoverly #7, as more particularly described on Exhibit A-9 ("Parcel 9").

J. Decoverly Four Limited Partnership, a Maryland limited partnership ("Partnership 10"), is the owner of a parcel of undeveloped land containing approximately 3.94 acres and located at 15215 Diamondback Drive in Rockville, Maryland, known as Decoverly #8, as more particularly described on Exhibit A-10 ("Parcel 10").

K. Reston Corporate Center Limited Partnership, a Virginia limited partnership ("Partnership 11"), is the owner of a parcel of undeveloped land containing approximately 5.6 acres and located at 12050 Sunset Hills Road in Reston, Virginia, known as the Reston Town Center Gateway Site, as more particularly described on Exhibit A-11 ("Parcel 11").

L. MGA Virginia 86-1 Limited Partnership, a Virginia limited partnership ("Partnership 12"), is the owner of a parcel of undeveloped land containing approximately 3.6 acres and located at 12280 Sunrise Valley Drive in Reston, Virginia, known as Sunrise Valley Drive Parcel "E-1," as more particularly described on Exhibit A-12 ("Parcel 12").

M. Partnerships 1 through 12 inclusive are sometimes hereinafter referred to individually as a "Partnership" and collectively as the "Partnerships"; the partnership interests in Partnerships 1 through 12 inclusive held by the Owners are sometimes hereinafter referred to as the "Partnership Interests"; Parcels 1 through 12 inclusive are sometimes hereinafter referred to individually as a "Parcel" and collectively as the "Parcels," which terms shall include the land and all improvements thereon, together with all rights and appurtenances pertaining to such land, including, without limitation, (i) all minerals, oil, gas, and other hydrocarbon substances thereon, (ii) all rights, titles and interests of Owners in and to adjacent strips, streets, roads, avenues, alleys and rights-of-way, public or private, open or proposed, including any rights in vault space adjacent to or within the boundaries of such land, (iii) all easements, covenants, privileges, and hereditaments, whether or not of record, and (iv) all access, air, water, riparian, development, utility, and solar rights.

N. The identity of the partners in each of the Partnerships and their respective percentage of Partnership Interests are set forth in Exhibit G hereto.

O. Boston Properties, Inc., a Delaware corporation ("BPI"), is the sole general partner of BPLP. BPLP is the managing member of BPLLC.

P. BPLP and BPLLC desire to acquire, and Owners desire to contribute, some or all of the Partnership Interests, upon and subject to the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the mutual promises hereinafter set forth and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Definitions. For purposes of this Agreement, unless the context

otherwise requires, the following terms shall have the meanings hereinafter set forth (such meanings to be applicable to the singular and plural forms of such terms and the masculine and feminine forms of such terms):

(a) "Accredited Investor" shall have the meaning set forth in Exhibit F hereto.

(b) "Additional Assessment" shall have the meaning set forth in Section 10.1 hereto.

(c) "Assessment" shall have the meaning set forth in Section 10.1 hereto.

(d) "BPLLC Closing Documents" shall be the documents set forth in Exhibit K-2.

(e) "BPLP Closing Documents" shall be the documents set forth in Exhibit K-1.

(f) "BPLP's Due Diligence and Contract Costs" shall mean, collectively and in the aggregate, all reasonable costs and expenses (including, without limitation, reasonable attorneys' and accountants' fees and related expenses) incurred by BPLP in connection with (x) BPLP's investigation of the Properties pursuant to Article 5 hereof or otherwise (including, without limitation, costs and expenses for title examination and for the preparation of surveys, environmental studies and other third party reports), (y) the preparation and negotiation of this Agreement, the exhibits attached hereto and the documents to be executed pursuant hereto, and (z) analysis of securities, tax and other transaction-related issues (including compensation for BPLP's in-house counsel provided such compensation does not exceed customary rates for comparable services)

(g) "Business Day" shall mean any day excluding Saturday, Sunday and any day which in the State of New York is a legal holiday or a day on which banking institutions are authorized by law or by other governmental actions to close.

(h) "Closing" shall have the meaning set forth in Section 13 hereto.

(i) "Closing Date" shall have the meaning set forth in Section 13 hereto.

- (j) "Closing Day Value" shall have the meaning set forth in Section 3.2(b) hereto.
- (k) "Common Stock" shall mean shares of common stock,, par value \$.01 per share, in Boston Properties, Inc.
- (l) "Contracts" shall have the meaning set forth in Section 8.1(a) hereto.
- (m) "Deposit" shall have the meaning set forth in Section 4.1 hereto.
- (n) "Effective Date" shall mean November 26, 1997.
- (o) "Environmental Law" shall mean: (i) the Comprehensive Environmental Response, Compensation, and Liability Act (42 U.S.C. (S)(S) 9601 et seq.), as amended; (ii) the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act (42 U.S.C. (S)(S) 6901 et seq.), as amended; (iii) the Emergency Planning and Community Right to Know Act (42 U.S.C. (S)(S) 11001 et seq.), as amended; (iv) the Clean Air Act (42 U.S.C. (S)(S) 7401 et seq.), as amended; (v) the Clean Water Act (33 U.S.C. (S)(S) 1251 et seq.), as amended; (vi) the Toxic Substances Control Act (15 U.S.C. (S)(S) 2601 et seq.), as amended; (vii) the Hazardous Materials Transportation Act (49 U.S.C. (S)(S) 1801 et seq.), as amended; (viii) the Federal Insecticide, Fungicide and Rodenticide Act (7 U.S.C. (S)(S) 136 et seq.), as amended; (ix) the Safe Drinking Water Act (42 U.S.C. (S)(S) 300f et seq.), as amended; (x) any state, county, municipal or local statutes, laws or ordinances similar or analogous to the federal statutes listed in parts (i) - (ix) of this Section 1(o); (xi) any amendments to the statutes, laws or ordinances listed in parts (i) - (x) of this Section 1(o) in effect as of the Effective Date; (xii) any rules, regulations, guidelines, directives, orders or the like adopted pursuant to or to implement the statutes, laws, ordinances and amendments listed in parts (i) - (xi) of this Section 1(o); and (xiii) any other law, statute, ordinance, amendment, rule, regulation, or order relating to environmental, health or safety matters.
- (p) "Environmental Reports" shall have the meaning set forth in Section 10.2(f) hereto.
- (q) "Equity Value" shall have the meaning set forth in Section 3.2 hereto.
- (r) "Escrow Agreement" shall have the meaning set forth in Section 4.1.
- (s) "Exchange Value" shall refer to the values for 100% of the respective Partnership Interests as set forth on Exhibit D hereto.
- (t) "Existing Indebtedness" shall have the meaning set forth in Section 3.8 hereto.

(u) "General Partners" shall mean the General Partners of each of the Partnerships respectively.

(v) "Governmental Authorities" shall mean any commission, department or body of any municipality, township, city, county, state or Federal governmental unit having jurisdiction over any of the Properties or the ownership, management, operation, use or improvement thereof.

(w) "Hazardous Conditions" refers to the presence on, in or about any of the Properties (including ground water) of Hazardous Materials, the concentration, condition, quantity, location or other characteristics of which fail to comply with applicable Environmental Laws.

(x) "Hazardous Material" shall mean any chemical, substance, waste, material, equipment or fixture defined as or deemed hazardous, toxic, a pollutant, a contaminant, or otherwise regulated under any Environmental Law, including, but not limited to, petroleum and petroleum products, waste oil, halogenated and non-halogenated solvents, PCBs, and asbestos and asbestos containing materials.

(y) "Improvements" shall mean all buildings, parking areas, signs, driveways, site improvements, structures and other improvements located on any Parcel.

(z) "Managing Owners" shall have the meaning set forth in Section 8.3 hereto.

(aa) "MGA" shall mean Mulligan/Griffin and Associates, Inc., a Maryland corporation.

(bb) "Owners Closing Documents" shall be the documents set forth in Exhibit J-1.

(cc) "Parcel" or "Parcels" shall have the meaning set forth in Recital M hereto.

(dd) "Partnership" or "Partnerships" shall have the meaning set forth in Recital M hereto.

(ee) "Partnership Closing Documents" shall be the documents set forth in Exhibit J-2.

(ff) "Partnership Interests" shall have the meaning set forth in Recital M hereto.

- (gg) "PCBs" shall have the meaning set forth in Section 10.2(e) hereto.
- (hh) "Permitted Exceptions" shall have the meaning set forth in Section 6.2 hereto.
- (ii) "Personal Property" shall mean all of Owners' right, title and interest, if any, in and to: (i) all signs, supplies, maintenance equipment, appliances, security systems, tools, decorations, furniture, furnishings, fixtures, equipment, machinery, mechanical systems, landscaping and other tangible and intangible personal property owned by Owners, located at and/or used in connection with the leasing, management, operation, maintenance and repair of the Properties, including, without limitation, the items listed on Exhibits B-1 through B-12 attached hereto; (ii) all site plans, surveys, plans and specifications, marketing materials and floor plans relating to the Properties; (iii) all warranties, guarantees and bonds relating to the Properties; (iv) all permits, licenses, certificates of occupancy, and other governmental approvals which relate to the Properties; and (v) any trade names used by Owners in connection with the Properties, other than Mulligan/Griffin and Associates, Inc. and derivatives thereof.
- (jj) "Property or Properties" shall mean, collectively, the Parcels, the Tenant Leases, and the Personal Property.
- (kk) "Registration Rights Agreement" shall have the meaning set forth in Section 3.5 hereto.
- (ll) "Rejected Interests" shall have the meaning set forth in Section 5.2 hereto.
- (mm) "Retained Indebtedness" shall have the meaning set forth in Section 3.8 hereto.
- (nn) "SEC" shall mean the Securities and Exchange Commission.
- (oo) "Study Period" shall have the meaning set forth in Section 5.1 hereto.
- (pp) "Subscription Agreement" shall mean the form attached as Exhibit F hereto.
- (qq) "Tenant Leases" shall mean the leases and subleases, if any, described in Exhibits N-1 through N-12 attached hereto, and all leases and subleases, if any, entered into by the Partnerships after the date hereof pursuant to and in accordance with Section 5.3 hereto.
- (rr) "Title Company" shall have the meaning set forth in Section 4.1 hereto.

(ss) "1245 Property" shall mean property classified by the Partnerships as 5 Year ACRS, 5 Year MACRS, 7 Year MACRS, and 15 Year MACRS property on the Partnerships' federal income tax returns.

(tt) "Units" shall have the meaning set forth in Section 3.1 hereto.

(uu) "USTs" shall have the meaning set forth in Section 10.2(d) hereto.

2. Assignment.

1 Upon and subject to the terms and conditions set forth in this Agreement, the Owners hereby agree to transfer and assign all of their Partnership Interests and the Purchasers hereby agree to acquire and accept the Partnership Interests such that BPLLC shall acquire a one percent (1.00%) general partner partnership interest in each of the Partnerships and BPLP shall acquire the remaining ninety-nine percent (99.00%) of partnership interests in each of the Partnerships.

2 Except as to Partnerships 4, 5 and 6, and subject to the terms and conditions set forth in Article 24, Purchasers shall have the right to elect by written notice to the appropriate Partnership(s) to acquire fee title to one or more of the Parcels, together with the related Tenant Leases and Personal Property, in lieu of acquiring the Partnership Interests in the Partnership which owns such Parcel or Parcels. In such event, BPLP shall be the Purchaser which acquires such Parcel or Parcels and related Tenant Leases and Personal Property.

3 Exchange Value.

1 The parties hereto have agreed upon the Exchange Value for 100% of the Partnership Interests for each of the Partnerships, and such agreed upon Exchange Values are set forth in Exhibit D attached hereto and made a part hereof. "Equity Value" shall be determined by subtracting the amount of Retained Indebtedness (as hereinafter defined) or Existing Indebtedness (as hereinafter defined), as the case may be, for such Partnership from the Exchange Value of 100% of the Partnership Interests for such Partnership, and further adjusted in accordance with the adjustments set forth in Article 15. Subject to the terms and conditions set forth herein, each Owner shall have the right to receive the Equity Value for the Partnership Interests held by such Owner either (i) all in cash, (ii) all in exchangeable ownership units in BPLP ("Units"), or (iii) partly in cash and partly in Units; provided, however, that at least \$50,000,000 (the "Required Unit Portion") of the aggregate Equity Value of the Partnership Interests shall be paid (whether to one or more Owners) in Units. Notwithstanding the foregoing, in the event that one or more of Partnerships 4, 5 or 6 are deleted from this Agreement under the terms of Article 5 or Section 12.2, the Required Unit Portion shall be reduced by one third (1/3) for each such Partnership which is deleted; provided, however, that the deletion of any Partnerships from this Agreement other than Partnerships 4, 5 or 6, shall not result in any reduction in the Required Unit Portion. The manner of payment shall be determined in accordance with an election made by Owners

under this Article 3 by delivering written notice to BPLP, which notice shall include an executed Subscription Agreement in the form attached hereto as Exhibit F from each Owner electing to take Units for all or any portion of the Equity Value of such Owner's Partnership Interests, at least twenty (20) days prior to Closing (as hereinafter defined); provided, however, that only Accredited Investors shall have the right to elect to receive Units.

2 The owners of Partnership Interests in Partnership 4, Partnership 5 and Partnership 6 (the "Reston Partnership Owners") intend to receive the Equity Value of their respective Partnership Interests as follows: certain of the Reston Partnership Owners who are Accredited Investors intend to receive the Equity Value of their Partnership Interests entirely in Units; other Reston Partnership Owners who are Accredited Investors intend to receive the Equity Value of their respective Partnership Interests partly in cash and partly in Units in an accredited offering transaction; and the remaining Reston Partnership Owners intend to receive the Equity Value of their respective Partnership Interests entirely in cash. The manner of payment shall be determined in accordance with an election made by the Reston Partnership Owners who are Accredited Investors by written notice to BPLP at least twenty (20) days prior to Closing. For the Reston Partnership Owners the following shall apply:

(a) With respect to any Reston Partnership Owners who have elected to receive all or part of the Equity Value of their respective Partnership Interests in cash, such cash shall be paid to or on behalf of such Reston Partnership Owners by BPLP at Closing, in accordance with Section 3.3.

(b) The Reston Partnership Owners who are Accredited Investors and have elected to receive all or a portion of the Equity Value of their respective Partnership Interests in Units shall be paid the amount so elected by the issuance of Units to such Reston Partnership Owners at Closing in an accredited offering transaction. The number of Units to be issued to such Reston Partnership Owners will be determined at Closing, and will be based on the average of the closing prices of Common Stock on the New York Stock Exchange for the twenty (20) trading days immediately preceding the day prior to the day of Closing (the "Closing Day Value"), subject to the provisions of Section 3.9 hereof. During the 20-day period described in this Section 3.2(b), neither Purchasers nor any of their respective affiliates will purchase Common Stock in a public trading transaction; and neither Owners nor any of their respective affiliates will sell Common Stock in a public trading transaction.

