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

FORM 10-Q

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2020

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)	(I.R.S. Employer Identification Number)

701 Western Avenue, Glendale, California 91201-2349
(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	Ticker Symbol	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value per share	PSB	New York Stock Exchange
Depositary Shares Each Representing 1/1,000 of a 5.200% Cum Pref Stock, Series W, $0.01 par value	PSBPrW	New York Stock Exchange
Depositary Shares Each Representing 1/1,000 of a 5.250% Cum Pref Stock, Series X, $0.01 par value	PSBPrX	New York Stock Exchange
Depositary Shares Each Representing 1/1,000 of a 5.200% Cum Pref Stock, Series Y, $0.01 par value	PSBPrY	New York Stock Exchange
Depositary Shares Each Representing 1/1,000 of a 4.875% Cum Pref Stock, Series Z, $0.01 par value	PSBPrZ	New York Stock Exchange

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 ☒ **No** ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes ☒ **No** ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
☒	☐	☐	☐	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ☐ **No** ☒

As of July 31, 2020, the number of shares of the registrant's common stock, $0.01 par value per share, outstanding was 27,482,494.

PS BUSINESS PARKS, INC.
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PART I. FINANCIAL INFORMATION

ITEM 1. ***FINANCIAL STATEMENTS***

PS BUSINESS PARKS, INC.
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share data)

	June 30, 2020		December 31, 2019	
	(Unaudited)			
ASSETS				
Cash and cash equivalents	$	98,841	$	62,786
Real estate facilities, at cost				
Land		855,542		844,419
Buildings and improvements		2,220,562		2,203,308
		3,076,104		3,047,727
Accumulated depreciation		(1,201,821)		(1,158,489)
		1,874,283		1,889,238
Properties held for sale, net		3,716		15,264
Land and building held for development, net		29,899		28,110
		1,907,898		1,932,612
Rent receivable		2,779		1,392
Deferred rent receivable		36,204		32,993
Other assets		10,758		16,660
Total assets	$	2,056,480	$	2,046,443
LIABILITIES AND EQUITY				
Accrued and other liabilities	$	84,185	$	84,632
Total liabilities		84,185		84,632
Commitments and contingencies				
Equity				
PS Business Parks, Inc.'s shareholders' equity				
Preferred stock, $0.01 par value, 50,000,000 shares authorized, 37,790 shares issued and outstanding at ($944,750 aggregate liquidation preference) June 30, 2020 and December 31, 2019		944,750		944,750
Common stock, $0.01 par value, 100,000,000 shares authorized, 27,481,486 and 27,440,953 shares issued and outstanding at June 30, 2020 and December 31, 2019, respectively		274		274
Paid-in capital		735,129		736,986
Accumulated earnings		73,524		63,666
Total PS Business Parks, Inc.'s shareholders' equity		1,753,677		1,745,676
Noncontrolling interests		218,618		216,135
Total equity		1,972,295		1,961,811
Total liabilities and equity	$	2,056,480	$	2,046,443

See accompanying notes.

PS BUSINESS PARKS, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Amounts in thousands, except per share data)
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
Rental income	$ 100,559	$ 107,782	$ 206,775	$ 215,607
Expenses				
Cost of operations	30,131	31,460	61,394	65,053
Depreciation and amortization	22,963	24,768	49,582	49,643
General and administrative	3,004	2,827	6,327	6,060
Total operating expenses	56,098	59,055	117,303	120,756
Interest and other income	225	764	782	1,382
Interest and other expense	(203)	(118)	(364)	(285)
Gain on sale of real estate facility	—	—	19,621	—
Net income	44,483	49,373	109,511	95,948
Allocation to noncontrolling interests	(6,795)	(7,623)	(17,887)	(14,650)
Net income allocable to PS Business Parks, Inc.	37,688	41,750	91,624	81,298
Allocation to preferred shareholders	(12,047)	(12,959)	(24,093)	(25,918)
Allocation to restricted stock unit holders	(119)	(212)	(394)	(480)
Net income allocable to common shareholders	$ 25,522	$ 28,579	$ 67,137	$ 54,900
Net income per common share				
Basic	$ 0.93	$ 1.04	$ 2.44	$ 2.00
Diluted	$ 0.93	$ 1.04	$ 2.44	$ 2.00
Weighted average common shares outstanding				
Basic	27,479	27,426	27,464	27,400
Diluted	27,560	27,532	27,557	27,505

See accompanying notes.

PS BUSINESS PARKS, INC.
CONSOLIDATED STATEMENTS OF EQUITY
(Amounts in thousands, except share data)
(Unaudited)

For the three months ended June 30, 2020	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Paid-in Capital	Accumulated Earnings	Total PS Business Parks, Inc.'s Shareholders' Equity	Noncontrolling Interests	Total Equity
Balances at March 31, 2020	37,790	$ 944,750	27,477,303	$ 274	$ 734,091	$ 76,739	$ 1,755,854	$ 219,518	$ 1,975,372
Issuance of common stock in connection with stock-based compensation	—	—	4,183	—	259	—	259	—	259
Stock compensation, net	—	—	—	—	784	—	784	—	784
Cash paid for taxes in lieu of shares upon vesting of restricted stock units	—	—	—	—	(5)	—	(5)	—	(5)
Net income	—	—	—	—	—	37,688	37,688	6,795	44,483
Distributions									
Preferred stock (Note 8)	—	—	—	—	—	(12,047)	(12,047)	—	(12,047)
Common stock ($1.05 per share)	—	—	—	—	—	(28,856)	(28,856)	—	(28,856)
Noncontrolling interests—									
Common Units	—	—	—	—	—	—	—	(7,670)	(7,670)
Joint Venture	—	—	—	—	—	—	—	(25)	(25)
Balances at June 30, 2020	37,790	$ 944,750	27,481,486	$ 274	$ 735,129	$ 73,524	$ 1,753,677	$ 218,618	$ 1,972,295
For the three months ended June 30, 2019									
Balances at March 31, 2019	38,390	$ 959,750	27,417,909	$ 274	$ 732,955	$ 67,059	$ 1,760,038	$ 216,237	$ 1,976,275
Issuance of common stock in connection with stock-based compensation	—	—	11,847	—	304	—	304	—	304
Stock compensation, net	—	—	—	—	706	—	706	—	706
Cash paid for taxes in lieu of shares upon vesting of restricted stock units	—	—	—	—	(6)	—	(6)	—	(6)
Net income	—	—	—	—	—	41,750	41,750	7,623	49,373
Distributions									
Preferred stock (Note 8)	—	—	—	—	—	(12,959)	(12,959)	—	(12,959)
Common stock ($1.05 per share)	—	—	—	—	—	(28,801)	(28,801)	—	(28,801)
Noncontrolling interests—									
Common Units	—	—	—	—	—	—	—	(7,670)	(7,670)
Joint Venture	—	—	—	—	—	—	—	(45)	(45)
Adjustment to noncontrolling interests—common units in the OP	—	—	—	—	(182)	—	(182)	182	—
Balances at June 30, 2019	38,390	$ 959,750	27,429,756	$ 274	$ 733,777	$ 67,049	$ 1,760,850	$ 216,327	$ 1,977,177

See accompanying notes.

PS BUSINESS PARKS, INC.
CONSOLIDATED STATEMENTS OF EQUITY
(Amounts in thousands, except share data)
(Unaudited)

For the six months ended June 30, 2020	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Paid-in Capital	Accumulated Earnings	Total PS Business Parks, Inc.'s Shareholders' Equity	Noncontrolling Interests	Total Equity
Balances at December 31, 2019	37,790	$ 944,750	27,440,953	$ 274	$ 736,986	$ 63,666	$ 1,745,676	$ 216,135	$ 1,961,811
Issuance of common stock in connection with stock-based compensation	—	—	40,533	—	259	—	259	—	259
Stock compensation, net	—	—	—	—	1,544	—	1,544	—	1,544
Cash paid for taxes in lieu of shares upon vesting of restricted stock units	—	—	—	—	(3,660)	—	(3,660)	—	(3,660)
Net income	—	—	—	—	—	91,624	91,624	17,887	109,511
Distributions									
Preferred stock (Note 8)	—	—	—	—	—	(24,093)	(24,093)	—	(24,093)
Common stock ($2.10 per share)	—	—	—	—	—	(57,673)	(57,673)	—	(57,673)
Noncontrolling interests—									
Common Units	—	—	—	—	—	—	—	(15,341)	(15,341)
Joint Venture	—	—	—	—	—	—	—	(63)	(63)
Balances at June 30, 2020	37,790	$ 944,750	27,481,486	$ 274	$ 735,129	$ 73,524	$ 1,753,677	$ 218,618	$ 1,972,295
For the six months ended June 30, 2019									
Balances at December 31, 2018	38,390	$ 959,750	27,362,101	$ 274	$ 736,131	$ 69,207	$ 1,765,362	$ 218,091	$ 1,983,453
Issuance of common stock in connection with stock-based compensation	—	—	67,655	—	709	—	709	—	709
Stock compensation, net	—	—	—	—	1,409	—	1,409	—	1,409
Cash paid for taxes in lieu of shares upon vesting of restricted stock units	—	—	—	—	(5,500)	—	(5,500)	—	(5,500)
Net income	—	—	—	—	—	81,298	81,298	14,650	95,948
Distributions									
Preferred stock (Note 8)	—	—	—	—	—	(25,918)	(25,918)	—	(25,918)
Common stock ($2.10 per share)	—	—	—	—	—	(57,538)	(57,538)	—	(57,538)
Noncontrolling interests—									
Common Units	—	—	—	—	—	—	—	(15,341)	(15,341)
Joint Venture	—	—	—	—	—	—	—	(45)	(45)
Adjustment to noncontrolling interests—common units in the OP	—	—	—	—	1,028	—	1,028	(1,028)	—
Balances at June 30, 2019	38,390	$ 959,750	27,429,756	$ 274	$ 733,777	$ 67,049	$ 1,760,850	$ 216,327	$ 1,977,177

See accompanying notes.

