UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] **Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2000.

or

[ ] **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from __________ to __________

Commission File Number 1-10709

PS BUSINESS PARKS, INC.
(Exact name of registrant as specified in its charter)

California	**95-4300881**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

701 Western Avenue, Glendale, California 91201-2397
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(818) 244-8080**

Securities registered pursuant to Section 12(b) of the Act

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value..	American Stock Exchange
Depositary Shares Each Representing 1/1000 of a Share of 9 ¼% Cumulative Preferred Stock, Series A, $0.01 par value ...	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act
None
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ______

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 14, 2001:

Common Stock, $0.01 par value, $308,027,746 (computed on the basis of $27.15 per share which was the reported closing sale price of the Company's Common Stock on the American Stock Exchange on March 14, 2001).

The number of shares outstanding of the registrant's class of common stock, as of March 15, 2001:

Common Stock, $0.01 par value, 22,970,695 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement to be filed in connection with the annual shareholders' meeting to be held in 2001 are incorporated by reference into Part III.

PART I.

ITEM 1. BUSINESS

The Company

PS Business Parks, Inc. (“PSB”) is a self-advised and self-managed real estate investment trust (“REIT”) that acquires, develops, owns and operates commercial properties, primarily flex, multi-tenant office and industrial space. PSB is the sole general partner of PS Business Parks, L.P. (the “Operating Partnership”) through which PSB conducts most of its activities and owned, as of December 31, 2000, 75% of the common partnership units. Substantially all of the remaining common partnership units are owned by Public Storage, Inc. (“PSI”) and its affiliates. Unless otherwise indicated or unless the context requires otherwise, all references to “the Company” means PS Business Parks, Inc. and its subsidiaries, including the Operating Partnership.

As of December 31, 2000, the Company owned and operated 140 commercial properties (approximately 12.6 million net rentable square feet) located in 9 states, representing a 2% increase in commercial square footage from December 31, 1999. The Company also managed 39 commercial properties (approximately 1.3 million net rentable square feet), on behalf of PSI, affiliated entities, and a third party owner.

History of the Company: In a March 17, 1998 merger (the “Merger”) of American Office Park Properties, Inc. (“AOPP”) with and into the Company (which was formerly named “Public Storage Properties XI, Inc.”), the Company acquired the commercial property business previously operated by AOPP and was renamed “PS Business Parks, Inc.” Concurrent with the Merger, the Company exchanged 11 mini-warehouses and two properties that combined mini-warehouse and commercial space for 11 commercial properties owned by PSI. For financial accounting purposes, the Merger was accounted for as a reverse acquisition whereby AOPP was deemed to have acquired Public Storage Properties XI, Inc. However, PS Business Parks, Inc. is the continuing legal entity and registrant for both Securities and Exchange Commission filing purposes and income tax reporting purposes.

AOPP was originally organized in 1986 as a California corporation to serve as the manager of the commercial properties owned by PSI and its related entities. In January 1997, AOPP was reorganized to succeed to the commercial property business of PSI, becoming a fully integrated, self-advised and self-managed REIT. AOPP conducted substantially all of its business as the sole general partner of the Operating Partnership. In January 1997, as part of a reorganization, PSI and its consolidated partnerships transferred 35 commercial properties to AOPP and the Operating Partnership. During April 1997, PSI transferred four additional commercial properties to the Operating Partnership. During the remainder of 1997, AOPP acquired six properties containing approximately 2 million square feet of commercial space from the Acquiport Corporations, subsidiaries of the New York State Common Retirement Fund, and four properties containing approximately 0.6 million square feet of commercial space from other third parties.

During 1998, the Company completed the Merger and acquired approximately 4.9 million square feet of commercial space, including 2.3 million square feet of space located in Oregon and Texas from Principal Mutual Life Insurance Company and 1.8 million square feet of commercial space located in California, Maryland, Virginia and Texas from other unaffiliated third parties.

During 1999, the Company acquired approximately 1.3 million square feet from unaffiliated third parties. The Company acquired 483,000 square feet in Texas, 405,000 square feet in Northern Virginia/Maryland, 211,000 square feet in Northern California and 200,000 square feet in Arizona. In addition, the Company completed development on two properties totaling 127,000 square feet in Oregon and Texas.

During 2000, the Company acquired 0.5 million square feet from unaffiliated third parties and 0.3 million square feet from Acquiport Two Corporation. The Company acquired 454,000 square feet in Southern California, 210,000 square feet in Northern Virginia, and 178,000 square feet in Northern California. In addition, the Company completed development on a property totaling 22,000 square feet in Oregon. These acquired and developed properties are located in markets in which the Company already owned properties. The Company believes these markets have the characteristics to support long-term growth. During 2000, the Company also sold 0.6 million square feet of properties that did not meet its ongoing investment strategy. These dispositions resulted in aggregate proceeds of $23.8 million.

The Company has elected to be taxed as a REIT under the Internal Revenue Code (the "Code"), commencing with its taxable year ended December 31, 1990. To the extent that the Company continues to qualify as a REIT, it will not be taxed, with certain limited exceptions, on the net income that is distributed currently to its shareholders.

The Company's principal executive offices are located at 701 Western Avenue, Glendale, California 91201-2397. Its telephone number is (818) 244-8080.

Business of the Company: The commercial properties owned by the Company consist of flex space, office space and industrial space. Flex space can generally be described as facilities that were originally built as part office space and part warehouse space. The Company's commercial properties can be built out for a variety of uses including office space, lab space or retail space. The warehouse component of the flex space and the industrial space have a variety of uses including light manufacturing and assembly, storage and warehousing, distribution and research and development activities. The office component of flex space is complementary to the warehouse component by enabling businesses to accommodate management and production staff in the same facility. The Company also owns 1.3 million square feet of low-rise suburban office space generally either in business parks that combine office and flex space or in desirable submarkets where the economics of the market demand an office build-out.

The Company's commercial properties typically consist of one to ten one-story buildings located on three to twenty acres and contain from approximately 20,000 to 500,000 square feet of rentable space. Facilities are managed through either on-site management or area offices central to the facilities. Parking is open or covered. The ratio of parking spaces to rentable square feet ranges from two to six per thousand square feet depending upon the use of the property and its location. Office space generally requires a greater parking ratio than most industrial uses. The Company may acquire properties that do not have these characteristics.

The tenant base for the Company's facilities is diverse. The facilities can be bifurcated into those facilities that service small to medium size businesses and those that service larger businesses. Approximately 35% of the annual rents from the portfolio are from facilities that serve small to medium size businesses. A property in this facility type is typically divided into units ranging in size from 500 to 5,000 square feet and leases generally range from one to three years. The remaining 65% of the income are derived from facilities that serve larger businesses, with units ranging from 5,000 square feet to multiple buildings leased to a single tenant. The largest tenant leases 313,000 square feet or 2.5% of the portfolio.

The Company intends to continue to acquire commercial properties located throughout the United States. The Company's policy of acquiring commercial properties may be changed by its Board of Directors without shareholder approval. However, the Board of Directors has no intention to change this policy at this time. Although the Company currently owns properties in nine states, it may expand its operations to other states. Properties are acquired both for income and potential capital appreciation; there is no limitation on the amount that can be invested in any specific property. Although there is no limitation on mortgage debt, the Company has no current intention to incur significant debt (other than short-term borrowings from time to time to fund acquisitions). The Company may acquire land for the development of commercial properties. In general, the Company expects to acquire land that is adjacent to commercial properties that the Company already owns or is acquiring. The Company currently has three facilities in various stages of development.

Operating Partnership

The properties in which the Company has an equity interest generally will be owned by the Operating Partnership. This structure enables the Company to acquire interests in additional properties in transactions that could defer the contributors' tax consequences.

As the general partner of the Operating Partnership, the Company has the exclusive power under the Operating Partnership Agreement to manage and conduct the business of the Operating Partnership. The Board of Directors directs the affairs of the Operating Partnership by managing the Company's affairs. The Operating Partnership will be responsible for, and pay when due, its share of all administrative and operating expenses of the properties it owns under the terms of a cost sharing and administrative services agreement with an affiliate of PSI. See "Cost Allocation and Administrative Services."

The Company's interest in the Operating Partnership entitles it to share in cash distributions from, and the profits and losses of, the Operating Partnership in proportion to the Company's economic interest in the Operating Partnership (apart from tax allocations of profits and losses to take into account pre-contribution property appreciation or depreciation).

Summary of the Operating Partnership Agreement

The following summary of the Operating Partnership Agreement is qualified in its entirety by reference to the Operating Partnership Agreement, which is incorporated by reference as an exhibit to this report.

Issuance of Additional Partnership Interests: As the general partner of the Operating Partnership, the Company is authorized to cause the Operating Partnership from time to time to issue to partners of the Operating Partnership or to other persons additional partnership units in one or more classes, and in one or more series of any of such classes, with such designations, preferences and relative, participating, optional, or other special rights, powers and duties (which may be senior to the existing partnership units), as will be determined by the Company, in its sole and absolute discretion. No such additional partnership units, however, will be issued to the Company unless (i) the agreement to issue the additional partnership interests arises in connection with the issuance of shares of the Company, which shares have designations, preferences and other rights, such that the economic interests are substantially similar to the designations, preferences and other rights of the additional partnership units that would be issued to the Company and (ii) the Company agrees to make a capital contribution to the Operating Partnership in an amount equal to the proceeds raised in connection with the issuance of such shares of the Company.

Capital Contributions: No partner is required to make additional capital contributions to the Operating Partnership, except the Company as the general partner is required to contribute the net proceeds of the sale of equity interests in the Company to the Operating Partnership in return for additional partnership units. A limited partner may be required to pay to the Operating Partnership any taxes paid by the Operating Partnership on behalf of that limited partner. No partner is required to pay to the Operating Partnership any deficit or negative balance which may exist in its capital account.

Distributions: The Company, as general partner, is required to distribute at least quarterly the "available cash" (as defined in the Operating Partnership Agreement) generated by the Operating Partnership for such quarter. Distributions are to be made (i) first, with respect to any class of partnership interests having a preference over other classes of partnership interests; and (ii) second, in accordance with the partners' respective percentage interests on the "partnership record date" (as defined in the Operating Partnership Agreement). Commencing in 1998, the Operating Partnership's policy has been to make distributions per unit (other than preferred units) that are equal to the per share distributions made by the Company with respect to its Common Stock.

Preferred Units: As of December 31, 2000, the Operating Partnership had 5,790,000 preferred units owned by third parties with distribution rates ranging from 8 3/4% to 8 7/8% (per annum) with an aggregate stated value of $144,750,000. The Operating Partnership has the right to redeem the preferred units on or after the fifth anniversary of the issuance date at the original capital contribution plus the cumulative priority return, as defined, to the redemption date to the extent not previously distributed. Each series of preferred units is exchangeable for Cumulative Redeemable Preferred Stock of the respective series of PS Business Parks, Inc. on or after the tenth anniversary of the date of issuance at the option of the Operating Partnership or a majority of the holders of the applicable series of preferred units. In addition, as of December 31, 2000, the Company owned 2,200,000 preferred units with a stated value of $55 million. The preferred units owned by the Company have terms substantially identical to the terms of the publicly traded 9 ¼% Cumulated Preferred Stock, Series A of the Company.

Redemption of Partnership Interests: Subject to certain limitations described below, each limited partner other than the Company (other than holders of preferred units) has the right to require the redemption of such limited partner's units. This right may be exercised on at least 10 days notice at any time or from time to time, beginning on the date that is one year after the date on which such limited partner is admitted to the Operating Partnership (unless otherwise contractually agreed by the general partner).

Unless the Company, as general partner, elects to assume and perform the Operating Partnership's obligation with respect to a redemption right, as described below, a limited partner that exercises its redemption right will receive cash from the Operating Partnership in an amount equal to the "redemption amount" (as defined in the Operating Partnership Agreement generally to reflect the average trading price of the Common Stock of the Company over a specified 10 day period) for the units redeemed. In lieu of the Operating Partnership redeeming the partner for cash, the Company, as the general partner, has the right to elect to acquire the units directly from a limited partner exercising its redemption right, in exchange for cash in the amount specified above as the "redemption amount" or by issuance of the "shares amount" (as defined in the Operating Partnership Agreement generally to mean the issuance of one share of the Company Common Stock for each unit of limited partnership interest redeemed).

A limited partner cannot exercise its redemption right if delivery of shares of Common Stock would be prohibited under the articles of incorporation of the Company or if the general partner believes that there is a risk that delivery of shares of Common Stock would cause the general partner to no longer qualify as a REIT, would cause a violation of the applicable securities or certain antitrust laws, or would result in the Operating Partnership no longer being treated as a partnership for federal income tax purposes.

Management: The Operating Partnership is organized as a California limited partnership. The Company, as the sole general partner of the Operating Partnership, has full, exclusive and complete responsibility and discretion in managing and controlling the Operating Partnership, except as provided in the Operating Partnership Agreement and by applicable law. The limited partners of the Operating Partnership have no authority to transact business for, or participate in the management activities or decisions of, the Operating Partnership except as provided in the Operating Partnership Agreement and as permitted by applicable law.

However, the consent of the limited partners holding a majority of the interests of the limited partners (including limited partnership interests held by the Company) generally will be required to amend the Operating Partnership Agreement. Further, the Operating Partnership Agreement cannot be amended without the consent of each partner adversely affected if, among other things, the amendment would alter the partner's rights to distributions from the Operating Partnership (except as specifically permitted in the Operating Partnership Agreement), alter the redemption right, or impose on the limited partners an obligation to make additional capital contributions.

The consent of all limited partners will be required to (i) take any action that would make it impossible to carry on the ordinary business of the Operating Partnership, except as otherwise provided in the Operating Partnership Agreement; or (ii) possess Operating Partnership property, or assign any rights in specific Operating Partnership property, for other than an Operating Partnership purpose except as otherwise provided in the Operating Partnership Agreement. In addition, without the consent of any adversely affected limited partner, the general partner may not perform any act that would subject a limited partner to liability as a general partner in any jurisdiction or any other liability except as provided in the Operating Partnership Agreement or under California law.

Extraordinary Transactions: The Operating Partnership Agreement provides that the Company may not engage in any business combination, defined to mean any merger, consolidation or other combination with or into another person or sale of all or substantially all of its assets, any reclassification, any recapitalization (other than certain stock splits or stock dividends) or change of outstanding shares of common stock, unless (i) the limited partners of the Operating Partnership will receive, or have the opportunity to receive, the same proportionate consideration per unit in the transaction as shareholders of the Company (without regard to tax considerations); or (ii) limited partners of the Operating Partnership (other than the general partner) holding at least 60% of the interests in the Operating Partnership held by limited partners (other than the general partner) 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 of the Operating Partnership that it will not consummate a business combination in which the Company conducted a vote of shareholders unless the matter is also submitted to a vote of the partners.

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 shareholders if the shareholders of the Company did not in fact give the requisite approval. Rather, if the shareholders did approve a business combination, the Company would not consummate the transaction unless the Company as general partner first conducts a vote of partners of the Operating Partnership on the matter. For purposes of the Operating Partnership vote, the Company shall be deemed to vote its partnership interest in the same proportion as the shareholders of the Company voted on the matter (disregarding shareholders who do not vote). The Operating Partnership vote will be deemed approved if the votes recorded are such that if the Operating Partnership vote had been a vote of shareholders, the business combination would have been approved by the shareholders. 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 articles of incorporation, may not be authorized to engage in a proposed business combination.

Tax Protection Provisions: The Operating Partnership Agreement provides that, until 2007, the Operating Partnership may not sell any of 13 designated properties in a transaction that will produce taxable gain for the contributing partner without the prior written consent of PSI. The Operating Partnership is not required to obtain PSI's consent if PSI and its affiliated partnerships do not continue to hold at the time of the sale at least 30% of their original interest in the Operating Partnership. Since PSI's consent is required only in connection with a taxable sale of one of the 13 designated properties, the Operating Partnership will not be required to obtain PSI's consent in connection with a "like-kind" exchange or other nontaxable transaction involving one of these properties.

Indemnification: The Operating Partnership Agreement provides that the Company and its officers and directors and the limited partners of the Operating Partnership will be indemnified and held harmless by the Operating Partnership for any act performed for, or on behalf of, the Operating Partnership, or in furtherance of the Operating Partnership's business unless it is established that (i) the act or omission of the indemnified person was material to the matter giving rise to the proceeding and either was committed in bad faith or was the result of active and deliberate dishonesty; (ii) the indemnified person actually received an improper personal benefit in money, property or services; or (iii) in the case of any criminal proceeding, the indemnified person had reasonable cause to believe that the act or omission was unlawful. The termination of any proceeding by judgment, order or settlement does not create a presumption that the indemnified person did not meet the requisite standards of conduct set forth above. The termination of any proceeding by conviction or upon a plea of nolo contendere or its equivalent, or an entry of an order of probation prior to judgment, creates a rebuttable presumption that the indemnified person did not meet the requisite standard of conduct set forth above. Any indemnification so made shall be made only out of the assets of the Operating Partnership.

Duties and Conflicts: The Operating Agreement allows the Company to operate the Operating Partnership in a manner that will enable the Company to satisfy the requirements for being classified as a REIT. The Company intends to conduct all of its business activities, including all activities pertaining to the acquisition, management and operation of properties, through the Operating Partnership. However, the Company may own, directly or through subsidiaries, interests in Operating Partnership properties that do not exceed 1% of the economic interest of any property, and if appropriate for regulatory, tax or other purposes, the Company also may own, directly or through subsidiaries, interests in assets that the Operating Partnership otherwise could acquire, if the Company grants to the Operating Partnership the option to acquire the assets within a period not to exceed three years in exchange for the number of partnership units that would be issued if the Operating Partnership had acquired the assets at the time of acquisition by the Company.

Term: The Operating Partnership will continue in full force and effect until December 31, 2096 or until sooner dissolved upon the withdrawal of the general partner (unless the limited partners elect to continue the Operating Partnership), or by the election of the general partner (with the consent of the holders of a majority of the partnerships interests if such vote is held before January 1, 2056), in connection with a merger or the sale or other disposition of all or substantially all of the assets of the Operating Partnership, or by judicial decree.

Cost Allocation and Administrative Services

Pursuant to a cost sharing and administrative services agreement, PSCC, Inc. ("PSCC") has been formed to serve as a cooperative cost allocation and administrative services clearing house that performs centralized administrative services for the Company, PSI and other property owners affiliated with PSI. These services include accounting and finance, employee relations, management information systems, legal, office services, marketing and administration. In addition, to take advantage of economies of scale, PSCC purchases supplies and services for the benefit of multiple property owners and allocates the costs of these supplies and services to the benefited property owners. As to the Company, this agreement is not terminable until January 2002. The Company has no intention to terminate this agreement. The Company, PSI and certain other property owners own the capital stock of PSCC. Since the Company owns less than 10% of the capital stock of PSCC, the Company does not control the operations and activities of PSCC. Under this agreement, PSCC allocates costs to the Company in accordance with a methodology that is intended to fairly allocate charges among participating entities.

Common Officers and Directors

Harvey Lenkin, the President of PSI, is a Director of both the Company and PSI. Ronald L. Havner, Jr., the Chairman and Chief Executive Officer of the Company, was Senior Vice President and Chief Financial Officer of PSI until December 1996 and is currently an employee of PSI. The Company engages additional executive personnel who render services exclusively for the Company. However, it is expected that officers of PSI will continue to render services for the Company as requested.

Property Management

The Company continues to manage commercial properties owned by PSI and its affiliates, which are generally adjacent to mini-warehouses, for a fee of 5% of the gross revenues of such properties in addition to reimbursement of direct costs. The property management contract with PSI is for a seven-year term with the term extended one year upon each anniversary date. The property management contracts with affiliates of PSI are cancelable by either party upon sixty days notice.

Management

Ronald L. Havner, Jr. (43), President, Chairman and Chief Executive Officer, heads the Company's senior management team. Mr. Havner has been President and Chief Executive Officer of the Company or AOPP since December 1996. He became Chairman of the Company in March 1998. He was Senior Vice President and Chief Financial Officer of PSI from 1992 until December 1996. The Company's executive management includes: Jack Corrigan (40), Vice President and Chief Financial Officer; Michael Lynch (48), Vice President-Acquisitions and Development; Jeffrey Reinstein (37), Vice President-Business Services; David Bischoff (49), Vice President (Eastern Division); Angelique Benschneider (38), Vice President (Midwest Division); Stephen King (44), Vice President (Southwest Division); and Eileen Newkirk (52), Vice President (Pacific Northwest Division).

REIT Structure

If certain detailed conditions imposed by the Code and the related Treasury Regulations are met, an entity, such as the Company, that invests principally in real estate and that otherwise would be taxed as a corporation may elect to be treated as a REIT. The most important consequence to the Company of being treated as a REIT for federal income tax purposes is that this enables the Company to deduct dividend distributions to its shareholders, thus effectively eliminating the "double taxation" (at the corporate and shareholder levels) that typically results when a corporation earns income and distributes that income to shareholders in the form of dividends.

The Company believes that it has operated, and intends to continue to operate, in such a manner as to qualify as a REIT under the Code, but no assurance can be given that it will at all times so qualify. To the extent that the Company continues to qualify as a REIT, it will not be taxed, with certain limited exceptions, on the taxable income that is distributed to its shareholders.

Growth Strategy

The Company's primary objective is to maximize shareholder value by achieving long-term growth in net asset value per share. Key elements of the Company's growth strategy include:

Increase Net Cash Flow of Existing Properties: The Company seeks to increase the net cash flow generated by its existing properties by (i) increasing average occupancy rates, (ii) achieving higher levels of realized monthly rents per occupied square foot, and (iii) reducing its operating cost structure by improving operating efficiencies and economies of scale. The Company believes that its experienced property management personnel and comprehensive systems combined with increasing economies of scale will enhance the Company's ability to meet these goals. The Company also seeks to control capital expenditures associated with re-leasing space by focusing on properties with easily reconfigured space that appeal to a wide range of tenants. The Company attempts to limit tenant improvement expenditures to those that are appropriate for a high number of users. Field personnel are provided incentives to lease space to higher credit tenants and to maximize return on investments in each lease transaction. This return is measured by the internal rate of return on each lease transaction after deducting tenant improvements and lease commissions.

Focus on Core Markets: The Company intends to continue investing in markets that have characteristics which enable them to be competitive economically in the short- and long-term. The Company seeks to acquire and develop properties in markets with above average population growth, education levels and personal income. As of December 31, 2000, 94% of the Company's square footage is located in these core markets. Based on information provided by National Decision Systems, these markets have experienced over twice the population growth of the United States average over the past decade. In addition, these markets, on average, have 35% more college graduates and 23% more household income than the United States average. The Company targets properties in those markets where it believes property supply may be limited, there is a high quality of life, and where properties are close to important services and universities and have easy access to major transportation arteries.