3 Except as otherwise provided in Sections 3.2 and 3.4, all Owners shall receive the Equity Value of their respective Partnership Interests in cash in the following manner. The Exchange Value for the Partnership Interests in each Partnership (other than Partnerships 4, 5 and 6) shall be paid in cash at Closing to the Title Company, at which time the Title Company shall deduct from the Exchange Value for the Partnership Interests in each Partnership all sums necessary to pay in full and retire the Existing Indebtedness owed by the Partnership in which such Owners have their respective Partnership Interests so that all liens securing such Existing Indebtedness are released. The Equity Value for the Partnership Interests in such Partnerships

shall then be paid to or on behalf of the Owners of such Partnership Interests in accordance with Section 3.11. Notwithstanding the foregoing, in the event that the Reston Partnership Owners have not made an election to receive Units in a sufficient amount to meet the Required Unit Portion, Owners of other Partnership Interests who are Accredited Investors shall make an election to receive Units under this Section 3.3 in an amount sufficient to satisfy the Required Unit Portion.

4 Notwithstanding the foregoing, any Owner who is an Accredited Investor may elect to receive Units in the amount of all or a portion of the Equity Value of its respective Partnership Interests by delivering written notice (including an executed Subscription Agreement) to BPLP of such election at least twenty (20) days prior to Closing.

5 Commencing on the 375th day after the Closing Date, the Units of BPLP which are issued to Owners pursuant to the terms of this Article 3 shall be redeemable on the terms set forth in the Amended and Restated Agreement of Limited Partnership of Boston Properties Limited Partnership, dated as of June 23, 1997, as amended (the "BPLP Partnership Agreement"). At Closing, Purchasers and BPI will enter into a Registration Rights Agreement with all Owners receiving Units, which Registration Rights Agreement will be substantially in the form of Exhibit H attached hereto.

6 To the extent of the Units issued to Owners in exchange for the Equity Value of the Partnership Interests, the parties hereto intend, to the extent permitted by law, that such exchange shall be treated as a contribution of property in accordance with Internal Revenue Code Section 721.

7 Intentionally Deleted.

8 For purposes of this Agreement, "Existing Indebtedness" shall mean the indebtedness or obligations, other than Retained Indebtedness, secured by any and all outstanding mechanics' liens, deeds of trust, mortgages, judgment liens, liens for taxes which are due and payable as of the Closing Date, and any other monetary liens encumbering the Property owned by each respective Partnership as of the Closing Date. "Retained Indebtedness" shall mean the existing two loans made by The Prudential Insurance Company of America ("Prudential"), which are secured by a deed of trust against Parcel 5 in the principal amount of approximately Forty-Two Million Four Hundred Eighteen Thousand One Hundred Eighty-Nine Dollars (\$42,418,189) and two deeds of trust against Parcel 6 in the aggregate principal amount of approximately Forty-Eight Million Eight Hundred Forty-Four Thousand Nine Hundred Forty-Four Dollars (\$48,844,944) as of the Closing Date and described more fully on Exhibit C, and the existing loan made by Lutheran Brotherhood which is secured by a deed of trust against Parcel 4 in the outstanding principal amount of approximately Twenty-One Million Nine Hundred Ninety-Nine Thousand Two Hundred Fifty-Seven Dollars (\$21,999,257) as of the Closing Date and described more fully on Exhibit C. It is understood and agreed that the Owners of Partnerships 5 and 6 shall not have any obligation to release or repay the Retained

Indebtedness from Prudential (except insofar as the amount of such indebtedness is deducted from the Exchange Value of such Partnership Interests). Purchasers shall negotiate with Prudential regarding the repayment, modification or continuation of such loans, and Purchasers shall pay all costs, expenses and prepayment penalties that may be required in connection with such repayment, modification or continuation.. It is further understood and agreed that the Owners of Partnership 4 shall not have any obligation to release or repay the Retained Indebtedness from Lutheran Brotherhood (except insofar as the amount of such indebtedness is deducted from the Exchange Value of such Partnership Interests); however, if Lutheran Brotherhood shall require the payment of any prepayment penalties or other expenses pursuant to the terms of a payoff letter obtained by the Title Company for use at Closing, the total amount of such penalties and expenses set forth in such payoff letter shall be deducted from the Equity Value of the Partnership Interests in Partnership 4. Following such deduction, the Owners of Partnership 4 shall not have any further liability on account of such prepayment penalties or expenses. Managing Owners shall cooperate with the Purchasers in any efforts to avoid an acceleration of the Retained Indebtedness but such cooperation shall not be a condition to Closing.

9 The parties hereto agree that (i) in the event that the actual Closing Day Value is less than \$30.00 per share, the number of Units to be issued to an Owner under the terms of this Article 3 shall be determined as though the Closing Day Value is \$30.00 per share; and (ii) in the event that the actual Closing Day Value exceeds \$36.00 per share, the number of Units to be issued to an Owner under the terms of this Article 3 shall be determined as though the Closing Day Value is \$36.00 per share. If the Closing Day Value is any amount between \$30.00 and \$36.00, inclusive, the number of Units to be issued shall be based on the actual Closing Day Value.

10 In the event that the Purchasers acquire all of the Partnership Interests and/or Parcels, as the case may be, and do not reject any Partnership Interests or Parcels pursuant to Articles 5 or 19 below, BPLP agrees to pay, in addition to the aggregate Exchange Value set forth in Exhibit D, an additional sum in the amount of One Million Five Hundred Thousand Dollars (\$1,500,000) (the "Transaction Fee"), which shall be paid to MGA. In the event that one or more Partnerships and/or Parcels have been deleted from this Agreement in accordance with Articles 5 or 19, the Transaction Fee payable to MGA shall be reduced in the proportion that the Exchange Value of the deleted Partnership or Partnerships bears to the aggregate Exchange Value of all of the Partnerships.

11 Notwithstanding any provision in this Article 3 to the contrary, all cash payments to be made to any of the Owners in accordance with this Article 3 shall be delivered to MGA for distribution to the individual Owners, and Purchasers shall not have any further responsibility for the distribution of such payments to such Owners.

12 The parties hereto agree that the Exchange Value for each Partnership shall be allocated to the land owned by such Partnership in an amount equal to \$30 per square

foot and the balance of the Exchange Value shall be allocated to the Improvements thereon. No value shall be attributed to any 1245 Property.

13 [The Equity Values payable to Owners under this Agreement shall be in accordance with their respective Interests.]

14 Deposit.

1 Purchasers have placed in escrow with Commercial Settlements, Inc., 1413 K Street, N.W., Washington, D.C. 20005 (the "Title Company") the sum of Four Hundred Fifty Thousand Dollars (\$450,000), representing an initial deposit, and subject to the terms of that certain Escrow Agreement (the "Escrow Agreement") dated November 14, 1997, a copy of which is attached hereto as Exhibit E. Within three (3) Business Days of the Effective Date, Purchasers shall deliver an additional One Million Three Hundred Fifty Thousand Dollars (\$1,350,000), representing an additional deposit (the initial deposit and the additional deposit, together with accrued interest thereon, is hereinafter referred to as the "Deposit").

2 The Title Company is hereby directed to invest the Deposit in an interest-bearing account acceptable to Purchasers. Interest earned on the Deposit shall belong solely to Purchasers and shall be accounted for separately, but accumulated and reinvested with the Deposit. The Deposit shall be disbursed by the Title Company in accordance with the terms and conditions of this Agreement and the Escrow Agreement.

3 Study Period.

1 For purposes of this Agreement, the term "Study Period" shall mean the period commencing on October 14, 1997 and ending at midnight on December 23, 1997, as the same may be extended pursuant to Section 10.1 or by mutual agreement of Purchasers and Owners. Notwithstanding the foregoing, Purchasers shall have the right in their sole discretion to extend the foregoing date to December 31, 1997 by giving written notice of such extension to Owners no later than December 20, 1997. If by the expiration of the Study Period, Purchasers, in their sole and absolute discretion, shall elect not to proceed to Closing for any reason whatsoever, then Purchasers shall have the right to terminate this Agreement by giving written notice of termination to the Owners on or before such date, whereupon this Agreement shall automatically terminate, the Deposit shall be returned to Purchasers, and neither party shall have any further rights or obligations under this Agreement, except as expressly set forth in Section 5.5 and Article 23 of this Agreement.

2 If prior to the expiration of the Study Period, Purchasers, in their sole and absolute discretion, shall determine that their intended acquisition of any one or more of the Partnership Interests and/or Parcels (the "Rejected Interests") is not economically or otherwise feasible or advisable at the Exchange Value for such Partnership Interests and/or Parcel set forth in Exhibit D, then Purchasers shall so advise Owners by written notice to the Owners, in which

event the parties shall use good faith efforts to agree on a revised Exchange Value for such Rejected Interests, or such other modified terms and conditions as may be appropriate, including but not limited to the deletion of such Rejected Interests from this Agreement. In the event that Purchasers and the Owners of the Rejected Interests reach an agreement on a revised Exchange Value of such Rejected Interests or other modifications to the terms and conditions of acquisition of such Rejected Interests, an Amendment to this Agreement shall be executed by Purchasers and the Owners of the Rejected Interests; in no event shall the consent of any Owner other than the Owners of the Rejected Interests be required for such Amendment, nor shall the signatures of such other Owners be required to make such Amendment effective. In the event that Purchasers and the Owners of the Rejected Interests agree to delete such Rejected Interests from this Agreement, such Rejected Interests shall no longer be subject to this Agreement, but this Agreement shall otherwise continue in full force and effect with respect to the other Partnerships and the Parcels they own. If the Owners of the Rejected Interests and Purchasers fail to reach an agreement regarding the Rejected Interests in accordance with this Section 5.2 on or before January 8, 1998, this Agreement shall terminate on January 8, 1998, the Deposit shall be returned to Purchasers, and neither party shall have any further rights or obligations under this Agreement, except as expressly set forth in Section 5.5 and Article 23 of this Agreement.

3 Until Closing hereunder, Purchasers and their agents and representatives shall have the right, at Purchasers' own cost and expense: (i) to have full and complete access, during normal business hours and with reasonable advance notice to Managing Owners, to inspect Partnerships' books, records, files, operating reports and other information relating to the Partnerships and the Properties, and related correspondence files; (ii) to enter upon the Properties during normal business hours, subject to the rights of tenants under the Tenant Leases (as hereinafter defined) and using best efforts to avoid causing an unreasonable disruption of the operations of the Properties, to make such inspections of the Partnerships and the Properties as Purchasers deem necessary or desirable in connection with the transaction contemplated by this Agreement, provided that a representative of the Partnerships shall have the right to be present during such inspections; and (iii) to conduct interviews with tenants under the Tenant Leases provided that a representative of the Partnerships shall have the right to be present at such interviews. As used in this Agreement, "Tenant Leases" shall mean the leases and subleases, if any, described in Exhibits N-1 through N-12 attached hereto, and all leases and subleases, if any, entered into by the Partnerships after the date hereof pursuant to and in accordance with the terms hereof. In addition, Managing Owners agree to make available to Purchasers all of the following documents which are in the Partnerships' or their agents' possession, and to request that the Partnerships' architects, engineers and consultants make available to Purchasers such of the following documents which are in their respective possession: all of the records of such architects, engineers and consultants related to the Properties, and the physical and environmental condition thereof, including all surveys, plans and specifications, and reports and to otherwise cooperate with Purchasers in their inspection and investigation of the Properties, and Purchasers shall have the right to make copies of the same, at their own cost and expense. In no event shall Purchasers be obligated to pay any fees to the Partnerships or Owners on account of their making such records available.

4 The Partnerships hereby grant to Purchasers, their employees, agents, consultants and contractors, the right to enter on to the Properties for the purpose of performing such surveys, soil tests, hydrology tests, percolation tests, environmental tests, and other engineering tests or environmental investigations as Purchasers may reasonably deem appropriate. Such entry shall be subject to the terms of an Access Letter agreement in the form attached hereto as Exhibit Q, which shall be signed before such entry by all third party consultants. Purchasers agree to pay all of the costs and expenses associated with its investigation and testing and to repair and restore any damage to the Properties caused by Purchasers' investigations or testing, at Purchasers' expense.

5 Purchasers also agree to hold the Partnerships harmless from all costs, expenses and liabilities arising out of Purchasers' entry on the Properties, except that Purchasers shall have no responsibility to the Partnerships and are hereby released from liability by the Partnerships for any damage to persons or property or any release arising out of existing environmental conditions or subterranean structures or utilities that were known to Owners and/or the Partnerships and not disclosed to Purchasers as provided below.

6 Soil, rock, water, asbestos, and other samples taken from the Properties shall remain the property of the Partnerships. At the request of the Managing Owners, Purchasers will assist in making arrangements for the lawful disposal of any contaminated samples and will pay any related transportation or disposal fees, but only if the Managing Owners sign the manifest and any other documents required in connection with the disposal of contaminated samples. If the Managing Owners are not willing to sign the required documentation, Purchasers' only obligation shall be to return the contaminated samples to the Partnerships. Any investigation or inspection conducted by Purchasers or any agent or representative of Purchasers pursuant to this Agreement in order to verify independently the Managing Owners' satisfaction of any conditions precedent to Purchasers' obligation hereunder or to determine whether the Managing Owners' representations and warranties are true and accurate shall not affect or constitute a waiver by Purchasers of any of the Managing Owners' obligations hereunder or Purchasers' reliance thereon.

7 Managing Owners have delivered to Purchasers or shall have made available and shall continue to make available to Purchasers true, correct and complete copies of the following for each Partnership and each Parcel:

(a) All Tenant Leases, including, without limitation, amendments, side letters, option exercise letters and other documents, certificates or instruments applicable to any of the Tenant Leases, and copies of all pending lease proposals.

(b) A current rent roll or other documents, reflecting as of the date thereof, with respect to each of the Tenants: (i) suite and building number or address; (ii) name of tenant; (iii) monthly rental (including fixed rent and escalation payments); (iv) the amount of such tenant's security deposit (and any other deposits), if any; (v) the date through which each tenant's

rent is paid; (vi) the expiration date of such tenant's lease; (vii) any rents or other charges in arrears or prepaid thereunder and the period for which such rents and other charges are in arrears or have been prepaid; (viii) any free rent or other rental concessions thereunder and the period to which the same apply and any outstanding tenant improvement or build out allowances or obligations; (ix) the utilities which are furnished as part of the rent; (x) broker's fees or commission, if any, attributable to the lease; (xi) renewal and expansion options, if any; and (xii) square footage of leased premises.

(c) Financial information and records for the Properties for calendar year 1996 and the first three quarters of calendar year 1997, together with the books and records for the Partnerships and the Properties, including historical property and operating statements, tax bills, capital expenditure records and maintenance records of the Properties.

(d) As-built plans and specifications for the improvements on the Properties, to the extent reasonably available.

(e) Copies of all contracts, agreements, equipment leases, service and maintenance agreements, and vendor contracts listed on Exhibits L-1 through L-12 attached hereto.

(f) Copies of Partnerships' existing title policies for the Properties, together with legible copies of all documents referred to in the title reports or policies.

(g) Copies of existing "as-built" surveys of the Properties, any readily available topographical information and traffic studies in Partnerships' or their property managers' possession.

(h) All environmental reports and studies in the Partnerships' possession (including, without limitation, all analytical data, remediation design, modeling, boring logs, correspondence, submissions and responses to or from regulatory authorities) and notices and asbestos reports and all reports, proposals and/or notices relating to the physical condition of the Properties, including, without limitation, any soils reports, engineering, architectural or other structural reports or studies and similar data relating to the Properties in the Partnerships' possession.