PS BUSINESS PARKS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, amounts in thousands)

	For the Six Months Ended June 30, 2020	For the Six Months Ended June 30, 2019
Cash flows from operating activities		
Net income	$ 109,511	$ 95,948
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization expense	49,582	49,643
Tenant improvement reimbursement amortization, net of lease incentive amortization	(392)	(663)
Gain on sale of real estate facility	(19,621)	—
Stock compensation expense	1,873	1,889
Amortization of financing costs	273	272
Other, net	1,095	(5,920)
Total adjustments	32,810	45,221
Net cash provided by operating activities	142,321	141,169
Cash flows from investing activities		
Capital expenditures to real estate facilities	(16,038)	(17,503)
Capital expenditures to land and building held for development	(4,995)	(993)
Acquisition of real estate facility	(13,423)	(13,736)
Proceeds from sale of real estate facility	29,266	—
Net cash used in investing activities	(5,190)	(32,232)
Cash flows from financing activities		
Payment of financing costs	(176)	(157)
Proceeds from the exercise of stock options	259	709
Cash paid for taxes in lieu of shares upon vesting of restricted stock units	(3,660)	(5,500)
Cash paid to restricted stock unit holders	(329)	(480)
Distributions paid to preferred shareholders	(24,093)	(25,918)
Distributions paid to common shareholders	(57,673)	(57,538)
Distributions paid to noncontrolling interests—common units	(15,341)	(15,341)
Distributions paid to noncontrolling interests—joint venture	(63)	(45)
Net cash used in financing activities	(101,076)	(104,270)
Net increase in cash and cash equivalents	36,055	4,667
Cash, cash equivalents and restricted cash at the beginning of the period	63,874	38,467
Cash, cash equivalents and restricted cash at the end of the period	$ 99,929	$ 43,134
Supplemental schedule of non-cash investing and financing activities		
Adjustment to noncontrolling interests—common units in the OP		
Noncontrolling interests—common units	$ —	$ (1,028)
Paid-in capital	$ —	$ 1,028

See accompanying notes.

PS BUSINESS PARKS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2020

1. Organization and description of business

Organization

PS Business Parks, Inc. ("PSB") was incorporated in the state of California in 1990. As of June 30, 2020, PSB owned 79.0% of the common partnership units of PS Business Parks, L.P. (the "OP"). The remaining common partnership units are owned by Public Storage ("PS"). PS's interest in the OP is referred to as the "PS OP Interests." PSB, as the sole general partner of the OP, has full, exclusive and complete responsibility and discretion in managing and controlling the OP. PSB and its subsidiaries, including the OP and our consolidated joint venture that owns a 395-unit multifamily apartment complex in Tysons, Virginia, are collectively referred to as the "Company," "we," "us," or "our." PS also owns 7.2 million common shares and would own 41.6% (or 14.5 million shares) of the outstanding shares of the Company's common stock if it redeemed its common partnership units for common shares.

Description of business

The Company is a fully-integrated, self-advised and self-managed real estate investment trust ("REIT") that owns, operates, acquires and develops commercial properties, primarily multi-tenant industrial, flex and office space. As of June 30, 2020, the Company owned and operated 27.5 million rentable square feet of commercial space in six states, comprising of 97 parks and 674 buildings, and held a 95.0% interest in a 395-unit multifamily apartment complex in Tysons, Virginia. The Company also manages for a fee approximately 438,000 rentable square feet on behalf of PS.

2. Summary of significant accounting policies

Basis of presentation

The accompanying unaudited consolidated financial statements include the accounts of PSB and its subsidiaries, including the OP and our consolidated joint venture. All significant inter-company balances and transactions have been eliminated in the consolidated financial statements. The financial statements are presented on an accrual basis in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information, instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for audited financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2020 are not necessarily indicative of the results that may be expected for the year ended December 31, 2020. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

Consolidation and equity method of accounting

We consider entities to be Variable Interest Entities ("VIEs") when they have insufficient equity to finance their activities without additional subordinated financial support provided by other parties, or the equity holders as a group do not have a controlling financial interest. A limited partnership is also generally considered a VIE if the limited partners do not participate in operating decisions. We consolidate VIEs when we are the primary beneficiary, generally defined as having (i) the power to direct the activities most significantly impacting economic performance and (ii) either the obligation to absorb losses or the right to receive benefits from the VIE.

We account for investments in entities that are not VIEs that we have significant influence over, but do not control, using the equity method of accounting and for investment in entities that we control, we consolidate. We consolidate our joint venture that owns a 395-unit multifamily apartment complex located in Tysons, Virginia. See Note 3 for more information on this entity.

PS, the sole limited partner in the OP, has no power to direct the activities of the OP. We are the primary beneficiary of the OP. Accordingly, we consider the OP a VIE and consolidate it. Substantially all of our assets and liabilities are held by the OP.

Noncontrolling interests

Noncontrolling interests represent (i) PS's noncontrolling interest in the OP through its ownership of 7,305,355 common partnership units and (ii) a third-party 5.0% interest in our consolidated joint venture owning a 395-unit multifamily apartment complex. See Note 6 for further information on noncontrolling interests.

Use of estimates

The preparation of the consolidated financial statements in conformity with GAAP 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 these estimates.

Financial instruments

The methods and assumptions used to estimate the fair value of financial instruments are 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 necessarily indicative of the amounts that could be realized in current market exchanges. The Company determines the estimated fair value of financial assets and liabilities utilizing a hierarchy of valuation techniques based on whether the inputs to a fair value measurement are considered to be observable or unobservable in a marketplace. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. This hierarchy requires the use of observable market data when available. The following is the fair value hierarchy:

- *Level 1*—quoted prices for identical instruments in active markets;
- *Level 2*—quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and
- *Level 3*—fair value measurements derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Financial assets that are exposed to credit risk consist primarily of cash equivalents and receivables. The Company considers all highly liquid investments with a remaining maturity of three months or less at the date of purchase to be cash equivalents. Cash and cash equivalents, which consist primarily of money market investments, are only invested in entities with an investment grade rating. Receivables are comprised of balances due from various customers. Balances that the Company expects to become uncollectible are written off. Due to the short period to maturity of the Company's 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.

Carrying values of the Company's Credit Facility (as defined in Note 5) approximate fair value. The characteristics of these financial instruments, market data and other comparative metrics utilized in determining these fair values are "Level 2" inputs.

The following table provides a reconciliation of cash, cash equivalents and restricted cash per the consolidated statements of cash flow to the corresponding financial statement line items in the consolidated balance sheets *(in thousands)*:

	December 31,			
	2019		2018	
Consolidated balance sheets				
Cash and cash equivalents	$	62,786	$	37,379
Restricted cash included in				
Land and building held for development, net		1,088		1,088
Cash and cash equivalents and restricted cash at the end of the period	$	63,874	$	38,467

	June 30,			
	2020		2019	
Consolidated balance sheets				
Cash and cash equivalents	$	98,841	$	42,046
Restricted cash included in				
Land and building held for development, net		1,088		1,088
Cash and cash equivalents and restricted cash at the end of the period	$	99,929	$	43,134

Real estate facilities

Real estate facilities are recorded at cost. Property taxes, insurance, interest and costs essential to the development of property for its intended use are capitalized during the period of development. Direct costs related to the renovation or improvement of the properties are capitalized. Expenditures for repairs and maintenance are expensed as incurred. Expenditures that are expected to benefit a period greater than two years are capitalized and depreciated over their estimated useful life. Buildings and improvements are depreciated using the straight-line method over their estimated useful lives, which generally range from five to 30 years. Transaction costs, which include tenant improvements and lease commissions, for leases with terms greater than one year are capitalized and depreciated over their estimated useful lives.

Property held for sale or development

Real estate is classified as held for sale when the asset is being marketed for sale or subject to an eminent domain process and we expect that a sale or taking is likely to occur in the next 12 months. Real estate is classified as held for development when it is no longer used in its original form and likely that it will be developed to an alternate use. Property held for sale is not depreciated.

Intangible assets/liabilities

When we acquire real estate facilities, an intangible asset is recorded in other assets for leases where the in-place rent is higher than market rents, and an intangible liability is recorded in other liabilities where the market rents are higher than the in-place rents. The amounts recorded are based upon the present value (using a discount rate which reflects the risks associated with the leases acquired) of such differences over the lease term and such amounts are amortized to rental income over the respective remaining lease term. As of June 30, 2020, the value of above-market in-place rents resulted in net intangible assets of $950,000, net of $10.8 million of accumulated amortization and the value of below-market in-place rents resulted in net intangible liabilities of $2.0 million, net of $11.8 million of accumulated amortization. As of December 31, 2019, the value of above-market in-place rents resulted in net intangible assets of $1.2 million, net of $10.6 million of accumulated amortization and the value of below-market in-place rents resulted in net intangible liabilities of $2.4 million, net of $11.4 million of accumulated amortization.

Additionally, when we acquire real estate facilities, the value of in-place leases (i.e., customer lease-up costs) is recorded in other assets and is amortized to depreciation and amortization expense over the respective remaining lease term. As of June 30, 2020, the value of acquired in-place leases resulted in net intangible assets of $4.0 million, net of $6.0 million of accumulated amortization. As of December 31, 2019, the value of acquired in-place leases resulted in net intangible assets of $5.7 million, net of $4.1 million of accumulated amortization.

As of June 30, 2020, the value of our right-of-use ("ROU") assets relating to our existing ground lease arrangements and the related liability, included in "other assets" on our consolidated balance sheets and the corresponding liability under "accrued and other liabilities," was $1.5 million, net of $135,000 of accumulated amortization. As of December 31, 2019, the value of our ROU assets and related liability relating to our ground lease arrangements was $1.6 million, net of $71,000 of accumulated amortization. These ground leases expire in 2029 and 2030 and do not have options to extend. As of June 30, 2020, the remaining lease terms were 9.3 years and 9.6 years. Lease expense for these ground leases is recognized in the period the applicable costs are incurred, and the monthly lease amount for these operating leases is constant and without contractual increases throughout the remaining terms.