Acquire Properties Owned or Operated by Others: The Company believes its knowledge of its core markets enhances its ability to identify attractive acquisition opportunities and capitalize on the overall fragmentation in the "flex" space industry. The Company maintains local market information on rates, occupancies and competition in each of its core markets. According to Torto Wheaton Research, there was approximately 900 million square feet of "flex" space facilities in the United States as of December 31, 2000. The Company believes that the ten largest operators manage less than 15% of this space. The Company expects that acquisitions from third parties will be its most significant source of growth during fiscal 2001, if attractive investment opportunities continue to be available.

Attract a Diversified Tenant Base: The Company intends to limit its portfolio risk by continuing to attract a diversified tenant base, both in terms of size and industry focus. By focusing on properties with easily reconfigured space, the Company can offer facilities that appeal to a wide range of potential tenants, which aids in reducing the capital expenditures associated with re-leasing space. Such property flexibility also allows the Company to better serve existing tenants by accommodating their inevitable expansion and contraction needs. In addition, the Company believes that a diversified tenant base and property flexibility helps it maintain high occupancy rates during periods when market demand is weak.

Develop New Tenant Services: During 2000, the Company formed a new division to focus on developing and providing enhanced business service programs for tenants to increase tenant retention and revenues. These programs enable tenant access to sophisticated technology and telecommunications services through partnerships with providers such as Winstar, Teligent, Qwest and Global Crossing. In addition, the Company created Tenant Advantage to allow its small- and medium-sized business customers to purchase products and services directly from national suppliers at discounts usually reserved for large companies. The Company intends to continue to identify creative ways to develop and offer new services and offerings for its tenants.

Provide Superior Tenant Service: The Company seeks to provide a superior level of service to its tenants in order to achieve high occupancy and rental rates, as well as minimize customer turnover. The Company's property management offices are primarily located on-site, providing tenants with convenient access to management. On-site staff enables the Company's properties to be well maintained and to convey a sense of quality, order and security. The Company has significant experience in acquiring properties managed by others and thereafter improving tenant satisfaction, occupancy levels, renewal rates and rental income by implementing established tenant service programs.

Develop Properties in Existing Markets: The Company's development strategy is to selectively construct new properties next to business parks in which it already owns properties. The properties are being developed using the expertise of local development companies. The Company plans to keep development activities below 5% of its portfolio.

Financing Strategy

Retain Operating Cash Flow: The Company seeks to retain significant funds (after funding its distributions and capital improvements) for additional investments and debt reduction. During the year ended December 31, 2000, the Company distributed 36% of its funds from operations ("FFO") allocable to common stock and retained $51 million for principal payments on debt and reinvestment into real estate assets. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources."

Revolving Line of Credit: The Company has an unsecured $100 million line of credit (the "Credit Facility") with Wells Fargo Bank, which the Company uses as a temporary source of acquisition financing. The Company seeks to ultimately finance all acquisitions with equity capital to eliminate refinancing and interest rate risk.

Access to Acquisition Capital: The Company believes that its strong financial position will enable it to access capital to finance its growth. The Company targets a leverage ratio of 40% (defined as debt and preferred equity as a percentage of market capitalization). In addition, the Company targets a ratio of FFO to combined fixed charges and preferred distributions of 3.0 to 1.0. Fixed charges include interest expense and capitalized interest. Preferred distributions include amounts paid to preferred shareholders and preferred Operating Partnership unitholders. As of December 31, 2000 and for the year then ended, the leverage ratio was 22% and the FFO to combined fixed charges and preferred distributions ratio was 5.2 to 1.0. Subject to market conditions, the Company intends to add leverage to its capital structure primarily through sales of preferred stock, but may assume debt in connection with acquisitions.

Competition

Competition in the market areas in which many of the Company's properties are located is significant and has reduced the occupancy levels and rental rates of, and increased the operating expenses of, certain of these properties. Competition may be accelerated by any increase in availability of funds for investment in real estate. Barriers to entry are relatively low for those with the necessary capital and the Company will be competing for property acquisitions and tenants with entities that have greater financial resources than the Company. Recent increases in development of commercial properties are expected to further intensify competition among operators in certain market areas in which the Company operates.

The Company believes it possesses several distinguishing characteristics that enable it to compete effectively in the flex, office and industrial space markets. The Company believes it possesses one of the most experienced property operations group in these real estate markets. The Company's facilities are part of a comprehensive system encompassing standardized procedures and integrated reporting and information networks. The Company believes that the significant operating and financial experience of its executive officers and directors combined with the Company's capital structure, national investment scope, geographic diversity and economies of scale should enable the Company to compete effectively.

Investments in Real Estate Facilities

As of December 31, 2000, the Company had a total of 140 real estate facilities (12.6 million square feet) compared to 125 real estate facilities (12.4 million square feet) at December 31, 1999. The net increase in the number of facilities was due to the acquisitions of facilities and the development of a property, partially offset by property dispositions.

Restrictions on Transactions with Affiliates

The Company's Bylaws provide that the Company may engage in purchase or sale transactions with affiliates only if a transaction with an affiliate is (i) approved by a majority of the Company's independent directors and (ii) fair to the Company based on an independent appraisal or fairness opinion.

Borrowings

In September 2000, the Company extended its Credit Facility with Wells Fargo Bank. The Credit Facility has a borrowing limit of $100 million and an expiration date of August 6, 2003. The expiration date may be extended by one year on each anniversary of the Credit Facility. Interest on outstanding borrowings is payable monthly. At the option of the Company, the rate of interest charged is equal to (i) the prime rate or (ii) a rate ranging from the London Interbank Offered Rate ("LIBOR") plus 0.75% to LIBOR plus 1.35% depending on the Company's credit rating and coverage ratios, as defined (currently LIBOR plus 1.00%). In addition, the Company is required to pay an annual commitment fee of 0.25% of the borrowing limit.

Under covenants of the Credit Facility, the Company is required to (i) maintain a balance sheet leverage ratio (as defined) of less than 0.50 to 1.00, (ii) maintain interest and fixed charge coverage ratios (as defined) of not less than 2.25 to 1.00 and 1.75 to 1.00, respectively, (iii) maintain a minimum total shareholders' equity (as defined) and (iv) limit distributions to 95% of funds from operations. In addition, the Company is limited in its ability to incur additional borrowings (the Company is required to maintain unencumbered assets with an aggregate book value equal to or greater than two times the Company's unsecured recourse debt) or sell assets. The Company was in compliance with the covenants of the Credit Facility at December 31, 2000.

As of December 31, 2000, the Company had outstanding mortgage notes payable balances of approximately $31 million and no balance outstanding on the Credit Facility. See Notes 6 and 7 to the consolidated financial statements for a summary of the Company's borrowings at December 31, 2000.

The Company has broad powers to borrow in furtherance of the Company's objectives. The Company has incurred in the past, and may incur in the future, both short-term and long-term indebtedness to increase its funds available for investment in real estate, capital expenditures and distributions.

Employees

As of December 31, 2000, the Company employed 100 individuals, primarily personnel engaged in property operations. The Company believes that its relationship with its employees is good and none of the employees are represented by a labor union.

Insurance

The Company believes that its properties are adequately insured. Facilities operated by the Company have historically been covered by comprehensive insurance, including fire, earthquake, liability and extended coverage from nationally recognized carriers.

ITEM 1A. RISK FACTORS

In addition to the other information in this Form 10-K, the following factors should be considered in evaluating our company and our business.

PSI has significant influence over us.

PSI owns a substantial number of our shares: At March 15, 2001, PSI owned 24% of the outstanding shares of our common stock (42% upon conversion of its interest in our operating partnership). Consequently, PSI has the ability to significantly influence all matters submitted to a vote of our shareholders, including electing directors, changing our articles of incorporation, dissolving and approving other extraordinary transactions. In addition, PSI's ownership may make it more difficult for another party to take over our company without PSI's approval.

PSI has a voting agreement with another large shareholder: PSI and an institutional shareholder owning 27% of our common stock as of March 15, 2001 have both agreed to vote their shares to support specified nominees to our board of directors until the voting agreement expires, which is not before December 2001. This voting agreement may further increase PSI's influence over our company.

Provisions in our organizational documents may prevent changes in control.

Our articles generally prohibit owning more than 7% of our shares: Our articles of incorporation restrict the number of shares that may be owned by any person (other than PSI and certain other specified shareholders), and the partnership agreement of our operating partnership contains an anti-takeover provision. No shareholder (other than PSI and certain other specified shareholders) may own more than 7% of the outstanding shares of our common stock, unless our board of directors waives this limitation. We imposed this limitation to avoid, to the extent possible, a concentration of ownership that might jeopardize our ability to qualify as a real estate investment trust, or REIT. This limitation, however, also makes a change of control much more difficult even if it may be favorable to our public shareholders. These provisions will prevent future takeover attempts not approved by PSI even if a majority of our public shareholders consider it to be in their best interests because they would receive a premium for their shares over the shares' then market value or for other reasons.

Our board can set the terms of certain securities without shareholder approval: Our board of directors is authorized, without shareholder approval, to issue up to 50,000,000 shares of preferred stock and up to 100,000,000 shares of equity stock, in each case in one or more series. Our board has the right to set the terms of each of these series of stock. Consequently, the board could set the terms of a series of stock that could make it difficult (if not impossible) for another party to take over our company even if it might be favorable to our public shareholders. Our articles of incorporation also contain other provisions that could have the same effect. We can also cause our operating partnership to issue additional interests for cash or in exchange for property.

The partnership agreement of our operating partnership restricts mergers: The partnership agreement of our operating partnership provides that generally we may not merge or engage in a similar transaction unless limited partners of our operating partnership are entitled to receive the same proportionate payments as our shareholders. In addition, we have agreed not to merge with another entity unless the merger would have been approved had the limited partners been able to vote together with our shareholders. These provisions may make it more difficult for us to merge with another entity.

Our operating partnership poses additional risks to us.

Limited partners of our operating partnership, including PSI, have the right to vote on certain changes to the partnership agreement. They may vote in a way that is contrary to the interests of our shareholders. Also, as general partner of our operating partnership, we are required to protect the interests of the limited partners of our operating partnership. The interests of the limited partners and of our shareholders may differ.

We cannot sell certain properties without PSI's approval.

Before 2007, we may not sell 13 specified properties without PSI's approval. Since PSI would be taxed on a sale of these properties, the interests of PSI and our shareholders may differ as to the best time to sell.

Certain institutional investors have special rights.

Certain institutional investors have rights, such as the right to approve nominees to our board of directors, the right to purchase our securities in certain circumstances and the right to require registration of their shares, not available to our public shareholders.

We would incur adverse tax consequences if we fail to qualify as a REIT.

Our cash flow would be reduced if we fail to qualify as a REIT: While we believe that we have qualified since 1990 to be taxed as a REIT, and will continue to be qualified, we cannot be certain. To continue to qualify as a REIT, we need to satisfy certain requirements under the federal income tax laws relating to our income, assets, distributions to shareholders and shareholder base. In this regard, the share ownership limits in our articles of incorporation do not necessarily ensure that our shareholder base is sufficiently diverse for us to qualify as a REIT. For any year we fail to qualify as a REIT, we would be taxed at regular corporate tax rates on our taxable income unless certain relief provisions apply. Taxes would reduce our cash available for distributions to shareholders or for reinvestment, which could adversely affect us and our shareholders. Also we would not be allowed to elect REIT status for five years after we fail to qualify unless certain relief provisions apply.

Our cash flow would be reduced if our predecessor failed to qualify as a REIT: For us to qualify to be taxed as a REIT, our predecessor, American Office Park Properties, also needed to qualify to be taxed as a REIT. We believe American Office Park Properties qualified as a REIT beginning in 1997 until its March 1998 merger with us. If it is determined that it did not qualify as a REIT, we could also lose our REIT qualification. Before 1997, our predecessor was a taxable corporation and, to qualify as a REIT, was required to distribute all of its profits before the end of 1996. While we believe American Office Park Properties qualified as a REIT since 1997, we did not obtain an opinion of an outside expert at the time of its merger with us.

We may need to borrow funds to meet our REIT distribution requirements: To qualify as a REIT, we must generally distribute to our shareholders 95% of our taxable income. Our income consists primarily of our share of our operating partnership's income. We intend to make sufficient distributions to qualify as a REIT and otherwise avoid corporate tax. However, differences in timing between income and expenses and the need to make nondeductible expenditures such as capital improvements and principal payments on debt could force us to borrow funds to make necessary shareholder distributions.

Since we buy and operate real estate, we are subject to general real estate investment and operating risks.

Summary of real estate risks: We own and operate commercial properties and are subject to the risks of owning real estate generally and commercial properties in particular. These risks include:

- the national, state and local economic climate and real estate conditions, such as oversupply of or reduced demand for space and changes in market rental rates;
- how prospective tenants perceive the attractiveness, convenience and safety of our properties;
- our ability to provide adequate management, maintenance and insurance;
- our ability to collect rent from tenants on a timely basis;
- the expense of periodically renovating, repairing and reletting spaces;

- increasing operating costs, including real estate taxes and utilities, if these increased costs cannot be passed through to tenants; and

- changes in tax, real estate and zoning laws.

Certain significant costs, such as mortgage payments, real estate taxes, insurance and maintenance costs, generally are not reduced even when a property's rental income is reduced. In addition, environmental and tax laws, interest rate levels, the availability of financing and other factors may affect real estate values and property income. Furthermore, the supply of commercial space fluctuates with market conditions.

If our properties do not generate sufficient income to meet operating expenses, including any debt service, tenant improvements, leasing commissions and other capital expenditures, we may have to borrow additional amounts to cover fixed costs, and we may have to reduce our distributions to shareholders.

We may encounter significant delays in reletting vacant space, resulting in losses of income: When leases expire, we will incur expenses and we may not be able to release the space on the same terms. Certain leases provide tenants with the right to terminate early if they pay a fee. While we have estimated our cost of renewing leases that expire in 2001, our estimates could be wrong. If we are unable to release space promptly, if the terms are significantly less favorable than anticipated or if the costs are higher, we may have to reduce our distributions to shareholders.

Tenant defaults and bankruptcies may reduce our cash flow and distributions: We may have difficulty in collecting from tenants in default, particularly if they declare bankruptcies. This could reduce our cash flow and distributions to shareholders.

We may be adversely affected by significant competition among commercial properties: Many other commercial properties compete with our properties for tenants and we expect that new properties will be built in our markets. Also, we compete with other buyers, many of whom are larger than us, in seeking to acquire commercial properties. Therefore, we may not be able to grow as rapidly as we would like.

We may be adversely affected if losses on our properties are not covered by insurance: We carry insurance on our properties that we believe is comparable to the insurance carried by other operators for similar properties. However, we could suffer uninsured losses that adversely affect us or even result in loss of the property. We might still remain liable on any mortgage debt related to that property.

The illiquidity of our real estate investments may prevent us from adjusting our portfolio to respond to market changes: There may be delays and difficulties in selling real estate. Therefore, we cannot easily change our portfolio when economic conditions change. Also, tax laws limit a REIT's ability to sell properties held for less than four years.

We may be adversely affected by changes in laws: Increases in income and service taxes may reduce our cash flow and ability to make expected distributions to our shareholders. Our properties are also subject to various federal, state and local regulatory requirements, such as state and local fire and safety codes. If we fail to comply with these requirements, governmental authorities could fine us or courts could award damages against us. We believe our properties comply with all significant legal requirements. However, these requirements could change in a way that would reduce our cash flow and ability to make distributions to shareholders.

We may incur significant environmental remediation costs: Under various federal, state and local environmental laws an owner or operator of real estate interests may have to clean spills or other releases of hazardous or toxic substances on or from a property. Certain environmental laws impose liability whether or not the owner knew of, or was responsible for, the presence of the hazardous or toxic substances. In some cases, liability may exceed the value of the property. The presence of toxic substances, or the failure to properly remedy any resulting contamination, may make it more difficult for the owner or operator to sell, lease or operate its property or to borrow money using its property as collateral. Future environmental laws may impose additional material liabilities on us.

We acquired a property in Beaverton, Oregon in May 1998 known as Creekside Corporate Park. A portion of Creekside Corporate Park, as well as properties adjacent to Creekside Corporate Park, are currently the subject of an environmental remedial investigation/feasibility study, or RI/FS, that is being conducted by two current and past owner/operators of an industrial facility on adjacent property, pursuant to a consent order issued by the Oregon Department of Environmental Quality, or ODEQ. As part of that study, ODEQ ordered the owner/operators of the industrial facility to sample soil and groundwater on our property to determine the nature and extent of contamination resulting from past operations at the industrial facility. Because we are not a party to the consent order, we executed separate agreements with the two owner/operators to allow them access to portions of Creekside Corporate Park to conduct the required sampling and testing. The sampling and testing is ongoing; results to date indicate that the contamination from the industrial facility has migrated onto portions of Creekside Corporate Park owned by us.

There is no evidence that our past or current use of the Creekside Corporate Park property contributed in any way to the contamination that is the subject of the current investigation. Nevertheless, upon completion of the RI/FS, it is likely that removal or remedial measures will be required to address contamination detected during the current investigation, including any contamination on or under the Creekside Corporate Park property. Because of the preliminary nature of the investigation, we cannot predict the outcome of the investigation, nor can we estimate the costs of any remediation or removal activities that may be required.

One of the two owner/operators that are conducting the RI/FS pursuant to the consent order recently filed for Chapter 11 bankruptcy protection. It is not clear at this point what impact, if any, this filing will have on the completion of the RI/FS, or on any removal or remedial activities ordered by the ODEQ. It is possible that the ODEQ could require us to participate in completing the RI/FS and implementing removal or remedial actions that may be required on our property, or to pay a portion of the costs to do so. In the event we are ultimately deemed responsible for any costs relating to this matter, we believe that the party from whom the property was purchased will be responsible for any expenses or liabilities that we may incur as a result of this contamination. In addition, we believe that we may have recourse against other potentially responsible parties, including, but not limited to, one or both of the owner/operators of the adjacent industrial facility. However, if we are deemed responsible for any expenses related to removal or remedial actions on the property, and we are not successful in obtaining reimbursement from one or more third parties, our operations and financial condition could be harmed.

We may be affected by the Americans with Disabilities Act: The Americans with Disabilities Act of 1990 requires that access and use by disabled persons of all public accommodations and commercial properties be facilitated. Existing commercial properties must be made accessible to disabled persons. While we have not estimated the cost of complying with this act, we do not believe the cost will be material.

Our ability to control our properties may be adversely affected by ownership through partnerships and joint ventures.

We own most of our properties through our operating partnership. Our organizational documents do not limit our ability to invest funds with others in partnerships or joint ventures. This type of investment may present additional risks. For example, our partners may have interests that differ from ours or that conflict with ours, or our partners may become bankrupt.

We can change our business policies and increase our level of debt without shareholder approval.

Our board of directors establishes our investment, financing, distribution and our other business policies and may change these policies without shareholder approval. Our organizational documents do not limit our level of debt. A change in our policies or an increase in our level of debt could adversely affect our operations or the price of our common stock.

We can issue additional securities without shareholder approval.

We can issue preferred and common stock without shareholder approval. Holders of preferred stock have priority over holders of common stock, and the issuance of additional shares of common stock reduces the interest of existing holders in our company.

Increases in interest rates may adversely affect the market price of our common stock.

One of the factors that influences the market price of our common stock is the annual rate of distributions that we pay on our common stock, as compared with interest rates. An increase in interest rates may lead purchasers of REIT shares to demand higher annual distribution rates, which could adversely affect the market price of our common stock.

Shares that become available for future sale may adversely affect the market price of our common stock.

Substantial sales of our common stock, or the perception that substantial sales may occur, could adversely affect the market price of our common stock. Certain of our shareholders hold significant numbers of shares of our common stock and, subject to compliance with applicable securities laws, could sell their shares.

We depend on key personnel.

We depend on our executive officers, including Ronald L. Havner, Jr., our chief executive officer and president. The loss of Mr. Havner could adversely affect our operations. We maintain no key person insurance on him.

ITEM 2. PROPERTIES

As of December 31, 2000, the Company owned approximately 9.9 million square feet of "flex" space, 1.3 million square feet of suburban office and 1.4 million square feet of industrial space concentrated primarily in seven major markets including Southern and Northern California, Southern and Northern Texas, Virginia, Maryland and Oregon. The weighted average occupancy rate for the year ending December 31, 2000 was 96.7% and the average rental rate per square foot was $11.94.

The following table contains information about properties owned by the Company and the Operating Partnership as of December 31, 2000:

City	Number of Properties	Rentable Square Footage				Weighted Occupancy
		Flex	Office	Industrial	Total	
Arizona						
Mesa	1	78,038	-	-	78,038	98.2%
Phoenix	1	199,581	-	-	199,581	93.6%
Tempe	3	291,264	-	-	291,264	93.6%
	5	568,883	-	-	568,883	94.2%
Northern California						
Hayward	1	-	-	406,712	406,712	99.8%
Monterey	1	-	12,003	-	12,003	99.4%
Sacramento	6	366,203	-	-	366,203	87.4%
San Jose	2	387,631	-	-	387,631	99.7%
San Ramon	1	-	52,149	-	52,149	98.7%
Santa Clara	1	178,132	-	-	178,132	100.0%
So. San Francisco	2	93,775	-	-	93,775	98.5%
	14	1,025,741	64,152	406,712	1,496,605	96.6%
Southern California						
Buena Park	1	-	-	317,312	317,312	98.6%
Carson	1	77,255	-	-	77,255	96.4%
Cerritos	2	-	31,270	394,610	425,880	97.5%
City of Industry	14	-	-	293,961	293,961	100.0%
Culver City	1	146,402	-	-	146,402	99.4%
Irvine	1	-	160,499	-	160,499	93.9%
Laguna Hills	2	613,947	-	-	613,947	97.3%
Lake Forest	1	296,597	-	-	296,597	98.0%
Lakewood	1	-	56,902	-	56,902	86.9%
Monterey Park	1	199,056	-	-	199,056	95.8%
San Diego	7	377,865	234,437	-	612,302	98.7%
Signal Hill	2	178,146	-	-	178,146	95.4%
Studio City	1	22,092	-	-	22,092	100.0%
Torrance	1	147,220	-	-	147,220	97.3%
	36	2,058,580	483,108	1,005,883	3,547,571	97.5%
Kansas						
Overland Park	1	61,836	-	-	61,836	95.6%
	1	61,836	-	-	61,836	95.6%

City	Number of Properties	Rentable Square Footage Flex	Office	Industrial	Total	Weighted Occupancy
Maryland						
Beltsville....................	1	307,791	-	-	307,791	100.0%
Gaithersburg	1	-	28,994	-	28,994	99.3%
Landover (2)	2	379,471	-	-	379,471	99.2%
Largo..........................	1	149,918	-	-	149,918	99.6%
	5	837,180	28,994	-	866,174	99.6%
Oregon						
Beaverton...................	16	902,373	186,770	-	1,089,143	97.9%
Milwaukee	1	101,578	-	-	101,578	93.6%
	17	1,003,951	186,770	-	1,190,721	97.5%
Tennessee						
Nashville....................	2	138,004	-	-	138,004	94.1%
	2	138,004	-	-	138,004	94.1%
Texas						
Austin.........................	15	832,548	-	-	832,548	93.8%
Dallas.........................	2	236,997	-	-	236,997	98.2%
Garland	1	36,458	-	-	36,458	91.3%
Houston......................	2	176,977	131,214	-	308,191	84.5%
Las Colinas (1)............	12	843,112	-	-	843,112	98.6%
Mesquite	1	56,541	-	-	56,541	97.2%
Missouri City	1	66,000	-	-	66,000	97.6%
Plano	1	184,809	-	-	184,809	100.0%
Richardson.................	1	116,800	-	-	116,800	95.5%
San Antonio	2	-	199,269	-	199,269	81.3%
	38	2,550,242	330,483	-	2,880,725	94.5%
Virginia						
Alexandria..................	3	154,782	53,737	-	208,519	97.9%
Chantilly (2)................	5	315,080	38,502	-	353,582	94.9%
Herndon (2).................	2	193,623	50,750	-	244,373	99.5%
Lorton	1	246,520	-	-	246,520	99.0%
Springfield	5	269,368	90,374	-	359,742	96.7%
Sterling (2)..................	4	295,625	-	-	295,625	99.5%
Woodbridge	1	113,629	-	-	113,629	94.4%
	21	1,588,627	233,363	-	1,821,990	97.6%
Washington						
Renton........................	1	27,912	-	-	27,912	99.7%
	1	27,912	-	-	27,912	99.7%
Totals - 9 states	140	9,860,956	1,326,870	1,412,595	12,600,421	96.7%

(1) The Company owns one property that is subject to a ground lease in Las Colinas, Texas.

