



Boston Properties Inc. (BXP)

Updated February 15th, 2024 by Samuel Smith

Key Metrics

Current Price:	\$67.4	5 Year CAGR Estimate:	4.9%	Market Cap:	\$11.6 B
Fair Value Price:	\$57.4	5 Year Growth Estimate:	2.5%	Ex-Dividend Date:	3/28/24 ¹
% Fair Value:	118%	5 Year Valuation Multiple Estimate:	-3.2%	Dividend Payment Date:	4/30/24 ²
Dividend Yield:	5.8%	5 Year Price Target	\$65	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

Boston Properties, Inc. is a \$9.2 billion market capitalization self-administered and self-managed real estate investment trust that was founded in 1970, and is headquartered in Boston, Massachusetts. It is one of the largest owners, managers, and developers of first-class office properties in the United States and has a significant presence in five major markets: Boston, Los Angeles, New York, San Francisco and Washington, DC. The trust is known for its expertise in in-house building management and tenant services, enabling it to attract and retain a diverse pool of high-quality, long-term tenants.

Boston Properties (BXP) reported its Q4 2023 results on January 30, 2024, surpassing its full-year guidance for EPS and FFO. The company executed over 1.5 million square feet of leases in Q4, totaling approximately 4.2 million square feet for the year. Financial highlights include a net income of \$190.2 million, or \$1.21 per diluted share, and Funds from Operations (FFO) of \$1.1 billion, or \$7.28 per diluted share for the year. The decrease in year-over-year net income was mainly due to non-cash impairment charges and the absence of gains on sales of real estate that occurred in 2022.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
FFO/S	\$5.26	\$5.36	\$6.03	\$6.22	\$6.30	\$7.01	\$6.29	\$6.56	\$7.53	\$7.28	\$7.17	\$8.10
DPS	\$2.60	\$2.60	\$2.70	\$3.05	\$3.50	\$3.83	\$3.92	\$3.92	\$3.92	\$3.92	\$3.92	\$4.35
Shares³	153	154	154	154	155	155	156	157	157	157	157	159

Boston Properties' FFO-per-share growth is cyclical (it declined sharply in the wake of the financial crisis) and rather choppy (as evidenced by the 12.5% growth rate achieved in 2016 sandwiched in between years with low growth). That said, with its focus on newly developed Class A office properties in supply-constrained cities, Boston Properties attracts and retains top-tier tenants, driving a long-term uptrend in FFO-per-share. However, the trust also faces growth headwinds in its suburban and Washington D.C. markets, where supply is not as constrained and long-term growth rates materially underperform locations such as New York and San Francisco. A growth tailwind is that there is plenty of room for income improvement. Additionally, Boston Properties' fastest growing business segment is its development management unit, which provides the trust with a high return on invested capital. Finally, the trust's focus on higher yield development investments rather than acquiring lower-yielding existing properties should also enable it to achieve low-single digit annualized FFO per share growth over the next five years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
P/FFO	21.4	19.3	24.5	20.7	20.9	20.6	18.7	13.9	17.8	9.3	9.4	8.0
Avg. Yld.	2.3%	2.5%	1.8%	2.4%	2.7%	2.7%	3.3%	4.3%	2.9%	5.8%	5.8%	6.7%

¹ Estimate

² Estimate

³ Shares in millions

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Boston Properties trades below its average P/FFO ratio over the past decade. However, over time as the trust has matured, gained strength through scale, and earned a reputation as a blue-chip dividend payer, its valuation multiple has crept up. That said, maturing growth and an already constrained valuation (given its low dividend yield and mediocre overall total return potential) along with short and potential long-term headwinds stemming from the coronavirus outbreak, transition towards working from home, and rising interest rates caused us to reduce our fair value estimate from 14 times FFO to 8 times FFO. We view shares as slightly overvalued at present.