Evaluation of asset impairment

We evaluate our real estate and finite-lived intangible assets for impairment each quarter. If there are indicators of impairment and we determine that the carrying value of the asset is not recoverable from estimated future undiscounted cash flows to be received through the asset's remaining life (or, if earlier, the expected disposal date), we record an impairment charge to the extent the carrying amount exceeds the asset's estimated fair value or net proceeds from expected disposal.

No impairment charges were recorded in any period presented herein.

Stock compensation

Share-based payments to employees, including grants of employee stock options, are recognized as stock compensation expense in the Company's consolidated statements of income based on their grant date fair values, except for performance-based grants, which are accounted for based on their fair values at the beginning of the service period. See Note 10.

Accrued and other liabilities

Accrued and other liabilities consist primarily of rents prepaid by our customers, trade payables, property tax accruals, accrued payroll and contingent loss accruals when probable and estimable, as well as the intangible liabilities discussed above. We disclose the nature of significant unaccrued losses that are reasonably possible of occurring and, if estimable, a range of exposure. The fair value of accrued and other liabilities approximate book value due to the short period until settlement.

Other assets

Other assets are comprised primarily of prepaid expenses, as well as the intangible assets discussed above.

Revenue recognition

We recognize the aggregate rent to be collected (including the impact of escalators and concessions) under leases ratably throughout the non-cancellable lease term on a "straight-line" basis, commencing when the customer takes control of the leased space. Cumulative straight-line rent recognized in excess of amounts billed per the lease term is presented as "deferred rent receivable" on our consolidated balance sheets. The Company presents reimbursements from customers for real estate taxes and other recoverable operating expenses under a single lease component presentation as the timing and pattern of transfer of such reimbursements are the same as base rent, and the combined single component of such leases are classified as operating leases. Accordingly, the Company recognizes such variable

lease payments resulting from the reimbursements from customers for real estate taxes and other recoverable operating expenses as rental income in the period the applicable costs are incurred.

The Company monitors the collectability of its receivable balances, including deferred rent receivable balances, on an ongoing basis. The Company writes off uncollectible customer receivable balances, including deferred rent receivable balances, as a reduction to rental income in the period such balances are no longer probable of being collected. Therefore, recognition of rental income is limited to the amount of cash collected for those customer receivable balances deemed uncollectible.

The Company recognized revenue from our lease arrangements aggregating to $100.6 million and $107.8 million for the three months ended June 30, 2020 and 2019, respectively, and $206.8 million and $215.6 million for the six months ended June 30, 2020 and 2019, respectively. This revenue consisted primarily of rental income from operating leases and the related variable lease payments resulting from reimbursements of property operating expenses. Rental income was $77.4 million and $83.8 million for the three months ended June 30, 2020 and 2019, respectively, and $159.0 million and $166.6 million for the six months ended June 30, 2020 and 2019, respectively. Variable lease payments were $23.2 million and $24.0 million for the three months ended June 30, 2020 and 2019, respectively, and $47.8 million and $49.0 million for the six months ended June 30, 2020 and 2019, respectively.

In April, 2020, the Financial Accounting Standard Board issued a Staff Question-and-Answer ("Lease Modification Q&A") to respond to frequently asked questions about accounting for lease concessions related to the novel coronavirus (“COVID-19”) pandemic. Under existing lease guidance, an entity would have to determine, on a lease by lease basis, if a lease concession contained a lease which would be accounted for under the lease modification framework, or if a lease concession was an enforceable right or obligation that existed in the original lease, which would be accounted for outside the lease modification framework. The Lease Modification Q&A provides that, to the extent that cash flow after the lease concessions are substantially the same, or less than, the cash flow previously required by the existing lease, an entity is not required to evaluate each contract to determine whether a concession provided by a lessor to a lessee in response to the COVID-19 pandemic is a lease modification. Instead, an entity can account for such lease concessions either (i) as if they were part of the enforceable rights and obligations of the parties under the existing lease contract; or (ii) as a lease modification. Based on the Lease Modification Q&A, an entity is not required to account for all lease concessions in response to the COVID-19 pandemic under one elected option; however, the entity is required to apply the elected option consistently to leases with similar characteristics and in similar circumstances.

In accordance with the Lease Modification Q&A, the Company has elected to account for lease concessions in response to the COVID-19 pandemic as a lease modification as the cash flow after these lease concessions is substantially the same, or less than, the cash flow previously required by the existing lease. The Company records rent deferrals and rent abatements in deferred rent receivable in the accompanying consolidated balance sheets and will recognize these amounts over the remainder of the respective lease terms. For lease concessions in response to the COVID-19 pandemic that modified the terms and substantially changed the underlying cash flow of the existing lease for the remaining term, the Company accounts for such concession as a lease modification.

As a result of the COVID-19 pandemic, the Company entered into agreements with 346 customers (representing 9.8% of customers on a percentage of total rental income basis) through which the Company agreed to defer an aggregate of $3.8 million and abate $874,000 of billed rental income during the three months ended June 30, 2020. The $3.8 million of deferred revenue is scheduled to be repaid over an average of 11 months. The Company also wrote-off $1.2 million of accounts receivable and $2.4 million of deferred rent receivable during the three months ended June 30, 2020. The duration and severity of the negative effects of the COVID-19 pandemic on the economy are uncertain and are likely to directly impact collectability of certain customers rent receivable balances in the future. The Company has taken into account current tenant financial conditions which include consideration of COVID-19 in its estimation of its uncollectible accounts and deferred rents receivable at June 30, 2020. The Company is closely monitoring the collectability of such rents and will adjust future estimations as further information is known.

Property management fees are recognized in the period earned as other income.

Sales of real estate facilities

Sales of real estate facilities are not part of our ordinary activities, and as a result, we consider such sales as contracts with non-customers. We recognize sales of real estate when we have collected payment and the attributes of ownership, such as possession and control of the asset, have been transferred to the buyer. If a contract for sale includes obligations to provide goods or services to the buyer, an allocated portion of the contract price is recognized as revenue as the related goods or services are transferred to the buyer.

General and administrative expense

General and administrative expense includes executive and other compensation, corporate office expenses, professional fees, and other such costs that are not directly related to the operation of our real estate facilities.

Income taxes

We have elected to be treated as a REIT, as defined in the Internal Revenue Code of 1986, as amended (the "Code"). As a REIT, we do not incur federal income tax if we distribute substantially all of our "REIT taxable income" each year, and if we meet certain organizational and operational requirements. We believe we have met these REIT requirements for all periods presented herein. Accordingly, we have recorded no federal income tax expense related to our "REIT taxable income."

We recognize tax benefits of uncertain income tax positions that are subject to audit only if we believe it is more likely than not that the position would ultimately be sustained assuming the relevant taxing authorities had full knowledge of the relevant facts and circumstances of our positions. As of June 30, 2020 and December 31, 2019, we did not recognize any tax benefit for uncertain tax positions.

Accounting for preferred equity issuance costs

We record preferred equity issuance costs as a reduction to paid-in capital on our consolidated balance sheets at the time the preferred securities are issued, and reflect the carrying value of the preferred equity at its redemption value. An additional allocation of income is made from the common shareholders to the preferred shareholders in the amount of the original issuance costs, and we reclassify the redemption value from equity to liabilities, when we call preferred shares for redemption, with such liabilities relieved once the preferred shares are redeemed.

Net income per common share

Notwithstanding the presentation of income allocations on our consolidated statements of income, net income is allocated to (a) preferred shareholders, for distributions paid or payable, (b) preferred shareholders, to the extent redemption value exceeds the related carrying value, (c) our joint venture partner in proportion to their percentage interest in the joint venture, to the extent the consolidated joint venture produces net income or loss during the period and (d) restricted stock unit ("RSU") holders, for non-forfeitable dividends paid adjusted for participation rights in undistributed earnings. The remaining net income is allocated to the common partnership units and our common shareholders, respectively, based upon the pro-rata aggregate number of units and shares outstanding.

Basic and diluted net income per common share are each calculated based upon net income allocable to common shareholders, divided by (i) in the case of basic net income per common share, weighted average common shares and (ii) in the case of diluted income per share, weighted average common shares adjusted for the impact of stock compensation awards outstanding (see Note 10) using the treasury stock method.

The following table sets forth the components of our basic and diluted income per share that are not reflected on the face of our consolidated statements of income, including the allocation of income to common shareholders and common partnership units, the percentage of weighted average shares and common partnership units, as well as basic and diluted weighted average shares (*in thousands*):

	For the Three Months Ended June 30,		**For the Six Months Ended June 30,**	
	2020	**2019**	**2020**	**2019**
Calculation of net income allocable to common shareholders				
Net income	$ 44,483	$ 49,373	$ 109,511	$ 95,948
Net income allocated to				
Preferred shareholders based upon distributions	(12,047)	(12,959)	(24,093)	(25,918)
Noncontrolling interests—joint venture	(13)	(10)	(30)	(13)
Restricted stock unit holders	(119)	(212)	(394)	(480)
Net income allocable to common shareholders and noncontrolling interests—common units	32,304	36,192	84,994	69,537
Net income allocation to noncontrolling interests—common units	(6,782)	(7,613)	(17,857)	(14,637)
Net income allocable to common shareholders	$ 25,522	$ 28,579	$ 67,137	$ 54,900
Calculation of common partnership units as a percentage of common share equivalents				
Weighted average common shares outstanding	27,479	27,426	27,464	27,400
Weighted average common partnership units outstanding	7,305	7,305	7,305	7,305
Total common share equivalents	34,784	34,731	34,769	34,705
Common partnership units as a percentage of common share equivalents	21.0%	21.0%	21.0%	21.0%
Weighted average common shares outstanding				
Basic weighted average common shares outstanding	27,479	27,426	27,464	27,400
Net effect of dilutive stock compensation—based on treasury stock method using average market price	81	106	93	105
Diluted weighted average common shares outstanding	27,560	27,532	27,557	27,505

Segment reporting

The Company has two operating segments: (i) the acquisition, development, ownership and management of commercial real estate and (ii) the acquisition, development, ownership and management of multifamily real estate, but has only one reportable segment as the multifamily segment does not meet the quantitative thresholds necessary to require reporting as a separate segment.

