REFINITIV STREETEVENTS

# PRELIMINARY TRANSCRIPT

BXP.N - Boston Properties, Inc. Presents at Evercore ISI Real Estate Conference, Sep-10-2020 09:00 AM

EVENT DATE/TIME: SEPTEMBER 10, 2020 / 1:00PM GMT



©2020 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

## CORPORATE PARTICIPANTS

**David Provost**

**Michael E. LaBelle** *Boston Properties, Inc. - Executive VP, Treasurer & CFO*

**Owen David Thomas** *Boston Properties, Inc. - CEO & Director*

## CONFERENCE CALL PARTICIPANTS

**Stephen Thomas Sakwa** *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Equity Research Analyst*

## PRESENTATION

**Owen David Thomas** - *Boston Properties, Inc. - CEO & Director*

This morning. So I do think things are picking up modestly post Labor Day. On collections, from Boston property standpoint, our collections in August, were -- for office, we're 98% just as they have been. They've been consistent from what they were in prior months. September is basically on track and in total, collections, we're about -- were at 96% for August. Again, that's up a little bit from where they were in prior months. And I would just say from discussions that we've had with our customers, I think generally, our customers want to return to work. The leadership wants to return. I think many/most of the workers want to return. But there's obstacles and barriers. In several of our cities, California, New Jersey, they're legal barriers, offices can't be open. So that obviously is significant. And then looking at DC, New York and Boston, there are lots of different things in every household and every worker is different. Some people face childcare issues because schools haven't fully reopened yet. There's definitely still some virus out there, although it's certainly gotten a lot better, but there are still health concerns. I think more with public transportation than actually the office space. And I think every individual is different. But I do think, in general, our customers want to return to work.

PRELIMINARY TRANSCRIPT

## QUESTIONS AND ANSWERS

**Stephen Thomas Sakwa** - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Equity Research Analyst*

Michael, sort of similar question, just sort of how the buildings in New York have kind of warped and maybe any different trends that Owen mentioned California having basically not working. But anything in Chicago that would maybe be different than what you're seeing in New York?

**Michael E. LaBelle** - *Boston Properties, Inc. - Executive VP, Treasurer & CFO*

Steve, nice to be with you. Like I would echo a lot of Owen sentiments with respect to New York. For us, building utilization was probably a little bit over the last couple of months and that's ticked up this week. I think it's going to tick up more over the next few weeks. I was actually, as I was coming in this morning, I was pleasantly surprised to see school kids on the street, and I do think that is a gating item in terms of people returning to work. It's obviously not going to be full time, right, maybe 2, 3 days a week. But just the fact that with kids in school, more people are back in the city, I think they're going to have a higher percentage kind of back to work. And so I think that percentage will tick up. That being said, based on discussions with tenants as much as they want to get back as much of leadership is coming back. Realistically, I think that number ends up plus/minus 25% through year-end. And then I think it ramps back up beginning January. So I think companies would like their employees back, we've been back since late June. Our employees on a 50-50 basis. Our employees like being back in the office, they're clearly more productive, a more creative being together, hearing that from tenants as well. So that being said, as Owen mentioned, whether it's child care, I would just call it, frankly, fear the unknown. The incidence rate in New York is, frankly, very low. But it's the fairly unknown, whether it's getting on mass transit or other things. And so it's a little bit of muscle memory of getting back, and you just got to come back in is safe. So I mean, I think for us, and I know the BXP team and JBG Smith teams, I think all of us have instituted robust protocols in our buildings, right? So all of our tenants that are back are very comfortable, might have given us very high marks on what we've done. So that's not an impediment to coming back. I really think it's -- whether it's the schools, is the fear of the unknown, I think that's what's driving this. And it's just going to be a slow ramp.



©2020 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

In terms of collection rates, I would say August was consistent with July, which was up a little bit from the prior months, September, a little too early to tell yet, but consistent as well. So it feels like that's -- the initial shock has passed and tenants are paying and the ones that can't either because their businesses have been damaged or in the case of restaurants, where it's just existential right now, and that's just going to continue to be the laggage. So with that, I'll turn it over to Dave.

---

**Stephen Thomas Sakwa** - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Equity Research Analyst*

Yes, Dave, I guess just question wise, Washington does have a subway ridership metro ridership. But some of your buildings are also maybe a bit more accessible via car than than folks coming into Manhattan. So are you seeing any real differences in kind of the building utilizations today or maybe even in August, maybe just given a little bit of car flexibility?