(i) Existing fire and casualty insurance policies (or summaries thereof).

(j) All information concerning any pending real estate tax assessment protests and proceedings.

(k) All agreements relating to leasing commissions affecting the Properties and a list of leasing commissions to be discharged by the Partnerships pursuant to Section 8.1(b).

(l) Copies of all promissory notes, mortgages, deeds of trust and other documents relating thereto including, without limitation, encumbrances or documents evidencing and/or securing indebtedness affecting the Properties, and copies of any applicable interest rate "swap" agreements.

(m) Copies of all construction contracts or other agreements to which any Partnership or its respective agent is a party relating to any ongoing construction work, repairs or renovations being done to any Improvements at the Properties.

(n) Copies of all agreements, proffers, if any, and other non-public documents relating to land use restrictions or other conditions limiting or otherwise affecting development of the Properties.

(o) Copies of all unexpired warranties and guaranties covering the Personal Property and the roof, elevators, heating and air conditioning systems and any other components of the Improvements, and a list and description of any material third party bonds, warranties and guaranties which will be in effect after Closing with respect to the Properties, including, without limitation, the Improvements.

(p) Copies of all certificates of occupancy, approvals, licenses and permits. Notwithstanding the foregoing, the parties acknowledge that Managing Owners may not be able to locate certain certificates of occupancy for the Improvements on Parcel 2 , as set forth in Exhibit R.

(q) Copies of any and all written claims, demands or notices from any third party which concern or otherwise affect the Properties received by any Partnership since January 1, 1995, or earlier if unresolved, including, without limitation, written notice of potential litigation, written notices from any Governmental Authority, copies of any reports issued by the local fire marshall regarding inspection of the Improvements during the Partnerships' ownership of the Properties and a list of major repairs (excluding tenant improvements) and major casualties occurring during the Partnerships' ownership of the Properties, together with any internal lists of claims or anticipated litigation related to the Properties prepared by or on behalf of the Partnerships.

(r) True and complete copies of the limited partnership agreement and certificate of limited partnership for each Partnership, as well as any fictitious name or similar filings, including all amendments to the foregoing, certified as true and complete by a General Partner of each Partnership.

(s) Copies of all federal and state income tax returns for each of the Partnerships for the most recent three (3) years.

8 Prior to the end of the Study Period, Purchasers shall provide written notice to the Owners of the Partnership Interests in Partnership 12 (the "Partnership 12 Owners") of Purchasers' good faith estimate of the present value of the charges required to be paid (the "Parking Space Cost") under that certain Contract to Design and Construct (MGA II Parking Garage), dated May 5, 1992, by and between Partnership 5 and General Electric Company, pursuant to which 413 parking spaces are to be made available in connection with the future development of Parcel 12. The Partnership 12 Owners shall respond to such notice within five (5) days of receipt thereof. In the event that the Partnership 12 Owners agree to the Parking Space Cost, the Exchange Value for Parcel 12 as set forth in Exhibit D shall be reduced by the amount of the Parking Space Cost. In the event that the Partnership 12 Owners and Purchasers agree on a revised Exchange Value for the Partnership Interests in Partnership 12 or other modifications to the terms and conditions of acquisition of such Partnership 12 Partnership Interests, an Amendment to this Agreement shall be executed by the Partnership 12 Owners and Purchasers; in no event shall the consent of any Owner other than the Partnership 12 Owners be required for such Amendment, nor shall the signatures of such other Owners be required to make such Amendment effective. In the event that the Partnership 12 Owners and Purchasers are unable to agree on the Parking Space Cost on or before January 8, 1998, either party shall have the right to terminate this Agreement on January 8, 1998, by written notice of such termination to the other party, whereupon the Deposit shall be returned to Purchasers and the parties shall have no further rights or obligations under this Agreement except as set forth in Section 5.4 and Article 23.

9 Title.

1 Purchasers shall obtain a commitment (a "Commitment") for an endorsement to the existing owner's policy of title insurance covering each of the Properties or for a new owner's policy of title insurance, if necessary, extending the coverage of each policy to the date of Closing and including such additional endorsements as Purchasers may require, including but not limited to a non-imputation endorsement. In addition Purchasers shall obtain a current survey of each of the Properties (each, a "Survey") prepared by a licensed surveyor. Each Survey shall be prepared in accordance with the current standards for Land Title Surveys of the American Title Association and the American Congress on Surveying and Mapping and shall be certified to Purchasers, the Owners and the Title Company.

2 Purchasers shall have the right to object, in their sole and absolute discretion, to any exceptions to title, or to any matter shown on any Survey, by giving written notice to the Managing Owners on or before thirty (30) days after the Effective Date, or in any event in a timely manner such that the hereinafter described notice and response periods will be completed no later than the end of the Study Period. If Purchasers fail to provide such written objection, then Purchasers shall be deemed to have approved all matters affecting title to the Properties and the Surveys as of the date of the Commitment or the Survey, as applicable (the "Permitted Exceptions", which term shall include the Retained Indebtedness), subject to the right to deduct from the Exchange Value funds necessary to satisfy any Existing Indebtedness, which

in no event shall be considered Permitted Exceptions. The Owners hereby irrevocably authorize the Title Company to deduct from the Exchange Value at Closing all sums necessary to pay off and discharge any and all Existing Indebtedness.

3 If Purchasers timely object to any matter (other than the Permitted Exceptions) affecting title or any Survey, then the Managing Owners shall, within ten (10) days after the date of Purchasers' notice, notify Purchasers in writing of whether the Managing Owners will endeavor to cure or remove any one or more of such objections. If the Managing Owners either elect not to cure Purchasers' title objections or fail to provide timely notice of whether they elect to cure such objections, then Purchasers shall have the option of either (i) waiving the objections (in which case such exceptions shall thereafter be treated as Permitted Exceptions) and proceeding to Closing or (ii) terminating this Agreement whereupon the Deposit shall be returned to Purchasers and the parties shall have no further rights or obligations hereunder other than those set forth in Section 5.5 and Article 23. If the Managing Owners elect to endeavor to cure or remove any title objection or survey matter, the Managing Owners shall be obligated to cure or remove same on or prior to the Closing Date.

4 Nothing set forth in this Article 6 shall limit Purchasers' right to terminate this Agreement for any reason by delivering written notice of termination to the Owners at any time prior to the expiration of the Study Period.

5 Authority.

1 Relating to Owners. Each Owner hereby represents and warrants to Purchasers and to all other Owners that: (i) this Agreement is, and all "Owners Closing Documents" to be executed by such Owner will be when executed by such Owner, binding on and enforceable against such Owner in accordance with their respective terms; (ii) there are no other consents required to authorize such Owner's entry into and performance of this Agreement, the Owners Closing Documents to be executed by such Owner and/or the transactions contemplated hereby or thereby; and (iii) the execution and delivery of the Owners Closing Documents does not constitute a breach or default under any agreement by which such Owner or its Partnership Interests is bound other than the loan documents evidencing the Retained Indebtedness and the Aetna Loan Documents. In addition, each Owner hereby represents and warrants to Purchasers and to all other Owners that the Partnership Interests being assigned by such Owner are not subject to any liens or encumbrances and that such Owner has the right and authority to assign such Partnership Interests. The foregoing representations and warranties shall survive Closing for the period specified in Section 21.3. Notwithstanding the foregoing, Purchasers agree that (i) obtaining the consent of Prudential to the transfer of the Partnership Interests of Partnerships 5 and 6 shall not be a condition precedent to Closing, nor shall Owners' inability to obtain such consent be deemed a breach or default hereunder, and (ii) any costs and expenses payable to Prudential in connection with any prepayment of the Prudential loans which may be required because of the acquisition by Purchasers of the Partnership Interests in Partnerships 5 and 6 shall be borne solely by Purchasers.

2 Relating to Partnerships. Each Partnership hereby represents and warrants to Purchasers that: (i) this Agreement is, and all "Partnership Closing Documents" to be executed by a General Partner of such Partnership will be when executed by such General Partner, binding on and enforceable against such Partnership in accordance with their respective terms; (ii) all consents required to authorize such Partnership's entry into and performance of this Agreement, the Partnership Closing Documents to be executed by such General Partner and/or the transactions contemplated hereby or thereby have been obtained; and (iii) the execution and delivery of the Partnership Closing Documents does not constitute a breach or default under any agreement by which such Partnership or its Property is bound, other than the loan documents evidencing the Retained Indebtedness and the Aetna Loan Documents. In addition, each Partnership hereby represents and warrants to Purchasers that any Parcel being conveyed by such Partnership under the provisions of this Agreement is not subject to any liens or encumbrances (other than Permitted Exceptions) and that such Partnership has the right and authority to convey such Parcel. The foregoing representations and warranties shall survive Closing for the period specified in Section 21.3.

3 Relating to BPLP. BPLP represents and warrants to Owners that: (i) this Agreement is, and all documents, affidavits and certificates to be executed and delivered by BPLP as set forth on Exhibit K-1 hereto ("BPLP Closing Documents") will be when executed by BPLP, binding on and enforceable against BPLP, in accordance with their respective terms; (ii) BPLP is a duly formed and validly existing limited partnership under the laws of the State of Delaware and is qualified to do business in the States of Maryland and Virginia; (iii) this Agreement, the BPLP Closing Documents, and the transactions contemplated hereby and thereby have been, or will have been prior to the Closing Date, approved by all necessary action of BPLP; and (iv) the execution and delivery of the BPLP Closing Documents does not constitute a breach or default under any agreement by which BPLP is bound. The foregoing representations and warranties shall survive Closing for the period specified in Section 21.3.

4 Relating to BPLLC. BPLLC represents and warrants to Owners that (i) this Agreement is, and all documents, affidavits and certificates to be executed and delivered by BPLLC as set forth on Exhibit K-2 hereto ("BPLLC Closing Documents") will be when executed by BPLLC, binding on and enforceable against BPLLC, in accordance with their respective terms; (ii) BPLLC is a duly form and validly existing limited liability company under the laws of the State of Delaware and is qualified to do business in the States of Maryland and Virginia; (iii) this Agreement, the BPLLC Closing Documents, and the transactions contemplated hereby and thereby have been, or will have been prior to the Closing Date, approved by all necessary action of BPLLC; and (iv) the execution and delivery of the BPLLC Closing Documents does not constitute a breach or default under any agreement by which BPLLC is bound. The foregoing representations and warranties shall survive Closing for the period specified in Section 21.3.

5 Representations and Warranties.

1 The Managing Owners (to the extent provided in Section 8.3) represent and warrant all of the representations and warranties set forth below and, in addition, the General Partners of the Partnerships ("General Partners") each make the following representations and warranties solely with respect to each Partnership of which he is the General Partner and/or the Parcel owned by such Partnership, which representations and warranties are true and correct on and as of the Effective Date of this Agreement, shall be true and correct in all material respects on and as of the Closing Date, subject to Section 8.4, and shall survive Closing for the respective periods specified in Section 21.3:

(a) **CONTRACTS.** Each of Exhibits L-1 through L-12 attached hereto is a complete list of all current contracts entered into by the Partnerships or the Partnerships' agents relating to the ownership, management, leasing, operation, maintenance or repair of each of the Properties (such contracts, together with all contracts entered into after the date hereof pursuant to Section 9.1, are hereinafter collectively referred to as the "CONTRACTS"), which lists include the names of the contracting party, the dates of the Contracts and a listing of all amendments to such Contracts.

(b) **LEASING COMMISSIONS.** On the Closing Date, except as otherwise set forth on Exhibits N-1 through N-12, there shall be no leasing commissions due or owing, or to become due and owing, in connection with any of the Tenant Leases. The Partnerships shall pay and discharge in full at or before Closing all obligations to pay any leasing commissions with respect to the existing Tenant Leases, other than leasing commissions and other fees: (i) for which Purchasers have expressly agreed to pay, as set forth in Exhibits N-1 through N-12; (ii) which are approved by Purchasers in connection with a new Tenant Lease as described in Section 9.1 of this Agreement or (iii) which Purchasers have agreed to accept in connection with Parcel 4, as set forth in Exhibit L-4.

(c) **FINANCIAL INFORMATION.** Exhibits M-1 through M-12 attached hereto contain true and correct Statements of Profit and Loss of each Partnership with respect to each Partnership's Property for the calendar years of 1994, 1995 and 1996. Such Statements properly reflect the profit and loss from the management, leasing, maintenance, repair and operation of such Property for such periods.

(d) **TENANT LEASES.**

(i) Each of Exhibits N-1 through N-12 attached hereto is a true and complete list of all Tenant Leases for each Property, including the name of the tenant, the date of the Tenant Lease and a complete list of all amendments, side letters, option exercise letters and any other documents, certificates or instruments which may create future obligations under any of the Tenant Leases. The Tenant Leases identified on Exhibits N-1 through N-12 are the only leases or other rights or grants of occupancy by Partnerships or General Partners of all or any part of the Properties.

(ii) Each of Exhibits N-1A through N-12A attached hereto contains a complete list of all current rental delinquencies under the Tenant Leases for each Property as of the close of the month immediately preceding the Effective Date. The Managing Owners agree to provide to Purchasers an updated list of rental delinquencies ten (10) days prior to the end of the Study Period and at Closing, both of which shall be certified by the Managing Owners as true, correct and complete in all material respects.

(iii) Except as set forth on Exhibits N-1 through N-12 or in the lease documents identified thereon, there are no concessions, rebates, or "free" or "reduced" rent periods (whether oral or written) of any kind whatsoever under any of the Tenant Leases which would have an effect on or after the Closing Date, and, except as contained in (i) that certain Lease Agreement by and between MGA Virginia 85-1 Limited Partnership, as Landlord, and General Electric Company ("GE"), as Tenant, dated June 1, 1987, with regard to Parcel 5, as assigned to Lockheed Martin Corporation ("LMC"), as successor by merger to Martin Marietta Corporation ("MMC"), (ii) that certain Lease Agreement by and between MGA Virginia 86-2 Limited Partnership, as Landlord, and GE, as Tenant, dated January 1, 1988, with regard to Parcel 6, as assigned to LMC, as successor by merger to MMC, (iii) that certain Second Amended and Restated Lease Agreement by and between Reston Town Center Office Park Phase One Limited Partnership, as Landlord, and The United States of America, as Tenant, dated September 15, 1993, with regard to Parcel 4, and (iv) the Aetna Lease with regard to Parcel 2, none of the tenants or any other person or entity has a right of first refusal, option right, or other right to purchase all or any portion of the Properties.