Reclassifications

Certain reclassifications have been made to the consolidated financial statements for 2019 in order to conform to the 2020 presentation, including reclassifying assets held for sale as of June 30, 2020 from “real estate facilities, at cost” totaling $3.8 million as of December 31, 2019 into “properties held for sale, net” on our consolidated balance sheets.

3. Real estate facilities

The activity in real estate facilities for the six months ended June 30, 2020 was as follows *(in thousands)*:

	Land	Buildings and Improvements	Accumulated Depreciation	Total
Balances at December 31, 2019 [1]	$ 844,419	$ 2,203,308	$ (1,158,489)	$ 1,889,238
Acquisition of real estate facility	11,123	2,153	—	13,276
Capital expenditures	—	16,202	—	16,202
Disposals [2]	—	(1,085)	1,085	—
Depreciation and amortization expense	—	—	(44,463)	(44,463)
Transfer to properties held for sale	—	(16)	46	30
Balances at June 30, 2020	$ 855,542	$ 2,220,562	$ (1,201,821)	$ 1,874,283

(1) Land, building and improvements, and accumulated depreciation, respectively, totaling $2.2 million, $2.8 million and $1.2 million were reclassified as of December 31, 2019 to "properties held for sale, net," representing two industrial buildings totaling 40,000 square feet located in Redmond, Washington, which are subject to an eminent domain process.

(2) Disposals primarily represent the book value of tenant improvements that have been removed upon the customer vacating their space.

We have a 95.0% interest in a joint venture, which we consolidate, that owns a 395-unit multifamily apartment complex on a five-acre site within the Company's 628,000 square foot office park located in Tysons, Virginia. An unrelated real estate development company (the "JV Partner") holds the remaining 5.0%. This consolidated joint venture's real estate assets and activities are included in the table above.

As of June 30, 2020, we have commitments, pursuant to executed leases throughout our portfolio, to spend $12.3 million on transaction costs, which include tenant improvements and lease commissions.

The purchase price of acquired properties is allocated to land, buildings and improvements (including tenant improvements, unamortized lease commissions, acquired in-place lease values and customer relationships, if any), intangible assets and intangible liabilities (see Note 2), based upon the relative fair value of each component, which are evaluated independently.

The Company must make significant assumptions in determining the fair value of assets acquired and liabilities assumed, which can affect the recognition and timing of revenue and depreciation and amortization expense. The fair value of land is estimated based upon, among other considerations, comparable sales of land within the same region. The fair value of buildings and improvements is determined using a combination of the income and replacement cost approaches which both utilize available market information relevant to the acquired property. The fair value of other acquired assets including tenant improvements and unamortized lease commissions are determined using the replacement cost approach. The amount recorded to acquired in-place leases is also determined utilizing the income approach using market assumptions which are based on management's assessment of current market conditions and the estimated lease-up periods for the respective spaces. Transaction costs related to asset acquisitions are capitalized.

On January 10, 2020, we acquired a multi-tenant industrial park comprised of approximately 73,000 rentable square feet in La Mirada, California, for a total purchase price of $13.5 million, inclusive of capitalized transaction costs.

On April 18, 2019, we acquired a multi-tenant industrial park comprised of approximately 74,000 rentable square feet in Signal Hill, California, for a total purchase price of $13.8 million, inclusive of capitalized transaction costs.

The following table summarizes the assets acquired and liabilities assumed for the six months ended June 30, *(in thousands)*:

	2020	2019
Land	$ 11,123	$ 9,668
Buildings and improvements	2,153	3,978
Accrued and other liabilities (below-market in-place rents)	—	(212)
Other assets (in-place lease value)	237	390
Total purchase price	13,513	13,824
Net operating assets acquired and liabilities assumed	(90)	(88)
Total cash paid	$ 13,423	$ 13,736

Properties Sold and Held for Sale

During the three months ended June 30, 2020, the Company reclassified two industrial buildings totaling 40,000 square feet located in Redmond, Washington, to properties held for sale, net, which are subject to an eminent domain process that is expected to be completed later this year.

On January 7, 2020, the Company sold a 113,000 square foot office building located at Metro Park North in Montgomery County, Maryland, for net sale proceeds of $29.3 million, which resulted in a gain of $19.6 million. The Company determined that the sale did not meet the criteria for discontinued operations presentation, as the sale of such assets did not represent a strategic shift that will have a major effect on our operations and financial results. As a result of this determination, the asset is separately presented as held for sale in the consolidated balance sheet as of December 31, 2019.

4. Leasing activity

The Company leases space in its commercial real estate facilities to customers primarily under non-cancelable leases generally ranging from one to 10 years. Future minimum rental income, excluding recovery of operating expenses that may be collectable under these leases, as of June 30, 2020 is as follows *(in thousands)*:

Remainder of 2020	$ 150,272
2021	260,075
2022	188,923
2023	132,008
2024	90,647
Thereafter	135,493
Total [1]	$ 957,418

[1] Excludes future minimum rental income from assets held for sale.

In addition to minimum rental payments, certain customers reimburse the Company for their pro rata share of specified property operating expenses. Such reimbursements amounted to $23.2 million and $24.0 million for the three months ended June 30, 2020 and 2019, respectively, and $47.8 million and $49.0 million for the six months ended June 30, 2020 and 2019, respectively. These variable lease payment amounts are included as rental income in the accompanying consolidated statements of income.

Leases accounting for 3.2% of total leased square footage are subject to termination options, and 1.9% of total leased square footage have termination options exercisable through December 31, 2020. In general, these leases provide for termination payments to us should the termination options be exercised. Certain leases also have an option to extend the term of the lease. The future minimum rental income in the above table assumes termination options and lease extension options are not exercised.

5. Bank loans

We have an unsecured revolving line of credit (the "Credit Facility") with Wells Fargo Bank, National Association ("Wells Fargo"). The Credit Facility has a borrowing limit of $250.0 million and expires January 10, 2022. The rate of interest charged on borrowings is based on LIBOR plus 0.80% to LIBOR plus 1.55% depending on the Company's credit ratings. Currently, the Company's rate under the Credit Facility is LIBOR plus 0.825%. In addition, the Company is required to pay an annual facility fee ranging from 0.10% to 0.30% of the borrowing limit depending on the Company's credit ratings (currently 0.125%). We had zero balance outstanding on our Credit Facility at June 30, 2020 and December 31, 2019. The Company had $345,000 and $461,000 of total unamortized loan origination costs as of June 30, 2020 and December 31, 2019, respectively, which is included in other assets in the accompanying consolidated balance sheets. The Credit Facility requires us to meet certain covenants, all of which we were in compliance with as of June 30, 2020. Interest on outstanding borrowings is payable monthly.

6. Noncontrolling interests

Noncontrolling interests represent (i) PS's noncontrolling interest in the OP through its ownership of 7,305,355 common partnership units, totaling $215.7 million and $213.2 million at June 30, 2020 and December 31, 2019, respectively, and (ii) the JV Partner's 5.0% interest in a joint venture owning a 395-unit multifamily apartment complex, totaling $2.9 million at June 30, 2020 and December 31, 2019.

PS OP Interests

Each common partnership unit receives a cash distribution equal to the dividend paid on our common shares and is redeemable at PS's option.

If PS exercises its right of redemption, at PSB's option (a) PS will receive one common share from us for each common partnership unit redeemed, or (b) PS will receive cash from us for each common partnership unit redeemed generally equal to the market value of a common share (as defined in the Operating Partnership Agreement). We can prevent redemptions that we believe would violate either our articles of incorporation or securities laws, cause PSB to no longer qualify as a REIT, or could result in the OP no longer being treated as a partnership for federal tax purposes.

In allocating net income and presenting equity, we treat the common partnership units as if converted to common shares. Accordingly, they received the same net income allocation per unit as a common share totaling $6.8 million and $7.6 million for the three months ended June 30, 2020 and 2019, respectively, and $17.9 million and $14.6 million for the six months ended June 30, 2020 and 2019, respectively.

JV Partner

For the three months ended June 30, 2020 and 2019, income of $13,000 and $10,000 was allocated to the JV Partner during the three months ended June 30, 2020 and 2019, respectively, and $30,000 and $13,000 for the six months ended June 30, 2020 and 2019, respectively. Distributions of $25,000 and $45,000 were paid to the JV Partner during the three months ended June 30, 2020 and 2019, respectively, and $63,000 and $45,000 during the six months ended June 30, 2020 and 2019, respectively.

7. Related party transactions

We manage certain industrial, office and retail facilities in the United States for PS under either the "Public Storage" or "PS Business Parks" names (the "PS Management Agreement"). Under PS's supervision, we coordinate and assist in rental and marketing activities, property maintenance and other operational activities, including the selection of vendors, suppliers, employees and independent contractors. We receive a management fee based upon a percentage of revenues, which is included in "interest and other income" on our consolidated statements of income. Management fee revenues were $63,000 and $72,000 for the three months ended June 30, 2020 and 2019, respectively, and $133,000 and $150,000 for the six months ended June 30, 2020 and 2019, respectively. We allocate certain operating expenses to PS related to the management of these properties, including payroll and other business expenses,

totaling $89,000 and $91,000 for the three months ended June 30, 2020 and 2019, respectively, and $188,000 and $193,000 for the six months ended June 30, 2020 and 2019, respectively.

The PS Business Parks name and logo are owned by PS and licensed to us under a non-exclusive, royalty-free license agreement. The license can be terminated by either party for any reason with six months written notice.