---

**David Provost**

Yes, Steve, absolutely. And also thank you for including me in JBG Smith this morning. To answer your question, yes, Steve, it's interesting hearing, Owen and Michael reference utilization. Ours is a touch higher. So kind of mid- week summer average occupancy utilization was between 15% and 20%. So a little bit higher. We saw the highest utilization from our larger government contractors. So kind of interesting there. In terms of collections, as we referenced in our 2Q investor letter, we were at 98.6% on the office side. So it sounds like consistent with Owen's numbers. We haven't publicly put out numbers on August, but they are largely in line with 2Q. So feel good about that. And then we are having a lot of conversations with our tenants. We have doubled down in our outreach and communication to our tenants. We feel like it's more important than ever, to be communicating with them regularly. We've received great feedback on our healthy workplace blueprint, which is our -- all of the changes, both operationally and physically, we've made to our buildings to make them safer. And echo Owen and Michael's comments, too, that at the end of the day, it's external factors that are limiting our utilization. So in schools, it's transit and it's testing or where we see see the challenges because we are focused on the DC market, we are taking a proactive effort as business leaders to try to leverage where we can, our involvement in the Greater Washington partnership and other business groups to try to effect change relative to improved cleaning process and procedures for metro and trying to see if there's an opportunity to get to ubiquitous testing. In the D.C. area. So trying to be proactive on some of those external issues to see if we can help.

---

**Stephen Thomas Sakwa** - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Equity Research Analyst*

Okay. We're going to get into a bunch of stuff on leasing. But 1 of the questions that we've been getting a lot kind of post-Q2 was, did the company sort of take enough medicine? Did they kind of write-off enough of the bad kind of debt charges, did they sort of sweep a lot in and sort of take all the pain in Q2, and I'm not asking everybody to give a Q3 earnings update here. But just as you guys sort of broadly thought about the problems in the portfolio and kind of what you decided to write-off or what sort of bubble tenants might have still been around just looking maybe for orders of magnitude, maybe Michael, start with you on this one. Just as you sort of thought about the problems that you had how would you sort of characterize what you took or maybe what you didn't take and what would precipitate further charges or write-downs or tenant problems kind of looking forward?

---

**Michael E. LaBelle** - *Boston Properties, Inc. - Executive VP, Treasurer & CFO*

Sure. So in the last quarter, we took a little over $300 million write-down on our High Street retail joint venture that if you remember was marked up quite significantly, about $2.5 billion a little over a year ago. So this was a bit of an unwind from that. I don't think surprising given what's happened with with the retail environment. And really, it's driven by -- look, I mean, it's -- all this is accounting driven, right? So every quarter, you look at all your assets and see whether there's an impairment that impairment as anything other than temporary. And the rules are a little bit tighter for joint ventures than they are for wholly owned assets. And so with respect to the High Street JV, obviously, there have been some changed circumstances, whether it's the Forever 21 (inaudible) some other vacancies. And so as we remodeled that and what the expected, obviously, the loss of rent, the expected reduction in replacement rent that drove a (inaudible). And so in terms of making predictions about the future, we can't do that to the extent that there are other tenants that either go out or that we feel like near-term role, where the rents are going to be materially



©2020 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

lower than what we already assumed, that would drive. But I would say one other thing is that notwithstanding these are accounting charges, right? These are noncash charges, these aren't permanent value losses. Obviously, you hold the assets, you have the potential for recovery there. But based on today's environment, there clearly have been deterioration. There clearly have been some tenants that failed, we felt it was appropriate to take a mark. And I think the public has marked much more dramatically than all that. I think they probably marked to retail to close to 0. So the public has done their own accounting work that I think is much more severe than what reality is but that's the market we live in right now.

---

**Stephen Thomas Sakwa** - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Equity Research Analyst*

Right. And I guess, Owen, you guys also took some large charges in the quarter right off of straight-line rent, but also moved a fair number of your, I think, retail tenants to more of a cash accounting, just given the challenges that you guys have all talked about. I guess, broadly speaking, do you feel like all of those things that you thought were problems that you took in the quarter largely reflect the problems today? Or have things gotten worse? Or do you sort of feel like you captured most of the real challenges kind of in Q2?