(2) Eight commercial properties serve as collateral to mortgage notes payable. See detailed listing in Schedule III.

Each of these properties will continue to be used for its current purpose. Competition exists in the market areas in which these properties are located. Barriers to entry are relatively low for competitors with the necessary capital and the Company will be competing for properties and tenants with entities that have greater financial resources than the Company. The Company believes that while the current overall demand for commercial space has softened in 2001, the overall demand is healthy.

The Company has risks that tenants will default on leases and declare bankruptcy. Management believes these risks are mitigated through its geographic diversity and its diverse tenant base. As of December 31, 2000, tenants occupying less than approximately 45,000 square feet of commercial space had declared bankruptcy. However, as of December 31, 2000, all of the bankrupt tenants were current on their monthly rental payments.

As of and for the year ended December 31, 2000, none of the Company's properties had a book value of more than 10% of the Company's total assets or accounted for more than 10% of its aggregate gross revenues.

The following tables set forth the lease expirations for the properties owned as of December 31, 2000 in addition to bifurcating the lease expirations on properties serving primarily small businesses and those properties serving primarily larger businesses:

Lease Expirations (Entire Portfolio) as of December 31, 2000

Year of Lease Expiration	Rentable Square Footage Subject to Expiring Leases	Annual Base Rents Under Expiring Leases	Percentage of Total Annual Base Rents Represented by Expiring Leases
2001	2,701,000	$27,653,000	19.9%
2002	2,952,000	28,995,000	20.8%
2003	2,063,000	25,490,000	18.3%
2004	1,320,000	14,514,000	10.4%
2005	1,418,000	19,700,000	14.2%
Thereafter	1,578,000	22,719,000	16.3%
Total	12,032,000	$139,071,000	100.0%

Lease Expirations (Small Tenant Portfolio) as of December 31, 2000

The Company's small tenant portfolio consists of properties with average leases less than 5,000 square feet.

Year of Lease Expiration	Rentable Square Footage Subject to Expiring Leases	Annual Base Rents Under Expiring Leases	Percentage of Total Annual Base Rents Represented by Expiring Leases
2001	1,440,000	$15,493,000	31.2%
2002	1,566,000	14,600,000	29.4%
2003	762,000	9,038,000	18.2%
2004	380,000	4,321,000	8.7%
2005	395,000	4,321,000	8.7%
Thereafter	296,000	1,886,000	3.8%
Total	4,839,000	$49,659,000	100.0%

Lease Expirations (Large Tenant Portfolio) as of December 31, 2000

The Company's large tenant portfolio consists of properties with average leases greater than or equal to 5,000 square feet.

Year of Lease Expiration	Rentable Square Footage Subject to Expiring Leases	Annual Base Rents Under Expiring Leases	Percentage of Total Annual Base Rents Represented by Expiring Leases
2001	1,261,000	$12,160,000	13.6%
2002	1,386,000	14,395,000	16.1%
2003	1,301,000	16,452,000	18.4%
2004	940,000	10,193,000	11.4%
2005	1,023,000	15,379,000	17.2%
Thereafter	1,282,000	20,833,000	23.3%
Total	7,193,000	$89,412,000	100.0%

Environmental Matters: Compliance with laws and regulations relating to the protection of the environment, including those regarding the discharge of material into the environment, has not had any material effects upon the capital expenditures, earnings or competitive position of the Company.

Substantially all of the Company's properties have been subjected to Phase I environmental reviews. Such reviews have not revealed, nor is management aware of, any probable or reasonably possible environmental costs that management believes would have a material adverse effect on the Company's business, assets or results of operations, nor is the Company aware of any potentially material environmental liability, except as discussed below.

The Company acquired a property in Beaverton, Oregon ("Creekside Corporate Park") in May 1998. A portion of Creekside Corporate Park, as well as properties adjacent to Creekside Corporate Park, are currently the subject of an environmental remedial investigation/feasibility study ("RI/FS") that is being conducted by two current and past owner/operators of an industrial facility on adjacent property, pursuant to an order issued by the Oregon Department of Environmental Quality ("ODEQ"). As part of that study, ODEQ ordered the owner/operators of the industrial facility to sample soil and groundwater on the Company's property to determine the nature and extent of contamination resulting from past operations at the industrial facility. The Company, which is not a party to the Order on Consent, executed separate Access Agreements with the two owner/operators to allow access to portions of Creekside Corporate Park to conduct the required sampling and testing. The sampling and testing is ongoing; results to date indicate that the contamination from the industrial facility has migrated onto portions of Creekside Corporate Park owned by the Company.

There is no evidence that the Company's past or current use of the Creekside Corporate Park property contributed in any way to the contamination that is the subject of the current investigation. Nevertheless, upon completion of the RI/FS, it is likely that removal or remedial measures will be required to address contamination detected during the current investigation, including any contamination on or under the Creekside Corporate Park property. Because of the preliminary nature of the investigation, the Company cannot predict the outcome of the investigation, nor can it estimate the costs of any remediation or removal activities that may be required.

One of the two owner/operators that are conducting the RI/FS pursuant to the Order on Consent recently filed for Chapter 11 bankruptcy protection. It is not clear at this point what impact, if any, this filing will have on the completion of the RI/FS, or on any removal or remedial activities ordered by the ODEQ. It is possible that the ODEQ could require the Company to participate in completing the RI/FS and implementing removal or remedial actions that may be required on the Company's property, or to pay a portion of the costs to do so. In the event the Company is ultimately deemed responsible for any costs relating to this matter, the Company believes that the party from whom the property was purchased will be responsible for any expenses or liabilities that the Company may incur as a result of this contamination. In addition, the Company believes it may have recourse against other potentially responsible parties, including, but not limited to, one or both of the owner/operators of the adjacent industrial facility.

Although the other environmental investigations conducted to date have not revealed any environmental liability that the Company believes would have a material adverse effect on the Company's business, assets or results of operations, and the Company is not aware of any such liability, it is possible that these investigations did not reveal all environmental liabilities or that there are material environmental liabilities of which the Company is unaware. No assurances can be given that (i) future laws, ordinances, or regulations will not impose any material environmental liability, or (ii) the current environmental condition of the Company's properties has not been, or will not be, affected by tenants and occupants of the Company's properties, by the condition of properties in the vicinity of the Company's properties, or by third parties unrelated to the Company.

Properties under Development: The Company plans to develop office and "flex" properties that are located within or adjacent to properties already owned by the Company. The properties will be developed using the expertise of local development companies. The development program is designed to enhance the Company's existing portfolio.

The following table sets forth certain information regarding the Company's properties under development as of December 31, 2000:

Property Name	Location	Rentable Square Feet	Amount Invested
Lafayette	Chantilly, VA	141,000	$ 7,087,000
Royal Tech 17	Las Colinas, TX	100,000	7,592,000
Greystone II and III	Beaverton, OR	94,000	4,788,000
		335,000	$ 19,467,000

In October 2000, the Company completed the shell on two flex space developments, including a 141,000 square foot development (Lafayette) in the Chantilly submarket of Northern Virginia and a 100,000 square foot development (Royal Tech 17) in the Las Colinas submarket of Dallas, Texas. These developments are expected to cost approximately $24 million. There was no pre-leasing on either development. As of March 15, 2001, the Chantilly facility was 50% leased.

The Greystone projects are located within the Company's Woodside Corporate Park, where it has 500,000 square feet of existing flex/office space with three story office buildings with glass exterior walls on four sides. The Company currently has approximately 1.1 million square feet of rentable space in Beaverton, Oregon. The Greystone II and III projects are expected to be shell complete in July 2001 at a cost of approximately $14 million. As of March 15, 2001, the Greystone II and III projects were 25% leased.

ITEM 3. LEGAL PROCEEDINGS

On November 3, 1999, the Company filed an action entitled *PS Business Parks, Inc. v. Larry Howard, et al.* (Case No. BC219580) in the Los Angeles Superior Court seeking damages in excess of $1 million, as well as equitable relief. The complaint alleges that Mr. Howard and entities controlled by him engaged in unfair trade practices, including (1) negotiating kickbacks, secret rebates and/or unearned discounts from third party suppliers for "providing" Company business to those suppliers and (2) disrupting the Company's relationship with various suppliers. Mr. Howard is not an officer, employee or authorized agent of the Company. On November 13, 2000, the Court entered a summary judgment against the Company. The Company is appealing the Court’s decision.

On or about February 14, 2000, Mr. Howard and entities controlled by him filed a cross-complaint against the Company, Public Storage, Inc., and several other cross-defendants alleging, among other things, (1) interference with Mr. Howard’s contractual relations with various third party suppliers, (2) violation of Title VII of the Civil Rights Act and (3) abuse of process. None of the cross-complainants assigned any dollar amount in the cross-complaint to the claims. All of the claims in this cross-complaint against the Company have been dismissed with the exception of one claim for interference. The Company intends to vigorously contest this remaining claim in the cross-complaint.

On November 27, 2000, Mary Jayne Howard, a former officer of the Company, filed a demand for arbitration with the American Arbitration Association alleging claims against the Company for breach of contract, gender discrimination, marital discrimination, and wrongful termination based on public policy. The demand seeks damages of approximately $2 million. The Company plans to vigorously contest these claims.

On November 27, 2000, the Company filed an action in the Los Angeles Superior Court seeking damages in excess of $1 million, as well as equitable relief, against Mr. Howard, entities controlled by him, and Mrs. Howard alleging claims for breach of fiduciary duty, fraud, constructive fraud, aiding and abetting, intentional interference with prospective economic advantage and unfair competition, among other things.

Mary Jayne Howard, former executive vice president of the Company, is married to Mr. Howard. On March 7, 2000, Ms. Howard ceased employment with the Company. Ronald L. Havner, Jr., Chief Executive Officer of the Company, assumed Ms. Howard's operational responsibilities.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company did not submit any matter to a vote of security holders in the fourth quarter of the fiscal year ended December 31, 2000.

ITEM 4A. EXECUTIVE OFFICERS

The following is a biographical summary of the executive officers of the Company:

Ronald L. Havner, Jr., age 43, has been Chairman, President and Chief Executive Officer of the Company since March 1998. From December 1996 until March 1998, Mr. Havner was Chairman, President and Chief Executive Officer of AOPP. He was Senior Vice President and Chief Financial Officer of PSI, an affiliated REIT, and Vice President of the Company and certain other REITs affiliated with PSI, until December 1996. Mr. Havner became an officer of PSI in 1986, prior to which he was in the audit practice of Arthur Andersen & Company. He is a member of the American Institute of Certified Public Accountants (AICPA), the National Association of Real Estate Investments Trusts (NAREIT) and the Urban Land Institute (ULI) and a Director of Business Machine Security, Inc., Mobile Storage Group, Inc. and Burnham Pacific Properties, Inc.

Jack E. Corrigan, age 40, a certified public accountant, has been Vice President, Chief Financial Officer and Secretary of the Company since June 1998. From February 1991 until June 1998, Mr. Corrigan was a partner of LaRue, Corrigan & McCormick with responsibility for the audit and accounting practice. He was Vice President and Controller of PSI (formerly Storage Equities, Inc.) from 1989 until February 1991.

J. Michael Lynch, age 48, has been Vice President-Director of Acquisitions and Development of the Company since June 1998. Mr. Lynch was Vice President of Acquisitions and Development of Nottingham Properties, Inc. from 1995 until May 1998. He has 17 years of real estate experience, primarily in acquisitions and development. From 1988 until 1995, Mr. Lynch was a development project manager for The Parkway Companies. From 1983 until 1988, he was an Assistant Vice President, Real Estate Investment Department of First Wachovia Corporation.

Jeffrey H. Reinsten, age 37, has been Vice President-Business Services of the Company since May 2000. From March 1997 until April 2000, Mr. Reinstein was the President and Chief Operating Officer of Barrister Executive Suites and was responsible for overseeing and managing all activities for the company including operations, business development, marketing, human resources, finance and accounting. From May 1987 to October 1996, Mr. Reinstein held various positions for Weyerhaeuser Financial Investments, Inc. where he was involved in developing, managing, leasing, financing and disposing of all types of real estate assets. The latest position held at Weyerhaeuser Financial Investments by Mr. Reinstein was Vice President, Asset Management and Property Management. From 1985 to 1987, Mr. Reinstein was a business analyst for Great Western Bank.

David C. Bischoff, age 49, has been Vice President of the Company since August 1999 with responsibility for property operations for the Eastern Division. He became an executive officer of the Company in March 2001. From June 1996 to July 1999, Mr. Bischoff was Managing Director in the Client Advisory Group with CB Richard Ellis (CBRE) with responsibility for overseeing, directing and managing all the various business services (property management, leasing, appraisal, acquisition and disposition) provided by CBRE to several large institutional clients. From September 1984 to May 1996, Mr. Bischoff held a variety of positions with ABKB Realty Advisors (acquired by LaSalle Advisors) responsible for several pension fund clients, with responsibilities including raising and investing capital, selecting, directing and managing the personnel and business services provided by third party firms, and financing and ultimate disposition of client assets.

Eileen Newkirk, age 52, has been a Vice President of the Company since March 2000 with responsibility for property operations for the Pacific Northwest Division. She became an executive officer of the Company in March 2001. From August 1998 to March 2000, Ms. Newkirk was a Regional Manager of the Company with responsibility for the leasing and management of over 1.2 million square feet of business park and Class A office space in Oregon and Washington. From 1997 to 1998, Ms. Newkirk held the position of United States Facilities Manager for N-Cube, a high tech company based in Foster City, California. From 1994 to 1997, she was a Property Manager for AOPP. Prior to joining AOPP, Ms. Newkirk held a variety of development and operations management positions, including the management of a Class A central business district high-rise owned by Morgan Stanley Bank and Mitsubishi Estates New York. Ms. Newkirk's development experience includes over $20 million of construction for institutional owners. Ms. Newkirk maintains an Oregon real estate license and is a candidate for the

IREM Certified Property Manager designation as well as the Building Owners and Managers (BOMA) Real Property Administration designation.

Stephen S. King, age 44, joined the Company as Vice President in April 2000 with responsibility for property operations for the Southwest Division. He became an executive officer of the Company in March 2001. From 1998 to April 2000, Mr. King was Vice President of Asset Management for The RREEF Funds with responsibility for over 10 million square feet of industrial property owned in a joint venture with the California Public Employees Retirement System (CalPERS). From 1989 through 1998, Mr. King was Assistant Vice President, Western Division for USAA Real Estate Company. He has over twenty years of development, construction, property management and leasing experience. Mr. King is a licensed California real estate broker and a member of the Institute for Real Estate Management (IREM) and the National Association of Industrial and Office Properties (NAIOP).

Angelique A. Benschneider, age 38, joined the Company as Vice President in November 2000 with responsibility for property operations for the Midwest Division. She became an executive officer of the Company in March 2001. From 1999 to November 2000, Mrs. Benschneider was a Senior Asset Manager for Amerishop Real Estate Services, where she was responsible for retail portfolio performance for the Company on the East Coast. From 1996 to 1999, Mrs. Benschneider was a General Manager for GIC Real Estate, Inc. and was responsible for the management and leasing of Thanksgiving Tower, a 1,500,000 square foot high rise office tower. Mrs. Benschneider has institutional experience working with New York Life Insurance Company and extensive experience in regional malls, working on the redevelopment of the 2,900,000 square foot King of Prussia Mall in Philadelphia, Pennsylvania. Mrs. Benschneider is a Certified Property Manager (CPM), a Real Property Administrator (RPA), a licensed Texas Real Estate Broker and a Certified Commercial Investment Member (CCIM). She is active in the North Texas Commercial Association of Realtors (NTCAR), International Counsel of Shopping Centers (ICSC), and Commercial Real Estate Women (CREW).

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

a. Market Price of the Registrant's Common Equity:

The Common Stock of the Company trades on the American Stock Exchange under the symbol PSB. The following table sets forth the high and low sales prices of the Common Stock on the American Stock Exchange for the applicable periods:

		Range	
Year	Quarter	High	Low
2000	1st	$22.88	$19.88
	2nd	$25.13	$20.25
	3rd	$28.13	$23.88
	4th	$28.79	$25.75
1999	1st	$23.75	$21.38
	2nd	$26.38	$21.63
	3rd	$26.00	$21.88
	4th	$24.13	$20.25

As of March 13, 2001, there were approximately 733 holders of record of the Common Stock.

b. Dividends

Holders of Common Stock are entitled to receive distributions when and if declared by the Company's Board of Directors out of any funds legally available for that purpose. The Company is required to distribute at least 95% of its net taxable ordinary income prior to the filing of the Company's tax return and 85%, subject to certain adjustments, during the calendar year, to maintain its REIT status for federal income tax purposes. It is management's intention to pay distributions of not less than these required amounts.

Distributions paid per share of Common Stock for 2000 and 1999 amounted to $1.00 per year.

Since the second quarter of 1998 and through the fourth quarter of 2000, the Company had declared regular quarterly dividends of $0.25 per common share. In March 2001, the Board of Directors increased the quarterly dividends from $0.25 to $0.29 per common share. The Board of Directors has established a distribution policy to maximize the retention of operating cash flow and only distribute the minimum amount required for the Company to maintain its tax status as a REIT. Pursuant to restrictions on the Credit Facility, distributions may not exceed 95% of funds from operations, as defined.

ITEM 6. SELECTED FINANCIAL DATA (1)

	For the Years Ended December 31, 2000	1999	1998	For the Periods (2) April 1, 1997 through December 31, 1997	January 1, 1997 through March 31, 1997	For the Year Ende December 31, 1996
			(In thousands, except per share data)			
evenues:						
Rental income	$ 144,171	$ 125,327	$ 88,320	$ 24,364	$ 5,805	$ -
Facility management fees	581	471	529	709	247	2,133
Business services	505	-	-	-	-	-
Interest income	4,076	2,356	1,411	424	29	43
Dividend income	1,301	459	-	-	-	-
	150,634	128,613	90,260	25,497	6,081	2,176
xpenses:						
Cost of operations	39,290	34,891	26,073	9,837	2,493	-
Cost of facility management	111	94	77	129	60	514
Cost of business services	344	-	-	-	-	-
Depreciation and amortization	35,637	29,762	18,908	4,375	820	-
General and administrative	3,954	3,153	2,233	1,248	213	1,143
Interest expense	1,481	3,153	2,361	1	-	-
	80,817	71,053	49,652	15,590	3,586	1,657
ncome before disposition of real estate, minority interest, ncome taxes and extraordinary item	69,817	57,560	40,608	9,907	2,495	519
Gain on investment in Pacific Gulf Properties	7,849	-	-	-	-	-
Gain on disposition of properties	256	-	-	-	-	-
ncome before minority interest, income taxes and xtraordinary item	77,922	57,560	40,608	9,907	2,495	519
Minority interest in income – preferred units	(12,185)	(4,156)	-	-	-	-
Minority interest in income – common units	(14,556)	(11,954)	(11,208)	(6,753)	(1,813)	-
ncome before income taxes and extraordinary item	51,181	41,450	29,400	3,154	682	519
Income tax expense (3)	-	-	-	-	-	(216
ncome before extraordinary item	51,181	41,450	29,400	3,154	682	303
Extraordinary item, net of minority interest	-	(195)	-	-	-	-
et income	$ 51,181	$ 41,255	$ 29,400	$ 3,154	$ 682	$ 303
et income allocation:						
Allocable to preferred shareholders	$ 5,088	$ 3,406	$ -	$ -	$ -	$ -
Allocable to common shareholders	46,093	37,849	29,400	3,154	682	303
	$ 51,181	$ 41,255	$ 29,400	$ 3,154	$ 682	$ 303
er Common Share:						
istribution (4)	$ 1.00	$ 1.00	$ 1.10	$ 0.68	$ 0.00	$ 0.43
et income – Basic	$ 1.98	$ 1.60	$ 1.52	$ 0.92	$ 0.31	$ 0.32
et income – Diluted	$ 1.97	$ 1.60	$ 1.51	$ 0.92	$ 0.31	$ 0.32
eighted average common shares-Basic	23,284	23,641	19,361	3,414	2,193	947
eighted average common shares-Diluted	23,365	23,709	19,429	3,426	2,193	947
alance Sheet Data:						
otal assets	$ 930,756	$ 903,741	$ 709,414	$ 323,454	$ 136,922	$ 1,941
otal debt	30,971	37,066	50,541	3,500	-	-
inority interest – preferred units	144,750	132,750	-	-	-	-
inority interest - common units	161,728	157,199	153,015	168,665	97,180	-
referred stock	55,000	55,000	-	-	-	-
ommon shareholders’ equity	$ 509,343	$ 500,531	$ 489,905	$ 142,958	$ 36,670	$ 1,734
ther Data:						
et cash provided by operating activities	$ 111,197	$ 88,440	$ 60,228	$ 13,597	$ 5,840	$ 413
et cash used in investing activities	(77,468)	(131,318)	(308,646)	(47,105)	(582)	-
et cash provided by (used in) financing activities	(58,654)	111,030	250,602	31,443	(228)	(378
unds from operations (5)	$ 85,977	$ 76,353	$ 57,430	$ 14,282	$ 3,315	$ 303
quare footage owned at end of period	12,600	12,359	10,930	6,009	3,014	-

(1) The selected financial data for periods prior to March 17, 1998 refers to AOPP.