PS provides us property management services for the self-storage component of two assets we own and operates them under the "Public Storage" name. Either the Company or PS can cancel the property management contract upon 60 days' notice. Under our supervision, PS coordinates and assists in rental and marketing activities, and property maintenance and other operational activities, including the selection of vendors, suppliers, employees and independent contractors. Management fee expenses were $24,000 and $25,000 for the three months ended June 30, 2020 and 2019, respectively, and $48,000 and $49,000 for the six months ended June 30, 2020 and 2019, respectively. Additionally, PS allocated certain operating expenses to us related to the management of these properties totaling $21,000 and $19,000 for the three months ended June 30, 2020 and 2019, respectively, and $41,000 and $37,000 for the six months ended June 30, 2020 and 2019, respectively. These amounts are included under "cost of operations" on our consolidated statements of income.

Pursuant to a cost sharing agreement, we share certain administrative services, corporate office space, and certain other third party costs with PS which are allocated based upon fair and reasonable estimates of the cost of the services expected to be provided. We reimbursed PS $187,000 and $168,000 for costs PS incurred on our behalf for the three months ended June 30, 2020 and 2019, respectively, and $373,000 and $336,000 for the six months ended June 30, 2020 and 2019, respectively. PS reimbursed us $9,000 and $10,000 for costs we incurred on their behalf for the three months ended June 30, 2020 and 2019, respectively, and $18,000 and $20,000 for the six months ended June 30, 2020 and 2019, respectively.

The Company had net amounts due to PS of $19,000 and $106,000 at June 30, 2020 at December 31, 2019, respectively, for these contracts, as well as certain operating expenses paid by the Company on behalf of PS.

8. Shareholders' equity

Preferred stock

As of June 30, 2020 and December 31, 2019, the Company had the following series of preferred stock outstanding:

Series	Issuance Date	Earliest Potential Redemption Date	Dividend Rate	Shares Outstanding	Amount (in thousands)
Series W	October, 2016	October, 2021	5.200%	7,590	$ 189,750
Series X	September, 2017	September, 2022	5.250%	9,200	230,000
Series Y	December, 2017	December, 2022	5.200%	8,000	200,000
Series Z	November, 2019	November, 2024	4.875%	13,000	325,000
Total				**37,790**	**$ 944,750**

We paid $12.0 million and $13.0 million in distributions to our preferred shareholders for the three months ended June 30, 2020 and 2019, respectively, and $24.1 million and $25.9 million in distributions to our preferred shareholders for the six months ended June 30, 2020 and 2019, respectively.

The holders of our preferred stock have general preference rights with respect to liquidation, quarterly distributions and any accumulated unpaid distributions. Holders of our 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 our preferred stock will have the right to elect two additional members to serve on the Company's Board of Directors (the "Board") until all events of default have been cured. At June 30, 2020, 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 the redemption dates noted above. On or after the respective redemption dates, the respective series of preferred stock will be redeemable, at the option of the Company, in whole or in part, at $25.00 per depositary share, plus any accrued and unpaid dividends.

Common stock and units

We paid $28.9 million ($1.05 per common share) and $28.8 million ($1.05 per common share) in distributions to our common shareholders for the three months ended June 30, 2020 and 2019, respectively, and $57.7 million ($2.10 per common share) and $57.5 million ($2.10 per common share) in distributions to our common shareholders for the six months ended June 30, 2020 and 2019, respectively.

We paid $7.7 million ($1.05 per common unit) in distributions to our common unit holders for each of the three months ended June 30, 2020 and 2019, and $15.3 million ($2.10 per common unit) in distributions to our common unit holders for each of the six months ended June 30, 2020 and 2019.

Equity stock

The Company is authorized to issue 100.0 million shares of Equity Stock. The Articles of Incorporation provide that Equity Stock may be issued from time to time in one or more series and give the Board broad authority to fix the dividend and distribution rights, conversion and voting rights, redemption provisions and liquidation rights of each series of Equity Stock. As of June 30, 2020 and December 31, 2019, no equity stock had been issued.

9. Commitments and contingencies

We are a party to various legal proceedings and subject to various claims and complaints; however, we believe that the likelihood of these proceedings resulting in a material loss to the Company, either individually or in the aggregate, is remote.

10. Stock compensation

Under various share-based compensation plans, PSB grants non-qualified options to purchase the Company's common shares at a price not less than fair value on the date of grant, as well as RSUs, to certain directors, officers and key employees.

The service period for stock options and RSUs begins when (i) the Company and the recipient reach a mutual understanding of the key terms of the award, (ii) the award has been authorized, (iii) the recipient is affected by changes in the market price of our stock and (iv) it is probable that any performance conditions will be met, and ends when the stock options or RSUs vest.

We account for forfeitures of share-based payments as they occur by reversing previously amortized share-based compensation expense with respect to grants that are forfeited in the period the employee terminates employment.

We amortize the fair value of awards starting at the beginning of the service period as compensation expense. For awards that are earned solely upon the passage of time and continued service, the entire cost of the award is amortized on a straight-line basis over the service period. For awards with performance conditions, the individual cost of each vesting is amortized separately over each individual service period (the "accelerated attribution" method).

Stock Options

Stock options expire 10 years after the grant date and the exercise price is equal to the closing trading price of our common shares on the grant date. Employees cannot require the Company to settle their award in cash. We use the Black-Scholes option valuation model to estimate the fair value of our stock options on the date of grant.

For the three and six months ended June 30, 2020, respectively, we recorded $99,000 and $190,000 in compensation expense related to stock options as compared to $61,000 and $118,000 for the same periods in 2019.

During the six months ended June 30, 2020, 18,000 stock options were granted, 4,136 options were exercised and no options were forfeited. A total of 171,694 and 157,830 options were outstanding at June 30, 2020 and December 31, 2019, respectively.

Restricted Stock Units

RSUs granted prior to 2016 are subject to a six-year vesting, with 20% vesting after year two, and 20% vesting after each of the next four years. RSUs granted during and subsequent to 2016 are subject to a five-year vesting at the rate of 20% per year. The grantee receives dividends for each outstanding RSU equal to the per share dividend received by common shareholders. We expense any dividends previously paid upon forfeiture of the related RSU. Upon vesting, the grantee receives common shares equal to the number of vested RSUs, less common shares withheld in exchange for tax withholdings made by the Company to satisfy the grantee's statutory tax liabilities arising from the vesting. The fair value of our RSUs is determined based upon the applicable closing trading price of our common shares on the date of grant.

During January, 2020, the Company entered into an annual performance-based RSU program ("2020 Incentive Program") with certain employees of the Company. Under the Program, certain employees will be eligible to receive RSUs subject to achievement of a pre-established performance target based on growth in the Company's net asset value per share, as computed by the Company pursuant to the terms of the 2020 Incentive Program. In the event the pre-established target is achieved, the employees will receive the target award, except that the Compensation Committee of the Board may adjust the actual award to 75% to 125% of the target award based on the their assessment of whether certain strategic and operational goals were accomplished in the performance period. RSUs related to the 2020 Incentive Program will be awarded on or around March 1 of the subsequent year. RSUs awarded under the 2020 Incentive Program will vest in five equal installments, with the first installment vesting on the award date. RSU holders will earn dividend equivalent rights during the vesting period.

During the three and six months ended June 30, 2020, management determined that it was not probable that the targets under the 2020 Incentive Program would be met due to the negative impact of the COVID-19 pandemic on the economy, and, as such, the Company did not record stock compensation expense related to the 2020 Incentive Program.

For the three and six months ended June 30, 2020, respectively, we recorded $638,000 and $1.3 million in compensation expense related to RSUs as compared to $797,000 and $1.7 million for the same periods in 2019.

During the six months ended June 30, 2020, 100 RSUs were granted, 61,756 RSUs vested and 980 RSUs were forfeited. Tax withholdings totaling $3.7 million were made on behalf of employees in exchange for 25,359 common shares withheld upon vesting for the six months ended June 30, 2020 resulting in the issuance of 36,397 common shares. Tax withholdings totaling $5.5 million were made on behalf of employees in exchange for 35,404 common shares withheld upon vesting for the six months ended June 30, 2019 resulting in the issuance of 48,476 common shares. A total of 88,212 and 150,848 RSUs were outstanding at June 30, 2020 and December 31, 2019, respectively.

In July, 2019, the Company amended the Retirement Plan for Non-Employee Directors (the "Director Retirement Plan"), to increase the maximum shares issued upon retirement for each year served as a director from 8,000 shares to 10,000 shares of common stock. The Company recognizes compensation expense with regard to grants to be issued in the future under the Director Retirement Plan over the requisite service period. For the three and six months ended June 30, 2020, respectively, we recorded $194,000 and $372,000 in compensation expense related to these shares as compared to $59,000 and $116,000 for the same periods in 2019.

In April, 2019, we issued 8,000 shares of common stock to a director upon retirement with an aggregate fair value of $1.2 million. Compensation expense for these shares was previously expensed. No shares of common stock were issued during the six months ended June 30, 2020.

11. Subsequent Events

Subsequent to June 30, 2020, the global economy has continued to be severely impacted by the COVID-19 pandemic. As of July 31, 2020, in addition to the $3.8 million of rent deferrals and $874,000 of rent abatements granted during the three months ended June 30, 2020, the Company deferred an additional $1.0 million of rental income for the month of July, 2020.

Subsequent to June 30, 2020, the Company entered into a new partnership agreement with the JV Partner. The new partnership was formed for the purpose of developing a 411 unit multifamily property on a parcel of land that is currently held in land and building held for development, net. Under the new partnership agreement, the Company will be the 98.2% managing member with the JV Partner holding the remaining 1.8% limited partnership interest. The property is anticipated to be constructed over a period of 24 to 36 months at an estimated development cost of $110 million to $120 million excluding land cost.

ITEM 2. *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

Forward-Looking Statements: Forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, are made throughout this Quarterly Report on Form 10-Q. 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 "may," "believes," "anticipates," "plans," "expects," "seeks," "estimates," "intends" 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 but not limited to: (i) the duration and severity of the COVID-19 pandemic and its impact on our business and our customers; (ii) changes in general economic and business conditions, including as a result of the economic fallout of the COVID-19 pandemic; (iii) potential regulatory actions to close our facilities or limit our ability to evict delinquent customers; (iv) decreases in rental rates or increases in vacancy rates/failure to renew or replace expiring leases; (v) tenant defaults; (vi) the effect of the recent credit and financial market conditions; (vii) our failure to maintain our status as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"); (viii) the economic health of our customers; (ix) increases in operating costs; (x) casualties to our properties not covered by insurance; (xi) the availability and cost of capital; (xii) increases in interest rates and its effect on our stock price; and (xiii) other factors discussed under the heading "Part I, Item 1A. Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2019. 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, except as required by law.