---

**Owen David Thomas** - *Boston Properties, Inc. - CEO & Director*

Well, Steve, as you mentioned, we did take charges as well. They weren't related to asset values, it was related to customers paying rent and either revenues that we had booked in the past or were going to book for the quarter. So we did a very thorough review of all these credits, and we don't foresee significant future write-offs. Because honestly, if we foresee them, we should have taken them. And so the the issue is that's today, and you can't make any statements about not having future write-offs because you don't know what the future holds. You don't know what the future holds for the economy, you don't know what the future holds for each of these customers, whose credits were relying upon. But again, I feel like we did a very thorough job in the second quarter and came up with the numbers that we did.

---

**Stephen Thomas Sakwa** - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Equity Research Analyst*

Okay. Maybe just trying to switch gears a little bit and just talk about the leasing environment. Obviously, some are tends to be rather slow in general, and then you put a pandemic on top of it. Doesn't help leasing in general. But maybe David will start with just you on leasing activity and how are you guys sort of feeling now that we're quoting the early part of fall? What are the discussions like with tenants? Our conversations with brokers have continued to be rather soft and slow for new deals, renewals seem to be moving at their normal pace, maybe a little slower. But just what are you seeing on the leasing activity? And are there any green shoots that you can sort of point to on the new leasing front that would certainly make people on this call, I think, excited?

---

**David Provost**

Yes. I think, Steve, to your question, we look at the long-term demand fundamentals in the Washington region, and we feel really good about things. So we look at the fact that over the last 30 years in every market downturn, every recessionary environment, the D.C. market has outperformed its peers. We look at the fact that our unemployment rate, while higher than we would like it to be, is better than the other major markets. Look at the fact that CBRE put out their tech talent report this summer and ranked the D.C. area. #2 in the country behind the Bay Area relative to depth of tech talent. We looked to the fact that in the second quarter, you look at the major brokerage firms and their quarterly reports, while the DC region had negative net absorption, some modest negative net absorption, there was actually a bit of positive absorption in Northern Virginia, of course, driven primarily by government contractors and tech. So we do see some green shoots out there, Steve. Again, long-term demand fundamentals related is where we're most optimistic. Also to your question about renewals, if you look at our leasing in the second quarter, and 80% of it was renewals and certainly for small to mid-sized companies, there is a practical reality that trying to execute a move in this environment is not easy. And so we do think that, that helps us a bit from a leverage standpoint, as we're talking to groups and that we are having a little bit of outside success on the renewal front.

---



©2020 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

PRELIMINARY TRANSCRIPT

**Stephen Thomas Sakwa** - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Equity Research Analyst*

Okay. Michael, I'll come back specifically on Facebook because there's a couple of questions. But just in general.

---

**Michael E. LaBelle** - *Boston Properties, Inc. - Executive VP, Treasurer & CFO*

I know you would, Steve.

---

**Stephen Thomas Sakwa** - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Equity Research Analyst*

No. It only took me 19 minutes. So just in general, what are you guys seeing on the overall leasing environment discussions with tenants and I know that there were some very large deals that have been in cover that ultimately got to the finish line. But I'm just curious, can you point your have you seen any real new leasing activity that I would sort of call it post-pandemic that's maybe come out of it or the new deals really just kind of vestiges of pre-COVID activity.

---

**Michael E. LaBelle** - *Boston Properties, Inc. - Executive VP, Treasurer & CFO*

We're largely through that. I think the activity that's going on now is all post-pandemic, right? Maybe there are some things that have paused. They've restarted. But sort of proactive on the tenants. So look, I think that no question, New York is slower in general. We were the eye of the storm at the asset and tenants have been I think we go back to where we started the call have been prioritizing getting their employees back and frankly didn't focus much on leasing, over the first 3, 4 months in this pandemic. So I think it's slow. I think we're now seeing and clearly seeing a focus on renewables versus new leasing. There's some selective new leasing. And I would say, that's focused, I would say, it's driven by -- if tenants are in basins that are to crap it very old and they can move to a turnkey solution reasonably quickly, we're seeing a couple of examples of that, that we're working on. There's been a couple of renewals where size but put renewals in 2 buckets, where we've got a number that are short-term where the tenants are saying it, I just want to renew. And where it's 2 years, 5 years, let's see where the world is. And then there's a separate camp where the tenant spaces are run down, they want to reinvest in those. And those discussions have either picked back up or started up in the last 30 days. And I feel like those will get done and in a couple of those cases, there'll be a modest expansion in the space. So look, I would characterize the market as still challenging. I think it's going to be slow in all 3 markets that we're in. But renewals are -- there's a steady pace of renewals. And I think the new leasing is going to be modest. There's some larger things that are out there, and I think those will either occur. The course of this year, more likely that search will go this year and continue next year, and we'll see we'll see what happens there.