(iv) Except as otherwise set forth on Exhibits N-1 through N-12 or Exhibits N-1A through N-12A, none of the tenants under the Tenant Leases is in default as of the close of the month immediately preceding the Effective Date as to any monetary obligation under its Tenant Lease beyond any grace period provided for in its Tenant Lease and, to the best of each Managing Owner's and each General Partner's knowledge, none of the tenants under the Tenant Leases is in material default as to any non-monetary obligation under its Tenant Lease beyond any grace period provided for in its Tenant Lease nor is any Tenant entitled to any rebate, concession, deduction or offset under its Tenant Lease, except for the Partnerships' obligation, if any, to refund any excess estimated payments made by a Tenant on account of operating expenses or real estate taxes. Except for security deposits placed with the Partnerships under the Tenant Leases, a true and correct list of which is attached hereto as Exhibits N-1B through N-12B, none of the tenants has paid to the Partnerships any rent or other charge of any nature under its Tenant Lease or otherwise relating to any Property for a period of more than thirty (30) days in advance. Except as set forth in Exhibits N-1 through N-12, each Partnership and each General Partner has performed or

paid all obligations (including, without limitation, performance of all work and payment of all work and other tenant allowances) required to be performed or paid by it under each of the Tenant Leases and is not in default of any of its obligations under any of the Tenant Leases. Notwithstanding the foregoing, the parties hereto acknowledge that certain construction work has been commenced and is not yet completed with respect to Parcels 1, 2 and 3 as set forth in Exhibits N-1, N-2 and N-3 hereto.

(a) CONDEMNATION. None of the Managing Owners or General Partners has any knowledge of or has received any written notice of any pending or contemplated condemnation proceedings affecting all or any part of any Property.

(b) STRUCTURAL. To the best of each Managing Owner's and each General Partner's knowledge, there are no existing structural defects in any Improvements at any Property. No Managing Owner or General Partner has received any written notice from any insurance company or Governmental Authority of any defect or inadequacy in connection with any Property's structure or systems which has not heretofore been cured. On or before the Closing Date, the Partnerships shall cure (or escrow sufficient funds at Closing with the Title Company to cure) all such written notices issued on or before the Closing Date.

(c) ZONING/VIOLATIONS. To the best of each Managing Owner's and each General Partner's knowledge, there is not now pending nor is there any proposed or threatened proceeding for the rezoning of any Property or any portion thereof. None of the Managing Owners or General Partners has any knowledge of or has received any written notice from any Governmental Authority that any zoning, subdivision, environmental, hazardous waste, building code, health, fire, safety or other law, order, ordinance or regulation is violated by the continued maintenance, operation or use of any Property, including, without limitation, any Improvements located thereon or any parking areas. In addition to its obligations under Section 6.3, on or before the Closing Date, Owners shall cure (or escrow sufficient funds at Closing with the Title Company to cure) all violation notices issued with respect to the Properties.

(d) PERMITTED EXCEPTIONS. Each Partnership has performed all obligations under and is not in default in complying with the terms and provisions of any of the covenants, conditions, restrictions, rights-of-way or easements constituting one or more of the Permitted Exceptions for each Partnership's Parcel. Notwithstanding the foregoing, the parties acknowledge that the fence on Parcel 4 may constitute a violation of covenants applicable to Parcel 4 and that Partnership 4 has no obligation to remove such fence.

(e) PERMITS, ETC. To the best of each Managing Owner's knowledge and except as set forth in Exhibit R, all permits, licenses, authorizations and certificates of occupancy required by Governmental Authorities for each Partnership's management, occupancy, leasing and operation of its Property are in full force and effect, and will remain in full force and effect after the Closing.

(f) LITIGATION. No dispute, proceeding, suit or litigation relating to the Tenant Leases, any Property or any part thereof is pending or, to the best of each Managing Owner's and each General Partner's knowledge, threatened in any tribunal. No Partnership is the subject of, nor has any Managing Owner or any General Partner received, any written notice of or threat that any Partnership has or will become the subject of, any reorganization, liquidation, dissolution, receivership or other action or proceeding under the United States Bankruptcy Code, 11 U.S.C. (S)(S) 101, et seq., or any other federal, state or local laws

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affecting the rights of debtors and/or creditors generally, whether voluntary or involuntary and including, without limitation, proceedings to set aside or avoid any transfer of any interest in property or obligations, whether denominated as a fraudulent conveyance, preferential transfer or otherwise, or to recover the value thereof or to charge, encumber or impose a lien thereon.

(g) FIRPTA. No Owner or Partnership is a "foreign person" within the meaning of Section 1445 of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

(h) INDEBTEDNESS. No material defaults or events of default (as defined therein) have occurred and are continuing under the terms of any documents evidencing or securing indebtedness which is secured by any of the Properties or for which any Partnership is liable.

(i) PARTIES IN POSSESSION. There are no tenants or other parties in possession of any part of any Property, except tenants under the Tenant Leases and the beneficiaries of the license agreement attached hereto as Exhibit O or as may otherwise be set forth in the Permitted Exceptions, and no one other than tenants under the Tenant Leases have any right to occupy any part of any Property.

(j) MATERIAL CHANGE. None of the Managing Owners or General Partners has received written notice from any Governmental Authority of any pending or contemplated change in any regulation, code, ordinance or law, or private restriction applicable to the Properties, or any natural or artificial condition upon or affecting the Properties, or any part thereof, which would result in any material change in the condition of such Property or any part thereof, or would in any way limit or impede the operation or development of such Property.

(k) AGREEMENTS AFFECTING PROPERTIES. There are no contracts or other material obligations currently in effect, other than those matters set forth in the Contracts, Tenant Leases, the documents evidencing and securing the Retained Indebtedness and the Permitted Exceptions, and any other documents which have been delivered to Purchasers, (i) for the sale, exchange or transfer of any Property or any portion thereof by any Partnership or General Partner, or (ii) creating or imposing any burdens, obligations or restrictions on the use or operation of such Property and the businesses conducted thereon.

(l) ACCURACY OF DOCUMENTS. All documents and records to be delivered pursuant to Section 5.7 will be true, correct and complete copies of the documents and records required to be delivered and will accurately reflect the matters contained therein in every material respect.

(m) PARTNERSHIPS. Each of the Partnerships has been duly formed under the laws of the State in which it was formed and validly exists in each state in which it operates or owns property.

(n) RETAINED INDEBTEDNESS. The assignment of the Partnership Interests in Partnerships 4, 5 and 6 and/or the conveyance of Parcels 4, 5 and 6 as contemplated hereunder will, if not approved by Lutheran Brotherhood and Prudential respectively, constitute grounds for acceleration of the Retained Indebtedness.

(v) For purposes of this Agreement, the phrase "to the best of Managing Owners' knowledge" and "to the best of General Partner's knowledge" or words of similar import, shall mean that such party has conducted a reasonable review of its files and interviewed its current employees in positions of responsibility on the subject (including, without limitation, leasing and management personnel), and such review and interviews did not disclose any information contrary to the accuracy or veracity of any such representation or warranty.

(vi) Further for purposes of this Agreement, "Managing Owners" shall be deemed to mean (i) John F. Griffin, George G. Mulligan and Barry M. Fitzpatrick for all Properties located in Virginia and the Partnerships which own such Properties, and (ii) John F. Griffin, George G. Mulligan and David E. Schutt for all Properties located in Maryland and the Partnerships which own such Properties.

(vii) Managing Owners and General Partners shall provide written notice to Purchasers at any time and from time to time after the Effective Date through the Closing Date if any of them acquires any information that any of the representations or warranties made in this Agreement was inaccurate in any material respect as of the Effective Date or will be inaccurate in any material respect as of the Closing Date, except such notice shall not be required for changes which result from the operation of the Properties in the ordinary course of business.

(vii) COVENANTS AND ADDITIONAL OBLIGATIONS OF OWNERS, MANAGING OWNERS AND

GENERAL PARTNERS.

1 COVENANTS OF THE MANAGING OWNERS AND GENERAL PARTNERS. Each Managing Owner and each General Partner agrees that from the date of this Agreement to the Closing Date, it will: (i) operate the Properties only in a commercially reasonable manner, and use its reasonable efforts to preserve its relations with tenants and others having business dealings with it; (ii) maintain the Properties as required by the Tenant Leases, and otherwise maintain each Property in its present condition, make all necessary repairs and replacements

(including repairs and replacements to building systems), and deliver its Property on the Closing Date substantially in the condition it is in on the Effective Date, ordinary wear and tear, and damage by fire or other casualty excepted; (iii) maintain fire and casualty insurance, with broad form extended coverage on the Improvements, in an amount for each Property at least equal to the replacement cost for the Improvements on each Property, with a deductible not in excess of \$25,000.00 (such insurance to be canceled by Managing Owners promptly after the Closing Date, subject to resolution of any pending claims thereunder); (iv) maintain rental loss insurance in an amount equal to the reasonably anticipated income from its Property (rent, common area (and building operation) charges, and real estate tax and insurance contributions) for a 12-month period (such insurance to be canceled by Managing Owners promptly after the Closing Date, subject to resolution of any pending claims thereunder); (v) not mortgage or encumber any part of the Properties or take or suffer any other action affecting title to the Properties without the prior written consent of Purchasers; (vi) not make any commitment or incur any liability to any labor union, through negotiations or otherwise, with respect to the Properties; (vii) not become a party to any new licenses, equipment leases, contracts or agreements of any kind relating to the Properties, except such contracts or agreements as will be terminated at or prior to Closing without cost or expense to Purchasers or contracts which Purchasers agree in their sole discretion to assume at Closing, without having obtained in each case the prior written consent of Purchasers, which consent shall not be unreasonably withheld or delayed, and any requests for consent shall be responded to within ten (10) Business Days of receipt of request therefor; (viii) not cancel or terminate (except for nonpayment of rent in the case of Tenant Leases), modify or amend any of the Tenant Leases, or accept surrender thereof, enter into any new leases, or consent to the assignment, subletting or mortgaging of any lease or space, without having obtained in each case the prior written consent of Purchasers, which consent shall not be unreasonably withheld or delayed, and any requests for consent shall be responded to within ten (10) Business Days of receipt of request therefor; (ix) execute and deliver in the ordinary course of business all new Tenant Leases and modifications or amendments of Tenant Leases approved by Purchasers in accordance with clause (viii), it being agreed that if Closing occurs hereunder, Purchasers shall pay for and perform all tenant work and tenant allowances required under new Tenant Leases and modifications or amendments of Tenant Leases approved by Purchasers in accordance with clause (viii), and pay any leasing commissions in connection with all new Tenant Leases and modifications and amendments to Tenant Leases approved by Purchasers in accordance with clause (viii) (all other tenant work, tenant allowances and leasing commissions to be paid for and/or performed by the Partnerships or General Partners except as set forth in Exhibits N-1 through N-12); (x) comply with and perform all provisions and obligations to be complied with and/or performed by Partnerships or General Partners under the Tenant Leases; (xi) promptly upon receipt, provide Purchasers with copies of all written notices delivered or received under the Tenant Leases, sales reports and correspondence received from tenants, neighboring property owners, any insurance company which carries insurance on its Property, from any Governmental Authorities or from any other person or entity with respect to its Property or any portion thereof; and (xii) use good faith best efforts prior to the Closing Date to satisfy all conditions to Closing which are within the Managing Owners' and/or General Partners' power to satisfy.

2 COVENANTS OF ALL OWNERS AND GENERAL PARTNERS. Except as permitted under Section 21.2, each Owner and each General Partner agrees that from the date of this Agreement to the Closing Date, it will not encumber, assign, transfer or convey any of the Partnership Interests which are the subject of this Agreement; nor will any Owner or any General Partner take any action, or omit to take any action, which would or could adversely affect the Partnerships or the Properties or otherwise adversely affect the rights of Purchasers under this Agreement.

3 TENANT ESTOPPEL CERTIFICATES. The Partnerships shall send to each tenant a letter (in form acceptable to BPLP) and an estoppel certificate in the form attached hereto as Exhibit P or, if applicable, in the form attached to the subject Tenant Lease. Prior to sending out such estoppel certificates, Managing Owners shall consult with Purchasers regarding the form of such certificates. The Partnerships shall, immediately upon receipt, deliver to BPLP copies of all correspondence or other matters received by the Partnerships in connection with such estoppel certificates. Managing Owners shall use good faith efforts to assist BPLP in obtaining delivery of all such certificates.

4 TAX APPEALS. There is not now pending, and Partnerships and General Partners agree that they will not, without the prior written consent of BPLP, institute prior to the Closing Date, any proceeding or application for a reduction in the real estate tax assessment of the Properties for any tax year unless required by a tenant pursuant to such tenant's Tenant Lease.

5 TERMINATION OF CONTRACTS. On or prior to the Closing Date, Partnerships and/or General Partners, at their sole cost and expense, shall terminate those Contracts and management, leasing and other similar agreements relating to the Properties for which BPLP has requested termination by written notice to the Partnerships and/or Managing Owners .

6 FINANCIAL STATEMENTS. As soon as available, but in no event later than fifteen (15) days after the Closing Date, Managing Owners or General Partners shall make available to BPLP and its accountants a Statement of Income and Expense for each Property from January 1, 1998, through the Closing Date. Managing Owners and General Partners shall cooperate with BPLP in any required filings with the SEC.

7 ENVIRONMENTAL MATTERS.

1 Assessments and Additional Assessments. During the Study Period, BPLP shall have the right to have an environmental consultant or other professional perform a "Phase I" environmental inspection and assessment (each, -----
an "ASSESSMENT") of each Property and shall, after receipt of a final report for the Assessment, deliver a copy thereof to a Managing Owner of the appropriate Partnership. In the event: (a) the results of any Assessment is inconclusive, in BPLP's sole judgment; or (b) the results of any Assessment reveal environmental matters unacceptable to BPLP, in its sole judgment, BPLP, at its sole option, shall have the right to extend the Study Period and the Closing Date for thirty (30) days as to the Property which is

the subject of such inconclusive Assessment (by giving notice to the Managing Owners of such Partnership prior to the end of the Study Period) and to cause additional so-called "Phase II" inspections and tests (each, an "ADDITIONAL

ASSESSMENT") to be performed as determined by BPLP in its sole, but reasonable judgment. BPLP shall provide to the appropriate Partnership(s) a copy of all Additional Assessments upon completion thereof.

2 REPRESENTATIONS AND WARRANTIES. The Managing Owners and the General Partners of each Partnership represent and warrant to Purchasers with respect to the Property owned by such Partnership, which representations and warranties are true and correct as of the date hereof, shall be true and correct in all material respects on and as of the Closing Date, subject to Section 8.4, and shall survive Closing for the period specified in Section 21.3, that, except as may be specifically described in the Environmental Reports identified in Exhibits I-1 and I-2 and in any Assessments and/or Additional Assessments which may be obtained by Purchasers:

(a) During each Partnership's ownership of its Property, there have not been and there are not now pending or, to General Partner's knowledge, threatened: (i) claims, complaints, notices, or requests for information received by such Partnership or General Partner with respect to any alleged violation of any Environmental Law with respect to the Properties; or (ii) claims, complaints, notices, or requests for information sent to such Partnership or General Partner regarding potential or alleged liability under any Environmental Law with respect to the Properties.

(b) To the best of each General Partner's knowledge, no conditions exist at, on, or under its Property that, with the passage of time or the giving of notice or both, would constitute a Hazardous Condition or give rise to liability under any Environmental Law.

(c) Each Partnership is in compliance in all material respects with all orders, directives, permits, certificates, approvals, licenses, and other authorizations from applicable Governmental Authorities, if any, relating to Environmental Laws with respect to its Property.

(d) To the best of each General Partner's knowledge, there are no above ground tanks that are not in compliance with all Environmental Laws or any underground storage tanks (herein referred to as "USTS") at its Property. No Partnership has removed or abandoned any USTs at its Property nor does any General Partner have any knowledge of the existence, abandonment or removal of USTs at such Partnership's Property.