(2) Prior to March 31, 1997, control of AOPP was held by entities other than PSI. As a result of PSI acquiring a majority of the voting common stock and control of AOPP on March 31, 1997, the 1997 consolidated financial statements are presented separately for the period prior to March 31, 1997 (January 1, 1997 through March 31, 1997) and the period subsequent to March 31, 1997 (April 1, 1997 through December 31, 1997) when control was held by PSI.

(3) During 1997, the Company qualified and intends to qualify as a REIT, as defined in Section 856 of the Internal Revenue Code. As a REIT, the Company is not subject to federal income tax to the extent that it distributes its taxable income to its shareholders.

(4) In March 2001, the Board of Directors increased the annual distribution to $1.16 per common share.

(5) Funds from operations (“FFO”) is defined as net income, computed in accordance with generally accepted accounting principles (“GAAP”) before depreciation, amortization, minority interest in income, straight line rent adjustments and extraordinary or non-recurring items. FFO does not represent net income or cash flows from operations as defined by GAAP. FFO does not take into consideration scheduled principal payments on debt and capital improvements. Accordingly, FFO is not necessarily a substitute for cash flow or net income as a measure of liquidity or operating performance or ability to make acquisitions and capital improvements or ability to pay distributions or debt principal payments. Also, FFO as computed and disclosed by the Company many not be comparable to FFO computed and disclosed by other REITs.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the results of operations and financial condition of PS Business Parks, Inc. (the "Company") should be read in conjunction with the selected financial data and the Company's consolidated financial statements and notes thereto included elsewhere in the form 10-K. References to the Company for periods prior to March 17, 1998 refer to AOPP.

Forward-Looking Statements: Forward-looking statements are made throughout this Annual Report on Form 10-K. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," "seeks," "estimates," and similar expressions are intended to identify forward-looking statements. There are a number of important factors that could cause the results of the Company to differ materially from those indicated by such forward-looking statements, including those detailed under the heading "Item 1A. Risk Factors." In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. Moreover, we assume no obligation to update these forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements.

Overview: During 2000 and 1999, the Company focused on increasing cash flow from its existing core portfolio of properties, expanding its presence in existing markets through strategic acquisition and developments and strengthening its balance sheet primarily through the issuance of preferred stock/units. The Company has maintained low debt and overall leverage levels including preferred stock/units to facilitate future growth.

During 2000, the Company added approximately 0.8 million square feet to its portfolio at an aggregate cost of approximately $82 million. These acquisitions increased the Company's presence in its existing markets, which the Company believes have the characteristics necessary for long-term growth. The Company acquired 454,000 square feet in Southern California for $40 million, 178,000 square feet in Northern California for $23 million, 210,000 square feet in Northern Virginia for approximately $19 million. In addition, the Company completed development on a property totaling 22,000 square feet in Oregon for approximately $3 million. The Company also sold five properties aggregating 627,000 square feet for approximately $23.8 million in non-core markets.

During 1999, the Company added approximately 1.3 million square feet to its portfolio at an aggregate cost of approximately $103 million. These acquisitions increased the Company's presence in its existing markets. The Company acquired 483,000 square feet in Texas for approximately $32 million, 405,000 square feet in Northern Virginia/Maryland market for approximately $41 million, 211,000 square feet in Northern California for approximately $17 million and 200,000 square feet in Arizona for approximately $13 million. In addition, the Company completed development on two properties totaling 127,000 square feet in Oregon and Texas for approximately $14 million.

During 1998, the Company added 4.9 million square feet to its portfolio. The cost of these acquisitions was approximately $378 million. The acquisitions added square footage to each of the Company's existing core markets. The Company acquired 1,687,000 square feet in Texas at an aggregate cost of approximately $102 million; 1,001,000 square feet in Portland, Oregon at an aggregate cost of approximately $115 million; 1,442,000 square feet in the Northern Virginia/Maryland market at an aggregate cost of approximately $108 million; 422,000 square feet in Southern California at an aggregate cost of approximately $25 million and 307,000 square feet in Northern California at an aggregate cost of approximately $25 million. In addition, the Company acquired 62,000 square feet in the Merger at an aggregate cost of approximately $3 million in a market the Company does not consider a core market.

Comparison of 2000 to 1999

Results of Operations: Net income for the year ended December 31, 2000 was $51,181,000 compared to $41,255,000 for the same period in 1999. Net income allocable to common shareholders (net income less preferred stock dividends) for the year ended December 31, 2000 was $46,093,000 compared to $37,849,000 for the same period in 1999. Net income per common share on a diluted basis was $1.97 for the year ended December 31, 2000 compared to $1.60 for the same period in 1999 (based on weighted average diluted common shares outstanding of 23,365,000 and 23,709,000, respectively). The increases in net income and net income per common share reflect the Company's growth in its asset base through the acquisition and development of commercial properties, increased net operating income from its stabilized base of properties, a realized and unrealized gain on the Company's investment in the common stock of Pacific Gulf Properties, Inc. ("PAG") and the repurchase of common shares.

The Company's property operations account for almost all of the net operating income earned by the Company. The following table presents the pre-depreciation operating results of the properties for the years ended December 31, 2000 and 1999:

	Years Ended December 31,		
	2000	1999	Change
Rental income:			
"Same Park" facilities (107 facilities, 10.5 million net rentable square feet)	$121,489,000	$114,445,000	6.2%
Other facilities	22,682,000	10,882,000	108.4%
Total rental income	$144,171,000	$125,327,000	15.0%
Cost of operations (excluding depreciation):			
"Same Park" facilities	$31,835,000	$30,983,000	2.7%
Other facilities	7,455,000	3,908,000	90.8%
Total cost of operations	$39,290,000	$34,891,000	12.6%
Net operating income (rental income less cost of operations):			
"Same Park" facilities	$89,654,000	$83,462,000	7.4%
Other facilities	15,227,000	6,974,000	118.3%
Total net operating income	$104,881,000	$90,436,000	16.0%

Rental income and rental income less cost of operations or net operating income ("NOI") prior to depreciation are summarized for the year ended December 31, 2000 by major geographic region below:

Region	Square Footage	Percent of Total	Rental Income	Percent of Total	NOI	Percent of Total
Southern California	3,548,000	28.2%	$37,670,000	26.1%	$28,874,000	27.5%
Northern California	1,495,000	11.9%	16,977,000	11.8%	12,655,000	12.1%
Southern Texas	1,032,000	8.2%	11,084,000	7.7%	6,661,000	6.4%
Northern Texas	1,849,000	14.7%	19,183,000	13.3%	13,259,000	12.6%
Virginia	1,822,000	14.5%	22,375,000	15.5%	16,404,000	15.6%
Maryland	866,000	6.9%	12,592,000	8.7%	9,117,000	8.7%
Oregon	1,191,000	9.5%	16,653,000	11.6%	13,306,000	12.7%
Other	797,000	6.3%	7,637,000	5.3%	4,605,000	4.4%
	12,600,000	100.0%	$144,171,000	100.0%	$104,881,000	100.0%

Supplemental Property Data and Trends: In order to evaluate the performance of the Company's overall portfolio, management analyzes the operating performance of a consistent group of 107 properties (10.5 million net rentable square feet). These 107 properties (herein referred to as the "Same Park" facilities) have been owned and operated by the Company for the comparable periods. These properties do not include properties that have been acquired or sold during 1999 and 2000. The "Same Park" facilities represent approximately 84% of the square footage of the Company's portfolio at December 31, 2000.

Beginning with the first quarter of 2001, the Company will add the 13 properties acquired or developed in 1999 totaling approximately 1.2 million square feet to its "Same Park" facilities. The "Same Park" facilities for 2001 will be approximately 11.7 million square feet and will represent approximately 93% of the square footage of the Company's portfolio at December 31, 2000.

The following table summarizes the pre-depreciation historical operating results of the "Same Park" facilities excluding the effects of accounting for rental revenues on a straight-line basis for the years ended December 31, 2000 and 1999.

"Same Park" Facilities (107 Properties)

	Years Ended December 31, 2000	Years Ended December 31, 1999	Change
Rental income [(1)]	$119,632,000	$111,334,000	7.5%
Cost of operations	31,835,000	30,983,000	2.7%
Net operating income	$ 87,797,000	$ 80,351,000	9.3%
Gross margin [(2)]	73.4%	72.2%	1.2%
Weighted average for period:			
Occupancy	97.0%	96.7%	0.3%
Annualized realized rent per sq. ft.[(3)]	$11.71	$10.93	7.1%

(1) Rental income does not include the effect of straight-line accounting.

(2) Gross margin is computed by dividing property net operating income by rental income.

(3) Realized rent per square foot represents the actual revenues earned per occupied square foot.

The following tables summarize the "Same Park" operating results by major geographic region for the years ended December 31, 2000 and 1999:

Region	Revenues 2000	Revenues 1999	Increase	NOI 2000	NOI 1999	Increase
Southern California	$36,160,000	$33,116,000	9.2%	$27,591,000	$24,811,000	11.2%
Northern California	12,005,000	10,888,000	10.3%	9,143,000	8,187,000	11.7%
Southern Texas	9,666,000	8,996,000	7.4%	5,613,000	5,422,000	3.5%
Northern Texas	15,971,000	15,236,000	4.8%	11,103,000	10,138,000	9.5%
Virginia	15,988,000	14,739,000	8.5%	11,699,000	10,680,000	9.5%
Maryland	9,805,000	9,406,000	4.2%	7,397,000	6,876,000	7.6%
Oregon	15,174,000	14,333,000	5.9%	12,257,000	11,398,000	7.5%
Other	4,863,000	4,620,000	5.3%	2,994,000	2,839,000	5.5%

	$119,632,000	$111,334,000	7.5%	$87,797,000	$80,351,000	9.3%

The increases noted above reflect the performance of the Company's existing markets. Southern and Northern California continued to benefit from a strong economy, as did all other markets to a lesser extent, resulting in revenue and NOI increases in all of our markets.

Facility Management Operations: Facility management accounts for a small portion of the Company's net operating income. During the year ended December 31, 2000, $470,000 in net operating income was recognized from facility management operations compared to $377,000 for the same period in 1999. Facility management fees have increased due to the increase in rental rates of the properties managed by the Company and an additional property brought under management during 2000.

Business Services: The Company recently hired a Vice President to focus on creating new revenue opportunities for the Company and additional products and services for our customers. Currently the Company has begun receiving income from construction management fees and fees from telecommunication service providers. During the year ended December 31, 2000, $161,000 in net operating income was derived from such services compared to none for the same period in 1999.

Interest Income: Interest income reflects earnings on cash balances. Interest income was $4,076,000 for the year ended December 31, 2000 compared to $2,356,000 for the same period in 1999. The increase is attributable to higher interest rates and higher average cash balances. Average cash balances for the year ended December 31, 2000 were approximately $62 million compared to $43 million for the same period in 1999.

Dividend Income: Dividend income reflects dividends received from marketable securities, primarily the Company's investment in Pacific Gulf Properties, Inc. ("PAG"). Dividend income was $1,301,000 for the year ended December 31, 2000 compared to $459,000 for the same period in 1999. The increase is attributable to the Company's increased investment in PAG beginning in the third quarter of 1999.

Cost of Operations: Cost of operations for the year ended December 31, 2000 was $39,290,000 compared to $34,891,000 for the same period in 1999. The increase is due primarily to the growth in the square footage of the Company's portfolio of properties. Cost of operations as a percentage of rental income decreased from 27.8% in 1999 to 27.3% in 2000 as a result of economies of scale achieved through the acquisition and development of properties in core markets and the disposition of properties outside of the Company's core markets. Cost of operations for the year ended December 31, 2000 consists primarily of property taxes ($12,590,000), property maintenance ($7,401,000), utilities ($5,615,000) and direct payroll ($6,189,000).

Depreciation and Amortization Expense: Depreciation and amortization expense for the year ended December 31, 2000 was $35,637,000 compared to $29,762,000 for the same period in 1999. The increase is due to the acquisition and development of real estate facilities during 1999 and 2000 and recurring capitalized expenditures.

General and Administrative Expense: General and administrative expense was $3,954,000 for the year ended December 31, 2000 compared to $3,153,000 for the same period in 1999. The increase is due primarily to the increased size and activities of the Company and legal costs related to litigation matters described in Note 14 of the Notes to Consolidated Financial Statements. Included in general and administrative costs are internal acquisition costs and abandoned transaction costs. Internal acquisition expenses were $553,000 and $430,000 for the year ended December 31, 2000 and 1999, respectively. Abandoned transaction costs were $7,000 and $41,000 for the year ended December 31, 2000 and 1999, respectively. Legal costs were $837,000 and $147,000 for the year ended December 31, 2000 and 1999, respectively.

Interest Expense: Interest expense was $1,481,000 for the year ended December 31, 2000 compared to $3,153,000 for the same period in 1999. The decrease is attributable to decreased average debt balances during the period and greater capitalized interest in 2000 as a result of higher construction in progress. Interest expense of $1,415,000 and $989,000 was capitalized as part of building costs associated with properties under development during the year ended December 31, 2000 and 1999, respectively.

Minority Interest in Income: Minority interest in income reflects the income allocable to equity interests in the Operating Partnership that are not owned by the Company. Minority interest in income for the year ended December 31, 2000 was $26,741,000 ($12,185,000 allocated to preferred unitholders and $14,556,000 allocated to common unitholders) compared to $16,049,000 ($4,156,000 allocated to preferred unitholders and $11,893,000 allocated to common unitholders) for the same period in 1999. The increase in minority interest in income is due primarily to the issuance of preferred operating partnership units during 1999 and 2000 and higher earnings at the operating partnership level, partially offset by a conversion of units to common stock during 2000.

Gain on Investment in PAG: At December 31, 2000, the Company owned approximately one million shares of common stock of PAG. PAG is currently in the process of liquidating its assets. On December 15, 2000, the Company received an initial distribution from PAG of approximately $21.8 million and recognized a gain of approximately $7.8 million during the year ended December 31, 2000.

Disposition of Properties: Certain properties that were identified as not meeting the Company's ongoing investment strategy were designated for sale in 2000. The Company sold five properties aggregating 627,000 square feet for approximately $23.8 million during the year ended December 31, 2000 at a gain of $256,000.

Comparison of 1999 to 1998

***Results of Operations*:** Net income for the year ended December 31, 1999 was $41,255,000 compared to $29,400,000 for the same period in 1998. Net income allocable to common shareholders (net income less preferred stock dividends) for the year ended December 31, 1999 was $37,849,000 compared to $29,400,000 for the same period in 1998. Net income per common share on a diluted basis was $1.60 (based on weighted average diluted common shares outstanding of 23,709,000) for the year ended December 31, 1999 compared to net income per common share on a diluted basis of $1.51 (based on weighted average diluted common shares outstanding of 19,429,000) for the same period in 1998. The increases in net income and net income per share reflect the Company's significant growth in its asset base through the acquisition of commercial properties in addition to increased net operating income from its stabilized base of properties.

The Company's property operations account for almost all of the net operating income earned by the Company. The following table presents the pre-depreciation operating results of the properties for the years ended December 31, 1999 and 1998:

	1999	1998	Change
Rental income:			
Facilities owned throughout each period (50 facilities owned throughout each period, 6.4 million net rentable square feet)	$63,356,000	$58,755,000	7.8%
Facilities acquired subsequent to January 1998 (75 facilities, 6.0 million net rentable square feet)	61,971,000	29,565,000	109.6%
Total rental income	$125,327,000	$88,320,000	41.9%
Cost of operations (excluding depreciation):			
Facilities owned throughout each period	$19,297,000	$18,855,000	2.3%
Facilities acquired subsequent to January 1998	15,594,000	7,218,000	116.0%
Total cost of operations	$34,891,000	$26,073,000	33.8%
Net operating income (rental income less cost of operations):			
Facilities owned throughout each period	$44,059,000	$39,900,000	10.4%
Facilities acquired subsequent to January 1998	46,377,000	22,347,000	107.5%
Total net operating income	$90,436,000	$62,247,000	45.3%

Rental income and rental income less cost of operations or net operating income ("NOI") prior to depreciation are summarized for the year ended December 31, 1999 by major geographic region below:

Region	Square Footage	Percent of Total	Rental Income	Percent of Total	NOI	Percent of Total
Southern California....	3,091,000	25.0%	$33,962,000	27.1%	$25,426,000	28.1%
Northern California....	1,317,000	10.7%	12,376,000	9.9%	9,176,000	10.1%
Southern Texas	1,031,000	8.3%	9,899,000	7.9%	6,430,000	7.1%
Northern Texas	2,003,000	16.2%	16,094,000	12.8%	10,868,000	12.0%
Virginia.....................	1,612,000	13.0%	18,824,000	15.0%	13,679,000	15.1%
Maryland....................	1,104,000	8.9%	13,615,000	10.9%	9,642,000	10.7%
Oregon	1,169,000	9.5%	14,684,000	11.7%	11,465,000	12.8%
Other	1,032,000	8.4%	5,873,000	4.7%	3,750,000	4.1%
	12,359,000	100.0%	$125,327,000	100.0%	$90,436,000	100.0%

Supplemental Property Data and Trends: In order to evaluate the performance of the Company's overall portfolio, management analyzes the operating performance of a consistent group of 62 properties (7.2 million net rentable square feet). These 62 properties in which the Company had an ownership interest as of December 31, 2000 (herein referred to as the "Same Park" facilities) have been managed by the Company since January 1, 1998. The following table summarizes the pre-depreciation historical operating results of the "Same Park" facilities excluding the effects of accounting for rental income on a straight-line basis.

"Same Park" Facilities (62 Properties)

	Years Ended December 31,		
	1999	1998 [(4)]	Change
Rental income [(1)]	$ 72,641,000	$ 67,191,000	8.1%
Cost of operations	22,838,000	22,491,000	1.5%
Net operating income	$ 49,803,000	$ 44,700,000	11.4%
Gross margin [(2)]	68.6%	66.5%	2.1%
Weighted average for period:			
Occupancy	96.5%	94.5%	2.0%
Annualized realized rent per sq. ft.[(3)]	$10.45	$9.87	5.9%

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(1) Rental income does not include the effect of straight-line accounting.

(2) Gross margin is computed by dividing property net operating income by rental income.

(3) Realized rent per square foot represents the actual revenues earned per occupied square foot.

(4) Operations for the year ended December 31, 1998 represent the historical operations of the 62 properties; however, the Company did not own all of the properties throughout the periods presented and therefore such operations are not reflected in the Company's historical operating results. All such properties were owned effective March 17, 1998.

The following table summarizes the “Same Park” operating results by major geographic region for the years ended December 31, 1999 and 1998:

Region	Revenues 1999	Revenues 1998	Percent Increase	NOI 1999	NOI 1998	Percent Increase
Southern California....	$32,510,000	$29,189,000	11.4%	$23,678,000	$20,317,000	16.5%
Northern California....	8,337,000	7,673,000	8.7%	6,113,000	5,406,000	13.1%
Southern Texas	4,158,000	3,832,000	8.5%	2,161,000	1,928,000	12.1%
Northern Texas	2,952,000	2,825,000	4.5%	1,574,000	1,531,000	2.8%
Virginia......................	9,119,000	8,634,000	5.6%	6,102,000	5,654,000	7.9%
Maryland....................	9,065,000	8,662,000	4.7%	6,152,000	5,858,000	5.0%
Arizona	2,812,000	2,730,000	3.0%	1,737,000	1,749,000	(0.7%)
Other	3,688,000	3,646,000	1.1%	2,286,000	2,257,000	1.2%
	$72,641,000	$67,191,000	8.1%	$49,803,000	$44,700,000	11.4%

The increases noted above reflect the performance of the Company’s existing markets. All major markets reflected increases in rental rates. There were some corresponding increases in operating expenses in Texas and Arizona due primarily to property tax increases.

Facility Management Operations: Facility management accounts for a small portion of the Company’s net operating income. During the year ended December 31, 1999, $377,000 in net operating income was recognized from facility management operations compared to $452,000 for the same period in 1998. Facility management fees decreased due to the Company’s acquisition of properties that it had previously managed.

Interest Income: Interest income reflects earnings on cash balances. Interest income was $2,356,000 for the year ended December 31, 1999 compared to $1,411,000 for the same period in 1998. The increase is attributable to higher average cash balances primarily due to the Company’s issuance of preferred stock and preferred units in the Operating Partnership. Average cash balances for the year ended December 31, 1999 were approximately $43 million, compared to $28 million for the same period in 1998.

Dividend Income: Dividend income reflects dividends received from marketable securities, primarily the Company’s investment in Pacific Gulf Properties, Inc. (“PAG”). Dividend income was $459,000 for the year ended December 31, 1999 compared to none for the same period in 1998. The increase is attributable to the Company’s increased investment in PAG beginning in the third quarter of 1999.

Cost of Operations: Cost of operations for the year ended December 31, 1999 was $34,891,000 compared to $26,073,000 for the same period in 1998. The increase is due primarily to the growth in the total square footage of the Company’s portfolio of properties. Cost of operations as a percentage of rental income decreased from 29.5% for the year ended December 31, 1998 to 27.8% for the year ended December 31, 1999 as a result of increasing revenues combined with controlled expenses. Controlled expenses resulted from the economies of scale achieved through the acquisition of properties in core markets. Cost of operations consists primarily of property taxes ($10,931,000), property maintenance ($6,051,000), utilities ($6,020,000) and direct payroll ($5,607,000) for the year ended December 31, 1999.

Depreciation and Amortization Expense: Depreciation and amortization expense for the year ended December 31, 1999 was $29,762,000 compared to $18,908,000 for the same period in 1998. The increase is due to the acquisition of real estate facilities in 1998 and 1999 and recurring capital expenditures.

General and Administrative Expense: General and administrative expense was $3,153,000 for the year ended December 31, 1999 compared to $2,233,000 for the same period in 1998. The increase is due primarily to the growth in the size of the Company. Included in general and administrative costs are internal acquisition costs and abandoned transaction costs. Internal acquisition expenses for 1999 and 1998 were $430,000 and $844,000, respectively. Abandoned transaction costs for 1999 and 1998 were $41,000 and $65,000, respectively.

Interest Expense: Interest expense was $3,153,000 for the year ended December 31, 1999 compared to $2,361,000 for the same period in 1998. Interest expense consists of $3,121,000 associated with mortgage notes and $1,021,000 associated with the line of credit and temporary financing of acquisitions, net of $989,000 of interest expense capitalized to ongoing construction projects for the year ending December 31, 1999.