Critical Accounting Policies and Estimates:

Our accounting policies are described in Note 2 to the consolidated financial statements included in this Form 10-Q. We believe our critical accounting policies relate to income tax expense, accounting for acquired real estate facilities, accounting for customer receivable balances, including deferred rent receivable balances, impairment of long-lived assets, and accrual for uncertain and contingent liabilities, each of which are more fully discussed below.

Income Tax Expense: We have elected to be treated as a REIT, as defined in the Code. As a REIT, we do not incur federal income tax on our "REIT taxable income" that is fully distributed each year (for this purpose, certain distributions paid in a subsequent year may be considered), and if we meet certain organizational and operational requirements. We believe we have met these REIT requirements for all periods presented herein. Accordingly, we have recorded no federal income tax expense related to our "REIT taxable income."

Our evaluation that we have met the REIT requirements could be incorrect, because compliance with the tax rules requires factual determinations, and circumstances we have not identified could result in noncompliance with the tax requirements in current or prior years. For any taxable year that we fail to qualify as a REIT and for which applicable statutory relief provisions did not apply, we would be taxed at the regular corporate rates on all of our taxable income for at least that year and the ensuing four years, we could be subject to penalties and interest, and our net income would be materially different from the amounts shown in our consolidated financial statements.

Accounting for Acquired Real Estate Facilities: We estimate the fair value of land, buildings, intangible assets and intangible liabilities for purposes of allocating purchase price. Such estimates, which are determined with the assistance of third-party valuation specialists where appropriate, are based upon many assumptions and judgments, including, but not limited to, (i) market rates of return and capitalization rates on real estate and intangible assets, (ii) building and material cost levels, (iii) estimated market rent levels, (iv) future revenue growth rates, (v) future cash flows from the real estate and the existing customer base and (vi) comparisons of the acquired underlying land parcels to recent land transactions. Others could come to materially different conclusions as to the estimated fair values, which could result in different depreciation and amortization expense, rental income, gains and losses on sale of real estate assets, and real estate and intangible assets.

Accounting for Customer Receivable Balances, including Deferred Rent Receivable Balances: Customer receivables consist primarily of amounts due for contractual lease payments, reimbursements of common area maintenance expenses, property taxes and other expenses recoverable from customers. Deferred rent receivables represent the amount that the cumulative straight-line rental income recorded to date exceeds cash rents billed to date under the lease agreement, inclusive of rent deferrals and rent abatements granted to our customers in response to the COVID-19 pandemic. The Company writes off uncollectible customer receivable balances, including deferred rent receivable balances, in the period such receivable balances are deemed uncollectible. Significant bad debt losses could materially impact our net income.

Impairment of Long-Lived Assets: The analysis of impairment of our long-lived assets involves identification of indicators of impairment, projections of future operating cash flows and estimates of fair values or selling prices, all of which require significant judgment and subjectivity. Others could come to materially different conclusions. In addition, we may not have identified all current facts and circumstances that may affect impairment. Any unidentified impairment loss, or change in conclusions, could have a material adverse impact on our net income.

Accrual for Uncertain and Contingent Liabilities: We accrue for certain contingent and other liabilities that have significant uncertain elements, such as property taxes, performance bonuses and other operating expenses, as well as other legal claims and disputes involving customers, employees, governmental agencies and other third parties. We estimate such liabilities based upon many factors such as past trends and our evaluation of likely outcomes. However, the estimates of known liabilities could be incorrect or we may not be aware of all such liabilities, in which case our accrued liabilities and net income could be materially different.

Business Overview

Our overall operating results are impacted primarily by the performance of our existing real estate facilities, which at June 30, 2020 were comprised of 27.5 million rentable square feet of primarily multi-tenant industrial, flex and office properties concentrated in six states and a 95.0% interest in a 395-unit multifamily apartment complex. Our portfolio of multi-tenant commercial properties comprise of 97 parks and 674 buildings and are located in markets that have experienced long-term economic growth with a particular concentration on small- and medium-size customers. Accordingly, a significant degree of management attention is paid to maximizing the cash flow from our existing real estate portfolio. Also, our strong and conservative capital structure allows us the flexibility to use debt and equity capital prudently to fund our growth, which allows us to acquire properties we believe will create long-term value. From time to time we sell properties which no longer fit the Company's strategic objectives.

Existing Real Estate Facilities: The operating results of our existing real estate facilities are substantially influenced by demand for rental space within our properties and our markets, which impacts occupancy, rental rates and capital expenditure requirements. We strive to maintain high occupancy levels while increasing rental rates and minimizing capital expenditures when market conditions allow, although the Company may decrease rental rates in markets where conditions require. Management's initiatives and strategies with respect to our existing real estate facilities, which include incentivizing our personnel to maximize the return on investment for each lease transaction and providing a superior level of service to our customers, are described in more detail in our Annual Report on Form 10-K for the year ended December 31, 2019.

Acquisitions of Real Estate Facilities: We seek to grow our portfolio through acquisitions of facilities generally consistent with the Company's focus on owning concentrated business parks with easily configurable space and in markets and product types with favorable long-term return potential.

On January 10, 2020, we acquired a multi-tenant industrial park comprised of approximately 73,000 rentable square feet in La Mirada, California, for a total purchase price of $13.5 million, inclusive of capitalized transaction costs. The park consists of five buildings and was 100.0% occupied at acquisition with suites ranging from 1,200 to 3,000 square feet.

On April 18, 2019, we acquired a multi-tenant industrial park comprised of approximately 74,000 rentable square feet in Signal Hill, California, for a total purchase price of $13.8 million, inclusive of capitalized transaction costs.

The park consists of eight buildings and was 98.4% occupied at acquisition with suites ranging from 1,200 to 8,000 square feet.

We continue to seek to acquire additional facilities in our existing markets and generally in close proximity to our existing facilities; however, there can be no assurance that we will acquire additional facilities that meet our risk-adjusted return and underwriting requirements.

Development or Redevelopment of Real Estate Facilities: We may seek to redevelop our existing real estate. We own a large contiguous block of real estate (628,000 rentable square feet on 44.5 acres of land) located within an area known as The Mile in Tysons, Virginia. In 2015, we demolished one of our existing office buildings at The Mile and built Highgate at The Mile, a 395-unit apartment complex, at a cost, including the estimated fair value of existing land, of $115.4 million.

While multifamily real estate was not a core asset class for us, we determined that multifamily real estate represented a unique opportunity and the highest and best use of that parcel. We have partnered through a joint venture with a local developer and operator of multifamily properties in order to leverage their development and operational experience. See "Analysis of Net Income – Multifamily" below and Note 3 to our consolidated financial statements for more information on Highgate at The Mile.

In 2019, we successfully rezoned our 628,000 square foot office park located at The Mile in Tysons, Virginia. The rezoning will allow us to develop, at our election, up to 3,000 additional multifamily units and approximately 500,000 square feet of other commercial uses. In 2017, we completed Highgate at The Mile, a 395-unit multifamily property which is owned by a joint venture that we consolidate. We are currently seeking to demolish a 123,000 square foot vacant office building in order to make possible the construction of another multifamily property on the parcel. This parcel is reflected on our consolidated balance sheets as land and building held for development. The scope and timing of the future phases of development of The Mile are subject to a variety of contingencies, including site plan approvals and building permits. Other than the various contingencies referenced above, the timing of this redevelopment project is within our control, and as such, we will commence construction when we deem appropriate based on market conditions.

Subsequent to June 30, 2020, the Company entered into a new partnership agreement with the JV Partner. The new partnership was formed for the purpose of developing a 411 unit multifamily property on a parcel of land that is currently held in land and building held for development, net. Under the new partnership agreement, the Company will be the 98.2% managing member with the JV Partner holding the remaining 1.8% limited partnership interest. The property is anticipated to be constructed over a period of 24 to 36 months at an estimated development cost of $110 million to $120 million excluding land cost.

Sales of Real Estate Facilities: We may from time to time sell individual real estate facilities based on market conditions, fit with our existing portfolio, evaluation of long-term potential returns of markets or product types, or other reasons.

During June 30, 2020, the Company reclassified two industrial buildings totaling 40,000 square feet located in Redmond, Washington, to properties held for sale, net, which are subject to an eminent domain process that is expected to be completed later this year.

On January 7, 2020, the Company completed the sale of a single-tenant building totaling 113,000 square feet in Montgomery County, Maryland, for net sale proceeds of $29.3 million, which resulted in a gain of $19.6 million. The building had been marketed previously as part of a broader portfolio of suburban Maryland office properties in 2019, but was excluded from the 1.3 million square feet of flex and office business parks sale which closed on October 8, 2019 and as such was the Company's only remaining office asset at Metro Park North. The asset sold was classified as held for sale as of December 31, 2019 and the operations of the facility are presented under "assets sold or held for sale."

Certain Factors that May Impact Future Results

Impact of COVID-19 Pandemic: During the first half of 2020, the COVID-19 pandemic resulted in cessation, severe curtailment, or impairment of business activities in most sectors of the economy in virtually all markets we operate in, due to governmental "stay at home" orders, risk mitigation procedures, and closure of businesses not considered to be "essential." This has resulted in a rapid and dramatic increase in unemployment in the U.S. Since it remains unknown at this time how long the COVID-19 pandemic will continue, we cannot estimate how long these negative economic impacts will persist. In addition, due to recent increases in COVID-19 infection rates, restrictions could be, and in some cases already have been, reinstituted, and it is also possible that additional pandemics could occur.