(e) To the best of each General Partner's knowledge, there are no polychlorinated biphenyls ("PCBS") or friable or damaged asbestos at the Properties; nor has any Partnership removed (or required or requested the removal of) any PCBs or damaged or friable asbestos from its Property, nor has any General Partner knowledge of the previous existence of any PCBs or damaged or friable asbestos at such Partnership's Property.

(f) To the best of each General Partner's knowledge, Exhibits I-1 and I-2 contain a true, complete and accurate listing of: (i) all material reports, test results, analytical data, boring logs, and other studies undertaken by, at the request of or on behalf of such Partnership and/or in such Partnership's (or its affiliates' or agents') possession or control with respect to its Property and the environmental conditions thereof; (ii) all material orders, directives and notices of Governmental Authorities received by such Partnership or its agents, consultants and contractors in connection with the environmental condition of its Property; and (iii) all material correspondence to and from Governmental Authorities and environmental consultants with respect to the environmental condition of its Property (the foregoing are hereinafter collectively referred to as the "ENVIRONMENTAL REPORTS").

(g) To the best of each General Partner's knowledge, no property adjacent to or in the vicinity of such Partnership's Property has a Hazardous Condition in, on or under such property, except as may be specifically described in the Environmental Reports and except for the site known as the Weinshel Engineering Site located in the vicinity of Parcels 1 and 2.

3 NO RELEASE. Notwithstanding anything to the contrary in this Agreement, nothing in this Agreement shall be construed to release the Partnerships or the Managing Owners nor to bar any action by Purchasers to implead the Partnerships and/or Managing Owners nor to bar any other action by Purchasers against the Partnerships or Managing Owners where Purchasers or the Partnerships and/or Managing Owners may have liability to a third party or any Governmental Authorities for an environmental matter or condition which existed at or near any Property on or prior to the Closing Date.

4 REPRESENTATIONS, WARRANTIES AND COVENANTS OF BPLP AND BPLLC.

1 BPLP and BPLLC represent and warrant to Owners, which representations and warranties shall be true and correct as of the Effective Date, shall be true and correct in all material respects on and as of the Closing Date, and shall survive the Closing for the respective periods specified in Section 21.3, that:

(a) BPLP is duly formed and in good standing as a limited partnership of the State of Delaware and is authorized to do business in the State of Maryland and the State of Virginia. BPLLC is duly formed and in good standing as a limited liability company of the State of Delaware and is authorized to do business in the State of Maryland and the State of Virginia.

(b) BPLP has all requisite partnership power and authority to carry on its business as it is currently being conducted, to accept assignment of the Partnership Interests and/or fee simple title to the Parcels, as applicable and as herein contemplated, and to execute, deliver and perform this Agreement and all documents to be executed and delivered in regard to the consummation of the transactions contemplated hereby and to perform fully its obligations

hereunder and thereunder. The execution, delivery and performance by BPLP of this Agreement and all documents to be executed and delivered in regard to the consummation of the transaction contemplated hereby have been or will be duly authorized by all necessary partnership action on the part of BPLP, and BPLP shall, upon request of the Owners, deliver evidence of such authority at or prior to the Closing.

(c) This Agreement has been, and all documents to be executed and delivered in regard to the consummation of the transaction contemplated hereby will be at or prior to Closing, duly executed and delivered by BPLP and BPLLC, as applicable, and (assuming the due authorization, execution and delivery by the other parties hereto and thereto) this Agreement constitutes, and all documents to be executed and delivered in regard to the consummation of the transaction contemplated hereby when so executed and delivered will constitute, legal, valid and binding obligations of BPLP and BPLLC, if a party thereto, enforceable against BPLP and BPLLC, if a party thereto, in accordance with their respective terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity).

(d) Neither the execution and delivery of this Agreement, nor compliance with the terms and provisions hereof on the part of BPLP or BPLLC, as applicable, and consummation of the transactions contemplated hereby, will violate any statute, license, decree, order or regulation of any Governmental Authority, or will, at the Closing Date, breach, conflict with or result in a breach of any of the terms, conditions or provisions of any material agreement or instrument to which BPLP or BPLLC is a party, or by which either of them is or may be bound, or constitute a default thereunder, or result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon, or give to others any interest or rights in, the Units to be issued under the terms of this Agreement. BPLP, BPLLC and BPI have each obtained, or will prior to Closing obtain, all necessary consents, approvals, orders and authorizations required in connection with the execution and delivery of this Agreement and the consummation of the transactions contemplated herein.

(e) Neither BPLP nor BPLLC has (i) made a general assignment for the benefit of creditors, (ii) filed any voluntary petition in bankruptcy or suffered the filing of an involuntary petition by BPLP's or BPLLC's creditors, (iii) suffered the appointment of a receiver to take possession of all or substantially all of BPLP's or BPLLC's assets, (iv) suffered the attachment, or other judicial seizure of all, or substantially all, of BPLP's or BPLLC's assets, (v) admitted in writing its inability to pay its debts as they come due, or (vi) made an offer of settlement, extension or compromise to its creditors generally.

(f) The Units to be issued to Owners hereunder have been or will be prior to Closing authorized for issuance to such Owners and, upon such issuance, will be validly

issued, fully paid and non-assessable and will not be subject to any preemptive rights upon their issuance.

(g) No consent, waiver, approval or authorization of, or filing, registration or qualification with, or notice to, any Governmental Authority or any other person is required to be made, including, but not limited to, any governmental bodies, agencies, tenants, partners or lenders, in connection with the execution, delivery and performance of this Agreement by BPLP and BPLLC.

(h) Unless and until the Board of Directors of BPI determines that it is not in the best interest of BPI to qualify as a real estate investment trust (a "REIT") under the Internal Revenue Code of 1986, as amended (the "Code"), BPI, by its execution of this Agreement, covenants that it shall operate its business in a manner to qualify, and intends to make an election to qualify, as a REIT under the Code commencing with its taxable year ending December 31, 1997, and has not taken, or omitted to take, any action which would reasonably be expected to result in a challenge to its status as a REIT, and, to the knowledge of BPLP and BPLLC, no such challenge is pending or threatened.

(i) In addition to the initial Registration Documents filed by BPI (the "BPI Registration Documents"), BPI has filed timely all reports, schedules, forms, statements and other documents required to be filed by it with the SEC, and such reports, schedules and forms comply in all material respects with all applicable requirements of the Securities Act of 1933 and the Securities and Exchange Act of 1934 and the rules and regulations promulgated thereunder.

(j) Since the filing of the BPI Registration Documents, there has not been an occurrence or circumstance that would have a material adverse effect on the business, properties, assets, financial condition or results of operations of BPI (a "Material Adverse Change"), nor has there been any occurrence or circumstance that with the passage of time would reasonably be expected to result in a Material Adverse Change.

2 Purchasers shall provide to Owners at Closing an opinion of counsel to Purchasers, which may include in-house counsel, the form of which shall be finalized during the Study Period.

3 POST-CLOSING AGREEMENTS.

(a) Definitions.

For purposes of this Section 11.3, the following terms shall have the meanings hereinafter set forth:

(1) "Code" shall mean the Internal Revenue Code, as amended.

(2) "Tax Protection Period" shall mean the ten (10) year span of time commencing on the Closing Date and ending on the tenth (10th) anniversary of the Closing Date.

(3) "Nonrecourse Debt" shall mean the type of indebtedness defined in Section 465(b)(6) of the Code and shall specifically include the Retained Indebtedness as set forth in the documents evidencing and securing such indebtedness as of the Effective Date.

(4) "Bottom-Up Guarantee" shall mean a guaranty of debt having the characteristic that the amount of the guaranty is reduced by any amount the lender receives from any sale or disposition of the collateral including a foreclosure sale (or the fair market value of any property the lender receives by way of deed in lieu of foreclosure or any comparable transaction).

(5) "Protected Owners" shall mean those Owners of Partnership Interests in Partnerships 4, 5 and 6, who receive all or a portion of the Equity Value of such Partnership Interests in Units and who will be the beneficiaries of the Tax Protection Agreements described in this Section 11.3. (Such Protected Owners are sometimes differentiated herein as the "Protected Partnership 4 Owners", "Protected Partnership 5 Owners" or "Protected Partnership 6 Owners", as the case may be.)

(6) "Schedule of Required Debt Allocations" shall mean, for each of Partnerships 4, 5 and 6, the schedule of required debt allocations for each Protected Owner, which shall be furnished at Closing by each Partnership as an exhibit to be attached to the respective Tax Protection Agreements. The aggregate of the scheduled amounts shall not exceed the following amounts: for Partnership 4, \$14,650,000; for Partnership 5, \$24,350,000; and for Partnership 6, \$17,550,000. In no event shall the amount shown for any Protected Owner exceed the amount which would be shown for such Protected Owner if every Owner accepted only Units in exchange for his Partnership Interest. If and to the extent that a Protected Owner receives cash in exchange for his Partnership Interest in addition to Units, the amount of Nonrecourse Debt which must be allocated to such Owner shall be proportionately reduced. The Schedule of Required Debt Allocations for each Protected Owner shall reflect any reduction in the debt to be allocated to such Protected Owner required by the preceding sentence.

(a) Agreement with Protected Partnership 4 Owners. At the Closing,

Purchasers shall enter into an agreement with the Protected Partnership 4 Owners (the "Partnership 4 Tax Protection Agreement"), which shall include the following provisions:

(i) Purchasers shall agree not to sell or dispose of Parcel 4 (or any successor property acquired in a non-taxable transaction) in a transaction that creates taxable income to the Protected Partnership 4 Owners during the Tax Protection Period; provided, however that such prohibition shall not apply to a sale or disposition to the existing Tenants of

Parcel 4 pursuant to an option or other right presently contained in any such Tenant's Lease which is triggered by the transactions contemplated in this Agreement.

(ii) Purchasers shall agree to maintain Nonrecourse Debt in an amount such that at least the amount set forth in the Schedule of Required Debt Allocations will be allocated under Section 752 of the Code to each Protected Partnership 4 Owner continuously for the period from the Closing Date until December 31, 2004.

(iii) For the period beginning December 31, 2004 and continuing until the end of the Tax Protection Period, to the extent that Nonrecourse Debt in the amount specified in paragraph (b)(ii) above is not allocable under Section 752 of the Code to the Protected Partnership 4 Owners, Purchasers shall agree to make continuously available to the Protected Partnership 4 Owners other debt of BPLP for allocation under Section 752 of the Code at least equal to the amount specified in the Schedule of Required Debt Allocations attached to the Partnership 4 Tax Protection Agreement. The Protected Partnership 4 Owners shall be allowed to execute and deliver Bottom-Up Guarantees or partial guarantees of such debt, as may be required given the nature of such debt.

(iv) Purchasers shall agree that Section 704(c) allocations with respect to Parcel 4 shall be made by the election of the so-called "traditional method" with curative allocations limited solely to allocations of gain on sale of Parcel 4 to the extent allocations of depreciation deductions with respect to Parcel 4 to Partners in BPLP other than the Owners have been limited by the so-called "ceiling rule", as described in Regulations Section 1.704-3(c)(3)(iii)(B).

(b) Agreement with Protected Partnership 5 Owners. At the Closing,

Purchasers shall enter into an agreement with the Protected Partnership 5 Owners (the "Partnership 5 Tax Protection Agreement"), which shall include the following provisions:

(i) Purchasers shall agree not to sell or dispose of Parcel 5 (or any successor property acquired in a non-taxable transaction) in a transaction that creates taxable income to the Protected Partnership 5 Owners during the Tax Protection Period; provided, however, that such prohibition shall not apply to a sale or disposition to the existing Tenants of Parcel 5 pursuant to an option or other right presently contained in any such Tenant's Lease which is triggered by the transactions contemplated in this Agreement.

(ii) Purchasers shall agree to maintain Nonrecourse Debt in an amount such that at least the amount set forth in the Schedule of Required Debt Allocations will be allocated under Section 752 of the Code to each Protected Partnership 5 Owner continuously for the period from the Closing Date until June 30, 2002.

(iii) For the period beginning June 30, 2002 and continuing until the end of the Tax Protection Period, to the extent that Nonrecourse Debt in the amount specified in

paragraph (c)(ii) above is not allocable under Section 752 of the Code to the Protected Partnership 5 Owners, Purchasers shall agree to make continuously available to the Protected Partnership 5 Owners other debt of BPLP for allocation under Section 752 of the Code at least equal to the amount specified in the Schedule of Required Debt Allocations attached to the Partnership 5 Tax Protection Agreement. The Protected Partnership 5 Owners shall be allowed to execute and deliver Bottom-Up Guarantees or partial guarantees of such debt, as may be required given the nature of such debt.

(iv) Section 704(c) allocations with regard to Parcel 5 shall be made by the election of either the "traditional with curative" method specified in (b)(iv) above or the "remedial" method as described in Regulations Section 1.704-3(d) (but using a 40-year recovery period as provided by Section 168(g)(2) of the Code), at the option of Purchasers, exercisable in their sole discretion.

(c) Agreement with Protected Partnership 6 Owners. At the Closing,

Purchasers shall enter into an agreement with the Protected Partnership 6 Owners (the "Partnership 6 Tax Protection Agreement"), which shall include the following provisions:

(i) Purchasers shall agree not to sell or dispose of Parcel 6 (or any successor property acquired in a non-taxable transaction) in a transaction that creates taxable income to the Protected Partnership 6 Owners during the Tax Protection Period; provided, however, that such prohibition shall not apply to a sale or disposition to the existing Tenants of Parcel 6 pursuant to an option or other right contained in any such Tenant's Lease which is triggered by the transactions contemplated in this Agreement.

(ii) Purchasers shall agree to maintain Nonrecourse Debt in an amount such that at least the amount set forth in the Schedule of Required Debt Allocations will be allocated under Section 752 of the Code to each Protected Partnership 6 Owner continuously for the period from the Closing Date until January 31, 2003.

(iii) For the period beginning January 31, 2003 and continuing until the end of the Tax Protection Period, to the extent that Nonrecourse Debt in the amount specified in paragraph (d)(ii) above is not allocable under Section 752 of the Code to the Protected Partnership 6 Owners, Purchasers shall agree to make continuously available to the Protected Partnership 6 Owners debt of BPLP for allocation under Section 752 of the Code at least equal to the amount specified in the Schedule of Required Debt Allocations attached to the Partnership 6 Tax Protection Agreement. The Protected Partnership 6 Owners shall be allowed to execute and deliver Bottom-Up Guarantees or partial guarantees of such debt, as may be required given the nature of such debt.

(iv) Section 704(c) allocations with regard to Parcel 6 shall be made by the election of either the "traditional with curative" method specified in (b)(iv) above or the "remedial" method as described in Regulations Section 1.704-3(d) (but using a 40-year recovery

period as provided by Section 168(g)(2) of the Code), at the option of Purchasers, in their sole discretion.

(d) Additional Provisions in Tax Protection Agreements. Each of the Tax

Protection Agreements with the Protected Owners shall also include the following provisions:

(i) Such Agreement shall note that such Protected Owners would prefer that BPLP's obligations pursuant to (b)(iii), (c)(iii) and (d)(iii) be satisfied by making available qualified Nonrecourse Debt to such Protected Owners; in the event that such debt is not made available, the preference of such Protected Owners as to the nature of BPLP's debt that would be made available is as follows:

- (1) Bottom-Up Guarantee of recourse mortgage debt secured by Parcels 4, 5 or 6.
- (2) Bottom-Up Guarantee of recourse mortgage debt secured by other properties.
- (3) Partial guarantee of recourse unsecured debt.