Minority Interest in Income: Minority interest in income reflects the income allocable to equity interests in the Operating Partnership which are not owned by the Company. Minority interest in income for the year ended December 31, 1999 was $16,049,000 ($4,156,000 allocated to preferred unitholders and $11,893,000 allocated to common unitholders) compared to $11,208,000 allocated to common unitholders for the same period in 1998. The increase in minority interest in income is due primarily to the issuance of preferred operating partnership units and to a lesser extent, the issuance of additional common units in connection with the acquisition of real estate facilities and improved operating results.

Liquidity and Capital Resources

Net cash provided by operating activities for the year ended December 31, 2000 and 1999 was $111,197,000 and $88,440,000, respectively. Management believes that its internally generated net cash provided by operating activities will continue to be sufficient to enable it to meet its operating expenses, capital improvements and debt service requirements, and to maintain the increased level of distributions to shareholders declared by the Board of Directors on March 13, 2001.

At December 31, 2000, the Company owned approximately one million shares of common stock of Pacific Gulf Properties, Inc. (“PAG”). PAG is currently in the process of liquidating its assets. On December 15, 2000, the Company received an initial distribution from PAG of approximately $21.8 million and recognized a gain of approximately $7.8 million. The remaining investment is reflected on the balance sheet at $6.1 million reflecting the fair market value of the stock at December 31, 2000.

The Company sold five properties in non-core markets for approximately $23.8 million during the year ended December 31, 2000 at a gain of $256,000.

The following table summarizes the Company’s cash flow from operating activities:

	Years Ended December 31,	
	2000	1999
Net income	$51,181,000	$41,255,000
Gain on disposition of properties	(256,000)	-
Gain on investment in Pacific Gulf Properties, Inc.	(7,849,000)	-
Depreciation and amortization	35,637,000	29,762,000
Minority interest in income	26,741,000	16,049,000
Change in working capital	5,743,000	1,374,000
Net cash provided by operating activities	111,197,000	88,440,000
Maintenance capital expenditures	(3,228,000)	(3,911,000)
Tenant improvements	(5,264,000)	(5,555,000)
Capitalized lease commissions	(3,275,000)	(2,213,000)
Funds available for distribution to shareholders, minority interests, acquisitions and other corporate purposes	99,430,000	76,761,000
Cash distributions to shareholders and minority interests	(47,877,000)	(38,632,000)
Excess funds available for principal payments on debt, investments in real estate and other corporate purposes	$51,553,000	$38,129,000

The Company's capital structure is characterized by a low level of leverage. As of December 31, 2000, the Company had seven fixed rate mortgage notes payable totaling $30,971,000 which represented 3.4% of its total capitalization (based on book value, including minority interests and debt). As of December 31, 2000, the weighted average interest rate for the mortgage notes was 7.59% and the weighted average maturity was 5.4 years.

The Company expects to fund its growth strategies with permanent capital, including issuances of common and preferred stock and internally generated retained cash flows. In addition, the Company may sell properties that no longer meet its investment criteria. The Company may finance acquisitions on a temporary basis with borrowings from its Credit Facility. The Company intends to repay amounts borrowed under the Credit Facility from undistributed cash flow or, as market conditions permit and as determined to be advantageous, from the public or private placement of preferred and common stock/OP units of the Company or Operating Partnership or the formation of joint ventures. The Company targets a leverage ratio of 40% (defined as debt and preferred equity as a percentage of market capitalization). In addition, the Company targets a ratio of Funds from Operations ("FFO") to combined fixed charges and preferred distributions of 3.0 to 1.0. As of December 31, 2000 and for the year then ended, the leverage ratio was 22% and the FFO to fixed charges and preferred distributions coverage ratio was 5.2 to 1.0.

In April 1999, the Operating Partnership completed a private placement of preferred units and the Company completed a public offering of depositary shares representing fractional interests in perpetual preferred stock. The net proceeds from the placement of preferred units, completed April 23, 1999, were approximately $12.5 million. The preferred units have a preferred distribution rate of 8 7/8% on a stated value of $12.75 million. Net proceeds from the public perpetual preferred stock offering completed April 30, 1999 were $53.1 million. The preferred stock has a dividend rate of 9 1/4% on a stated value of $55 million. Proceeds from the issuances were used to pay off borrowings from an affiliate and a portion was used to repay a mortgage note payable of approximately $11 million. The remaining proceeds were used for investment in real estate.

On September 3, 1999, the Operating Partnership completed a private placement of 3,200,000 preferred units with a preferred distribution rate of 8 3/4% on a stated value of $80 million. The net proceeds from the placement of preferred units were approximately $78 million. A portion of the proceeds was used to prepay a mortgage note payable of approximately $8.5 million. On September 7 and 23, 1999, the Operating Partnership completed private placements of 1,200,000 and 400,000 preferred units, respectively, with a preferred distribution rate of 8 7/8% on a stated value of $40 million. The net proceeds from the placement of preferred units were approximately $39.2 million.

On July 12, 2000 the Operating Partnership completed a private placement of 480,000 preferred units with a preferred distribution rate of 8 7/8% on a stated value of $12 million. The net proceeds from the placement of preferred units were approximately $11.7 million and were used for investment in real estate.

In September 2000, the Company extended its Credit Facility with Wells Fargo Bank. The Credit Facility has a borrowing limit of $100 million and an expiration date of August 6, 2003. The expiration date may be extended by one year on each anniversary of the Credit Facility. Interest on outstanding borrowings is payable monthly. At the option of the Company, the rate of interest charged is equal to (i) the prime rate or (ii) a rate ranging from the London Interbank Offered Rate ("LIBOR") plus 0.75% to LIBOR plus 1.35% depending on the Company's credit ratings and coverage ratios, as defined (currently LIBOR plus 1.00%). In addition, the Company is required to pay an annual commitment fee of 0.25% of the borrowing limit. As of December 31, 2000, the Company had no balance outstanding on the Credit Facility.

Funds from Operations: FFO is defined as net income, computed in accordance with generally accepted accounting principles ("GAAP"), before depreciation, amortization, minority interest in income, straight line rent adjustments and extraordinary or non-recurring items. FFO is presented because the Company considers FFO to be a useful measure of the operating performance of a REIT which, together with net income and cash flows provides investors with a basis to evaluate the operating and cash flow performances of a REIT. FFO does not represent net income or cash flows from operations as defined by GAAP. FFO does not take into consideration scheduled principal payments on debt or capital improvements. Accordingly, FFO is not necessarily a substitute for cash flow or net income as a measure of liquidity or operating performance or ability to make acquisitions and capital improvements or ability to make distributions or debt principal payments. Also, FFO as computed and disclosed by the Company may not be comparable to FFO computed and disclosed by other REITs.

FFO for the Company is computed as follows:

	Years Ended December 31, 2000	1999
Net income allocable to common shareholders	$46,093,000	$37,849,000
Less: Gain on investment in PAG	(7,849,000)	-
Less: Gain on disposition of properties	(256,000)	-
Extraordinary item, net of minority interest	-	195,00
Depreciation and amortization	35,637,000	29,762,000
Minority interest in income – common units	14,556,000	11,954,000
Effects of straight line rents	(2,204,000)	(3,407,000)
Consolidated FFO allocable to common shareholders and minority interests	85,977,000	76,353,000
FFO allocated to minority interests – common units	(20,634,000)	(18,248,000)
FFO allocated to common shareholders	$65,343,000	$58,105,000

Capital Expenditures: During 2000, the Company incurred $11.8 million or $0.96 per weighted average square foot in maintenance capital expenditures, tenant improvements and capitalized leasing commissions. On a recurring annual basis, the Company expects $0.90 to $1.20 per square foot in recurring capital expenditures ($11 - $15 million based on square footage at December 31, 2000). In addition, the Company expects to make $1.0 million in renovations on a property in Southern California in 2001.

During 1999, the Company incurred $11.7 million or $1.01 per weighted average square foot in maintenance capital expenditures, tenant improvements and capitalized leasing commissions. The Company also made $3.2 million of renovation expenditures on two properties in Texas.

Stock Repurchase: On March 2, 2000, the Board of Directors authorized the repurchase from time to time of up to 1,000,000 shares of the Company's common stock on the open market or in privately negotiated transactions. On July 27, 2000, the Board of Directors authorized the repurchase of up to an additional 600,000 shares of the Company's common stock (for a total repurchase authorization of up to 1,600,000 shares) on the open market or in privately negotiated transactions. Purchases will be made subject to market conditions and other investment opportunities available to the Company. As of December 31, 2000, the Company had repurchased 722,600 shares of common stock at an aggregate cost of approximately $16.6 million.

Distributions: The Company has elected and intends to qualify as a REIT for federal income tax purposes. In order to maintain its status as a REIT, the Company must meet, among other tests, sources of income, share ownership and certain asset tests. As a REIT, the Company is not taxed on that portion of its taxable income that is distributed to its shareholders provided that at least 95% of its taxable income is distributed to its shareholders prior to filing of its tax return.

The Board of Directors declared a quarterly dividend of $0.29 per common share on March 13, 2001. This represents an increase of $0.04 per share from the prior level of $0.25 per common share. The Board of Directors has established a distribution policy to maximize the retention of cash flow. In addition, the Board of Directors declared a quarterly dividend of $0.578125 per share on the depositary shares that represent 1/1,000 of a share of the Company's 9 ¼% Cumulative Preferred Stock, Series A. Distributions are payable on March 30, 2001 to shareholders of record as of the close of business on March 21, 2001.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

To limit the Company's exposure to market risk, the Company principally finances its operations and growth with permanent equity capital consisting either of common or preferred stock. At December 31, 2000, the Company's debt as a percentage of shareholders' equity (based on book values) was 5.5%.

The Company's market risk sensitive instruments include mortgage notes payable which totaled $30,971,000 at December 31, 2000. All of the Company's mortgage notes payable bear interest at fixed rates. See Note 7 of the Notes to Consolidated Financial Statements for terms, valuations and approximate principal maturities of the mortgage notes payable as of December 31, 2000. Based on borrowing rates currently available to the Company, the carrying amount of debt approximates fair value.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements of the Company at December 31, 2000 and 1999 and for the years ended December 31, 2000, 1999 and 1998 and the report of Ernst & Young LLP, Independent Auditors, thereon and the related financial statement schedule, are included elsewhere herein. Reference is made to the Index to Consolidated Financial Statements and Schedules in Item 14.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item with respect to directors is hereby incorporated by reference to the material appearing in the Company's definitive proxy statement to be filed in connection with the annual shareholders' meeting to be held in 2001 (the "Proxy Statement") under the caption "Election of Directors." Information required by this item with respect to executive officers is provided in Item 4A of this report. See "Executive Officers."

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is hereby incorporated by reference to the material appearing in the Proxy Statement under the captions "Compensation" and "Compensation Committee Interlocks and Insider Participation."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is hereby incorporated by reference to the material appearing in the Proxy Statement under the captions "Election of Directors–Security Ownership of Certain Beneficial Owners" and "-Security Ownership of Management."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is hereby incorporated by reference to the material appearing in the Proxy Statement under the caption "Compensation Committee Interlocks and Insider Participation–Certain Relationships and Related Transactions."

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULE AND REPORTS ON FORM 8-K

a. 1. Financial Statements

The financial statements listed in the accompanying Index to Financial Statements and Schedule hereof are filed as part of this report.

2. Financial Statements Schedule

The financial statements schedule listed in the accompanying Index to Financial Statements and Schedule are filed as part of this report.

3. Exhibits

See Index to Exhibits contained herein.

b. Reports on Form 8-K

None.

c. Exhibits

See Index to Exhibits contained herein.

d. Financial Statement Schedules

Not applicable.

PS BUSINESS PARKS, INC.
EXHIBIT INDEX
(Items 14(a)(3) and 14(c))

2.1 Amended and Restated Agreement and Plan of Reorganization among Registrant, American Office Park Properties, Inc. ("AOPP") and Public Storage, Inc. ("PSI") dated as of December 17, 1997. Filed with Registrant's Registration Statement No. 333-45405 and incorporated herein by reference.

3.1 Restated Articles of Incorporation. Filed with Registrant's Registration Statement No. 333-78627 and incorporated herein by reference.

3.2 Certificate of Determination of Preferences of 8 ¾% Series C Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999 and incorporated herein by reference.

3.3 Certificate of Determination of Preferences of 8 7/8% Series X Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999 and incorporated herein by reference.

3.4 Amendment to Certificate of Determination of Preferences of 8 7/8% Series X Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999 and incorporated herein by reference.

3.5 Certificate of Determination of Preferences of 8 7/8% Series Y Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2000 and incorporated herein by reference.

3.6 Restated Bylaws. Filed with Registrant's Current Report on Form 8-K dated March 17, 1998 and incorporated herein by reference.

10.1 Amended Management Agreement between Storage Equities, Inc. and Public Storage Commercial Properties Group, Inc. dated as of February 21, 1995. Filed with PSI's Annual Report on Form 10-K for the year ended December 31, 1994 and incorporated herein by reference.

10.2* Registrant's 1997 Stock Option and Incentive Plan. Filed with Registrant's Registration Statement No. 333-48313 and incorporated herein by reference.

10.3 Agreement of Limited Partnership of PS Business Parks, L.P. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998 and incorporated herein by reference.

10.4 Agreement Among Shareholders and Company dated as of December 23, 1997 among Acquiport Two Corporation, AOPP, American Office Park Properties, L.P. and PSI. Filed with Registrant's Registration Statement No. 333-45405 and incorporated herein by reference.

10.5 Amendment to Agreement Among Shareholders and Company dated as of January 21, 1998 among Acquiport Two Corporation, AOPP, American Office Park Properties, L.P. and PSI. Filed with Registrant's Registration Statement No. 333-45405 and incorporated herein by reference.

10.6 Non-Competition Agreement dated as of December 23, 1997 among PSI, AOPP, American Office Park Properties, L.P. and Acquiport Two Corporation. Filed with Registrant's Registration Statement No. 333-45405 and incorporated herein by reference.

10.7** Employment Agreement between AOPP and Ronald L. Havner, Jr. dated as of December 23, 1997. Filed with Registrant's Registration Statement No. 333-45405 and incorporated herein by reference.

10.8** Employment Agreement between Registrant and J. Michael Lynch dated as of May 20, 1998. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998 and incorporated herein by reference.

10.9 Revolving Credit Agreement dated August 6, 1998 among PS Business Parks, L.P., Wells Fargo Bank, National Association, as Agent, and the Lenders named therein. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998 and incorporated herein by reference.

10.10 First Amendment to Revolving Credit Agreement dated as of August 19, 1999 among PS Business Parks, L.P., Wells Fargo Bank, National Association, as Agent, and the Lenders named therein. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999 and incorporated herein by reference.

10.11 Second Amendment to Revolving Credit Agreement dated as of September 29, 2000 among PS Business Parks, L.P., Wells Fargo Bank, National Association, as Agent, and the Lenders named therein. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2000 and incorporated herein by reference.

10.12 Form of Indemnity Agreement. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1998 and incorporated herein by reference.

10.13 Cost Sharing and Administrative Services Agreement dated as of November 16, 1995 by and among PSCC, Inc. and the owners listed therein. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1998 and incorporated herein by reference.

10.14 Amendment to Cost Sharing and Administrative Services Agreement dated as of January 2, 1997 by and among PSCC, Inc. and the owners listed therein. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1998 and incorporated herein by reference.

10.15 Accounts Payable and Payroll Disbursement Services Agreement dated as of January 2, 1997 by and between PSCC, Inc. and American Office Park Properties, L.P. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1998 and incorporated herein by reference.

10.16 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 8 7/8% Series B Cumulative Redeemable Preferred Units, dated as of April 23, 1999. Filed with Registrant’s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999 and incorporated herein by reference.

10.17 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 9 ¼% Series A Cumulative Redeemable Preferred Units, dated as of April 30, 1999. Filed with Registrant’s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999 and incorporated herein by reference.

10.18 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 8 ¾% Series C Cumulative Redeemable Preferred Units, dated as of September 3, 1999. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999 and incorporated herein by reference.

10.19 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 8 7/8% Series X Cumulative Redeemable Preferred Units, dated as of September 7, 1999. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999 and incorporated herein by reference.

10.20 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to Additional 8 7/8% Series X Cumulative Redeemable Preferred Units, dated as of September 23, 1999. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999 and incorporated herein by reference.

10.21 Amendment to Agreement of Limited Partnership of PS Business Parks L.P. Relating to 8 7/8% Series Y Cumulative Redeemable Preferred Units, dated as of July 12, 2000. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2000 and incorporated herein by reference.

10.22 Registration Rights Agreement dated as of March 17, 1998 between Registrant and Acquiport Two Corporation ("Acquiport Registration Rights Agreement"). Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998 and incorporated herein by reference.

10.23 Letter dated May 20, 1998 relating to Acquiport Registration Rights Agreement. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998 and incorporated herein by reference.

12 Statement re: Computation of Ratio of Earnings to Fixed Charges. Filed herewith.

23 Consent of Independent Auditors. Filed herewith.

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* Compensatory benefit plan.
** Management contract.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 16, 2001

PS BUSINESS PARKS, INC.

BY: /s/ Ronald L. Havner, Jr.
Ronald L. Havner, Jr.
President, Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Ronald L. Havner, Jr. Ronald L. Havner, Jr.	President, Chairman of the Board and Chief Executive Officer (principal executive officer)	March 16, 2001
/s/ Jack E. Corrigan Jack E. Corrigan	Vice President and Chief Financial Officer (principal financial officer and principal accounting officer)	March 16, 2001
/s/ Harvey Lenkin Harvey Lenkin	Director	March 16, 2001
/s/ Vern O. Curtis Vern O. Curtis	Director	March 16, 2001
/s/ James H. Kropp James H. Kropp	Director	March 16, 2001
/s/ Jack D. Steele Jack D. Steele	Director	March 16, 2001
/s/ Alan K. Pribble Alan K. Pribble	Director	March 16, 2001
/s/ Arthur M. Friedman Arthur M. Friedman	Director	March 16, 2001

PS BUSINESS PARKS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

(Item 14(a)(3) and Item 14(c))

All other schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or notes thereto.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders
PS Business Parks, Inc.

We have audited the accompanying consolidated balance sheets of PS Business Parks, Inc. as of December 31, 2000 and 1999, and the related consolidated statements of income, shareholders' equity and cash flows for the years ended December 31, 2000, 1999 and 1998. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PS Business Parks, Inc. at December 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for the years ended December 31, 2000, 1999 and 1998 in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

Los Angeles, California
February 14, 2001

PS BUSINESS PARKS, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2000	December 31, 1999
ASSETS		
Cash and cash equivalents	$ 49,295,000	$ 74,220,000
Marketable securities	6,065,000	18,263,000
Real estate facilities, at cost:		
Land	214,020,000	194,140,000
Buildings and equipment	709,328,000	636,261,000
	923,348,000	830,401,000
Accumulated depreciation	(83,841,000)	(50,976,000)
	839,507,000	779,425,000
Properties held for disposition, net	-	14,235,000
Land held for development	5,737,000	3,052,000
Construction in progress	19,467,000	5,564,000
	864,711,000	802,276,000
Accounts receivable	461,000	771,000
Deferred rent receivables	7,697,000	5,493,000
Intangible assets, net	981,000	1,282,000
Other assets	1,546,000	1,436,000
Total assets	$ 930,756,000	$ 903,741,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accrued and other liabilities	$ 28,964,000	$ 21,195,000
Mortgage notes payable	30,971,000	37,066,000
Total liabilities	59,935,000	58,261,000
Minority interest:		
Preferred units	144,750,000	132,750,000
Common units	161,728,000	157,199,000
Shareholders' equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, 2,200 shares issued and outstanding at December 31, 2000 and December 31, 1999	55,000,000	55,000,000
Common stock, $0.01 par value, 100,000,000 shares authorized, 23,044,635 shares issued and outstanding at December 31, 2000 (23,645,461 shares issued and outstanding at December 31, 1999)	230,000	236,000
Paid-in capital	464,855,000	478,889,000
Cumulative net income	124,990,000	73,809,000
Cumulative distributions	(80,732,000)	(52,403,000)
Total shareholders' equity	564,343,000	555,531,000
Total liabilities and shareholders' equity	$ 930,756,000	$ 903,741,000

See accompanying notes.

PS BUSINESS PARKS, INC.
CONSOLIDATED STATEMENTS OF INCOME

	For the Years Ended December 31,		
	2000	1999	1998
Revenues:			
Rental income	$ 144,171,000	$ 125,327,000	$ 88,320,000
Facility management fees from affiliates	581,000	471,000	529,000
Business services	505,000	-	-
Interest income	4,076,000	2,356,000	1,411,000
Dividend income	1,301,000	459,000	-
	150,634,000	128,613,000	90,260,000
Expenses:			
Cost of operations	39,290,000	34,891,000	26,073,000
Cost of facility management	111,000	94,000	77,000
Cost of business services	344,000	-	-
Depreciation and amortization	35,637,000	29,762,000	18,908,000
General and administrative	3,954,000	3,153,000	2,233,000
Interest expense	1,481,000	3,153,000	2,361,000
	80,817,000	71,053,000	49,652,000
Income before disposition of real estate investments, minority interest and extraordinary item	69,817,000	57,560,000	40,608,000
Gain on investment in Pacific Gulf Properties, Inc.	7,849,000	-	-
Gain on disposition of properties	256,000	-	-
Income before minority interest and extraordinary item	77,922,000	57,560,000	40,608,000
Minority interest in income – preferred units	(12,185,000)	(4,156,000)	-
Minority interest in income – common units	(14,556,000)	(11,954,000)	(11,208,000)
Income before extraordinary item	51,181,000	41,450,000	29,400,000
Extraordinary loss on early extinguishment of debt, net of minority interest	-	(195,000)	-
Net income	$ 51,181,000	$ 41,255,000	$ 29,400,000
Net income allocation:			
Allocable to preferred shareholders	$ 5,088,000	$ 3,406,000	$ -
Allocable to common shareholders	46,093,000	37,849,000	29,400,000
	$ 51,181,000	$ 41,255,000	$ 29,400,000
Net income per common share – basic:			
Income before extraordinary item	$ 1.98	$ 1.61	$ 1.52
Extraordinary loss, net of minority interest	-	(0.01)	-
Net income	$ 1.98	$ 1.60	$ 1.52
Net income per common share – diluted:			
Income before extraordinary item	$ 1.97	$ 1.61	$ 1.51
Extraordinary loss, net of minority interest	-	(0.01)	-
Net income	$ 1.97	$ 1.60	$ 1.51
Weighted average common shares outstanding:			
Basic	23,284,000	23,641,000	19,361,000

See accompanying notes.

PS BUSINESS PARKS, INC.
CONSOLIDATED STATEMENTS OF INCOME

Diluted	23,365,000	23,709,000	19,429,000

See accompanying notes.