The COVID-19 pandemic has had a severe negative impact on many of our customers' businesses. Rental income that the Company agreed to defer and abate totaled $3.8 million and $874,000, respectively, for the three months ended June 30, 2020. Subsequent to June 30, 2020, the Company deferred an additional $1.0 million of rental income in the month of July, 2020. Through July 31, 2020, approximately 10.5% of our customers, based on total rental income, had been granted rent relief in the form of rent deferral and/or abatement. The deferred rental income, including the July, 2020 deferments, is scheduled to be repaid over an average of 11 months.

The table below represents percentages of rent collections, deferrals, and abatements by product type for monthly rental income billed in the months of April through July, 2020 (percentages shown are all as of July 31, 2020):

	Percentage of Rent			
	Collected	**Outstanding**	**Deferred**	**Abated** [(1)]
April 2020				
Industrial	97%	1%	1%	1%
Flex	97%	1%	1%	1%
Office	100%	0%	0%	0%
Total	**98%**	**0%**	**1%**	**1%**
May 2020				
Industrial	92%	0%	5%	3%
Flex	93%	0%	5%	2%
Office	97%	0%	2%	1%
Total	**93%**	**0%**	**4%**	**3%**
June 2020				
Industrial	89%	0%	8%	3%
Flex	91%	2%	4%	3%
Office	94%	0%	4%	2%
Total	**90%**	**1%**	**6%**	**3%**
July 2020 [(2)]				
Industrial	90%	5%	4%	1%
Flex	92%	5%	2%	1%
Office	96%	1%	3%	0%
Total	**92%**	**4%**	**3%**	**1%**

(1) Abated rent includes write-offs or accounts receivable deemed uncollectable.

(2) July, 2020 rent billings and collections shown above include June, 2020 rent billed on June 30, 2020 and collected in July, 2020 for leases with the U.S. Government as rent for these leases is billed in arrears.

The pace of rent collections in July, 2020 generally exceeded what was experienced in each of the months from April, 2020 through June, 2020. As of July 31, 2020, 4% of July's total billings remained uncollected after given effect

to amounts deferred or abated, whereas uncollected total billings stood at 11%, 8%, and 5% as of April 30, 2020, May 31, 2020, and June 30, 2020, respectively. As shown in the table above, 3% of July's billed rental income was deferred, the majority of which had been agreed to in the month of June or earlier. It is likely that additional rent relief requests will arise in future months as a result of continued effects of the COVID-19 pandemic and related responses from state and local governments, however the timing and magnitude of such future requests cannot be easily predicted due to the inherent uncertainty of the virus and its varying regional effects.

We expect to grant additional rent deferrals for certain amounts currently owed and/or for amounts billed in future months. All rent relief requests to date have been, and all future rent relief requests are expected to be evaluated on a case-by-case basis. To the extent we grant additional requests for abatement, or to the extent that our customers default on their lease obligations, it will have a negative effect on our rental income and net income.

Our ability to re-lease space as leases expire in a way that minimizes vacancy periods and maximizes market rental rates will depend upon market conditions in the specific submarkets in which each of our properties are located. Due to the uncertainty of the COVID-19 pandemic's impact on the Company's future ability to maintain existing occupancy levels, possible decreases in rental rates on new and renewal transactions, and the negative effect of rent deferrals, rent abatements, and customer defaults, we believe the COVID-19 pandemic will continue to adversely affect our Same Park rental income for the remaining quarters of 2020.

Impact of Inflation: Although inflation has not been significant in recent years, an increase in inflation could impact our future results, and the Company continues to seek ways to mitigate its potential impact. A substantial portion of the Company's leases require customers to pay operating expenses, including real estate taxes, utilities and insurance, as well as increases in common area expenses, partially reducing the Company's exposure to inflation during each lease's respective lease period.

Regional Concentration: Our portfolio is concentrated in eight regions, in six states. We have chosen to concentrate in these regions because we believe they have characteristics which enable them to be competitive economically, such as above average population growth, job growth, higher education levels and personal income. Changes in economic conditions in these regions in the future could impact our future results.

Industry and Customer Concentrations: We seek to minimize the risk of industry or customer concentrations. As of June 30, 2020, excluding assets held for sale, leases from our top 10 customers comprised 9.4% of our annualized rental income, with only two customers, the U.S. Government (3.3%) and Luminex Corporation (1.1%), representing more than 1%. In terms of industry concentration, 19.2% of our annualized rental income comes from business services, 12.2% from warehouse, distribution, transportation and logistics, and 11.5% from computer hardware, software and related services. No other industry group represents more than 10% of our annualized rental income.

Customer credit risk: Although we have historically experienced a low level of write-offs of uncollectible rents, with less than 0.4% of rental income written off in any year over the last nine years, we believe it is possible that the negative impact of the COVID-19 pandemic and its effect on our customers' ability to pay rent in the future will result in higher levels of write-offs during the remainder of 2020 compared to historic averages. For the three months ended June 30, 2020, we agreed to defer and abate a total of $3.8 million and $874,000, respectively, to customers whose businesses were disrupted by the COVID-19 pandemic. Subsequent to June 30, 2020, we deferred an additional $1.0 million of rental income for the month of July, 2020. The deferred rental income, including the July, 2020 deferments, is scheduled to be repaid over an average of 11 months. We are closely monitoring the collectability of such rents. During the three months ended June 30, 2020, we wrote-off $1.2 million of accounts receivable and $2.4 million of deferred rent receivable we determined uncollectible. As of July 31, 2020, we had 32,000 square feet of leased space occupied by three customers that are protected by Chapter 11 of the U.S. Bankruptcy Code, which have an aggregate remaining lease value of $574,000. From time to time, customers contact us, requesting early termination of their lease, reductions in space leased, or rent deferment or abatement, which we are not obligated to grant but will consider and grant under certain circumstances.

Net Operating Income

We utilize net operating income ("NOI"), a measure that is not defined in accordance with U.S. generally accepted accounting principles ("GAAP"), to evaluate the operating performance of our real estate. We define NOI as rental income less Adjusted Cost of Operations. Adjusted Cost of Operations represents cost of operations, excluding stock compensation, which can vary significantly period to period based upon the performance of the company.

We believe NOI assists investors in analyzing the performance of our real estate by excluding (i) corporate overhead (i.e., general and administrative expense) because it does not relate to the direct operating performance of our real estate (ii) depreciation and amortization expense because it does not accurately reflect changes in the fair value of our real estate and (iii) stock compensation expense because this expense item can vary significantly from period to period and thus impact comparability across periods. The Company's calculation of NOI may not be comparable to those of other companies and should not be used as an alternative to performance measures calculated in accordance with GAAP.

See "Analysis of net income" below for reconciliations of each of these measures to their closest analogous GAAP measure from our consolidated statements of income.

Results of Operations

Operating Results Overview: Three and Six Months Ended June 30, 2020 and 2019

For the three months ended June 30, 2020, net income allocable to common shareholders was $25.5 million or $0.93 per diluted share, compared to $28.6 million or $1.04 per diluted share for the same period in 2019. Net income was negatively affected by the COVID-19 pandemic and its impact on certain of the Company's customers. The Company agreed to defer an aggregate of $3.8 million and abate $874,000 of revenue billed during the three months ended June 30, 2020. The Company also wrote-off $1.2 million of accounts receivable and $2.4 million of deferred rent receivable during the three months ended June 30, 2020. NOI with respect to the Company's real estate facilities decreased $5.9 million primarily due to the previously mentioned write-offs of accounts receivable and deferred rent receivable, of which $1.1 million and $2.3 million were attributable to our Same Park (defined below) portfolio, respectively, and reduced NOI generated from assets sold during the fourth quarter of 2019 and first quarter of 2020. The decrease was partially offset by increased NOI from our Non-Same Park portfolio as a result of the timing of acquisitions that occurred during the second half of 2019.

For the six months ended June 30, 2020, net income allocable to common shareholders was $67.1 million or $2.44 per diluted share, compared to $54.9 million or $2.00 per diluted share for the same period in 2019. The increase was mainly due to a gain on sale of the office building in Montgomery County, Maryland, during the first quarter of 2020 that did not occur in 2019 partially offset by a $5.2 million decrease in NOI with respect to the Company's real estate facilities due to previously mentioned write-offs of accounts receivable and deferred rent receivable during the three months ended June 30, 2020 as well as reduced NOI generated from assets sold.

Analysis of Net Income

Our net income is comprised primarily of our real estate operations, depreciation and amortization expense, general and administrative expense, interest and other income, interest and other expenses and gain on sale of real estate facility.

We segregate our real estate activities into (i) same park operations, representing all operating properties acquired prior to January 1, 2018, comprising 25.7 million rentable square feet of our 27.5 million in rentable square feet at June 30, 2020 (the "Same Park" portfolio), (ii) non-same park operations, representing those facilities we own that were acquired after January 1, 2018 (the "Non-Same Park" portfolio), (iii) multifamily operations and (iv) assets sold or held for sale, representing 40,000 square feet of industrial buildings held for sale as of June 30, 2020, 1.3 million square feet of assets sold in October, 2019, and a 113,000 square foot asset sold in January, 2020.