---

**Stephen Thomas Sakwa** - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Equity Research Analyst*

And before I turn to Owen, just what do you think the gating factor, is it truly getting a vaccine or a therapeutic that kind of makes that late switch go on for new leasing? Like what do you think it takes have a conversation or to start to see that new leasing activity really pick up?

---

**Michael E. LaBelle** - *Boston Properties, Inc. - Executive VP, Treasurer & CFO*

Yes. I think it's specific to each company's business, right? And is that business growing? Are they going to evaluate taking a different approach. Right now, I know this -- over the last few months has been a number of different -- a fair amount of thinking about dedensification, thinking about utilization rates within their space, right? All that is still to be determined, right? I think there was initial rush to that, and then I'll step back and saying, you know what, there's a vaccine, come, let's say, the first quarter, then maybe we would have done something differently, and it would have taken us that long to space plan in any event. So I think realistically, Steve, it's about getting their employees back to the office, right? Figuring out the nature of their business and then thinking about, okay, is our business are we growing right now or are we not growing? And again, that's specific to each business, right? I mean, obviously, Facebook, which is the most significant example, probably in the country, their business is growing, and they're thinking 5, 10 years out, they're not slowing down. Other companies, obviously, have been more impacted by this, maybe



©2020 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

PRELIMINARY TRANSCRIPT

not even down, but just they see a different trajectory. And so maybe they're not going to expand, they're just going to renew, right? So I just think it's different for every company. And I think it's going to take getting back to business generally, which realistically is a 2021 matter.

---

**Stephen Thomas Sakwa** - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Equity Research Analyst*

Got it. Okay. I've got a few questions coming in, which I'll turn to in a minute, but maybe Owen, just to kind of finish up that thought on new leasing. We have heard some positive comments out of Boston on like science. You're converting a few buildings there. But just what are you seeing in your major markets? And outside of life science demand, is there any really new office demand that you can sort of point to in your 5 core markets?

---

**Owen David Thomas** - *Boston Properties, Inc. - CEO & Director*

Yes. Steve, when there's a recession generally leasing volumes slow down, there's nothing unique about this relative to prior recessions. There's a bid ask. There business leaders are doing a lot of the things that Michael talked about. I don't want to make a decision right now because I don't know how the world is going to shake out. So optionality is valuable. I think some customers, even if they want, need the space, they're saying, well, maybe if I wait 6 months, it will be cheaper. So this goes on and when you have a downshift, like we've had in the economy and rents are changing downward generally across our markets. So again, I just would point that out. I would put the customers in 2 categories, we're the ones that want to retain optionality and are doing shorter-term renewals 6 months to 2 years plus, no capital, which is important. We've actually had customers that are 1 larger one in particular that was going to leave 1 of our buildings that decided to stay at least for now because they didn't want to make that major decision. So we get another opportunity to try to retain them. But I do think that large tech companies, life science companies are out in the market making commitments. Boston Properties, Vornado, JBG have all done major leases with tech companies during this pandemic.

I would point to the work we did with Microsoft at Reston, for example. I'd say in our overall markets, the most activity that we're seeing right now from new tenants is in Northern Virginia (inaudible) on a base and also in Waltham and our suburban Boston portfolio, and a lot of that demand is coming from life science tenants.

---

**Stephen Thomas Sakwa** - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Equity Research Analyst*

Okay. I've got a few questions that have come in. So I want to try and turn to those. So the first one, really, I guess, is probably for Michael and/or Owen, but it says our tenants in New York City concerned about the rise in violent crime and are they bringing political pressure on the city government to address it. We've heard this and seen it as you think kind of long term, hopefully, New York doesn't head back to the New York of the 70s, but City did a great job over the prior couple of decades cleaning up a lot of the problems. So as Michael, I'll start with you on this and get Owen's thoughts. But how do you sort of look at this? And what are the concerns you have kind of longer term?