Safety, Quality, Competitive Advantage, & Recession Resiliency

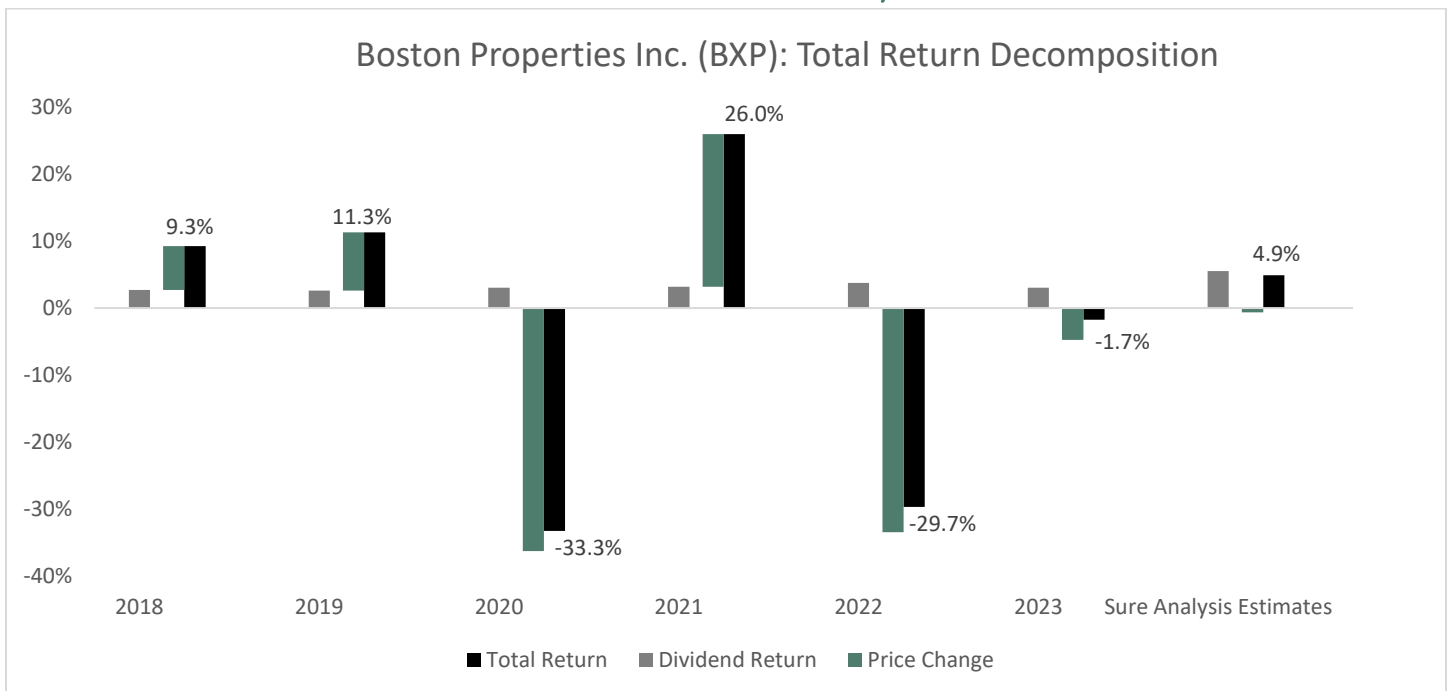
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	49.4%	48.5%	44.8%	49.0%	55.6%	54.6%	62.3%	59.8%	52.1%	53.8%	54.7%	53.7%

As an office REIT, Boston Properties is not recession-resilient and also has high capital expenditure requirements. Hence it needs to keep its payout ratio low relative to the REIT sector in order to provide adequate safety for its dividend. Boston Properties' primary advantages come from its innovative office portfolio, demonstrated success and experience in its capital recycling and development programs, which enable it to achieve outsized returns while maintaining a strong balance sheet (BBB+ credit rating), and strong presence in supply-constrained West Coast markets. Opposite of that, its primary risks include the fact that one-fifth of its portfolio is in the underperforming Washington, D.C. market, a growing percentage of its properties are located in the highly vulnerable suburbs where its lack of significant switching cost advantages could cause it to lose tenants to new competition, and its past history of struggling during recessions.

Final Thoughts & Recommendation

Boston Properties trades under our estimate of its fair value today and offers investors annualized total return potential of 4.9% along with a high-quality diversified portfolio and a strong balance sheet. As such, we view it as a Hold. That said, the long-term outlook for office real estate is facing increasing uncertainty as the trend towards working from home has gotten a boost from the COVID-19 pandemic.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	2,397	2,491	2,551	2,602	2,717	2,961	2,766	2,889	3,109	3,274
Gross Profit	1,532	1,586	1,630	1,640	1,704	1,877	1,735	1,854	1,973	2,058
Gross Margin	63.9%	63.7%	63.9%	63.0%	62.7%	63.4%	62.7%	64.2%	63.5%	62.9%
SG&A Exp.	99	96	105	114	131	151	145	164	162	189
D&A Exp.	629	640	694	618	646	680	686	721	752	
Operating Profit	805	851	830	909	927	1,048	907	973	1,061	1,039
Operating Margin	33.6%	34.2%	32.5%	34.9%	34.1%	35.4%	32.8%	33.7%	34.1%	31.7%
Net Profit	444	583	513	462	583	522	873	505	849	190
Net Margin	18.5%	23.4%	20.1%	17.8%	21.5%	17.6%	31.6%	17.5%	27.3%	5.8%
Free Cash Flow	696	799	1,035	912	1,150	1,181	1,157	1,133	1,282	

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	19,887	18,351	18,852	19,372	20,256	21,285	22,858	22,365	24,208	26,026
Cash & Equivalents	1,763	724	357	435	543	645	1,669	453	690	1,531
Acc. Receivable	47	98	93	92	87	113	77	70	81	122
Total Liabilities	11,984	10,465	10,920	11,270	12,043	13,262	14,512	14,322	15,837	17,834
Long-Term Debt	243	275	299	332	277	378	336	321	418	458
Total Equity	10,087	9,189	9,796	10,272	11,008	11,812	13,048	12,897	14,240	15,856
LTD/E Ratio	5,497	5,509	5,586	5,614	5,683	5,485	5,796	5,834	6,133	5,877

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.2%	3.0%	2.8%	2.4%	2.9%	2.5%	4.0%	2.2%	3.6%	0.8%
Return on Equity	8.0%	10.6%	9.2%	8.3%	10.3%	9.3%	15.5%	8.7%	14.2%	3.2%
ROIC	2.4%	3.3%	2.9%	2.6%	3.1%	2.7%	4.2%	2.4%	3.9%	0.8%
Shares Out.	153	154	154	154	155	155	156	157	157	157
Revenue/Share	15.64	16.19	16.57	16.85	17.57	19.11	17.78	18.47	19.78	20.82
FCF/Share	4.54	5.20	6.72	5.91	7.44	7.63	7.44	7.25	8.16	

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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