It is understood and agreed that if commercially reasonable, BPLP will try to accommodate such preferences in fulfilling its obligations under the Tax Protection Agreements, but it shall have no liability if BPLP determines, in its sole discretion, that it is not in BPLP's overall best interest to follow such preferences in making debt available for the Protected Owners.

(i) In the event that Purchasers violate a Tax Protection Agreement, thereby triggering recognition of taxable income to the Protected Owners prior to the end of the Tax Protection Period, BPLP shall be obligated to proceed with (1) or (2) below, at BPLP's option:

(ii) BPLP shall provide an interest-free loan to such Protected Owners in the amount of the federal and state income taxes payable by such Protected Owners on account of such event, which loan shall be repayable in full by such Protected Owners at the end of the Tax Protection Period. Such loan shall be secured by a pledge of Units having a value equal to 120% of the amount of such loan, provided that the Protected Owners shall have the right to substitute collateral acceptable to BPLP in its sole discretion in place of such Units

(iii) BPLP shall pay to such Protected Owners an amount equal to the "Foregone Earnings" attributable to the federal and state taxes paid by such Protected Owners on account of such event. For this purpose, "Foregone Earnings" shall be the present value of the hypothetical interest income that would have been earned on the amount of such taxes if they not had to be paid until the end of the Tax Protection Period. Such hypothetical

interest shall be calculated using an interest rate equal to 100 basis points over the yield then being earned on U.S. Treasury Notes having a maturity co-extensive with the remaining term of the Tax Protection Period. Such interest rate shall also be used as the discount rate for purposes of determining the present value of such hypothetical interest.

(iv) If the federal or state taxing authorities impose any interest and/or penalties with respect to the taxes assessed against the Protected Owners solely as a result of BPLP's violation of the Tax Protection Agreement, BPLP shall pay to the taxing authorities the amount of any interest and penalties solely attributable to such taxes.

(v) To the extent that the Protected Owners are required to pay additional federal and state taxes as a result of any payment or loan made by BPLP to Owners under the provisions of paragraphs (ii)(1), (ii)(2) and/or (iii) hereof (such payment or loan referred to hereinafter as the "Taxable Benefit Amount"), BPLP shall be obligated to pay to such Protected Owners an additional sum equal to the Make Whole Amount. For purposes of this paragraph, the "Make Whole Amount" shall be an amount such that the after-tax value of (x) the Taxable Benefit Amount plus (y) the Make Whole Amount shall equal (z) the Taxable Benefit Amount.

(a) To the extent that any Protected Owner redeems its Units, the Tax Protection Period as to such Protected Owner with respect to such Units shall end at the time of such redemption.

(b) Each of the Tax Protection Agreements is a separate agreement; therefore, the satisfaction of BPLP's obligations to a Protected Owner under one Tax Protection Agreement shall not constitute a satisfaction of BPLP's obligations to that Protected Owner under another Tax Protection Agreement.

(c) Documentation. During the Study Period the Protected Owners and

Purchasers shall finalize the form of the Tax Protection Agreements to be executed at the Closing pursuant to this Section 11.3.

1. CONDITIONS PRECEDENT.

1 Purchasers' obligation to accept the assignment of the Partnership Interests hereunder shall be subject to the full and timely satisfaction of the following conditions (all or any of which may be waived, in whole or in part, by Purchasers in writing in their sole discretion) on or prior to the Closing Date:

(a) The Partnership shall have received confirmation from the title insurers that there have been no changes in the state of title to the Properties since the end of the Study Period

and that the title insurers are issuing, at Closing, endorsements to the existing title policies or new owners' title policies, as required (reflecting the release of indebtedness other than the Retained Indebtedness and bringing the title current to the date of Closing) without exceptions other than the Permitted Exceptions and with such additional endorsements as BPLP requires, including, without limitation, zoning, comprehensive and non-imputation endorsements. The Title Company shall have received payoff instructions from the lenders of the Existing Indebtedness.

(b) Purchasers shall have received confirmation reasonably satisfactory to Purchasers that all licenses, permits and similar authorizations required by all Governmental Authorities relating to the ownership and operation of each of the Properties are in full force and effect, except as set forth in Section 5.7(p). Purchasers agree to use reasonable efforts to obtain such confirmations.

(c) Except to the extent of any written notice provided to Purchasers pursuant to Section 8.4, (i) the representations and warranties made by Owners, Managing Owners and General Partners in this Agreement shall be true and correct in all material respects on and as of the Closing Date with the same force and effect as though such representations and warranties had been made on and as of such date, (ii) Managing Owners, the Partnerships, and the General Partners shall have performed all covenants and obligations and complied with all conditions, obligations and agreements required by this Agreement to be performed or complied with by them on or before the Closing Date, including, but not limited to, the obligations set forth in Exhibits N-1 through N-12, and (iii) each Owner and each Partnership shall have executed and delivered to Purchasers a certificate, dated as of the Closing Date, to the foregoing effect.

(d) Purchasers shall have received an estoppel certificate, in the form attached hereto as Exhibit P or as may be attached to the subject lease, or as otherwise agreed upon by Purchasers and Managing Owners, without changes or additional notations (other than as may be acceptable to Purchasers in their sole and absolute discretion), dated not earlier than thirty (30) days prior to the Closing Date, confirming the accuracy of the information set forth on Exhibits N-1 through N-12 and such estoppel certificate, from each tenant pursuant to the Tenant Leases. In the case of the tenant improvement work or allowances described in Exhibits N-1, N-2 and N-3, each such Tenant shall provide an estoppel or certification at Closing certifying that such work has been completed to the satisfaction of such Tenant or certifying as to the status of any incomplete work, as well as a statement as to the status of funding for such work or such allowances, including any landlord liability for payment or reimbursement for such work.

(e) Purchasers shall have received a certificate from Prudential confirming the outstanding balances of the loans to Partnerships 5 and 6 respectively, the absence of any defaults under such loans other than such defaults as may result from the transactions contemplated under this Agreement, and such other matters as reasonably requested by Purchasers.

(f) Purchasers shall have received estoppel certificates, in form and substance satisfactory to Purchasers, from each declarant or beneficiary (except for the beneficiary of the covenants relating to The Reston Center for Industry and Government) of any covenants, conditions or restrictions or similar instruments or cross-easement agreements affecting any of the Properties; provided, however, that in the event Managing Owners are unable to obtain one or more of such estoppel certificates, Managing Owners shall provide such indemnity therefor as may be required by Purchasers. Managing Owners shall provide estoppel certificates relating to monetary assessments under any covenants or cross-easement agreements affecting any of the Properties, stating that all such assessments that have become due and payable have been paid.

(g) Managing Owners shall have obtained and delivered to Purchasers copies of certificates of occupancy (or the local equivalent) required for the use and occupancy of the Properties, including, without limitation, all certificates of occupancy for all Improvements on the Properties and/or all tenants, as applicable, to the extent there have been any changes from and after the delivery of such documents to Purchasers during the Study Period and except as set forth in Section 5.7(p).

(h) BPLP shall have received an opinion of counsel of Tucker, Flyer & Lewis, the form of which shall be finalized during the Study Period.

(i) Each Owner receiving Units shall have delivered to BPLP an executed Subscription Agreement in the form attached hereto as Exhibit F.

2 If any condition described in this Article 12 is not satisfied at the times required and to the satisfaction of BPLP, in its sole and absolute discretion, then BPLP may, at its sole option, (i) extend the Closing Date for up to an additional thirty (30) days to allow for the satisfaction of such conditions, or (ii) terminate this Agreement by giving written notice to Owners at any time on or before the Closing. In the event that BPLP extends the Closing Date in accordance with this Section 12.2, any documents which have been executed by parties other than Owners and delivered to Purchasers by or on behalf of Owners prior to the commencement of such extension and which are otherwise in complete compliance with the terms and conditions of this Agreement shall be deemed accepted by Purchasers at the time of commencement of such extension in satisfaction of the requirement for such document or documents. If BPLP extends the Closing Date and any such conditions remain unsatisfied at the end of such extended period, then BPLP shall have the option, in its sole discretion, to either terminate this Agreement or proceed to Closing. Upon termination of this Agreement under this Article 12, the Deposit shall be returned to BPLP, and neither party shall have any further rights, obligations or liabilities under this Agreement (other than as set forth in Section 5.5 and Article 23), except that if the failed condition is due to a material breach by Owners of any of their representations, warranties or obligations hereunder, then Owners shall be liable to Purchasers for BPLP's Due Diligence and Contract Costs. The parties hereto acknowledge that the failure to satisfy any of the conditions precedent in this Agreement shall not in and of itself constitute a default by Owners under this Agreement, unless such failure is caused by Owners' material breach of any of their

respective representations, warranties or covenants set forth herein. The conditions set forth in this Article 12 are for BPLP's sole benefit, and BPLP may, in its sole discretion, waive (conditionally or absolutely) the fulfillment of any one or more of the conditions, or any part thereof. Owners shall not take or authorize, directly or indirectly, any action that modifies or changes the circumstances upon which the conditions set forth in this Article 12 were deemed satisfied or waived by BPLP without BPLP's prior written consent. In the event that at any time prior to Closing circumstances arise which prevent Owners or the Partnerships, as the case may be, from being able to deliver either an assignment of the Partnership Interests in one or more of the Partnerships or fee simple title to one or more of the Parcels, as the case may be ("Undeliverable Interests"), which circumstances are beyond the control of the parties hereto, the parties agree that Closing shall proceed as to all other Partnership Interests and/or Parcels and such Undeliverable Interests shall remain subject to this Agreement for a period of one year. If the Owners of such Undeliverable Interests are unable to deliver such Interests within such time, the Undeliverable Interests shall no longer be subject to this Agreement and the parties shall have no further obligations as to such Undeliverable Interests, other than as set forth in Section 5.5 and Article 23.

3 CLOSING. Closing of the transactions contemplated hereby ("CLOSING")

shall be held at the offices of Shaw, Pittman, Potts & Trowbridge, 2300 N Street, N.W., Washington, D.C. 20037, on or before February 1, 1998 (the "CLOSING DATE"), but in no event earlier than January 5, 1998. The Closing Date may be adjourned or postponed by BPLP from time to time, in its sole discretion, as provided for in Section 10.1 and Article 12.

4 CLOSING MATTERS.

1 On or before the Closing Date, the Partnerships shall cure (or escrow sufficient funds at Closing with the Title Company to cure) all written notices described in Section 8.1(f) and issued on or before the Closing Date.

2 On or before the Closing Date, the Partnerships shall cure (or escrow sufficient funds at Closing with the Title Company to cure) all violation notices issued with respect to the Properties, as described in Section 8.1(g).

3 On the Closing Date, Owners shall execute and deliver to BPLP and BPLLC respectively assignments of the Partnership Interests, such assignments to be substantially in the form attached hereto as Exhibit T.

4 On the Closing Date, Managing Owners shall update all Exhibits to the extent necessary to make the Exhibits accurate in all material respects as of Closing, and Purchasers shall add to Exhibits I-1 and I-2 a list of Assessments or Additional Assessments obtained by Purchasers, if any.

5 Partnerships shall give full possession of the Properties to BPLP on the Closing Date, subject only to the rights of tenants under the Tenant Leases and the rights of NASD as set forth in Exhibit O.

6 On the Closing Date, BPLP and BPLLC shall execute and deliver (or cause to be delivered) to the Owners and the Partnerships the BPLP Closing Documents and the BPLLC Closing Documents and the Owners and the Partnerships shall execute and deliver (or cause to be delivered) to BPLP and BPLLC the Owners Closing Documents and the Partnership Closing Documents, and each shall deliver (or cause to be delivered) to the other such other documents, affidavits and certificates as may be required by this Agreement.

7 Partnerships shall deliver all keys and master keys to all locks located on the Properties to the extent that Partnerships have such keys, properly tagged for identification, as well as combinations, card keys and cards for the security systems, if any.

8 Purchasers shall either replace the bonds listed in Exhibit U hereto, or shall reimburse Owners for the amounts of such bonds.

9 BPLP and Owners receiving Units shall execute and deliver an Amendment to the BPLP Partnership Agreement at Closing, the form of which shall be finalized during the Study Period, but which shall include an amendment to Section 8.6 of the BPLP Partnership Agreement [get language from CBT].

10 On or before the Closing Date, all Owners shall execute and deliver to the Title Company, an affidavit and indemnity agreement, in form attached hereto as Exhibit W, as required by the Title Company for issuance of a non-imputation endorsement to the owner's title policy for each Property.

11 On the Closing Date, Purchasers shall deliver to the Title Company the consideration required under the terms of this Agreement.

12 ADJUSTMENTS.

1 The following items of expense shall be adjusted as of midnight of the day immediately preceding the Closing Date:

(a) Real estate taxes and personal property taxes. Assessments, if any, for Improvements completed prior to the Closing Date, whether assessment therefor has been levied or not, shall be paid by the applicable Partnership or allowance therefor made at the Closing by adjustment to the Equity Value of the Partnership Interests of that Partnership.

(b) Utility charges. If there are meters on the Properties measuring the consumption of utilities which are paid by Partnerships and not by any tenant, Partnerships shall,

prior to the Closing Date, cause such meters to be read, and shall pay promptly all utility bills for which Partnerships are liable. BPLP shall be liable for and shall pay all utility bills for services relating to the period from and after the Closing Date. To the extent required, reconciliation of such charges under the terms of the Tenant Leases will be done as soon as possible after Closing.

(c) All charges payable with respect to any Contracts relating to the Properties which continue in effect after the Closing and all other costs and expenses of operating the Properties which are customarily prorated in similar transactions.