---

**Michael E. LaBelle** - *Boston Properties, Inc. - Executive VP, Treasurer & CFO*

Yes. I mean, I'd say a few things, Steve. I'd say that has not been 1 of the concerns expressed by tenants. And I think that, in general, like the media likes to, yet the cell papers, right, saying that everything is fine, doesn't sell papers. When you actually look at the statistics of crime in the city, whatever it is. Yes, it's up, but it's still at record low levels, right? Far below what it was under Bloomberg, which was obviously a great period for the city. So all that, the percentages are up, but the absolute numbers are still extremely low. And the reality is there were 2 days of protest or there any significant the boarded stores are generally all the plywood has been taken down. So I'd say the environment is fine. There's no question that what's going on has put pressure on, frankly, every major city from a fiscal standpoint, right, they've been the eye of the storm in terms of dealing with the pandemic of the asset. And so when you look at the big cities, particularly like in New York, that's dependent on tourism, a sales tax isn't there and all the different revenue streams that come in from tourists and from workers being in the city everyday, and the additional cost from dealing with us, right? That's putting fiscal pressures on the city. And so I think there is some concern about that. I don't know that's unique to you New York, but New York clearly is feeling that. The business leaders are active together, not just the real estate leaders, but the business leaders in general, working with the city, working with the state in order to try to take moves constructively together, right? I'm dealing with whether it's



©2020 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

PRELIMINARY TRANSCRIPT

homeless issues, dealing with cleanliness, et cetera. And I do think there's a little bit of a virtuous circle here. Right, where with no 1 to say, people feel like, oh, there's nothing going on. And then even as Owen and I talked about earlier, you see people back on the street traffic picks up. Now indoor dining is going to restart at the end of September, albeit limited. But even when you drive by and you see the outdoor dining, it improves the field in the city. So I think all that is going to naturally lay the ground for people feeling better, getting more confident. And as I talked about, a little bit of the fear of the unknown. And you just have to way back in the pool. The pool is fine, and the city is doing fine in terms of once you're back. And I think it's just going to take some time to get back there.

---

**Stephen Thomas Sakwa** - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Equity Research Analyst*

Owen, any additional thoughts there or ...

---

**Owen David Thomas** - *Boston Properties, Inc. - CEO & Director*

Yes. No, I would just confirm I agree with Michael. I don't think that the fiscal situation or crime is the obstacle for people returning to the city. I think it's the other factors that we mentioned. And I agree business leaders, not just in real estate, are very focused on their home city and ensuring that the city and helping the city do everything it can to get through these -- this budget deficit and the crisis that it faces.

---

**Stephen Thomas Sakwa** - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Equity Research Analyst*

Okay. Maybe, David, a question for you. Just obviously, Amazon came in and was a major, major anchor for national landing and kind of jump-starting the redevelopment. I'm just curious what sort of follow through or add-on effects, you've seen maybe since that deal was announced within national landing? And how do you sort of think that evolves over the next couple of years, as they start to build their space and, I guess, move in within a couple of years?

---

**David Provost**

Yes. So again, relative to Amazon, as you know, Steve, we leased approximately 850,000 square feet to them. And then they have committed to a development plan of an additional 4 million square feet they closed on the land, the first half of that earlier this year, and we have commenced construction, we're full speed ahead on that first 2.1 million square feet scheduled to deliver in 2023. Of the 850,000 square feet that we have leased to them, we've turned over 3 locations in -- or we've actually turned over, they've commenced their tenant improvement work scheduled to occupy by the end of the year. That fourth location, you'll remember is the 1 adjacent to our marketing center, [177] fiscal drive. So in terms of numbers today, Amazon announced they've hired the thousand employee in national landing. And what's exciting to us is the breakdown of the business units occupied. That first wave, first 1,000 employees. So you've got devices, so think Alexa. You've got Amazon web services, their cloud computing business and you've got their e-commerce group. And so you think about those 3 business units and what all of us are experiencing today, and we feel really good about their prospects for growth and the follow-on demand related to those business units. So we're at 1,000 employees today. As you know, their minimum commitment per the common Bolt of Virginia is 25,000. So it's still relatively small, but we feel great about their growth. We feel great about the business units and what we anticipate to be follow-on demand directly associated with those business units.

Also really critical to the further building out of our tech ecosystem are 2 things. One is the Virginia Tech innovation campus that continues to progress very well. They actually started their first classes virtually this fall, scheduled to occupy their new buildings in 2024. Again, we own 1.9 million square feet of additional development capacity, immediately adjacent to Virginia Tech Innovation campus. So we feel great about that as a demand driver. And last thing I'll mention is we are spending a lot of time thinking about a digital master plan for the national landing neighborhood. And what I mean by that is to make sure that we have superior, robust connectivity that will -- that we think is incredibly important to our next-generation tenant. So smart city technology, digital master plan, these are things that we're also very focused on right now.

