PS BUSINESS PARKS, INC.
1999 Third Quarter Report

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To Our Shareholders

Your Company continued to achieve strong operating results during the third quarter. "Same Park" operations combined with better than expected results from our acquired properties resulted in reasonable growth in funds from operations ("FFO"). The Company was also active in the capital markets. From April 23, 1999 through September 23, 1999, the Company raised additional capital in the form of perpetual preferred stock and preferred units in its operating partnership. The Company issued $188 million of preferred stock and preferred operating partnership units in four separate transactions with a weighted average dividend yield of approximately 8.93%. The issuances provide a high level of financial flexibility in uncertain capital markets. The Company will continue its disciplined approach to acquisitions despite the short-term dilutive effect of its current cash position.

Financial Results

Third quarter financial results reflected increased revenues and net operating income ("NOI") from "Same Park" facilities and the successful integration of the properties acquired over the last twelve months. The Company's "Same Park" operations continued to benefit from strong demand resulting in increased rates and occupancies. The Company also continues to rationalize its cost structure through improving economies of scale and operating efficiencies, resulting in improving gross margins.

Net income for the third quarter of 1999 was $9.4 million or $0.40 per share on revenues of $33.3 million compared to net income of $9.7 million or $0.41 per share on revenues of $26.3 million for the same period in 1998. Net income for the nine months ended September 30, 1999 was $28.2 million or $1.19 per share on revenues of $93.8 million compared to net income of $21.1 million or $1.17 per share on revenues of $63.0 million for the same period in 1998.

FFO for the third quarter of 1999 were $19.4 million or $0.62 per share compared to $16.7 million or $0.54 per share for the same period in 1998. This represents an increase of 14.8% in FFO per share based on 31.2 million and 31.1 million weighted average shares outstanding during the third quarter of 1999 and 1998, respectively. FFO for the nine months ended September 30, 1999 were $56.8 million or $1.83 per share compared to $40.3 million or $1.59 per share for the same period in 1998. This represents an increase of 15.1% in FFO per share based on 31.1 million and 25.4 million weighted average shares outstanding for the nine months ended September 30, 1999 and 1998, respectively.

"Same Park" Performance Remains on Strong Pace

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 currently has an ownership interest (herein referred to as the "Same Park" facilities) have been managed by the Company since January 1998. The following tables summarize the pre-depreciation historical operating results of the "Same Park" facilities excluding the effects of accounting for rental income on a straight-line basis. The "Same Park" facilities represent approximately 60% of the square footage of the Company's portfolio at September 30, 1999.

“Same Park” Facilities (62 Properties)

	Three months ended September 30,		
	1999	1998	Change
Rental income [1]	$18,697,000	$17,216,000	8.6%
Cost of operations	5,896,000	5,869,000	0.5%
Net operating income	$12,801,000	$11,347,000	12.8%
Gross margin [2]	68.5%	65.9%	2.6%
Weighted average for period:			
Occupancy	96.7%	95.3%	1.4%
Annualized realized rent per sq. ft.[3]	$10.74	$10.03	7.1%

	Nine months ended September 30,		
	1999	1998 [4]	Change
Rental income [1]	$54,025,000	$49,824,000	8.4%
Cost of operations	16,944,000	16,583,000	2.2%
Net operating income	$37,081,000	$33,241,000	11.6%
Gross margin [2]	68.6%	66.7%	1.9%
Weighted average for period:			
Occupancy	96.7%	94.4%	2.3%
Annualized realized rent per sq. ft.[3]	$10.34	$9.77	5.8%

(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 nine months ended September 30, 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.

On a “Same Park” basis, rental income increased 8.6% from approximately $17.2 million to $18.7 million for the third quarter of 1999 compared to the same period in 1998. Net operating income increased 12.8% from approximately $11.3 million to $12.8 million for the third quarter of 1999 compared to the same period in 1998. Improved “Same Park” operations for the third quarter of 1999 are due primarily to a 1.4% increase in occupancy levels and a 7.1% increase in rental rates offset by a moderate increase in expenses.

Rental income increased 8.4% from approximately $49.8 million to $54.0 million for the nine months ended September 30, 1999 compared to the same period in 1998. Net operating income increased 11.6% from approximately $33.2 million to $37.1 million for the nine months ended September 30, 1999 compared to the same period in 1998. Improved “Same Park” operations for the nine months ended September 30, 1999 are due primarily to a 2.3% increase in occupancy levels and a 5.8% increase in rental rates offset by a moderate increase in expenses.