(d) To the extent that any tenant is entitled to any rebate, concession, deduction or offset under its Tenant Lease, such entitlement shall be included as a closing adjustment. Further, except as to New Leases (as hereinafter defined), to the extent that any tenant is entitled to future tenant improvements work to be paid for by the landlord under such tenant's Tenant Lease, the amount of landlord's liability for such work shall be included as a closing adjustment by reducing the Equity Value for the Partnership Interests of the Partnership which owns the Parcel which is subject to such Tenant Lease. Monthly rent and tenant charges (for real estate taxes, insurance, utilities, common area maintenance and building expenses) payable by tenants shall be adjusted as of 12:01 a.m. on the Closing Date, and any such rent or tenant charges prepaid to Partnerships (including, a pro rata portion of the rent and tenant charges paid for the month in which the Closing occurs) and other credits for the account of tenants shall be paid to BPLP by adjustment to the Equity Value. Adjustments will be made on a reasonable basis for estimated operating expenses paid by Tenants as additional rent. Rent and such tenant charges which are due but uncollected as of the Closing Date shall not be adjusted, but, with respect to tenants whose rent is no more than sixty (60) days in arrears, provided Partnerships provide in a timely manner all back-up materials, reconciliations and other information requested by tenants with respect thereto, BPLP shall remit promptly to or on behalf of Owners any such amounts actually paid by such tenants to BPLP (provided that such amounts shall be in excess of the then current rent and other charges due) within ninety (90) days after the Closing Date. BPLP's obligations with respect to such delinquent rent and other charges shall be limited to billing the applicable tenant therefor on no more than two (2) occasions. Notwithstanding anything to the contrary in the foregoing, Owners retain all rights against former tenants whose Tenant Leases have expired or have been terminated and possession discontinued prior to the Closing Date; provided, however, in no event shall Owners be entitled after the Closing Date to institute any litigation or other judicial proceedings against any tenant that is in occupancy at any of the Properties on the Closing Date with respect to any obligations or liabilities of such tenant relating to the Properties or arising out of such tenant's occupancy thereof. BPLP shall have no further obligation or liability to Owners under this subsection after the expiration of said ninety (90) day period. No adjustment shall be made with respect to percentage or overage rent. Except as otherwise adjusted, Owners shall remain responsible and liable to BPLP to refund to tenants (or reimburse BPLP for any refunds to tenants of) any excess payments made by tenants for real estate taxes (including any arising as a result of tax appeals), insurance, utility, common area maintenance and building expenses applicable to the period prior to the Closing Date, such responsibility and liability to survive Closing until such time as all audit rights of tenants under

Tenant Leases with respect to periods prior to the Closing Date shall have expired and all amounts owing to tenants as a result of any such audits shall have been fully paid by Owners to the applicable tenant (directly or by reimbursement to BPLP). The parties agree that in the event that any tax appeals relating to any of the Properties, whether now existing or hereafter filed, results in any rebate of real property or other taxes paid for such Property, such rebate (after deducting therefrom all costs and expenses of procuring the same) shall be prorated as of the Closing Date between the respective Owner and BPLP based on respective periods of ownership.

(e) At Closing, BPLP shall reimburse Owners for all utility deposits relating to the Properties. All prepaid rentals, tenant security deposits, whether cash or non-cash (including security deposits for tenants who owe rent or other charges on the Closing Date), together with all interest required to be paid thereon which has accrued through the Closing Date, shall be delivered to BPLP on the Closing Date. Promptly following the Closing Date, the Managing Owners shall cause any tenants who have posted letters of credit as security deposits to have such security deposits amended or re-issued, if necessary, so that they run to the benefit of BPLP, if applicable, as landlord under the Tenant Leases.

(f) New Leases. The parties acknowledge that the leases listed in Exhibit V_ (the "New Leases") were finalized after the time at which Owners and Purchasers agreed on the Exchange Values set forth in Exhibit D. To the extent that any Partnership has advanced any sums on account of these New Leases prior to Closing, an adjustment will be made at Closing by increasing the Equity Value of the Partnership Interests in such Partnership; Purchasers shall bear all other costs, such as leasing commissions, tenant improvement work, rebates or other concessions, related to such New Leases.

(g) Association Assessments. Prepaid association assessments shall be adjusted as of the Closing Date by an increase in the Equity Value of the respective Partnership Interests. Association assessments which are due and payable as of the Closing Date shall be paid by the Owners of the respective Partnership Interests or allowance therefor made at Closing by a decrease in the Exchange Value of the respective Partnership Interests.

(h) Existing Partnership Bank Accounts. To the extent any Partnership reserve or other bank accounts are to be transferred to Purchasers at Closing, the Equity Value of the Partnership Interests in such Partnership shall be increased by an amount equal to the funds in such accounts as of the Closing Date.

(i) Purchasers shall be solely responsible for the following: (i) all costs necessary to provide Purchasers with the required endorsement to the existing title insurance policies or new owner's title policies, as required, for the Properties, including, without limitation, all expenses of examination of title, conducting settlement, escrow fees, title clearance, title insurance commitments, endorsements (including, without limitation, zoning, comprehensive and non-imputation) and premiums; and (ii) all costs of preparation of ALTA

surveys for the Properties. Any costs of state, county, city, local, municipal and township recording and transfer taxes with respect to the conveyance of the Properties shall be paid in accordance with the provisions of Article 24. Purchasers and Owners shall each pay their respective legal fees and expenses incurred in connection with the negotiation of this Agreement and all related documents, and in addressing each such party's tax and securities issues. Purchasers shall pay the costs of conducting all environmental tests and studies of the Properties. The appropriate Partnerships shall pay all costs associated with (i) repaying all indebtedness secured by the Properties except for any costs relating to the Prudential Loans and subject to the limitations set forth in Section 3.8, including, without limitation, any prepayment premiums associated therewith, (ii) any restructuring or "rolling up" of any of the partnerships constituting Owners; (iii) any gains taxes, income taxes or similar taxes owing as a result of the transactions contemplated hereby; and (iv) any costs associated with terminating any interest rate "swap" agreements which the BPLP does not elect to have assigned to the Purchasers at Closing, and all such costs and expenses and any other transactions costs of the Partnerships shall be treated as a reduction from the Equity Value of the Partnership Interests of the Partnerships respectively.

(j) Notwithstanding any of the foregoing to the contrary, in the event the net adjustments made pursuant to this Article 15 result in additional sums being payable to Owners, the Equity Value of the respective Partnership Interests shall be increased by such amount, and in the event the net adjustments made pursuant to this Article 14 result in additional sums being payable by Owners, the Exchange Value shall be decreased accordingly.

2 DEFAULT BY PURCHASERS. If this transaction fails to close as a

result of a material default by the Purchasers with respect to any of the terms of this Agreement, and such material default continues for a period of ten (10) days after Owners notify BPLP in writing of such default, Owners' sole and exclusive remedy for such material default shall be the right to cancel and terminate this Agreement and receive and retain the Deposit. Unless Owners waive the Purchasers' default in writing within five (5) days after the expiration of the 10-day period specified in the preceding sentence, or such default is cured within such 10-day period, this Agreement shall automatically terminate effective fifteen (15) days after the notice of default is given without the necessity of further notice being given. Upon such termination, each party shall be released from all duties or obligations contained herein and the Title Company shall immediately pay the Deposit to Owners as liquidated damages, it being understood and agreed that Owners are hereby releasing and/or waiving any right they might have to either specifically enforce this Agreement or to sue for damages. Owners have agreed to this liquidated damage provision because of the difficulty of ascertaining Owners' actual damages given the uncertainties of the real estate market, fluctuating property values and differences of opinion with respect to such matters.

3 DEFAULT BY OWNERS.

(a) If any of the representations and warranties made by Owners in this Agreement are inaccurate or incorrect in any material respect on the date made or deemed made, or if Owners fail to perform their covenants, obligations or agreements under this Agreement and such failure is not cured on or before the earlier of fifteen (15) days after written notice by BPLP to Owners or the Closing Date, BPLP shall have the right, at its sole option, to: (i) terminate this Agreement, whereupon the Deposit shall be returned to BPLP, Owners shall reimburse Purchasers on demand for all of BPLP's Due Diligence and Contract Costs and neither party shall have any further right or liability to the other under this Agreement except as may be specifically set forth in Section 5.5 and Article 23; (ii) proceed under Section 17(b) below, to the extent applicable, and/or (iii) pursue any legal or equitable remedies to which BPLP may be entitled on account of the foregoing, including, without limitation, specific performance; provided, however, that in no event shall the aggregate amount payable by Owners under this Section 17(a) exceed the sum of One Million Eight Hundred Thousand Dollars (\$1,800,000). Notwithstanding the foregoing, in the event that Closing occurs, nothing contained herein shall limit Purchasers' remedies or the amount of damages Purchasers may recover from Owners pursuant to Section 18.1.

(b) In the event that, at any time prior to Closing, any of the Owners breaches in any material regard any of its respective representations, warranties or covenants relating to a particular Partnership or Parcel under this Agreement, which breach is not cured within fifteen (15) days after notice thereof ("Defaulted Interests"), Purchasers may elect not to acquire such Defaulted Interests by providing written notice of such election to the Owners of the Defaulted Interests, in which event the Defaulted Interests shall no longer be subject to this Agreement, but this Agreement shall otherwise continue in full force and effect with respect to the other Partnerships and the related Parcels, and the parties shall have no further rights or liabilities on account of such Defaulted Interests.

(c) INDEMNIFICATION.

1 The Managing Owners hereby agree to jointly and severally indemnify and hold Purchasers harmless from and against: (i) any loss, cost, liability or damage suffered or incurred by Purchasers because any representation or warranty by any Owner shall be false or misleading in any material respect on the date made or deemed made; (ii) any loss, cost, liability or damage suffered or incurred by Purchasers because of any Owner's failure to timely perform any of its covenants, obligations or agreements under this Agreement; (iii) any and all liabilities, claims, demands, losses, suits and judgments of any kind or nature (except those items which under the terms of this Agreement specifically become obligations of Purchasers), brought by third parties and based on events occurring on or before the Closing Date and which are in any way related to the ownership, maintenance or operation of the Properties, and all expenses related thereto, including, but not limited to, court costs and attorneys' fees; and (iv) all reasonable costs and expenses (including reasonable attorneys' fees) incurred by Purchasers in connection with any action, suit, proceeding, demand, assessment or judgment incident to any of the matters

indemnified against in this Section 18.1. As to any claim, action or other matter subject to the foregoing indemnity, the Managing Owners shall assume the defense thereof with counsel acceptable to Purchasers. Such claim, action or other matter shall not be settled without the approval of both Purchasers and the Managing Owners.

2 Purchasers hereby agree to indemnify and hold Owners harmless from and against any loss, cost, liability or damage to person or the Improvements at the Properties suffered or incurred by Owners as a result of Purchasers' entry onto any Property prior to Closing, and all reasonable costs and expenses (including reasonable attorneys' fees) incurred by Owners in connection with any action, suit, proceeding, demand, assessment or judgment incident to any of the matters indemnified against in this Section 18.2. Further, provided Closing occurs hereunder, Purchasers hereby agree to indemnify and hold Owners harmless from and against: (i) any loss, cost, liability or damage suffered or incurred by Owners because any representation or warranty by either Purchaser shall be false or misleading in any material respect on the date made or deemed made; (ii) any loss, cost, liability or damage suffered or incurred by Owners because of Purchasers' failure to timely perform any of its covenants, obligations or agreements under this Agreement; and (iii) any and all liabilities, claims, demands, losses, suits and judgments of any kind or nature, brought by third parties and based on events occurring subsequent to the Closing Date and which are in any way related to the ownership, maintenance or operation of the Properties, and all expenses related thereto, including, but not limited to, court costs and attorneys' fees. As to any claim, action or other matter subject to the foregoing indemnity, Purchasers shall assume the defense thereof with counsel acceptable to Managing Owners. Such claim, action or other matter shall not be settled without the approval of both Purchasers and the Managing Owners. Purchasers hereby agree to enter into an agreement at Closing indemnifying the General Partners for any recourse obligation which survives Closing that they may have under the documents evidencing and securing the Retained Indebtedness, to the extent of and solely as to events which occur after Closing.

3 DAMAGE, DESTRUCTION OR CONDEMNATION.

1 In the event of any loss, damage or destruction to any Property or any part thereof prior to Closing that would cost Five Hundred Thousand Dollars (\$500,000) or less to repair or replace as estimated by a person or company jointly agreed to by Purchasers and Managing Owners, the Exchange Value for such Partnership Interests shall be reduced by the estimated cost of such repairs, the transaction contemplated herein shall be consummated without further reduction of the Exchange Value and Owners shall receive such insurance proceeds as are paid on the claim of loss. Notwithstanding the foregoing, at Purchasers' option, Purchasers may elect to receive all such insurance proceeds, and in such case, each affected Owner shall assign to Purchasers its right to receive said proceeds (and credit Purchasers with any deductible related thereto) and there shall be no reduction in the Exchange Value.

2 If the estimated cost of repairing or replacing any loss, damage or destruction to any Property exceeds Five Hundred Thousand Dollars (\$500,000) but is less than

Fifty Million Dollars (\$50,000,000) as estimated as aforesaid, Purchasers shall have the right to delete such Property from this Agreement and all rights, obligations and liabilities of the parties hereto as to such Property shall thereupon terminate. If, however, Purchasers elect to consummate the acquisition of the Partnership Interests as to such affected Property, the Exchange Value of such Partnership Interests shall be reduced by the estimated cost of such repairs, the transaction contemplated herein shall be consummated without further reduction of the Exchange Value, and Owners shall receive such insurance as is paid on the claim of loss. Notwithstanding the foregoing, at Purchasers' option, Purchasers may elect to receive all such insurance proceeds, and in such case, each affected Owner shall assign to Purchasers its right to receive said proceeds (and credit Purchasers with any deductible related thereto) and there shall be no reduction in the Exchange Value.

3 If the estimated cost of repairing or replacing any loss, damage or destruction to any Property exceeds Fifty Million Dollars (\$50,000,000), either Purchasers or Owners may elect to terminate this Agreement by written notice of such election to all other parties. In the event of such termination, the Deposit shall be returned to Purchasers and all rights, obligations and liabilities of the parties hereunder shall be released and discharged other than the obligations set forth herein in Section 5.5 and Article 23. If neither Purchasers nor Owners elect to terminate this Agreement in accordance with this Section 19.3, the Exchange Value of the Partnership Interests for the Partnership(s) owning such affected Property shall be reduced by the estimated cost of such repairs, the transaction contemplated herein shall be consummated without further reduction of such Exchange Value, and Owners shall receive such insurance as is paid on the claim of loss. Notwithstanding the foregoing, at Purchasers' option, Purchasers may elect to receive all such insurance proceeds, and in such case, each affected Owner shall assign to Purchasers its right to receive said proceeds (and credit Purchasers with any deductible related thereto) and there shall be no reduction in the Exchange Value.

4 In the event that any condemnation proceedings are instituted, or notice of intent to condemn is given, with respect to any Property or portion of any Property, Managing Owners shall promptly notify Purchasers thereof. In the event that such proposed condemnation could or would have an effect on the Property or on the use and operation of the Property (the "Condemnation Consequences") estimated by Purchasers to be Five Hundred Thousand Dollars (\$500,000) or less, the Exchange Value for the Partnership Interests in the Partnership which owns the Property which is the subject of the condemnation proceedings shall be reduced by the estimated Condemnation Consequences, the transaction contemplated herein shall be consummated without further reduction of the Exchange Value, and Owners shall receive any condemnation award or compensation. Notwithstanding the foregoing, at Purchasers' option, Purchasers may elect to receive such condemnation award or compensation, and in such case, each affected Owner shall assign to Purchasers its right to receive such award or compensation and there shall be no reduction in the Exchange Value.

5 If the value of the Condemnation Consequences is estimated by Purchasers to be an amount which exceeds Five Hundred Thousand Dollars (\$500,000) but is less than Fifty

Million Dollars (\$50,000,000), Purchasers shall have the right to delete such affected Property from this Agreement and all rights, obligations and liabilities of the parties hereto as to such Property shall thereupon terminate. If, however, Purchasers elect to consummate the acquisition of the Partnership Interests as to such affected Property, the Exchange Value of such Partnership Interests shall be reduced by the estimated value of the Condemnation Consequences, the transaction contemplated herein shall be consummated without further reduction of the Exchange Value, and Owners shall receive such condemnation award or compensation as is paid on account of the condemnation. Notwithstanding the foregoing, at Purchasers' option, Purchasers may elect to receive such condemnation award or compensation, and in such case, each affected Owner shall assign to Purchasers its right to receive such award or compensation and there shall be no reduction in the Exchange Value.