PS BUSINESS PARKS, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Preferred Stock		Common Stock		Paid-in	Cumulative	Cumulative	Shareholders'
	Shares	Amount	Shares	Amount	Capital	Net Income	Distributions	Equity
Balances at December 31, 1997	-	$ -	7,728,309	$ 77,000	$ 143,277,000	$ 3,154,000	$ (3,550,000)	$ 142,958,000
Issuance of common stock:								
Conversion of common OP units	-	-	1,785,007	18,000	33,005,000	-	-	33,023,000
Private offerings, net of costs	-	-	6,774,072	68,000	152,533,000	-	-	152,601,000
Exercise of stock options	-	-	39,024	-	651,000	-	-	651,000
In connection with a business combination	-	-	2,283,438	23,000	46,787,000	-	-	46,810,000
Public common stock offerings, net of costs	-	-	5,025,800	50,000	118,810,000	-	-	118,860,000
Net income	-	-	-	-	-	29,400,000	-	29,400,000
Distributions paid:								
Common stock	-	-	-	-	-	-	(21,806,000)	(21,806,000)
Adjustment to reflect minority interest to underlying ownership interest	-	-	-	-	(12,592,000)	-	-	(12,592,000)
Balances at December 31, 1998	-	-	23,635,650	236,000	482,471,000	32,554,000	(25,356,000)	489,905,000
Issuance of preferred stock, net of costs	2,200	55,000,000	-	-	(1,936,000)	-	-	53,064,000
Exercise of stock options	-	-	9,811	-	179,000	-	-	179,000
Net income	-	-	-	-	-	41,255,000	-	41,255,000
Distributions paid:								
Preferred stock	-	-	-	-	-	-	(3,406,000)	(3,406,000)
Common stock	-	-	-	-	-	-	(23,641,000)	(23,641,000)
Adjustment to reflect minority interest to underlying ownership interest	-	-	-	-	(1,825,000)	-	-	(1,825,000)
Balances at December 31, 1999	2,200	55,000,000	23,645,461	236,000	478,889,000	73,809,000	(52,403,000)	555,531,000
Issuance of common stock:								
Conversion of common OP units	-	-	107,517	1,000	2,530,000	-	-	2,531,000
Exercise of stock options	-	-	14,257	-	261,000	-	-	261,000
Repurchase of common stock	-	-	(722,600)	(7,000)	(16,634,000)	-	-	(16,641,000)
Net income	-	-	-	-	-	51,181,000	-	51,181,000
Distributions paid:								
Preferred stock	-	-	-	-	-	-	(5,088,000)	(5,088,000)
Common stock	-	-	-	-	-	-	(23,241,000)	(23,241,000)
Adjustment to reflect minority interest to underlying ownership interest	-	-	-	-	(191,000)	-	-	(191,000)
Balances at December 31, 2000	2,200	$ 55,000,000	23,044,635	$ 230,000	$ 464,855,000	$ 124,990,000	$ (80,732,000)	$ 564,343,000

See accompanying notes.

PS BUSINESS PARKS, INC.
STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2000	1999	1998
Cash flows from operating activities:			
Net income	$ 51,181,000	$ 41,255,000	$ 29,400,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on investment in Pacific Gulf Properties, Inc.	(7,849,000)	-	-
Gain on disposition of properties	(256,000)	-	-
Depreciation and amortization expense	35,637,000	29,762,000	18,908,000
Minority interest in income	26,741,000	16,049,000	11,208,000
Increase in receivables and other assets	(2,004,000)	(3,868,000)	(1,913,000)
Increase in accrued and other liabilities	7,747,000	5,242,000	2,625,000
Total adjustments	60,016,000	47,185,000	30,828,000
Net cash provided by operating activities	111,197,000	88,440,000	60,228,000
Cash flows from investing activities:			
Distribution from Pacific Gulf Properties, Inc.	21,767,000	-	-
Investment in marketable securities	(1,720,000)	(18,470,000)	-
Acquisition of real estate facilities	(82,335,000)	(82,087,000)	(289,839,000)
Disposition of properties	23,763,000	-	-
Capital improvements to real estate facilities	(19,127,000)	(16,211,000)	(11,091,000)
Land held for development and construction in progress	(19,816,000)	(14,550,000)	(7,716,000)
Net cash used in investing activities	(77,468,000)	(131,318,000)	(308,646,000)
Cash flows from financing activities:			
Repayment of borrowings from an affiliate	-	-	(3,500,000)
Borrowings from line of credit	-	14,000,000	12,500,000
Repayment of borrowings from line of credit	-	(26,500,000)	-
Principal payments on mortgage notes payable	(6,095,000)	(20,694,000)	(606,000)
Net proceeds from the issuance of common stock	261,000	179,000	272,112,000
Repurchase of common stock	(16,641,000)	-	-
Net proceeds from the issuance of preferred stock	-	53,064,000	-
Net proceeds from the issuance of preferred operating partnership units	11,698,000	129,613,000	-
Distributions paid to preferred shareholders	(5,088,000)	(3,406,000)	-
Distributions paid to minority interests – preferred units	(12,185,000)	(4,156,000)	-
Distributions paid to common shareholders	(23,241,000)	(23,641,000)	(21,806,000)
Distributions paid to minority interests – common units	(7,363,000)	(7,429,000)	(8,098,000)
Net cash (used in) provided by financing activities	(58,654,000)	111,030,000	250,602,000
Net (decrease) increase in cash and cash equivalents	(24,925,000)	68,152,000	2,184,000
Cash and cash equivalents at the beginning of the period	74,220,000	6,068,000	3,884,000
Cash and cash equivalents at the end of the period	$ 49,295,000	$ 74,220,000	$ 6,068,000
Supplemental disclosures:			
Interest paid	$ 2,896,000	$ 3,053,000	$ 2,629,000

See accompanying notes.

PS BUSINESS PARKS, INC.
STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2000	1999	1998
Supplemental schedule of non cash investing and financing activities:			
Acquisitions of real estate facilities and associated assets and liabilities in exchange for minority interests and mortgage notes payable:			
Real estate facilities	$ -	$ (20,752,000)	$ (44,592,000)
Other assets (deposits on real estate acquisitions)	-	-	800,000
Accrued and other liabilities	-	-	3,531,000
Minority interest – common units	-	1,033,000	1,614,000
Mortgage notes payable	-	19,719,000	38,647,000
Business combination:			
Real estate facilities	-	-	(48,305,000)
Other assets	-	-	(452,000)
Accrued and other liabilities	-	-	1,523,000
Common stock	-	-	23,000
Paid-in capital	-	-	46,787,000
Conversion of common OP units into shares of common stock:			
Minority interest – common units	(2,531,000)	-	(33,023,000)
Common stock	1,000	-	18,000
Paid-in capital	2,530,000	-	33,005,000
Adjustment to reflect minority interest to underlying ownership interest:			
Minority interest – common units	191,000	1,825,000	12,592,000
Paid-in capital	(191,000)	(1,825,000)	(12,592,000)
Adjustment to acquisition cost (see Note 2):			
Real estate facilities	-	-	(1,315,000)
Intangible assets	-	-	1,315,000
Transfer of developed properties:			
Real estate facilities	(3,228,000)	(13,650,000)	-
Construction in progress	3,228,000	13,650,000	-

See accompanying notes.

PS BUSINESS PARKS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2000

1. Organization and description of business

Organization

PS Business Parks, Inc. ("PSB") was incorporated in the state of California in 1990. As of December 31, 2000, PSB owned an approximate 75% general and limited partnership interest in PS Business Parks, L.P. (the "Operating Partnership" or "OP"). PSB, as the sole general partner of the Operating Partnership, has full, exclusive and complete responsibility and discretion in managing and controlling the Operating Partnership. PSB and the Operating Partnership are collectively referred to as the "Company."

PSB is the successor to American Office Park Properties, Inc. ("AOPP") which merged with and into Public Storage Properties XI, Inc. ("PSP11") on March 17, 1998 (the "Merger"). The name of the Company was changed to "PS Business Parks, Inc." in connection with the Merger. See Note 3 for a description of the Merger and its terms.

Based upon the terms of the Merger, the transaction for financial reporting and accounting purposes has been accounted for as a reverse acquisition whereby AOPP is deemed to have acquired PSP11. However, PSP11 is the continuing legal entity and registrant for both Securities and Exchange Commission filing purposes and income tax reporting purposes. All subsequent references to PSB or the Company for periods prior to March 17, 1998 shall refer to AOPP.

Description of business

The Company is a fully-integrated, self-advised and self-managed real estate investment trust ("REIT") that acquires, develops, owns and operates commercial properties containing commercial and industrial rental space. As of December 31, 2000, the Company owned and operated 140 commercial properties (approximately 12.6 million net rentable square feet) located in 9 states. The Company also managed 39 commercial properties (approximately 1.3 million net rentable square feet), on behalf of Public Storage, Inc. ("PSI"), affiliated entities and a third party owner.

2. Summary of significant accounting policies

Basis of presentation

The accompanying consolidated financial statements include the accounts of PSB and the Operating Partnership. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements. Historical financial data of PSP11 have not been included in the historical financial statements of PSB.

Use of estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from estimates.

Financial instruments

The methods and assumptions used to estimate the fair value of financial instruments is described below. The Company has estimated the fair value of financial instruments using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop estimates of market value. Accordingly, estimated fair values are not necessary indicative of the amounts that could be realized in current market exchanges.

The Company considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents. Due to the short period to maturity of our cash and cash equivalents, accounts receivable, other assets and accrued and other liabilities, the carrying values as presented on the consolidated balance sheets are reasonable estimates of fair value. Based on borrowing rates currently available to the Company, the carrying amount of debt approximates fair value.

Financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable. Cash and cash equivalents, which consist of short-term investments, including commercial paper, are only invested in entities with an investment grade rating. Accounts receivable are not a significant portion of total assets and are comprised of a large number of customers.

Marketable securities

The Company owned approximately one million common shares of Pacific Gulf Properties Inc ("PAG") at December 31, 2000. PAG is currently in the process of liquidating its assets. On December 15, 2000, the Company received an initial cash distribution of approximately $21.8 million and recognized a gain of approximately $6.1 million in excess of its original investment. The investment is classified as "trading securities" in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, Accounting for Certain Investments in Debt and Equity Securities. The investment is reflected on the balance sheet at fair market value based upon the quoted market price, resulting in an unrealized gain of $1.7 million which is included in earnings. Dividend income is recognized when earned.

Real estate facilities

Real estate facilities are recorded at cost. Costs related to the renovation or improvement of the properties are capitalized. Expenditures for repair and maintenance are expensed as incurred. Buildings and equipment are depreciated on the straight-line method over the estimated useful lives, which are generally 30 and 5 years, respectively.

Interest cost and property taxes incurred during the period of construction of real estate facilities are capitalized. The Company capitalized $1,415,000, $989,000 and $268,000 of interest expense during the years ended December 31, 2000, 1999 and 1998, respectively.

Intangible assets

Intangible assets consist of property management contracts for properties managed, but not owned, by the Company. As properties managed are subsequently acquired by PSB, the unamortized basis of intangible assets related to such property is included in the cost of acquisition of such properties. In connection with the Merger, PSB acquired thirteen properties and included in the cost of such properties is $1,315,000 (net of accumulated amortization of $194,000) of costs previously classified as intangible assets. The intangible assets are being amortized over seven years. Intangible assets are net of accumulated amortization of $1,175,000 and $874,000 at December 31, 2000 and December 31, 1999, respectively.

Evaluation of asset impairment

The Company evaluates its assets used in operations, by identifying indicators of impairment and by comparing the sum of the estimated undiscounted future cash flows for each asset to the asset's carrying amount. When indicators of impairment are present and the sum of the undiscounted future cash flows is less than the carrying value of such asset, an impairment loss is recorded equal to the difference between the asset's current carrying value and its value based on discounting its estimated future cash flows. At December 31, 2000, no such indicators of impairment have been identified.

Borrowings from and loans to affiliate

The Company borrowed an aggregate of $179 million from PSI during 1998. The notes bore interest at 6.9% (per annum) and were repaid as of May 27, 1998.

The Company borrowed an aggregate of $41.4 million from PSI and paid $371,000 in interest expense during the period of January 19, 1999 through April 30, 1999. The notes bore interest at 5.5% (per annum) and were repaid as of April 30, 1999.

The Company loaned an aggregate of $77 million to PSI and received $153,000 in interest income during the period of January 5, 2000 through March 20, 2000. The notes bore interest at 5.9% (per annum) and were repaid as of March 20, 2000.

Stock-based compensation

The Company has elected to adopt the disclosure requirements of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," but will continue to account for stock-based compensation under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees."

Stock conversion

On March 17, 1998, in connection with the merger, PSB's common shares were converted into 1.18 shares of PSP11. Similarly, holders of OP units received an additional 0.18 OP units for each outstanding OP unit held at the time of the merger.

References in the consolidated financial statements and notes thereto with respect to shares of common stock, stock options, and OP units and the related per share/per unit amounts have been retroactively adjusted to reflect the March 1998 conversion in connection with the Merger.

Revenue and expense recognition

All leases are classified as operating leases. Rental income is recognized on a straight-line basis over the terms of the leases. Reimbursements from tenants for real estate taxes and other recoverable operating expenses are recognized as revenue in the period the applicable costs are incurred.

Costs incurred in connection with leasing (primarily tenant improvements and leasing commissions) are capitalized and amortized over the lease period.

Property management fees are recognized in the period earned.

General and administrative expense

General and administrative expense includes executive compensation, office expense, professional fees, state income taxes, cost of acquisition personnel and other such administrative items. Such amounts include amounts incurred by PSI on behalf of the Company, which were subsequently charged to the Company in accordance with the allocation methodology pursuant to the cost allocation and administrative service agreement between the Company and PSI.

Acquisition costs

In March 1998, the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board issued guidance (the "97-11 Guidance") with respect to Issue No. 97-11, "Accounting for Internal Acquisition Costs Relating to Real Estate Property Acquisitions." The 97-11 Guidance provides that a company shall expense internal pre-acquisition costs (such as costs of an internal acquisitions department) related to the purchase of an operating property. The Company does not capitalize such internal pre-acquisition costs with respect to the acquisition of operating real estate facilities. Accordingly, the 97-11 Guidance had no impact upon the consolidated financial statements and would have had no impact upon financial statements for periods prior to the issuance of the 97-11 Guidance.

Income taxes

During 1997, the Company qualified and intends to continue to qualify as a REIT, as defined in Section 856 of the Internal Revenue Code. As a REIT, the Company is not subject to federal income tax to the extent that it distributes its taxable income to its shareholders. A REIT must distribute at least 95% of its taxable income each year. In addition, REITs are subject to a number of organizational and operating requirements. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to federal income tax (including any applicable alternative minimum tax) based on its taxable income using corporate income tax rates. Even if the Company qualifies for taxation as a REIT, the Company may be subject to certain state and local taxes on its income and property and to federal income and excise taxes on its undistributed taxable income. The Company believes it met all organization and operating requirements to maintain its REIT status during 2000, 1999 and 1998. In addition, PSP11 (the legal entity for income tax reporting purposes subsequent to the March 17, 19998 merger) believes it has also met these requirements during 1998. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Net income per common share

Per share amounts are computed using the weighted average common shares outstanding. "Diluted" weighted average common shares outstanding include the dilutive effect of stock options under the treasury stock method. "Basic" weighted average common shares outstanding excludes such effect. Earnings per share has been calculated as follows:

	For the Years Ended December 31,		
	2000	1999	1998
Net income allocable to common shareholders	$ 46,093,000	$ 37,849,000	$ 29,400,000
Weighted average common shares outstanding:			
Basic weighted average common shares outstanding	23,284,000	23,641,000	19,361,000
Net effect of dilutive stock options - based on treasury stock method using average market price	81,000	68,000	68,000
Diluted weighted average common shares outstanding	23,365,000	23,709,000	19,429,000
Basic earnings per common share	$ 1.98	$ 1.60	$ 1.52
Diluted earnings per common share	$ 1.97	$ 1.60	$ 1.51

Reclassifications

Certain reclassifications have been made to the consolidated financial statements for 1999 in order to conform to the 2000 presentation.

3. Business combination

On March 17, 1998, AOPP merged into PSP11, a publicly traded real estate investment trust and an affiliate of PSI. Upon consummation of the Merger of AOPP into PSP11, the surviving corporation was renamed "PS Business Parks, Inc." (PSB as defined in Note 1). In connection with the Merger:

- Each outstanding share of PSP11 common stock, which did not elect cash, continued to be owned by current holders. A total of 106,155 PSP11 common shares elected to receive cash of $20.50 per share.

- Each share of PSP11 common stock Series B and each share of PSP11 common stock Series C converted into 0.8641 shares of PSP11 common stock.

- Each share of AOPP common stock converted into 1.18 shares of PSP11 common stock.

- Concurrent with the Merger, PSP11 exchanged 11 mini-warehouses and two properties that combine mini-warehouse and commercial space for 11 commercial properties owned by PSI. The fair value of each group of real estate facilities was approximately $48 million.

The Merger has been accounted for as a reverse merger whereby PSB is treated as the accounting acquirer using the purchase method. This has been determined based upon the following: (i) the former shareholders and unitholders of PSB owned in excess of 80% of the merged companies and (ii) the business focus post-Merger will continue to be that of PSB's which includes the acquisition, ownership and management of commercial properties. Prior to the Merger, PSP11's business focus has been primarily on the ownership and operation of its self-storage facilities which represented approximately 81% of its portfolio.

Allocations of the total acquisition cost to the net assets acquired were made based upon the fair value of PSP11's assets and liabilities as of the date of the Merger. The acquisition cost and the fair market values of the assets acquired and liabilities assumed in the Merger are summarized as follows:

Acquisition cost:	
Issuance of common stock	$46,810,000
Cash	424,000
Total acquisition cost	$47,234,000
Allocation of acquisition cost:	
Real estate facilities	$48,305,000
Other assets	452,000
Accrued and other liabilities	(1,523,000)
Total allocation	$47,234,000

The historical operating results of PSP11 prior to the Merger have not been included in PSB's historical operating results. Pro forma data for the year ended December 31, 1998 as though the Merger and related exchange of properties have been effective at the beginning of fiscal 1998 are as follows:

	For the Year Ended December 31, 1998
Revenues	$ 92,137,000
Net income	$ 30,159,000
Net income per share – basic	$ 1.52
Net income per share – diluted	$ 1.52

The pro forma data does not purport to be indicative either of the results of operations that would have occurred had the Merger occurred at the beginning of fiscal 1998 or of the future results of PSB.

4. Real estate facilities

The activity in real estate facilities for the years ended December 31, 2000, 1999 and 1998 is as follows:

	Land	Buildings	Accumulated Depreciation	Total
Balances at December 31, 1997	$ 91,754,000	$ 226,466,000	$ (3,982,000)	$ 314,238,000
Property acquisitions	70,087,000	263,920,000	-	334,007,000
Acquired in connection with the Merger	14,400,000	33,905,000	-	48,305,000
Adjustment from intangible assets	-	1,315,000	-	1,315,000
Capital improvements	-	11,091,000	-	11,091,000
Depreciation expense	-	-	(18,535,000)	(18,535,000)
Balances at December 31, 1998	176,241,000	536,697,000	(22,517,000)	690,421,000
Property acquisitions	18,705,000	84,134,000	-	102,839,000
Property held for disposition	(4,531,000)	(10,706,000)	1,002,000	(14,235,000)
Developed projects	3,725,000	9,925,000	-	13,650,000
Capital improvements	-	16,211,000	-	16,211,000
Depreciation expense	-	-	(29,461,000)	(29,461,000)
Balances at December 31, 1999	194,140,000	636,261,000	(50,976,000)	779,425,000
Property acquisitions	21,517,000	60,818,000	-	82,335,000
Property dispositions	(1,995,000)	(9,748,000)	2,471,000	(9,272,000)
Developed projects	358,000	2,870,000	-	3,228,000
Capital improvements	-	19,127,000	-	19,127,000
Depreciation expense	-	-	(35,336,000)	(35,336,000)
Balances at December 31, 2000	$ 214,020,000	$ 709,328,000	$ (83,841,000)	$ 839,507,000

The unaudited basis of real estate facilities for Federal income tax purposes was approximately $775 million at December 31, 2000.

During the years ended December 31, 2000, 1999 and 1998, the Company incurred $19.8 million, $14.6 million and $7.7 million in development costs, respectively. In 1999, the Company completed and transferred to real estate facilities a 61,000 square foot development in Dallas, Texas and a 66,000 square foot development in Beaverton, Oregon of approximately $13.6 million. In 2000, the Company completed and transferred to real estate facilities a 22,000 square foot development in Beaverton, Oregon of approximately $3.2 million.

5. Leasing activity

The Company leases space in its real estate facilities to tenants under non-cancelable leases generally ranging from one to ten years. Future minimum rental revenues excluding recovery of expenses as of December 31, 2000 under these leases are as follows:

2001	$ 106,074,000
2002	87,262,000
2003	63,072,000
2004	44,105,000
2005	29,488,000
Thereafter	33,821,000
	$ 363,822,000

In addition to minimum rental payments, tenants pay reimbursements for their pro rata share of specified operating expenses, which amount to $19,265,000, $16,591,000 and $10,357,000 for the years ended December 31, 2000, 1999 and 1998, respectively. These amounts are included as rental income and cost of operations in the accompanying consolidated statements of income.

6. Revolving line of credit

In September 2000, the Company extended its unsecured line of credit (the "Credit Facility") with Wells Fargo Bank. The Credit Facility has a borrowing limit of $100 million and an expiration date of August 6, 2003. The expiration date may be extended by one year on each anniversary of the Credit Facility. Interest on outstanding borrowings is payable monthly. At the option of the Company, the rate of interest charged is equal to (i) the prime rate or (ii) a rate ranging from the London Interbank Offered Rate ("LIBOR") plus 0.75% to LIBOR plus 1.35% depending on the Company's credit ratings and coverage ratios, as defined (currently LIBOR plus 1.00%). In addition, the Company is required to pay an annual commitment fee of 0.25% of the borrowing limit. The Company had no outstanding balance and $100 million available on its line of credit at December 31, 2000 and December 31, 1999.

The Credit Facility requires the Company to meet certain covenants including (i) maintain a balance sheet leverage ratio (as defined) of less than 0.50 to 1.00, (ii) maintain interest and fixed charge coverage ratios (as defined) of not less than 2.25 to 1.00 and 1.75 to 1.00, respectively, (iii) maintain a minimum total shareholders' equity (as defined) and (iv) limit distributions to 95% of funds from operations. In addition, the Company is limited in its ability to incur additional borrowings (the Company is required to maintain unencumbered assets with an aggregate book value equal to or greater than two times the Company's unsecured recourse debt) or sell assets. The Company was in compliance with the covenants of the Credit Facility at December 31, 2000.