Preferred Stock/Unit Offerings

The Company continued to pursue its financial strategy of injecting leverage into the balance sheet through the issuance of perpetual preferred stock and units. In addition, the Company continues to maintain the financial flexibility to be able to take advantage of opportunities. From April 23, 1999 through September 23, 1999, the Company raised approximately $188 million of perpetual preferred stock and preferred operating partnership units in four separate transactions with a weighted average distribution rate of approximately 8.93%.

These issuances included two transactions in April totaling approximately $68 million and two separate private placements of preferred operating partnership units totaling $120 million in September 1999. These financings position the Company for continued growth in a period of uncertainty in the capital markets. Subsequent to the September placements, the Company had approximately $119 million of cash available for investment. Proceeds from the issuances were used to pay off borrowings from an affiliate of approximately $28 million and mortgage notes payable of approximately $19.5 million.

Line of Credit Extension

The Company’s line of credit, which was scheduled to expire in August 2000, has been extended through August 2002. Borrowings under the renewed line of credit bear interest at LIBOR plus 1.00% (previously LIBOR plus 0.80%).

Property Acquisitions

The Company continues to build its presence in existing markets with a disciplined approach to acquisitions.

During the third quarter of 1999, the Company acquired a 211,000 square foot office/flex building in Sacramento, California for approximately $17 million. The Company realized $430,000 in rental income and $301,000 in net operating income from this acquisition during the quarter.

During the nine months ended September 30, 1999, the Company added 922,000 square feet to its portfolio at a cost of approximately $80 million. These acquisitions increased the Company’s presence in existing markets, which the Company believes have the characteristics necessary for long-term growth. The Company acquired 306,000 square feet in Texas for approximately $23 million, 405,000 square feet in the Northern Virginia/Maryland market for approximately $40 million and 211,000 square feet in Northern California for approximately $17 million.

Development

The Company continues to develop office and flex properties that are located within or adjacent to existing parks. The properties are being developed using the expertise of local development companies on a fee basis. During the third quarter, the Company began development of a 136,000 square foot flex building in Northern Virginia. In addition, the Company began development of a 22,000 square foot building in Portland, Oregon, which is 50% pre-leased to an existing tenant in the park. These developments are expected to be completed during the fourth quarter of 2000 at an aggregate cost of approximately $16 million. Interest expense of $174,000 and $585,000 for the three and nine months ended September 30, 1999 was capitalized as part of building costs associated with these properties and completed developments.

In June 1999, the Company completed a 61,000 square foot flex facility in its Las Colinas park, located in the Dallas area. In July 1999, the Company completed a 70,000 square foot office building in its Woodside park located in the Portland area. There was no pre-leasing on either development. In August 1999, the Dallas facility was 100% leased to facilitate the expansion of an existing tenant. There is substantial activity at the Portland facility and management expects stabilized occupancy levels by the end of the first quarter in 2000.

Additional information about PS Business Parks, Inc. including the financial analysis of the third quarter's operating results is available on the Internet. The Company's web site is www.psbusinessparks.com.

Thank you for your continued support.

Ronald L. Havner, Jr.
Chairman of the Board

December 31, 1999

PS BUSINESS PARKS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 1999	December 31, 1998
	(unaudited)	
ASSETS		
Cash and cash equivalents	$ 118,988,000	$ 6,068,000
Real estate facilities, at cost:		
Land	192,352,000	176,241,000
Buildings and equipment	623,585,000	536,697,000
	815,937,000	712,938,000
Accumulated depreciation	(43,932,000)	(22,517,000)
	772,005,000	690,421,000
Construction in progress	7,137,000	7,716,000
	779,142,000	698,137,000
Receivables	295,000	242,000
Deferred rent receivables	4,630,000	2,086,000
Intangible assets, net	1,357,000	1,583,000
Other assets	1,975,000	1,298,000
Total assets	$ 906,387,000	$ 709,414,000