6 If the value of the Condemnation Consequences is estimated by Purchasers to be an amount in excess of Fifty Million Dollars (\$50,000,000), either Purchasers or Owners may elect to terminate this Agreement by written notice of such election to all other parties. In the event of such termination, the Deposit shall be returned to Purchasers and all rights, obligations and liabilities of the parties hereunder shall be released and discharged other than the obligations set forth in Section 5.5 and Article 23. In the event that neither Purchasers nor Owners elect to terminate this Agreement under this Section 19.6, the Exchange Value of the affected Partnership Interests shall be reduced by the estimated value of the Condemnation Consequences, the transaction contemplated herein shall be consummated without further reduction of the Exchange Value, and Owners shall receive such condemnation award or compensation as is paid on account of the condemnation. Notwithstanding the foregoing, at Purchasers' option, Purchasers may elect to receive the condemnation award or compensation, and in such case, each affected Owner shall assign to Purchasers its right to receive said award or compensation and there shall be no reduction in the Exchange Value.

7 No Partnership shall agree to or accept any compromise or condemnation award without obtaining Purchasers' written approval thereof. In the event any Owners are entitled to receive a compromise or condemnation award under the terms of this Agreement, Purchasers shall not agree to or accept such compromise or condemnation award without such Owners' written approval thereof. For purposes of this Article 19, a condemnation shall be deemed to include any governmental action which could limit or render inconvenient the current access to any Property.

8 **BROKERS.** Each Owner, on the one hand, and the Purchasers, on the other, -----
hereby represent and warrant to the other that it has not authorized any broker, agent or finder to act on its behalf in connection with the transaction contemplated by this Agreement other than MGA. Owners shall be responsible for claims made by MGA, if any, in connection with this transaction, not otherwise provided for herein. Each party agrees that it shall indemnify, defend and save the other harmless from and against any cost, expense, claim, loss, liability or damages, including reasonable attorneys' fees and court costs, resulting from a breach of the foregoing representation

and warranty. The provisions of this Article 20 shall survive Closing or termination of this Agreement for the period specified in Section 21.3.

9 MISCELLANEOUS.

1 Notices. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given/received: (i) on the date delivered if delivered personally; (ii) the next Business Day after deposit with a recognized overnight courier service when marked for delivery on the next Business Day; (iii) three (3) days after mailing if sent by registered or certified United States mail, properly addressed and postage pre-paid; or (iv) upon completion of transmission (which is confirmed by telephone or a statement generated by the transmitting machine) if sent by facsimile to compatible equipment in the possession of the recipient, and addressed to the party for whom it is intended at the address hereinafter set forth:

(A)
IF TO THE PARTNERSHIP

AND/OR MANAGING

OWNERS:

To each c/o Mulligan/Griffin and
Associates, Inc.

15204 Omega Drive, Suite 100

Rockville, MD 20850

Attn: Barry M. Fitzpatrick

David E. Schutt

WITH A COPY TO:
Robert G. Gottlieb, Esq.

Tucker, Flyer & Lewis

1615 L Street, N.W.

Suite 400

Washington, D.C. 20036

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(B)
IF TO OWNERS:

To the addresses in Exhibit U

WITH A COPY TO:
Robert G. Gottlieb, Esq.

Tucker, Flyer & Lewis

1615 L Street, N.W.

Suite 400

Washington, D.C. 20036

(C)
IF TO BPLP:

c/o Boston Properties, Inc.

8 Arlington Street

Boston, MA 02116

Attn: William J. Wedge, Esq.

WITH A COPY TO:
Boston Properties, Inc.

500 E Street, S.W.

Suite 200

Washington, D.C. 20024

Attn: Raymond A. Ritchey

AND TO: Sheldon J. Weisel, Esq.

Shaw, Pittman, Potts & Trowbridge

2300 N Street, N.W.
Washington, D.C. 20037

Any party may designate a change of address by written notice to the other in accordance with the provisions set forth above, which notice shall be given at least ten (10) days before such change of address is to become effective.

1 SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and inure to the benefit of the respective personal representatives, heirs, successors and assigns of the parties. Managing Owners shall be jointly and severally liable hereunder. No Owner shall have any right to assign its rights or obligations under this Agreement without the prior written consent of Purchasers; provided, however, that Purchasers' consent shall not be required for the assignment by any Owner of its respective rights and obligations under this Agreement to an entity wholly owned by such Owner or to a partnership or limited liability company consisting solely of family members of such Owner. Purchasers shall have no right to assign their respective rights or obligations under this Agreement without the prior written consent of Owners; provided, however, no Owner's consent shall be required for any assignment by BPLP or BPLLC of its respective rights and obligations under this Agreement to any person or entity that is an affiliate or subsidiary of BPLP or that is otherwise owned or controlled by BPLP, so long as such assignment will not interfere with Purchasers' ability to issue Units pursuant to this Agreement. Any assignment or attempted assignment of this Agreement or the rights and obligations hereunder other than strictly in accordance with the provisions of this Section 21.2 shall be null and void and of no force or effect. Notwithstanding the foregoing, any assignment made in accordance with this Section 21.2 shall not release any of the parties hereto from any liabilities or obligations hereunder.

2 SURVIVAL. The representations and warranties set forth in Sections 7.1, 7.2, 7.3 and 10.2 and in Article 20 of this Agreement, the provisions of Section 10.3, and any indemnification related to any of the foregoing (including, without limitation, any indemnification pursuant to Section 18 hereof), shall survive Closing indefinitely, subject to any applicable statute of limitations. Owners' responsibility and liability pursuant to the last sentence of Section 23.4 and pursuant to Section 15.1(d) shall survive Closing for the period specified in such Section. All other representations, warranties, covenants, agreements and indemnities set forth in or made pursuant to this Agreement and any indemnification related thereto under Section 18 hereof or otherwise shall remain operative, and shall survive the Closing under this Agreement, only with respect to claims made in writing by Purchasers to Owners on or before

April 1, 1999. In addition to all rights which BPLP may have against Owners receiving Units, BPLP shall have the right to set-off the amount of any final judgment obtained against any Owner on account of a breach of this Agreement against any dividends or distributions payable to such Owner with respect to Units issued pursuant to this Agreement. For purposes of the preceding sentence, a judgment will be considered final only after it has been affirmed on appeal or the time for filing an appeal has expired.

3 GOVERNING LAW. This Agreement shall be construed and enforced in accordance with the laws of the state of Virginia, excluding conflicts of laws principles.

4 COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument; provided, however, in no event shall this Agreement be effective unless and until signed by all parties hereto.

5 POST CLOSING COOPERATION. Following the Closing and upon reasonable notice by any General Partner or Managing Owner, BPLP covenants and agrees to provide (or cause to be provided) to the representatives, employees, counsel, accountants and other authorized agents of such General Partner or Managing Owner reasonable access, during normal business hours, to all books and records and other materials with respect to the Partnerships and/or the Parcels, including, without limitation, due diligence materials delivered by the Managing Owners (or their representatives) to Purchasers during the Study Period or otherwise under this Agreement relating to periods prior to Closing or any obligation of the General Partners under this Agreement (the "Records and Materials") in connection with the preparation of tax returns and financial reporting matters, audits and other business purposes. In connection therewith, BPLP covenants and agrees to permit the General Partners and their representatives to examine and copy the Records and Materials to the extent reasonably requested and at the sole expense of the General Partners and Managing Owners, provided such actions do not unreasonably disrupt the normal course of business of BPLP or the Partnerships. BPLP further covenants and agrees to use reasonable efforts to cooperate with the General Partners and Managing Owners in connection with any tax audit or similar proceedings involving or otherwise relating to any Partnership or any Owner with regard to a Partnership or the transactions contemplated herein, provided that BPLP shall not incur any liability on account thereof and all costs and expenses incurred in affording such cooperation are paid by the affected Owner.

6 RISK OF LOSS. Subject to the provisions of Article 19, the risk of loss or damage from fire or other casualty until the Closing is assumed by the Partnerships.

7 FURTHER ASSURANCES. Owners agree that they will, at any time and from time to time after the Closing Date, upon request of Purchasers, do, execute, acknowledge and deliver, or will cause to be done, executed, acknowledged and delivered, all such further acts, deeds, assignments, transfers, conveyances, powers of attorney and assurances as may be

required for the better assigning, transferring, granting, assuring and confirming to Purchasers, or to their respective successors and assigns, or for aiding and assisting in collecting and reducing to possession, any or all of the assets or property being contributed to Purchasers pursuant to this Agreement. Managing Owners agree to grant BPLP, and its agents and certified public accountants, access during normal business hours to the Owners' books and records with respect to the Partnerships and the Properties for the purpose of reviewing and auditing the same for a period of one (1) year following the Closing Date.

8 RECITALS; EXHIBITS. Each and all of the recitals set forth above and the exhibits attached hereto are hereby incorporated into this Agreement by reference.

9 RULES OF CONSTRUCTION. Section captions used in this Agreement are for convenience only and shall not affect the construction of the Agreement. All references to "Articles" and "Sections," without reference to a document other than this Agreement are intended to designate articles and sections of this Agreement, and the words "herein," "hereof," "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Section, unless specifically designated otherwise. The use of the term "including" shall mean in all cases "including but not limited to," unless specifically designated otherwise. No rules of construction against the drafter of this Agreement shall apply in any interpretation or enforcement of this Agreement, any documents or certificates executed pursuant hereto, or any provisions of any of the forgoing.

10 TIME OF ESSENCE. Time is important to all parties in the performance of this Agreement, and the parties have agreed that strict compliance is required as to any date set out in this Agreement.

11 PRORATION OF DIVIDENDS. With respect to Units issued pursuant to this Agreement, the quarterly dividends distributed subsequent to the issuance of such Units shall be prorated on a per diem on the basis of the number of days in such quarter occurring from and after the Closing Date.

12 JOINT AND SEVERAL LIABILITY. Notwithstanding anything herein to the contrary, John F. Griffin, George G. Mulligan, Barry M Fitzpatrick and David E. Schutt and the Partnerships are jointly and severally liable for all obligations and liabilities of Owners and Partnerships hereunder.

13 ENTIRE AGREEMENT. This Agreement and the exhibits attached hereto

and thereto contain the entire agreement between the parties relating to the contribution of the Partnership Interests, all prior negotiations between the parties, including, without limitation, any letter of intent (including all amendments or modifications thereof), are merged in this Agreement, and there are no promises, agreements, conditions, undertakings, warranties or representations, oral or written, express or implied, between them other than as herein set forth. No change or modification of this Agreement shall be valid unless the same is in writing and signed by the

parties hereto. No waiver of any of the provisions of this Agreement and other agreements referred to herein shall be valid unless in writing and signed by the party against whom it is sought to be enforced.

14 CONFIDENTIALITY.

1 Except as provided otherwise in this Section 23.1, Purchasers and Owners, for the benefit of each other, hereby agree that neither of them will release or cause or permit to be released to the public any press notices, publicity (oral or written) or advertising promotion relating to, or otherwise publicly announce or disclose or cause or permit to be publicly announced or disclosed, in any manner whatsoever, the terms, conditions or substance of this Agreement or the transactions contemplated herein, without first obtaining the consent of the other party hereto which shall not be unreasonably withheld. Owners, being aware that BPI's securities are traded on the New York Stock Exchange, acknowledge that BPLP and BPI may be compelled by legal requirements to issue a public press release announcing that it has entered into this Agreement and stating the material terms hereof. BPLP agrees to send a copy of such press release directly to Managing Owners at least 24 hours prior to the time when BPLP issues such press release to the public; and Owners consent to the dissemination of such press release and to all such additional statements and disclosures BPLP may reasonably make in responding to inquiries arising as a result of any such press release. Owners likewise consent to any disclosure of this Agreement which BPLP reasonably believes is required by law or which is recommended in good faith by securities counsel to BPLP.

2 It is understood that the foregoing shall not preclude any party from discussing the substance or any relevant details of the transactions contemplated in this Agreement on a confidential basis with such party's spouse or any of its attorneys, accountants, professional consultants, financial advisors, rating agencies, or potential lenders, as the case may be, or prevent any party hereto from complying with applicable laws, including, without limitation, governmental regulatory, disclosure, tax and reporting requirements.

3 Purchasers shall indemnify and hold Owners harmless, and Owners shall indemnify and hold Purchasers and the affiliates of BPLP harmless, from and against any and all actual direct claims, demands, causes of action, losses, damages, liabilities, costs and expenses (including, without limitation, attorneys' fees and disbursements) suffered or incurred by the other party and proximately caused by a breach by Purchasers or Owners, as the case may be, of the provisions of this Article 23; but this Section 23.3 will not entitle either Purchasers, Owners, Purchasers' affiliates or Owners' affiliates to recover consequential damages.

4 In addition to any other remedies available to Owners and Purchasers, Owners and Purchasers shall each have the right to seek equitable relief, including, without limitation, injunctive relief or specific performance, against the other party or their representatives in order to enforce the provisions of this Agreement. The provisions of this

Section 23.4 shall survive the termination of this Agreement for one (1) year following the Closing.

5 OPTION TO ACQUIRE PARCELS. Pursuant to Section 2.2 hereof,

Purchasers have the option to elect to acquire fee title to certain of the Parcels, in lieu of acquiring the Partnership Interests in the Partnership or Partnerships which own such Parcels. Purchasers shall notify Owners in writing of their intent to elect such option, designating which Parcel or Parcels are to be so acquired. Subject to the terms and conditions set forth herein, each Partnership agrees to convey fee title to the Parcel it owns to BPLP in the event of such election by Purchasers. Upon receipt of such written notice from Purchasers, the General Partners of any Partnership so designated shall provide Purchasers with such additional representations and warranties as may reasonably be required by Purchasers. In the event that a Parcel is conveyed to Purchasers under the terms of this Article 24, the selling Partnership and BPLP shall each pay one-half of the applicable transfer and recordation taxes. Notwithstanding the foregoing, it is understood and agreed that it is the parties' joint intention to structure this transaction as a transfer of partnership interests and, therefore, Purchasers may not proceed with the election provided in Section 2.2 as to any Parcel unless they have substantial reasons for making such election.

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the inclusion in this registration statement on Amendment No. 1 to Form S-11 (File No. 333-41449) of our reports dated (i) May 1, 1997 on our audits of the combined financial statements and financial statement schedule of the Boston Properties Predecessor Group, (ii) October 17, 1997 on our audit of the statement of revenue over certain operating expenses of 280 Park Avenue, and (iii) October 17, 1997 on our audit of the statement of revenue over certain operating expenses of 875 Third Avenue and (iv) November 3, 1997 on our audit of the statement of revenue over certain operating expenses of 100 East Pratt Street and (v) November 25, 1997 on our audit of the statement over revenue over certain operating expenses of Riverfront Plaza and (vi) November 20, 1997 on our audit of the statement of revenue over certain operating expenses of the Mulligan/Griffin Portfolio. We also consent to the reference to our firm under the caption "Experts".

/s/ Coopers & Lybrand L.L.P.

Boston, Massachusetts

December 15, 1997