---



©2020 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

PRELIMINARY TRANSCRIPT

**Stephen Thomas Sakwa** - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Equity Research Analyst*

Okay. Michael, a question for you that came in. And it basically is how do you square Facebook sort of commentary, at least early on about work from home and the number of people that Mark Zuckerberg said could ultimately maybe work from home and the fact that they've signed a huge lease with you, they signed a large lease and hunting yard. So just can you help maybe people think about those 2 comments and kind of their leasing activity?

---

**Michael E. LaBelle** - *Boston Properties, Inc. - Executive VP, Treasurer & CFO*

Yes. I think we also signed a large lease in Boston over the last few months and one in another city. So I don't know, Steve, I think it's sort of watch what they say. What, they do not watch what they say. That's the case with a number of companies. A lot of other companies have made, I think, these big proclamations. And if you actually look what's happening, it's different or won't pan out, I don't know. Look, Facebook is a huge company growing by leaps and bounds. They may have a significant number of working from home, but the area number of employees could be up dramatically, right? And that's the that's the probability, frankly, given how fast these tech companies are growing. But I think that for the facebooks of the world, right, being in the key tech clusters, which New York is clearly one of now. It's the second largest tech hub, it's important. And if you saw the comments that the Facebook executive made with respect to the far, at least specifically, I think it was important as you related to 2 things, right? One, you talked about how critical it was for them to be in New York in terms of recruiting talent, and how this was going to be one of the key areas for them to focus on their complex challenges. And the ability to provide career opportunities for employees in the York for (inaudible) people that want to be on the East Coast, is critical. Secondly was the importance of collaboration in person, right, could not be replicated virtually. And so notwithstanding Mark Zuckerberg's comments where, again, there may be certain functions and maybe there's a certain amount of people that work from home, maybe it's a combination, Steve, maybe it's more flexibility, which is a probability probably for most companies. But I think their actions speak to the importance of collaboration in person.

---

**Stephen Thomas Sakwa** - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Equity Research Analyst*

Okay. Owen, 1 of the -- another question that came in, and we've heard this throughout the 6 months was onboarding new folks and training and having different groups work together. So just sort of your own experience within Boston Properties, but also just hearing from your tenants, sort of the challenges of being at home and maybe that precipitates their desire to come back to the office. But what were sort of some of the real roadblocks of people trying to work from home?

---

**Owen David Thomas** - *Boston Properties, Inc. - CEO & Director*

Yes. Well, Steve, I think when -- we always had these tools like Zoom and Webex, and I guess now Blue Janes for me. But the we had them before the pandemic, at least I'll say personally, I didn't really use them a lot. And pandemic occurred, we all got put into this forced experiment. And I think myself included, we were all kind of amazed at how well it worked, doing things even like doing our financial reporting, public company, quarterly reporting, all those kinds of things. So at first, I think everyone was surprised at how well it worked and started asking themselves, could this work on a more extended basis. But I do believe as the pandemic has evolved and time has evolved, the inadequacies of virtual work are becoming more clear, and the importance of in-person work are becoming more clear to business leaders and to the employees. And I think those things center around a number of factors. I think the most important 1 that I would say is culture. I think if you didn't have the relationships and the connectivity that is created an in-person work, it would be hard, would be difficult to do what we all just went through.

And so I think companies need to build culture, they need to build relationships among their employees, and that happens much more effectively in person. And then other things, new employees onboarding. Most companies have 10%, 15% turnover a year. So you go on 3 years, you have a third new workforce and onboarding that number of people on a virtual basis is very difficult. And I also think just the creativity, the spontaneity of what occurs in the office, I think the employees miss and the leadership realizes the vacuum. So I think that's why now, I think that there is a strong enthusiasm for both leaders and employees to come back to the office. That being said, I think work from home will be used more often. It will be employees will have the opportunity to be out of the office a day a week, a couple of days a month, companies will have different policies



©2020 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

PRELIMINARY TRANSCRIPT

on this, different jobs will have different flexibility on this. And I think it will create more work-life balance and create more opportunities for people to advance within companies. But I do not think it will substitute for in person work.