LIABILITIES AND SHAREHOLDERS' EQUITY

	September 30, 1999	December 31, 1998
Accrued and other liabilities	$ 19,210,000	$ 15,953,000
Line of credit	-	12,500,000
Mortgage notes payable	45,828,000	38,041,000
Total liabilities	65,038,000	66,494,000
Minority interests:		
Preferred units	132,750,000	-
Common units	156,210,000	153,015,000
Shareholders' equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, 2,200 shares issued and outstanding at September 30, 1999 (none issued and outstanding at December 31, 1998)	55,000,000	-
Common stock, $0.01 par value, 100,000,000 shares authorized, 23,645,461 shares issued and outstanding at September 30, 1999 (23,635,650 shares issued and outstanding at December 31, 1998)	236,000	236,000
Paid-in capital	479,466,000	482,471,000
Cumulative net income	62,906,000	32,554,000
Cumulative distributions	(45,219,000)	(25,356,000)
Total shareholders' equity	552,389,000	489,905,000
Total liabilities and shareholders' equity	$ 906,387,000	$ 709,414,000

PS BUSINESS PARKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	1999	1998	1999	1998
Revenues:				
Rental income	$ 32,568,000	$ 25,635,000	$ 92,544,000	$ 61,459,000
Facility management fees from affiliates	121,000	109,000	351,000	440,000
Interest and other income	592,000	533,000	885,000	1,077,000
	33,281,000	26,277,000	93,780,000	62,976,000
Expenses:				
Cost of operations	8,920,000	7,379,000	25,951,000	18,361,000
Cost of facility management	24,000	12,000	70,000	49,000
Depreciation and amortization	7,594,000	4,865,000	21,641,000	11,421,000
General and administrative	742,000	593,000	2,339,000	1,589,000
Interest expense	977,000	667,000	2,658,000	1,736,000
	18,257,000	13,516,000	52,659,000	33,156,000
Income before minority interest	15,024,000	12,761,000	41,121,000	29,820,000
Minority interest in income – preferred units	(1,022,000)	-	(1,236,000)	-
Minority interest in income – common units	(3,347,000)	(3,013,000)	(9,533,000)	(8,696,000)
Net income	$ 10,655,000	$ 9,748,000	$ 30,352,000	$ 21,124,000
Net income allocation:				
Allocable to preferred shareholders	$ 1,272,000	$ -	$ 2,134,000	$ -
Allocable to common shareholders	9,383,000	9,748,000	28,218,000	21,124,000
	$ 10,655,000	$ 9,748,000	$ 30,352,000	$ 21,124,000
Net income per common share:				
Basic	$ 0.40	$ 0.41	$ 1.19	$ 1.18
Diluted	$ 0.40	$ 0.41	$ 1.19	$ 1.17
Weighted average common shares outstanding:				
Basic	23,641,000	23,636,000	23,639,000	17,920,000
Diluted	23,724,000	23,696,000	23,713,000	17,990,000

PS BUSINESS PARKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the nine months ended September 30, 1999	1998
Cash flows from operating activities:		
Net income	$ 30,352,000	$ 21,124,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	21,641,000	11,421,000
Minority interest in income	10,769,000	8,696,000
Increase in receivables and other assets	(3,274,000)	(2,620,000)
Increase in accrued and other liabilities	3,257,000	3,221,000
Total adjustments	32,393,000	20,718,000
Net cash provided by operating activities	62,745,000	41,842,000
Cash flows from investing activities:		
Acquisition of real estate facilities	(59,555,000)	(252,649,000)
Acquisition cost of business combination	-	(424,000)
Capital improvements to real estate facilities	(10,546,000)	(6,030,000)
Construction in progress	(11,567,000)	-
Net cash used in investing activities	(81,668,000)	(259,103,000)
Cash flows from financing activities:		
Borrowings from an affiliate	41,400,000	179,000,000
Repayment of borrowings from an affiliate	(41,400,000)	(182,500,000)
Borrowings from line of credit	14,000,000	-
Repayment of borrowings from line of credit	(26,500,000)	-
Principal payments on mortgage notes payable	(11,932,000)	(343,000)
Net proceeds from the issuance of common stock	161,000	272,112,000
Net proceeds from the issuance of preferred stock	53,086,000	-
Net proceeds from the issuance of preferred operating partnership units	129,695,000	-
Distributions paid to preferred shareholders	(2,134,000)	-
Distributions paid to common shareholders	(17,729,000)	(15,897,000)
Distributions paid to minority interests – preferred	(1,236,000)	-
Distributions paid to minority interests – common	(5,568,000)	(6,248,000)
Net cash provided by financing activities	131,843,000	246,124,000
Net increase in cash and cash equivalents	112,920,000	28,863,000
Cash and cash equivalents at the beginning of the period	6,068,000	3,884,000
Cash and cash equivalents at the end of the period	$118,988,000	$ 32,747,000