PS BUSINESS PARKS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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7. Mortgage notes payable

Mortgage notes consist of the following:

	December 31, 2000	December 31, 1999
7.125% mortgage note, secured by one commercial property with an approximate carrying amount of $18,723,000, principal and interest payable monthly, due May 2006	$ 8,570,000	$ 8,751,000
8.190% mortgage note, secured by one commercial property with an approximate carrying amount of $12,293,000, principal and interest payable monthly, due March 2007	6,482,000	6,666,000
7.290% mortgage note, secured by one commercial property with an approximate carrying amount of $8,070,000, principal and interest payable monthly, due February 2009	6,272,000	6,372,000
7.280% mortgage note, secured by two commercial properties with approximate carrying amounts totaling $7,725,000, principal and interest payable monthly, due February 2003	4,186,000	4,304,000
8.000% mortgage note, secured by one commercial property with an approximate carrying amount of $5,439,000, principal and interest payable monthly, due April 2003	2,022,000	2,108,000
8.500% mortgage note, secured by one commercial property with an approximate carrying amount of $3,424,000, principal and interest payable monthly, due July 2007	1,850,000	1,898,000
8.000% mortgage note, secured by one commercial property with an approximate carrying amount of $3,256,000, principal and interest payable monthly, due April 2003	1,589,000	1,640,000
8.125% mortgage note, paid off in March 2000	-	5,327,000
	$30,971,000	$37,066,000

At December 31, 2000, approximate principal maturities of mortgage notes payable are as follows:

2001	$ 828,000
2002	894,000
2003	7,871,000
2004	696,000
2005	752,000
Thereafter	19,930,000
	$ 30,971,000

The mortgage notes have a weighted average interest rate of 7.59% and an average maturity of 5.4 years.

On November 12, 1999, the Company prepaid a mortgage note payable of approximately $8.5 million. The prepayment penalty of $195,000 (net of minority interest of $61,000) is included as an extraordinary loss on early extinguishment of debt for the year ended December 31, 1999.

8. Minority interests

Common units

The Company presents the accounts of PSB and the Operating Partnership on a consolidated basis. Ownership interests in the Operating Partnership, other than PSB's interest, are classified as minority interest in the consolidated financial statements. Minority interest in income consists of the minority interests' share of the consolidated operating results.

Beginning one year from the date of admission as a limited partner and subject to certain limitations described below, each limited partner other than PSB has the right to require the redemption of its partnership interest.

A limited partner that exercises its redemption right will receive cash from the Operating Partnership in an amount equal to the market value (as defined in the Operating Partnership Agreement) of the partnership interests redeemed. In lieu of the Operating Partnership redeeming the partner for cash, PSB, as general partner, has the right to elect to acquire the partnership interest directly from a limited partner exercising its redemption right, in exchange for cash in the amount specified above or by issuance of one share of PSB common stock for each unit of limited partnership interest redeemed.

A limited partner cannot exercise its redemption right if delivery of shares of PSB common stock would be prohibited under the applicable articles of incorporation, if the general partner believes that there is a risk that delivery of shares of common stock would cause the general partner to no longer qualify as a REIT, would cause a violation of the applicable securities laws, or would result in the Operating Partnership no longer being treated as a partnership for federal income tax purposes.

At December 31, 2000, there were 7,335,839 OP units owned by minority interests (7,305,355 were owned by PSI and affiliated entities and 30,484 were owned by unaffiliated third parties). On a fully converted basis, assuming all 7,335,839 minority interest OP units were converted into shares of common stock of PSB at December 31, 2000, the minority interests would own approximately 24% of the common shares outstanding. At the end of each reporting period, PSB determines the amount of equity (book value of net assets) which is allocable to the minority interest based upon the ownership interest and an adjustment is made to the minority interest, with a corresponding adjustment to paid-in capital, to reflect the minority interests' equity in the Company.

Preferred units

On April 23, 1999, the Operating Partnership completed a private placement of 510,000 preferred units with a preferred distribution rate of 8 7/8%. The net proceeds from the placement of preferred units were approximately $12.5 million and were used to repay borrowings from an affiliate.

On September 3, 1999, the Operating Partnership completed a private placement of 3,200,000 preferred units with a preferred distribution rate of 8 3/4%. The net proceeds from the placement of preferred units were approximately $78 million and part of the proceeds was used to prepay a mortgage note payable of approximately $8.5 million.

On September 7 and 23, 1999, the Operating Partnership completed private placements of 1,200,000 and 400,000 preferred units, respectively, with a preferred distribution rate of 8 7/8%. The net proceeds from the placement of preferred units were approximately $39.2 million.

On July 12, 2000 the Operating Partnership completed a private placement of 480,000 preferred units with a preferred distribution rate of 8 7/8%. The net proceeds from the placement of preferred units were approximately $11.7 million.

The Operating Partnership has the right to redeem the preferred units on or after the fifth anniversary of the issuance date at the original capital contribution plus the cumulative priority return, as defined, to the redemption date to the extent not previously distributed. The preferred units are exchangeable for Cumulative Redeemable Preferred Stock of the respective series of PS Business Parks, Inc. on or after the tenth anniversary of the date of issuance at the option of the Operating Partnership or majority of the holders of the preferred units. The Preferred Stock will have the same distribution rate and par value as the respective units and will have equivalent terms to those described in Note 10.

9. Property management contracts

The Operating Partnership manages industrial, office and retail facilities for PSI, entities affiliated with PSI and a third party. These facilities, all located in the United States, operate under the “Public Storage” or “PS Business Parks” name.

The property management contracts provide for compensation of a percentage of the gross revenue of the facilities managed. Under the supervision of the property owners, the Operating Partnership coordinates rental policies, rent collections, marketing activities, the purchase of equipment and supplies, maintenance activities, and the selection and engagement of vendors, suppliers and independent contractors. In addition, the Operating Partnership assists and advises the property owners in establishing policies for the hire, discharge and supervision of employees for the operation of these facilities, including property managers, leasing, billing and maintenance personnel.

The property management contract with PSI is for a seven year term with the term being extended one year each anniversary. The property management contracts with affiliates of PSI are cancelable by either party upon sixty days notice.

10. Shareholders’ equity

Preferred stock

On April 30, 1999, the Company issued 2,200,000 depositary shares each representing 1/1,000 of a share of 9 ¼% Cumulative Preferred Stock, Series A. Net proceeds from the public perpetual preferred stock offering were approximately $53.1 million and were used to repay borrowings from an affiliate and a mortgage note payable of approximately $11 million. The remaining proceeds were used for investment in real estate.

Holders of the Company’s preferred stock will not be entitled to vote on most matters, except under certain conditions. In the event of a cumulative arrearage equal to six quarterly dividends, the holders of the preferred stock will have the right to elect two additional members to serve on the Company’s Board of Directors until all events of default have been cured. At December 31, 2000, there were no dividends in arrears.

Except under certain conditions relating to the Company’s qualification as a REIT, the preferred stock is not redeemable prior to April 30, 2004. On or after April 30, 2004, the preferred stock will be redeemable, at the option of the Company, in whole or in part, at $25 per depositary share, plus any accrued and unpaid dividends.

The Company paid $5,088,000 ($2.312500 per depositary share) and $3,406,000 ($1.548090 per depositary share) in distributions to its preferred shareholders for the years ended December 31, 2000 and 1999, respectively. No preferred distributions were paid in 1998.

Common stock

On January 7, 1998, a holder of common OP units exercised its option and converted its 1,785,007 common OP units into an equal number of shares of PSB common stock. The conversion resulted in an increase in shareholders' equity and a corresponding decrease in minority interest of approximately $33,023,000 representing the book value of the OP units at the time of conversion.

In January 1998, PSB entered into an agreement with a group of institutional investors under which PSB agreed to issue up to 6,774,072 shares of common stock at $22.88 per share in cash (an aggregate of $155 million) in separate tranches. The first tranche, representing 2,185,187 shares or $50 million, was issued in January 1998. PSB incurred $2.4 million in costs associated with the issuance. The remainder of the common shares (4,588,885 common shares) was issued on May 6, 1998 and the net proceeds ($105 million) were used to fund a portion of the cost to acquire commercial properties in May 1998.

In May 1998, PSB completed two common stock offerings, raising net proceeds in aggregate totaling $118.9 million through the issuance of 5,025,800 common shares. A portion of the net proceeds was used in connection with a $190 million property portfolio acquisition.

On March 2, 2000, the Board of Directors authorized the repurchase from time to time of up to 1,000,000 shares of the Company's common stock on the open market or in privately negotiated transactions. On July 27, 2000, the Board of Directors authorized the repurchase of up to an additional 600,000 shares of the Company's common stock (for a total repurchase authorization of up to 1,600,000 shares) on the open market or in privately negotiated transactions. Purchases will be made subject to market conditions and other investment opportunities available to the Company. As of December 31, 2000, the Company had repurchased 722,600 shares of common stock at an aggregate cost of approximately $16.6 million.

On March 31, 2000, a holder of common OP units exercised its option and converted its 107,517 common OP units into an equal number of shares of PSB common stock. The conversion resulted in an increase in shareholders' equity and a corresponding decrease in minority interest of approximately $2,531,000 representing the book value of the OP units at the time of conversion.

The Company paid $23,241,000 ($1.00 per common share), $23,641,000 ($1.00 per common share) and $21,806,000 ($1.10 per common share) in distributions to its common shareholders for the years ended December 31, 2000, 1999 and 1998, respectively. Pursuant to restrictions on the Credit Facility, distributions may not exceed 95% of funds from operations, as defined.

Equity stock

In addition to common and preferred stock, the Company is authorized to issue 100,000,000 shares of Equity Stock. The Articles of Incorporation provide that the Equity Stock may be issued from time to time in one or more series and gives the Board of Directors broad authority to fix the dividend and distribution rights, conversion and voting rights, redemption provisions and liquidation rights of each series of Equity Stock.

11. Stock options

PSB has a 1997 Stock Option and Incentive Plan (the "Plan"). Under the Plan, PSB has granted non-qualified options to certain directors, officers and key employees to purchase shares of PSB's common stock at a price no less than the fair market value of the common stock at the date of grant. Generally, options under the Plan vest over a three-year period from the date of grant at the rate of one third per year and expire ten years after the date of grant. The remaining contractual lives were 8.4 and 7.9 years, respectively at December 31, 2000 and 1999.

At December 31, 2000, there were 1,500,000 options authorized to grant. Information with respect to the Plan is as follows:

	Number of Options	Exercise Price	Weighted Average Exercise Price
Outstanding at December 31, 1997	305,570	\$16.69 – \$22.88	\$16.80
Granted	222,500	22.88 – 25.00	24.01
Exercised	(39,024)	16.69	16.69
Forfeited	-	–	-
Outstanding at December 31, 1998	489,046	16.69 – 25.00	20.09
Granted	11,000	24.69 – 24.75	24.70
Exercised	(7,191)	16.69	16.69
Forfeited	(10,497)	16.69 – 25.00	18.67
Outstanding at December 31, 1999	482,358	16.69 – 25.00	20.28
Granted	305,500	20.50 – 26.95	25.74
Exercised	(13,237)	16.69 – 25.00	17.72
Forfeited	(135,939)	16.69 – 25.00	21.05
Outstanding at December 31, 2000	638,682	\$16.69 – \$26.95	\$22.78
Exercisable at:			
December 31, 1999	226,417	\$16.69 – \$25.00	\$19.16
December 31, 2000	278,340	\$16.69 – \$25.00	\$19.32

The Company applies APB 25 and related interpretations in accounting for its stock option plan. Accordingly, no compensation cost has been recognized. The weighted average grant date fair value of the options for 2000, 1999 and 1998 were \$4.42, \$4.16 and \$4.53, respectively. Had compensation cost for the plan been determined based on the fair value at the grant date for awards under the plan consistent with the method prescribed by SFAS No. 123, the Company's pro forma net income available to common shareholders would have been:

	For the Years Ended December 31,		
	2000	1999	1998
Pro forma net income allocable to common shareholders	\$ 45,545,000	\$ 37,224,000	\$ 28,874,000
Pro forma earnings per common share - Basic	\$ 1.96	\$ 1.57	\$ 1.49
Pro forma earnings per common share - Diluted	\$ 1.96	\$ 1.57	\$ 1.49

For these disclosure purposes, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2000, 1999 and 1998, respectively; dividend yield of 4.1%, 4.3% and 4.9%; expected volatility of 19.4%, 21.3% and 26.7%; expected lives of five years; and risk-free interest rates of 6.2%, 5.6% and 5.6%. The pro forma effect on net income allocable to common shareholders during 2000, 1999 and 1998 will not be representative of the pro forma effect on net income allocable to common shareholders in future years.

During 2000, the Company also granted 36,500 restricted stock units to employees under the Plan, of which 34,500 restricted stock units were outstanding at December 31, 2000. The restricted stock units were granted at a zero exercise price. The fair market value of the restricted stock units at the date of grant ranged from $24.00 to $25.75 per restricted stock unit. The restricted stock units are subject to a five-year vesting schedule, at 30% in year three, 30% in year four and 40% in year five. Compensation expense of $86,000 was recognized during the year ended December 31, 2000. No restricted stock units were converted to common stock in 2000.

12. Recent accounting pronouncements

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which is required to be adopted by the Company on January 1, 2001. This statement provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. The Company adopted SFAS No. 133 on January 1, 2001. This adoption had no material impact on the Company's consolidated financial statements.

13. Supplementary quarterly financial data (unaudited)

	Three Months Ended			
	March 31, 1999	June 30, 1999	September 30, 1999	December 31, 1999
Revenues	$ 29,251,000	$ 31,248,000	$ 33,281,000	$ 34,833,000
Net income allocable to common shareholders	$ 9,442,000	$ 9,393,000	$ 9,383,000	$ 9,631,000
Net income per share:				
Basic	$0.40	$0.40	$0.40	$0.41
Diluted	$0.40	$0.40	$0.40	$0.41

	Three Months Ended			
	March 31, 2000	June 30, 2000	September 30, 2000	December 31, 2000
Revenues	$ 35,864,000	$ 37,991,000	$ 38,485,000	$ 38,294,000
Net income allocable to common shareholders	$ 9,471,000	$ 10,240,000	$ 10,199,000	$ 16,183,000
Net income per share:				
Basic	$0.40	$0.44	$0.44	$0.70
Diluted	$0.40	$0.44	$0.44	$0.70

14. Commitments and contingencies

Substantially all of the Company's properties have been subjected to Phase I environmental reviews. Such reviews have not revealed, nor is management aware of, any probable or reasonably possible environmental costs that management believes would have a material adverse effect on the Company's business, assets or results of operations, nor is the Company aware of any potentially material environmental liability, except as discussed below.

The Company acquired a property in Beaverton, Oregon ("Creekside Corporate Park") in May 1998. A portion of Creekside Corporate Park, as well as properties adjacent to Creekside Corporate Park, are currently the subject of an environmental remedial investigation/feasibility study ("RI/FS") that is being conducted by two current and past owner/operators of an industrial facility on adjacent property, pursuant to an order issued by the Oregon Department of Environmental Quality ("ODEQ"). As part of that study, ODEQ ordered the owner/operators of the industrial facility to sample soil and groundwater on the Company's property to determine the nature and extent of contamination resulting from past operations at the industrial facility. The Company, which is not a party to the Order on Consent, executed separate Access Agreements with the two owner/operators to allow access to portions of Creekside Corporate Park to conduct the required sampling and testing. The sampling and testing is ongoing; results to date indicate that the contamination from the industrial facility has migrated onto portions of Creekside Corporate Park owned by the Company.

There is no evidence that the Company's past or current use of the Creekside Corporate Park property contributed in any way to the contamination that is the subject of the current investigation. Nevertheless, upon completion of the RI/FS, it is likely that removal or remedial measures will be required to address contamination detected during the current investigation, including any contamination on or under the Creekside Corporate Park property. Because of the preliminary nature of the investigation, the Company cannot predict the outcome of the investigation, nor can it estimate the costs of any remediation or removal activities that may be required.

One of the two owner/operators that are conducting the RI/FS pursuant to the Order on Consent recently filed for Chapter 11 bankruptcy protection. It is not clear at this point what impact, if any, this filing will have on the completion of the RI/FS, or on any removal or remedial activities ordered by the ODEQ. It is possible that the ODEQ could require the Company to participate in completing the RI/FS and implementing removal or remedial actions that may be required on the Company's property, or to pay a portion of the costs to do so. In the event the Company is ultimately deemed responsible for any costs relating to this matter, the Company believes that the party from whom the property was purchased will be responsible for any expenses or liabilities that the Company may incur as a result of this contamination. In addition, the Company believes it may have recourse against other potentially responsible parties, including, but not limited to, one or both of the owner/operators of the adjacent industrial facility.

On November 3, 1999, the Company filed an action entitled *PS Business Parks, Inc. v. Larry Howard, et al.* (Case No. BC219580) in the Los Angeles Superior Court seeking damages in excess of $1 million, as well as equitable relief. The complaint alleges that Mr. Howard and entities controlled by him engaged in unfair trade practices, including (1) negotiating kickbacks, secret rebates and/or unearned discounts from third party suppliers for "providing" Company business to those suppliers and (2) disrupting the Company's relationship with various suppliers. Mr. Howard is not an officer, employee or authorized agent of the Company. On November 13, 2000, the Court entered a summary judgment against the Company. The Company is appealing the Court's decision.

On or about February 14, 2000, Mr. Howard and entities controlled by him filed a cross-complaint against the Company, Public Storage, Inc., and several other cross-defendants alleging, among other things, (1) interference with Mr. Howard's contractual relations with various third party suppliers, (2) violation of Title VII of the Civil Rights Act and (3) abuse of process. None of the cross-complainants assigned any dollar amount in the cross-complaint to the claims. All of the claims in this cross-complaint against the Company have been dismissed with the exception of one claim for interference. The Company intends to vigorously contest this remaining claim in the cross-complaint.

On November 27, 2000, Mary Jayne Howard, a former officer of the Company, filed a demand for arbitration with the American Arbitration Association alleging claims against the Company for breach of contract, gender discrimination, marital discrimination, and wrongful termination based on public policy. The demand seeks damages of approximately $2 million. The Company plans to vigorously contest these claims.

On November 27, 2000, the Company filed an action in the Los Angeles Superior Court seeking damages in excess of $1 million, as well as equitable relief, against Mr. Howard, entities controlled by him, and Mrs. Howard alleging claims for breach of fiduciary duty, fraud, constructive fraud, aiding and abetting, intentional interference with prospective economic advantage and unfair competition, among other things.

The Company currently is neither subject to any other material litigation nor, to management's knowledge, is any material litigation currently threatened against the Company other than routine litigation and administrative proceedings arising in the ordinary course of business. Management believes that these items will not have a material adverse impact on the Company's condensed consolidated financial position or results of operations.

15. Reportable Segments

The Company has three reportable segments: flex properties, office properties and industrial properties located in eight geographical regions. Flex properties can generally be described as facilities that are configured with a combination of office and warehouse space and can be designed to fit an almost limitless number of uses (including office, assembly, showroom, laboratory, light manufacturing and warehouse). Office properties consist primarily of low-rise suburban office buildings. Industrial properties are designed for light manufacturing, assembly, storage and warehousing, distribution and research and development activities. The properties generate rental income through the leasing of space to a diverse group of tenants. The accounting policies of the Company's segments are the same as those described in Note 2.

The Company evaluates the performance of its properties primarily based on net operating income ("NOI"). NOI is defined by the Company as rental income less cost of operations. Accordingly, NOI excludes certain items such as interest income, dividend income, depreciation expense, amortization expense, general and administrative expense, interest expense and minority interest in income which are included in the determination of net income under accounting principles generally accepted in the United States.

	For the Year Ended December 31, 2000			
	Flex	Office	Industrial	Total
Revenue:				
Southern California	$ 27,072,000	$ 6,233,000	$ 4,365,000	$ 37,670,000
Northern California	13,165,000	1,319,000	2,493,000	16,977,000
Southern Texas	8,938,000	2,146,000	-	11,084,000
Northern Texas	17,729,000	1,454,000	-	19,183,000
Virginia	18,712,000	3,663,000	-	22,375,000
Maryland	9,583,000	3,009,000	-	12,592,000
Oregon	13,457,000	3,196,000	-	16,653,000
Other	7,637,000	-	-	7,637,000
	$ 116,293,000	$ 21,020,000	$ 6,858,000	$ 144,171,000
NOI:				
Southern California	$ 21,385,000	$ 3,948,000	$ 3,541,000	$ 28,874,000
Northern California	9,835,000	884,000	1,936,000	12,655,000
Southern Texas	5,899,000	762,000	-	6,661,000
Northern Texas	12,565,000	694,000	-	13,259,000
Virginia	14,147,000	2,257,000	-	16,404,000
Maryland	7,271,000	1,846,000	-	9,117,000
Oregon	11,112,000	2,194,000	-	13,306,000
Other	4,605,000	-	-	4,605,000
	$ 86,819,000	$ 12,585,000	$ 5,477,000	$ 104,881,000

	For the Year Ended December 31, 1999			
	Flex	Office	Industrial	Total
Revenue:				
Southern California	$ 24,968,000	$ 4,829,000	$ 4,165,000	$ 33,962,000
Northern California	8,806,000	1,277,000	2,293,000	12,376,000
Southern Texas	7,659,000	2,240,000	-	9,899,000
Northern Texas	14,473,000	1,621,000	-	16,094,000
Virginia	15,728,000	3,096,000	-	18,824,000
Maryland	9,275,000	4,340,000	-	13,615,000
Oregon	12,187,000	2,497,000	-	14,684,000
Other	5,873,000	-	-	5,873,000
	$ 98,969,000	$ 19,900,000	$ 6,458,000	$ 125,327,000
NOI:				
Southern California	$ 19,049,000	$ 3,032,000	$ 3,345,000	$ 25,426,000
Northern California	6,532,000	864,000	1,780,000	9,176,000
Southern Texas	5,444,000	986,000	-	6,430,000
Northern Texas	10,113,000	755,000	-	10,868,000
Virginia	11,795,000	1,884,000	-	13,679,000
Maryland	6,847,000	2,795,000	-	9,642,000
Oregon	9,831,000	1,634,000	-	11,465,000
Other	3,750,000	-	-	3,750,000
	$ 73,361,000	$ 11,950,000	$ 5,125,000	$ 90,436,000

	For the Year Ended December 31, 1998			
	Flex	Office	Industrial	Total
Revenue:				
Southern California	$ 21,094,000	$ 4,557,000	$ 3,279,000	$ 28,930,000
Northern California	4,288,000	1,175,000	2,094,000	7,557,000
Southern Texas	1,854,000	2,079,000	-	3,933,000
Northern Texas	8,426,000	1,568,000	-	9,994,000
Virginia	12,695,000	1,684,000	-	14,379,000
Maryland	7,973,000	358,000	-	8,331,000
Oregon	8,226,000	1,499,000	-	9,725,000
Other	5,471,000	-	-	5,471,000
	$ 70,027,000	$ 12,920,000	$ 5,373,000	$ 88,320,000
NOI:				
Southern California	$ 15,608,000	$ 2,767,000	$ 2,428,000	$ 20,803,000
Northern California	3,172,000	743,000	1,598,000	5,513,000
Southern Texas	1,116,000	963,000	-	2,079,000
Northern Texas	5,955,000	831,000	-	6,786,000
Virginia	9,185,000	885,000	-	10,070,000
Maryland	5,540,000	254,000	-	5,794,000
Oregon	6,596,000	1,056,000	-	7,652,000
Other	3,550,000	-	-	3,550,000
	$ 50,722,000	$ 7,499,000	$ 4,026,000	$ 62,247,000

Revenues are from external customers and no revenues are generated from transactions between segments. No single tenant accounted for more than 10% of the Company's total revenues. No segment data relative to assets or liabilities is presented since the Company does not evaluate performance based upon the assets or liabilities of the segments. The Company does no believe that historical cost of real estate facilities has any significant bearing upon the performance of the properties.

