Boston Properties

December 7, 2015

Chairman Russell Golden
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Lease Accounting Project, Initial Direct Costs

Dear Chairman Golden:

We appreciate the time and effort the FASB and IASB Board and staff members (the "Staff") has taken in deliberating the new leasing standard and soliciting public feedback through its outreach activities. Boston Properties, Inc. (NYSE: BXP) is submitting this unsolicited comment letter to provide the Financial Accounting Standards Board (FASB) its views on the financial reporting implications of the proposed accounting for initial direct leasing costs on our Company. Boston Properties, Inc. is the largest office-concentrated public Real Estate Investment Trust ("REIT") and one of the largest REITs by market capitalization in the United States. We have followed the leasing project from its inception and provided comments on the proposed standards throughout its development. We have been involved with NAREIT's lease task force, participated in a roundtable with the Staff, as well as issued a comment letter, on December 15, 2010 in response to the first lease exposure draft and a letter on September 13, 2013 in response to the updated exposure draft.

Impact of Tentative Decision on "Initial Direct Costs"

The decision at the joint meeting held on May 21, 2014 by the Board to allow the capitalization of *only* incremental costs represents a major change from existing U.S. GAAP. This ruling was surprising to us as the definition of initial direct costs in the Revised Exposure Draft (ED) appeared to be inconsistent with the examples provided in the original Implementation Guidance. The language used in the May 2013 Revised ED was very similar to that in the guidance in ASC 840. While ASC840 did not use the word "incremental" to qualify leasing costs for capitalization, the definition of incremental was similar to the language in ASC 840 which allowed for the capitalization of all direct internal costs related to signed leases. As a result, we believed that the standard would not have changed our current accounting for initial direct leasing costs and we did not provide a comment letter to object to the guidance.

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We now interpret the term incremental to include external costs that would not have otherwise been incurred if the lease had not been executed but not include allocations of internal employees engaged in executing leases. Under the proposed accounting, significant internal costs of leasing may not be considered incremental. As noted below, this is a change in our current practice as we currently capitalize internal direct leasing costs that are clearly and directly attributable to successfully executed leases. These costs may not be considered incremental costs as currently structured. We do not believe there should be a difference in the accounting for direct internal leasing costs and direct external leasing costs related to executed leases.

If the standard is finalized as currently written, the implication of no longer being permitted to capitalize internal direct costs of employees in executing leases will have a detrimental impact on our operating results as well as other REIT's whose operating structure is similar to ours. In addition, it will result in the inability to compare "apples to apples" operating results of other similar companies who outsource their leasing function whose costs would be considered incremental, even though the responsibilities are similar.

Importance of Internal Leasing Staff
Lease revenue is the most important element to Boston Properties in creating earnings and cash flows. It is also the basis in determining the valuation of our properties and Boston Properties, Inc. as a company. Leasing plans are developed internally, utilizing the Company's internal leasing team's knowledge of existing markets and tenants. The internal team is an integral part of management and has a long term stake in Boston Properties success unlike an external third party leasing resource. Boston Properties believes our strategy of utilizing internal leasing resources creates value and a level of engagement not achieved with third parties. The new proposed structure does not align with Boston Properties long-term success.

Internal leasing staff is generally compensated at a base salary plus bonuses based on reaching leasing targets. These costs support the same business function as an external leasing resource but are generally more effective and less costly than external leasing agents. As such, we do not believe the treatment of the costs should differ when using internal vs. external resources.

Current Accounting
Boston Properties tracks the costs of internal leasing staff directly related to executed leases. These costs are capitalized and amortized over the term of the related lease in accordance with ASC 840. We do not include an allocation of cost directly attributable to our heads of leasing given the role is considered to be more oversight in nature and not directly related to a specific lease (although there are various times the involvement is considered significant). ASC 840-20-25-28 states "The costs directly related to those activities shall include only that portion of the employees' total compensation and payroll-related fringe benefits directly related to time spent performing those activities for that lease and other costs related to those activities that would not have been incurred but for that lease."

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Absent the Board overturning its May 21, 2014 decision, it appears that the Boards will change this current practice despite the intentions previously expressed that the proposed definition is not intended to change current practice for how initial direct costs are defined.

Conclusion

Boston Properties, Inc. objects to the Board's conclusion regarding capitalizing only incremental initial direct leasing costs and respectfully requests the Board reconsider its conclusion and reverse its decision in order to preserve current practice related to this specific matter. As communicated by the Board on many occasions, we do not believe it was the Board's intention to change current lessor accounting. More importantly, we do not believe inconsistencies in accounting results should be created as a result of differences in the accounting for internal and external leasing costs related to executed leases.

We thank the FASB for the opportunity to comment on this Exposure Draft. If you have any questions please do not hesitate to contact me at (617) 236-3460.

Respectfully submitted,

Lori Silverstein

Lori Silverstein
Vice President, Controller