---

**Stephen Thomas Sakwa** - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Equity Research Analyst*

I guess, maybe as a derivative to that or a follow-up, which there's some questions here about just general occupancy trends and kind of rent trends, which everybody is trying to sort of get their arms around. But do you believe that additional flexibility would, in any way, dent kind of the long-term demand usage of office space as people and companies reconfigure how their employees work in the office, if they give them more flexibility, does that shrink their footprint? Does that just leave desks open more often? How do you sort of think about that at the big picture level for (inaudible) market?

---

**Owen David Thomas** - *Boston Properties, Inc. - CEO & Director*

Look, it's possible. I don't see it as a big headwind, but it's possible. I mean, it's not going to be a tailwind. I think when people think about work from home, what their thinking is, I'm going to have my office or I'm going to have my workstation, and I want to work from home when I want to work from home. They don't want to say, when can you schedule me to work from home and when I come into the office, I'm going to share a work day. The only way you can make it save space is if you schedule to work from home times and you have a rotating desk environment in the office, some companies may go to that and may be able to save some space, but I don't think that's what a typical employees thinking about when they think about work from home. And then the other thing that's definitely going to happen here is the reversal of densification. It was unpopular with workers already who are being pressed into spaces around 100 square feet per worker. It was unpopular before the pandemic and after the pandemic, they're not going to put up with it and their employers are going to determine that it's unsafe. So we're not seeing a lot of it yet. I think what companies are doing right now is they're just simply pulling out chairs and dedensifying their office, but I do think you're going to see build-outs going forward that are going to be a lot more sensitive to density. And that's going to be helpful to demand for office space.

---

**Stephen Thomas Sakwa** - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Equity Research Analyst*

I guess, Michael, maybe just on the rent side, I know it's hard to measure, but what would your sort of best estimate be about maybe decline rents in some of your major markets, again, realizing this is not just pandemic, it's sort of just an economic downturn? Do you feel like this is worse than GFC, this will be less bad than GFC is it better or worse than the tech bubble of early 2000s? I mean, how should we think about kind of rent declines and maybe ultimately, occupancy declines?

---

**Michael E. LaBelle** - *Boston Properties, Inc. - Executive VP, Treasurer & CFO*

Yes. Yes, I think it's -- the short answer, Steve, it's hard to make predictions, right? There's really a lack of data points right now because of the things we talked about, where companies are being cautious, whatnot. Deals that are getting done, right, concessions are up. I think that will continue. So like Matt (inaudible) effect, the rents are going to be down a bit. No question about that. I think it's as bad as GFC. I don't think so. I feel like this is a different type of shock. And I think business was doing well. I think when there's a vaccine, I think that the economy will get back to a pretty strong rate pretty quickly. And the reality is even the GFC, I know for us, I can't speak to the other companies, but just given we're averaging 3% to 5% rollover per year, the overall NOI of the company really didn't decline, right, because you still had rents being marked up from prior continue rollovers, let's say, notwithstanding resin going down.

So I think it's probably similar this time around. Do I think on specific leases, the net effectors will be down just given the fact that we are in a recession, there's more supply than demand right now. I do. Can I predict what that percentage will be today? I can't. It depends on the space and whatnot. But I think the reality is in all 3 markets that's going to be the case.

---



©2020 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

PRELIMINARY TRANSCRIPT

**Stephen Thomas Sakwa** - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Equity Research Analyst*

Okay. Maybe just switching -- because I know we don't have a lot of time, but the transaction market Michael, you guys have announced at least the prospect of potentially selling 2 large assets, one in New York, 1 in San Francisco. Any sort of early thoughts on just that process and kind of the interest level. I know they're relatively large tech sizes for people to write, and we've heard kind of the bigger the check kind of the harder the deal. But just any broad thoughts? I know it's kind of early in the marketing days, but anything you can share with us?