PS BUSINESS PARKS, INC.
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2000
(DOLLARS IN THOUSANDS)

			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition	Gross Amount at Which Carried at December 31, 2000					
Description	Location	Encumbrances	Land	Buildings and Improvements	Buildings and Improvements	Land	Buildings and Improvements	Totals	Accumulated Depreciation	Date Acquired	Depreciable Lives (Years)
I-435	Overland Park, KS	$-	$889	$2,176	$414	$889	$2,590	$3,479	$219	3/17/98	5-30
Produce	San Francisco, CA	-	770	1,886	15	770	1,901	2,671	185	3/17/98	5-30
Crenshaw II	Torrance, CA	-	2,318	6,069	610	2,318	6,679	8,997	907	4/12/97	5-30
Airport	San Francisco, CA	-	899	2,387	139	899	2,526	3,425	326	4/12/97	5-30
Christopher Ave.	Gaithersburg, MD	-	475	1,203	123	475	1,326	1,801	183	4/12/97	5-30
Monterey Park	Monterey Park, CA	-	3,078	7,862	377	3,078	8,239	11,317	1,100	1/1/97	5-30
Calle Del Oaks	Monterey, CA	-	282	706	112	282	818	1,100	121	1/1/97	5-30
Milwaukie I	Milwaukie, OR	-	1,125	2,857	603	1,125	3,460	4,585	465	1/1/97	5-30
Edwards Road	Cerritos, CA	-	450	1,217	256	450	1,473	1,923	202	1/1/97	5-30
Rainier	Renton, WA	-	330	889	153	330	1,042	1,372	143	1/1/97	5-30
Lusk	San Diego, CA	-	1,500	3,738	406	1,500	4,144	5,644	559	1/1/97	5-30
Eisenhower	Alexandria, VA	-	1,440	3,635	374	1,440	4,009	5,449	532	1/1/97	5-30
McKellips	Tempe, AZ	-	195	522	49	195	571	766	77	1/1/97	5-30
Old Oakland Rd.	San Jose, CA	-	3,458	8,765	548	3,458	9,313	12,771	1,238	1/1/97	5-30
Junipero	Signal Hill, CA	-	900	2,510	62	900	2,572	3,472	304	1/1/97	5-30
Watson Plaza	Lakewood, CA	-	930	2,360	136	930	2,496	3,426	325	1/1/97	5-30
Northgate Blvd.	Sacramento, CA	-	1,710	4,567	377	1,710	4,944	6,654	642	1/1/97	5-30
Camino Del Rio S.	San Diego, CA	-	930	2,388	410	930	2,798	3,728	384	1/1/97	5-30
Uplander	Culver City, CA	-	3,252	8,157	1487	3,252	9,644	12,896	1,363	1/1/97	5-30
University	Tempe, AZ	-	2,160	5,454	715	2,160	6,169	8,329	839	1/1/97	5-30
E. 28th Street	Signal Hill, CA	-	1,500	3,749	325	1,500	4,074	5,574	536	1/1/97	5-30
W. Main	Mesa, AZ	-	675	1,692	242	675	1,934	2,609	256	1/1/97	5-30
S. Edward	Tempe, AZ	-	645	1,653	377	645	2,030	2,675	281	1/1/97	5-30
Leapwood Ave.	Carson, CA	-	990	2,496	588	990	3,084	4,074	446	1/1/97	5-30
Downtown Center	Nashville, TN	-	660	1,681	516	660	2,197	2,857	295	1/1/97	5-30
Airport South	Nashville, TN	-	660	1,657	202	660	1,859	2,519	246	1/1/97	5-30
Great Oaks	Woodbridge, VA	-	1,350	3,398	302	1,350	3,700	5,050	476	1/1/97	5-30
Ventura Blvd. II	Studio City, CA	-	621	1,530	160	621	1,690	2,311	237	1/1/97	5-30
Largo 95	Largo, MD	-	3,085	7,332	519	3,085	7,851	10,936	941	9/24/97	5-30
Gunston	Lorton, VA	-	4,146	17,872	1,099	4,146	18,971	23,117	2,562	6/17/98	5-30
Canada	Lake Forest, CA	-	5,508	13,785	1,291	5,508	15,076	20,584	1,284	12/23/97	5-30
Ridge Route	Laguna Hills, CA	-	16,261	39,559	619	16,261	40,178	56,439	4,212	12/23/97	5-30
Lake Forest Commerce Park	Laguna Hills, CA	-	2,037	5,051	417	2,037	5,468	7,505	826	12/23/97	5-30
Buena Park Industrial Center	Buena Park, CA	-	3,245	7,703	743	3,245	8,446	11,691	976	12/23/97	5-30
Cerritos Business Center	Cerritos, CA	-	4,218	10,273	821	4,218	11,094	15,312	1,254	12/23/97	5-30
Parkway Commerce Center	Hayward, CA	-	4,398	10,433	892	4,398	11,325	15,723	1,223	12/23/97	5-30
Northpointe E	Sterling, VA	-	1,156	2,957	84	1,156	3,041	4,197	348	12/10/97	5-30
Ammendale	Beltsville, MD	-	4,278	18,380	944	4,278	19,324	23,602	3,578	1/13/98	5-30
Centrepointe	Landover, MD	8,570	3,801	16,708	1,061	3,801	17,769	21,570	2,847	3/20/98	5-30

PS BUSINESS PARKS, INC.
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2000
(DOLLARS IN THOUSANDS)

			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition	Gross Amount at Which Carried at December 31, 2000					
Description	Location	Encumbrances	Land	Buildings and Improvements	Buildings and Improvements	Land	Buildings and Improvements	Totals	Accumulated Depreciation	Date Acquired	Depreciable Lives (Years)
Shaw Road	Sterling, VA	-	2,969	10,008	510	2,969	10,518	13,487	1,888	3/9/98	5-30
Creekside-Phase 1	Beaverton, OR	-	4,519	13,651	634	4,519	14,285	18,804	2,226	5/4/98	5-30
Creekside-Phase 2 Bldg-4	Beaverton, OR	-	832	2,542	112	832	2,654	3,486	406	5/4/98	5-30
Creekside-Phase 2 Bldg-5	Beaverton, OR	-	521	1,603	54	521	1,657	2,178	254	5/4/98	5-30
Creekside-Phase 2 Bldg-1	Beaverton, OR	-	1,326	4,035	249	1,326	4,284	5,610	672	5/4/98	5-30
Creekside-Phase 3	Beaverton, OR	-	1,353	4,101	157	1,353	4,258	5,611	698	5/4/98	5-30
Creekside-Phase 5	Beaverton, OR	-	1,741	5,301	415	1,741	5,716	7,457	895	5/4/98	5-30
Creekside-Phase 6	Beaverton, OR	-	2,616	7,908	200	2,616	8,108	10,724	1,310	5/4/98	5-30
Creekside-Phase 7	Beaverton, OR	-	3,293	9,938	257	3,293	10,195	13,488	1,627	5/4/98	5-30
Creekside-Phase 8	Beaverton, OR	-	1,140	3,644	79	1,140	3,723	4,863	562	5/4/98	5-30
Woodside-Phase 1	Beaverton, OR	-	2,987	8,982	380	2,987	9,362	12,349	1,466	5/4/98	5-30
Woodside-Phase 2 Bldg-6	Beaverton, OR	-	255	784	43	255	827	1,082	147	5/4/98	5-30
Woodside-Phase 2 Bldg-7&8	Beaverton, OR	-	2,101	6,386	224	2,101	6,610	8,711	1,050	5/4/98	5-30
Woodside-Sequent 1	Beaverton, OR	-	2,890	8,672	27	2,890	8,699	11,589	1,375	5/4/98	5-30
Woodside-Sequent 5	Beaverton, OR	-	3,093	9,279	2	3,093	9,281	12,374	1,467	5/4/98	5-30
Northpointe G	Sterling, VA	1,850	824	2,964	82	824	3,046	3,870	446	6/11/98	5-30
Spectrum 95	Landover, MD	-	1,610	7,129	877	1,610	8,006	9,616	1,008	9/30/98	5-30
Las Plumas	San Jose, CA	-	4,379	12,889	344	4,379	13,233	17,612	1,728	12/31/98	5-30
Lafayette	Chantilly, VA	-	671	4,179	27	671	4,206	4,877	445	01/29/99	5-30
CreeksideVII	Beaverton, OR	-	358	3,232	82	358	3,314	3,672	90	04/17/00	5-30
Woodside-Greystone	Beaverton, OR	-	1,262	6,966	2,423	1,262	9,389	10,651	512	7/15/99	5-30
Dulles South	Chantilly, VA	1,884	599	3,098	35	599	3,133	3,732	249	6/30/99	5-30
Sullyfield Circle	Chantilly, VA	2,302	774	3,712	83	774	3,795	4,569	327	6/30/99	5-30
Park East I & II	Chantilly, VA	6,482	2,324	10,875	33	2,324	10,908	13,232	939	6/30/99	5-30
Park East III	Chantilly, VA	6,272	1,527	7,154	4	1,527	7,158	8,685	615	6/30/99	5-30
Northpointe Business Center A	Sacramento, CA	-	729	3,324	206	729	3,530	4,259	292	7/29/99	5-30
Corporate Park Phoenix	Phoenix, AZ	-	2,761	10,269	276	2,761	10,545	13,306	515	12/30/99	5-30
Santa Clara Technology Park	Santa Clara, CA	-	7,673	15,645	-	7,673	15,645	23,318	660	3/28/00	5-30
Corporate Pointe	Irvine, CA	-	6,876	18,519	95	6,876	18,614	25,490	298	9/22/00	5-30
Northpointe Business Center B	Sacramento, CA	-	717	3,269	35	717	3,304	4,021	277	7/29/99	5-30
Northpointe Business Center C	Sacramento, CA	-	726	3,313	48	726	3,361	4,087	282	7/29/99	5-30
Northpointe Business Center D	Sacramento, CA	-	427	1,950	21	427	1,971	2,398	165	7/29/99	5-30
Northpointe Business Center E	Sacramento, CA	-	432	1,970	33	432	2,003	2,435	168	7/29/99	5-30
I-95 Building I	Springfield, VA	-	1,308	5,790	-	1,308	5,790	7,098	11	12/20/00	5-30
I-95 Building II	Springfield, VA	-	1,308	5,790	-	1,308	5,790	7,098	11	12/20/00	5-30
I-95 Building III	Springfield, VA	-	919	4,092	-	919	4,092	5,011	8	12/20/00	5-30
Lamar Boulevard	Austin, TX	-	2,528	6,596	2,033	2,528	8,629	11,157	1,152	1/1/97	5-30
N. Barker's Landing	Houston, TX	-	1,140	3,003	1,032	1,140	4,035	5,175	546	1/1/97	5-30
One Park Ten	San Antonio, TX	-	1,500	4,266	3,862	1,500	8,128	9,628	1,116	1/1/97	5-30

PS BUSINESS PARKS, INC.
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
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			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition	Gross Amount at Which Carried at December 31, 2000					
Description	Location	Encumbrances	Land	Buildings and Improvements	Buildings and Improvements	Land	Buildings and Improvements	Totals	Accumulated Depreciation	Date Acquired	Depreciable Lives (Years)
Park Terrace	San Antonio, TX	-	360	987	434	360	1,421	1,781	190	1/1/97	5-30
La Prada	Mesquite, TX	-	495	1,235	103	495	1,338	1,833	176	1/1/97	5-30
NW Highway...........................	Garland, TX	-	480	1,203	60	480	1,263	1,743	165	1/1/97	5-30
Quail Valley	Missouri City, TX	-	360	918	83	360	1,001	1,361	131	1/1/97	5-30
Business Parkway I..................	Richardson, TX	-	799	3,568	269	799	3,837	4,636	606	5/4/98	5-30
The Summit.............................	Plano, TX	-	1,536	6,654	880	1,536	7,534	9,070	1,324	5/4/98	5-30
Northgate II	Dallas, TX	-	1,274	5,505	807	1,274	6,312	7,586	1,097	5/4/98	5-30
Empire Commerce...................	Dallas, TX	-	304	1,545	154	304	1,699	2,003	229	5/4/98	5-30
Royal Tech – Digital	Irving, TX	-	319	1,393	185	319	1,578	1,897	238	5/4/98	5-30
Royal Tech – Springwood	Irving, TX	-	894	3,824	336	894	4,160	5,054	632	5/4/98	5-30
Royal Tech – Regent	Irving, TX	-	606	2,615	639	606	3,254	3,860	529	5/4/98	5-30
Royal Tech – Bldg 7................	Irving, TX	-	246	1,061	-	246	1,061	1,307	163	5/4/98	5-30
Royal Tech – NFTZ.................	Irving, TX	-	1,517	6,499	231	1,517	6,730	8,247	1,063	5/4/98	5-30
Royal Tech – Olympus............	Irving, TX	-	1,060	4,531	9	1,060	4,540	5,600	704	5/4/98	5-30
Royal Tech – Honeywell	Irving, TX	-	548	2,347	167	548	2,514	3,062	382	5/4/98	5-30
Royal Tech – Bldg 12..............	Irving, TX	-	1,466	6,263	9	1,466	6,272	7,738	972	5/4/98	5-30
Royal Tech – Bldg 13..............	Irving, TX	-	955	4,080	167	955	4,247	5,202	665	5/4/98	5-30
Royal Tech – Bldg 14..............	Irving, TX	-	2,010	10,242	2	2,010	10,244	12,254	1,478	5/4/98	5-30
Royal Tech – Bldg 15..............	Irving, TX	-	1,307	5,600	153	1,307	5,753	7,060	832	11/4/98	5-30
Westchase Corporate Park........	Houston, TX	-	2,173	7,338	62	2,173	7,400	9,573	396	12/30/99	5-30
Ben White 1.............................	Austin, TX	-	789	3,571	23	789	3,594	4,383	437	12/31/98	5-30
Ben White 5.............................	Austin, TX	-	761	3,444	82	761	3,526	4,287	429	12/31/98	5-30
McKalla 3................................	Austin, TX	-	662	2,994	119	662	3,113	3,775	379	12/31/98	5-30
McKalla 4................................	Austin, TX	-	749	3,390	44	749	3,434	4,183	429	12/31/98	5-30
Mopac 6..................................	Austin, TX	-	307	1,390	118	307	1,508	1,815	187	12/31/98	5-30
Waterford A.............................	Austin, TX	-	597	2,752	1	597	2,753	3,350	314	1/06/99	5-30
Waterford B.............................	Austin, TX	-	367	1,672	1	367	1,673	2,040	153	5/20/99	5-30
Waterford C.............................	Austin, TX	-	1,144	5,225	6	1,144	5,231	6,375	481	5/20/99	5-30
McNeil 6..................................	Austin, TX	-	437	2,013	-	437	2,013	2,450	230	1/6/9	5-30
Rutland 11...............................	Austin, TX	-	325	1,536	-	325	1,536	1,861	172	1/6/99	5-30
Rutland 12...............................	Austin, TX	-	535	2,487	54	535	2,541	3,076	301	1/6/99	5-30
Rutland 13...............................	Austin, TX	-	469	2,190	30	469	2,220	2,689	252	1/6/99	5-30
Rutland 14...............................	Austin, TX	-	535	2,422	78	535	2,500	3,035	308	12/31/98	5-30
Rutland 19...............................	Austin, TX	-	158	762	133	158	895	1,053	103	1/6/99	5-30
Royal Tech - Bldg 16	Irving, TX	-	2,464	2,703	2,000	2,464	4,703	7,167	150	7/1/99	5-30
Monroe Business Center..........	Herndon, VA	-	5,926	13,944	1,268	5,926	15,212	21,138	2,200	8/1/97	5-30
Lusk II-R&D............................	San Diego, CA	-	1,077	2,644	68	1,077	2,712	3,789	271	3/17/98	5-30
Lusk II-Office..........................	San Diego, CA	-	1,230	3,005	371	1,230	3,376	4,606	350	3/17/98	5-30
Norris Cn-Office......................	San Ramon, CA	-	1,486	3,642	263	1,486	3,905	5,391	397	3/17/98	5-30

PS BUSINESS PARKS, INC.
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2000
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			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition	Gross Amount at Which Carried at December 31, 2000					
Description	Location	Encumbrances	Land	Buildings and Improvements	Buildings and Improvements	Land	Buildings and Improvements	Totals	Accumulated Depreciation	Date Acquired	Depreciable Lives (Years)
Northpointe D	Sterling, VA	1,589	787	2,857	21	787	2,878	3,665	409	6/11/98	5-30
Monroe II	Herndon, VA	2,022	811	4,967	280	811	5,247	6,058	619	1/29/99	5-30
1364 Marion Court	City of Industry, CA	-	285	897	-	285	897	1,182	1	12/21/00	5-30
1361 Marion Court	City of Industry, CA	-	335	1,025	-	335	1,025	1,360	1	12/21/00	5-30
1365 Darius Court	City of Industry, CA	-	264	833	-	264	833	1,097	1	12/21/00	5-30
1350 Bixby Drive	City of Industry, CA	-	203	665	-	203	665	868	1	12/21/00	5-30
1285 Bixby Drive	City of Industry, CA	-	133	484	-	133	484	617	1	12/21/00	5-30
16651 Johnson Drive	City of Industry, CA	-	268	832	-	268	832	1,100	1	12/21/00	5-30
16666 Johnson Drive	City of Industry, CA	-	281	866	-	281	866	1,147	1	12/21/00	5-30
16644 Johnson Drive	City of Industry, CA	-	274	848	-	274	848	1,122	1	12/21/00	5-30
16622 Johnson Drive	City of Industry, CA	-	234	745	-	234	745	979	1	12/21/00	5-30
1320 Johnson Drive	City of Industry, CA	-	142	528	-	142	528	670	1	12/21/00	5-30
1310 Johnson Drive	City of Industry, CA	-	198	672	-	198	672	870	1	12/21/00	5-30
1315 Johnson Drive	City of Industry, CA	-	269	854	-	269	854	1,123	1	12/21/00	5-30
1295 Johnson Drive	City of Industry, CA	-	273	867	-	273	867	1,140	1	12/21/00	5-30
1265 Johnson Drive	City of Industry, CA	-	273	867	-	273	867	1,140	1	12/21/00	5-30
Kearny Mesa-Office	San Diego, CA	-	785	1,933	513	785	2,446	3,231	255	3/17/98	5-30
Kearny Mesa-R&D	San Diego, CA	-	2,109	5,156	48	2,109	5,204	7,313	505	3/17/98	5-30
Bren Mar-Office	Alexandria, VA	-	572	1,401	549	572	1,950	2,522	263	3/17/98	5-30
Lusk III	San Diego, CA	-	1,904	4,662	144	1,904	4,806	6,710	473	3/17/98	5-30
Bren Mar-R&D	Alexandria, VA	-	1,625	3,979	78	1,625	4,057	5,682	388	3/17/98	5-30
Alban Road-Office	Springfield, VA	-	988	2,418	663	988	3,081	4,069	321	3/17/98	5-30
Alban Road-R&D	Springfield, VA	-	947	2,318	128	947	2,446	3,393	238	3/17/98	5-30
		$30,971	$214,020	$663,953	$45,375	$214,020	$709,328	$923,348	$83,841		

PS BUSINESS PARKS, INC.
EXHIBIT 12
STATEMENT RE: COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

	Years Ended December 31,				
	2000	1999	1998	1997	1996
Net income	$51,181,000	$41,255,000	$29,400,000	$ 3,836,000	$ 519,000
Minority interest	26,741,000	16,049,000	11,208,000	8,566,000	-
Interest expense	1,481,000	3,153,000	2,361,000	1,000	-
Earnings available to cover fixed charges	$79,403,000	$60,457,000	$42,969,000	$12,403,000	$ 519,000
Fixed charges (1)	$ 2,896,000	$ 4,142,000	$ 2,629,000	$ 1,000	$ -
Preferred distributions	17,273,000	7,562,000	-	-	-
Combined fixed charges and preferred distributions	$20,169,000	$11,704,000	$ 2,629,000	$ 1,000	$ -
Ratio of earnings to fixed charges	27.42	14.60	16.34	12,403	N/A
Ratio of earnings to combined fixed charges and preferred distributions	3.94	5.17	16.34	12,403	N/A

Supplemental disclosure of Ratio of Funds from Operations (“FFO”) to fixed charges:

	Years Ended December 31,				
	2000	1999	1998	1997	1996
FFO	$85,977,000	$76,353,000	$57,430,000	$17,597,000	$ 303,000
Interest expense	1,481,000	3,153,000	2,361,000	1,000	-
Minority interest in income – preferred units	12,185,000	4,156,000	-	-	-
Preferred dividends	5,088,000	3,406,000	-	-	-
Adjusted FFO available to cover fixed charges	$104,731,000	$87,068,000	$59,791,000	$17,598,000	$ 303,000
Fixed charges (1)	$ 2,896,000	$ 4,142,000	$ 2,629,000	$ 1,000	$ -
Preferred distributions	17,273,000	7,562,000	-	-	-
Combined fixed charges and preferred distributions	$20,169,000	$11,704,000	$ 2,629,000	$ 1,000	$ -
Ratio of FFO to fixed charges	36.16	21.02	22.74	17,598	N/A
Ratio of FFO to combined fixed charges and preferred distributions	5.19	7.44	22.74	17,598	N/A

(1) Fixed charges include interest expense plus capitalized interest.

EXHIBIT 23

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-48313) of PS Business Parks, Inc. pertaining to the PS Business Parks, Inc. 1997 Stock Option and Incentive Plan, the Registration Statement on Form S-8 (No. 333-50274) of PS Business Parks, Inc. pertaining to the PS 401(k)/Profit Sharing Plan and the Registration Statement on Form S-3 (No. 333-78627) and in the related prospectus of our report dated February 14, 2001 with respect to the consolidated financial statements and schedule of PS Business Parks, Inc. included in the Annual Report (Form 10-K) for the year ended December 31, 2000 filed with the Securities and Exchange Commission.

/s/ ERNST & YOUNG LLP

Los Angeles, California
March 16, 2001