---

**Michael E. LaBelle** - *Boston Properties, Inc. - Executive VP, Treasurer & CFO*

Yes. Yes. I can't share too much to you were in the middle of process. I will say that the tone of the capital markets has improved over the last couple of months. I think that's driven by a few things. One, clearly, the equity markets recovering back to highs and still confidence. And also creates the alternative -- or what are the alternatives for deploying capital given the run that we've had in the equity markets. Two, interest rates are at historic lows may go lower but I think there's a clear view that they're going to be low for a very long period of time. And so that's attractive for real estate and for financing real estate. And the financing markets have clearly improved, where if you go back to April, May, even early June, banks were in (inaudible), frankly, really didn't want to quote. Now we're getting active quotes, including on these 2 assets that are quite attractive. So that's -- given the deal size there, right, that's a critical input for that. And so the financing markets are extremely attractive right now. And then from a -- last thing I would say is that if you look at hedging costs for foreign investors, they have tightened dramatically over the last year, right? So those are all tailwinds, right? Some of the headwinds are existential questions, office and rents and whatnot. And for those are that big concerns, obviously, they're not going to play here. But there are a number of players that are constructive. And I would say in terms of the capital sources it covers the full spectrum, right, whether it's pension funds, some, I'll call it, investment management types, sovereigns, high net worth individuals. That may want to take a piece, right? Very possible that may not be 1 investor. That recaps he's building could be a club. So you're seeing a full range of investors. And so we need to say play. We're in the middle of it right now. We'll see how it plays out could go and a number of different directions. We have 2 assets out there. And so you could guess the different permutations. But interest has been good, and hopefully, that constructive backdrop will continue. And I think the city is reopening is also a positive so more to come there.

---

**Stephen Thomas Sakwa** - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Equity Research Analyst*

Okay. David, just real quick. I know JBG was going to use some dispositions to kind of recycle capital and fund some of the developments. Has the bid-ask spread has gotten too wide for you guys to be able to transact there or things kind of loosening up and getting better?

---

**David Provost**

Yes. So first, Steve, I'd note that in retrospect, looking back on 2018 and the $1 billion plus or minus, of downtown office that we sold in our portfolio and that commodity product type. We feel really good about that in retrospect, capturing on the market when it was frothy, 2020 has been interesting. Total deal volume in the D.C. area has been in excess of $2 billion today, which is pretty good. Although the vast majority of that was in Q1. In Q2, the only major office sale to occur downtown was Boston Property sale of portion of capital gallery to the Smithsonian user sale deal. And so capital markets have slowed down. And so whether or not we can continue to execute on our plan to get to a more balanced portfolio of office to multifamily through dispositions. We'll have to see. But regardless, we are advancing plans on design and entitlements for 2,100 multifamily units in national landing, which we're really excited about. We do see some declines in construction pricing occurring in our market. And so we -- whether or not there is a slowdown in the capital markets and our ability to sell assets, we still see an opportunity to get to a more balanced portfolio through the development of multifamily.

---

**Stephen Thomas Sakwa** - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Equity Research Analyst*

Okay. And then I want to give you the last word here because we're running out of time, but you've got a pretty big development pipeline that's well leased. You also had a big shadow pipeline. The shadow pipeline is really going to be dependent on pre-leasing activities. But how do you sort of look at capital deployment or the capital markets and the sales environment today? And sort of where -- how are you sort of pivoting or kind of aligning the company up?



©2020 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

PRELIMINARY TRANSCRIPT

**Owen David Thomas** - *Boston Properties, Inc. - CEO & Director*

Yes. So Steve, WALT is king. WALT is king. Weighted average lease term. So I completely agree with Michael's comments about low rates and low hedging costs. And I think all that's positive. But I don't think a lot of deals are going to happen. And right now, unless there's a longer-term weighted average lease term of the buildings. Because I think those deals will get or close to pre pandemic pricing because there's not a lot of leasing risk in the underwriting and the cost of capital than (inaudible) pandemic. However, if you've got buildings that have lease rollover, that's where the penalties accrued because the buyers are going to underwrite lower rents, slower growing rents, slower lease-up. And that's where I think the discounts will be, and I think so far, there hasn't been a lot of those buildings that have traded because the owners are confident in some of the things you've heard about on this all about the return of cities and the return of office, and they don't want to sell if they don't have to discount that they're holding on. So I think in the near term, at least in the office world, WALT is king.

**Stephen Thomas Sakwa** - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Equity Research Analyst*

Okay. Well, we are just up at 9:50. So I want to thank David, Michael and Owen, for joining us. We'll take a 10 minute break, and we will come back with the 10:00 panel. That will be -- so anyway, thank you very much, and thanks, everybody, for joining.

**Owen David Thomas** - *Boston Properties, Inc. - CEO & Director*

Thanks, Steve.

**Michael E. LaBelle** - *Boston Properties, Inc. - Executive VP, Treasurer & CFO*

Thanks, everybody.

**David Provost**

Thank you.

**DISCLAIMER**

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2020, Refinitiv. All Rights Reserved.

PRELIMINARY TRANSCRIPT



©2020 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.