The table below sets forth the various components of our net income *(in thousands)*:

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2020	2019	Change	2020	2019	Change
Rental income						
Same Park [1]	$ 92,657	$ 94,794	(2.3%)	$ 190,392	$ 189,398	0.5%
Non-Same Park	5,198	3,429	51.6%	10,816	5,910	83.0%
Multifamily	2,488	2,475	0.5%	5,048	4,973	1.5%
Assets sold or held for sale [2]	216	7,084	(97.0%)	519	15,326	(96.6%)
Total rental income	100,559	107,782	(6.7%)	206,775	215,607	(4.1%)
Cost of operations						
Adjusted Cost of Operations [3]						
Same Park	26,997	26,683	1.2%	55,131	54,826	0.6%
Non-Same Park	1,821	1,024	77.8%	3,603	2,167	66.3%
Multifamily	1,002	1,002	0.0%	2,018	2,073	(2.7%)
Assets sold or held for sale [2]	45	2,456	(98.2%)	102	5,386	(98.1%)
Stock compensation expense [4]	266	295	(9.8%)	540	601	(10.1%)
Total cost of operations	30,131	31,460	(4.2%)	61,394	65,053	(5.6%)
NOI [5]						
Same Park	65,660	68,111	(3.6%)	135,261	134,572	0.5%
Non-Same Park	3,377	2,405	40.4%	7,213	3,743	92.7%
Multifamily	1,486	1,473	0.9%	3,030	2,900	4.5%
Assets sold or held for sale [2] [6]	171	4,628	(96.3%)	417	9,940	(95.8%)
Stock compensation expense [4]	(266)	(295)	(9.8%)	(540)	(601)	(10.1%)
Depreciation and amortization expense	(22,963)	(24,768)	(7.3%)	(49,582)	(49,643)	(0.1%)
General and administrative expense	(3,004)	(2,827)	6.3%	(6,327)	(6,060)	4.4%
Interest and other income	225	764	(70.5%)	782	1,382	(43.4%)
Interest and other expense	(203)	(118)	72.0%	(364)	(285)	27.7%
Gain on sale of real estate facility	—	—	—	19,621	—	100.0%
Net income	$ 44,483	$ 49,373	(9.9%)	$ 109,511	$ 95,948	14.1%

(1) Included in the calculation of Same Park rental income is (a) lease buyout income of $257,000 and $780,000 for the three months ended June 30, 2020 and 2019, respectively, and $516,000 and $957,000 for the six months ended June 30, 2020 and 2019, respectively, (b) accounts receivable write-offs of $1.1 million and $342,000 for the three months ended June 30, 2020 and 2019, respectively, and $1.1 million and $522,000 for the six months ended June 30, 2020 and 2019, respectively, and (c) deferred rent receivable write-offs of $2.3 million and $149,000 for the three months ended June 30, 2020 and 2019, respectively, and $2.3 million and $235,000 for the six months ended June 30, 2020 and 2019, respectively.

(2) Amounts for the three months ended June 30, 2020 include results related to two industrial buildings totaling 40,000 square feet reclassified to properties held for sale, net during the quarter ended June 30, 2020; amounts for the six months ended June 30, 2020 include the two industrial buildings totaling 40,000 square feet and a 113,000 square foot asset sold in January, 2020; amounts shown for the three and six months ended June 30, 2019 reflect the operating results related to the two industrial buildings totaling 40,000 square feet, the 113,000 square foot asset sold in 2020, and 1.3 million square feet of flex and office assets sold in October, 2019.

(3) Adjusted Cost of Operations excludes the impact of stock compensation expense.

(4) Stock compensation expense, as shown here, represents stock compensation expense for employees whose compensation expense is recorded in cost of operations. Note that stock compensation expense attributable to our executive management team (including divisional vice presidents) and other corporate employees is recorded within general and administrative expense.

(5) NOI represents rental income less Adjusted Cost of Operations.

(6) NOI from assets held for sale was $171,000 and $177,000 for the three months ended June 30, 2020 and 2019, respectively, and $364,000 and $352,000 for the six months ended June 30, 2020 and 2019, respectively. The remainder of the three and six month NOI balances relate to assets sold during 2019 and 2020.

Rental income decreased $7.2 million and $8.8 million for the three and six months ended June 30, 2020 as compared to the same periods in 2019 due primarily to write-offs of accounts receivable and deferred rent receivable

during the three months ended June 30, 2020 and reduced rental income generated from assets sold partially offset by an increase in rental income from our Non-Same Park portfolio acquired during the second half of 2019.

Cost of operations decreased $1.3 million and $3.7 million for the three and six months ended June 30, 2020 as compared to the same periods in 2019 due primarily to the sale of assets partially offset by the Adjusted Cost of Operations incurred by our Non-Same Park portfolio acquired during the second half of 2019.

Net income decreased $4.9 million and increased $13.6 million for the three and six months ended June 30, 2020 as compared to the same periods in 2019. The three month decrease was due primarily to write-offs of accounts receivable and deferred rent receivable during the three months ended June 30, 2020 and reduced rental income generated from assets sold, while the six month increase was due primarily to the gain on sale of an asset in Montgomery County, Maryland during 2020 partially offset by lower NOI.

Same Park Portfolio

We believe that evaluation of the Same Park portfolio provides an informative view of how the Company's portfolio has performed over comparable periods. We believe that investors and analysts use Same Park information in a similar manner.

The following table summarizes the historical operating results of our Same Park facilities and certain statistical information related to leasing activity in the three and six months ended June 30, 2020 and 2019 *(in thousands, except per square foot data)*:

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2020	2019	Change	2020	2019	Change
Rental income [(1)]	$ 92,657	$ 94,794	(2.3%)	$ 190,392	$ 189,398	0.5%
Adjusted Cost of Operations [(2)]						
Property taxes	10,825	10,057	7.6%	21,599	20,192	7.0%
Utilities	4,123	4,463	(7.6%)	9,236	9,362	(1.3%)
Repairs and maintenance	5,683	6,045	(6.0%)	11,080	11,551	(4.1%)
Snow removal	—	34	(100.0%)	78	1,033	(92.4%)
Payroll and other expenses	6,366	6,084	4.6%	13,138	12,688	3.5%
Total Adjusted Cost of Operations	26,997	26,683	1.2%	55,131	54,826	0.6%
NOI	$ 65,660	$ 68,111	(3.6%)	$ 135,261	$ 134,572	0.5%
Selected Statistical Data						
NOI margin [(3)]	70.9%	71.9%	(1.4%)	71.0%	71.1%	(0.1%)
Weighted average square foot occupancy	92.4%	94.2%	(1.9%)	92.6%	94.5%	(2.0%)
Revenue per occupied square foot [(4)]	$ 15.64	$ 15.68	(0.3%)	$ 16.02	$ 15.63	2.5%
Revenue per available foot (RevPAF) [(5)]	$ 14.45	$ 14.78	(2.2%)	$ 14.84	$ 14.76	0.5%

(1) Included in the calculation of Same Park rental income is (a) lease buyout income of $257,000 and $780,000 for the three months ended June 30, 2020 and 2019, respectively, and $516,000 and $957,000 for the six months ended June 30, 2020 and 2019, respectively, (b) accounts receivable write-offs of $1.1 million and $342,000 for the three months ended June 30, 2020 and 2019, respectively, and $1.1 million and $522,000 for the six months ended June 30, 2020 and 2019, respectively, and (c) deferred rent receivable write-offs of $2.3 million and $149,000 for the three months ended June 30, 2020 and 2019, respectively, and $2.3 million and $235,000 for the six months ended June 30, 2020 and 2019, respectively.

(2) Adjusted Cost of Operations excludes the impact of stock compensation expense.

(3) NOI margin is computed by dividing NOI by rental income.

(4) Revenue per occupied square foot is computed by dividing rental income for the period by weighted average occupied square feet for the same period. Revenue per occupied square foot for the three and six month periods is annualized.

(5) Revenue per Available Square Foot (RevPAF) is computed by dividing rental income for the period by weighted average available square feet for the same period. RevPAF for the three and six month periods is annualized.

Analysis of Same Park Rental Income

Rental income for our Same Park portfolio decreased 2.3% for the three months ended June 30, 2020 as compared to the same period in 2019. The three month decrease was primarily due to a decrease in weighted average occupancy combined with previously mentioned write-offs of accounts receivable and deferred rent receivable of $1.1 million and $2.3 million, respectively. The following table details the change in Same Park rental income from Q2 2019 to Q2 2020 *(in thousands)*:

	Q2 2020 Compared to Q2 2019	
Rental income	**$ Change**	**% Change**
Base rental rate	$ 3,290	3.5%
Occupancy	(1,371)	(1.4%)
Expense recovery income	(128)	(0.1%)
Fee income	(156)	(0.2%)
Lease buyout income	(523)	(0.6%)
Rent receivable write-off	(738)	(0.8%)
Deferrals and abatements	(4,503)	(4.8%)
Amortization of deferred rent receivable and other GAAP income	4,163	4.4%
Deferred rent receivable write-off	(2,171)	(2.3%)
Change in rental income	**$ (2,137)**	**(2.3%)**

Rental income for our Same Park portfolio increased 0.5% for the six months ended June 30, 2020 as compared to the same period in 2019. The six month increase was due primarily to higher rental rates charged to our customers, as revenue per occupied square foot increased 2.5% in the six months ended June 30, 2020 compared to the same period in 2019, partially offset by a decrease in weighted average occupancy and the above mentioned write-offs of accounts receivable and deferred rent receivable during the three months ended June 30, 2020.

Although we observed reductions in tour volume and park activity in general from pre-COVID levels, we executed leases on 1.7 million and 3.5 million square feet during the three and six months ended June 30, 2020, respectively, exceeding leasing production for both the three and six months ended June 30, 2019 which was 1.6 million and 3.1 million square feet, respectively. Weighted average cash rental rate growth on leases executed during the three and six months ended June 30, 2020, was 2.3% and 6.2%, respectively. Renewals of leases with existing customers represented 64.1% of our leasing activity for the six months ended June 30, 2020. See “Analysis of Same Park Market Trends” below for further analysis of such data on a by market basis.

Our future revenue growth will come primarily from contractual rental increases as well as from potential increases in market rents allowing us to increase rent levels when leases are either renewed with existing customers or re-leased to new customers. The following table sets forth the expirations of existing leases in our Same Park portfolio over the next five years based on lease data at June 30, 2020 *(dollars and square feet in thousands)*:

Year of Lease Expiration	**Number of Customers**	**Rentable Square Footage Subject to Expiring Leases**	**Percent of Total Leased Square Footage**	**Annualized Rental Income Under Expiring Leases**	**Percent of Annualized Rental Income Represented by Expiring Leases**
Remainder of 2020	1,076	2,566	10.7%	$ 45,636	10.9%
2021	1,509	5,177	21.7%	89,073	21.2%
2022	1,020	5,002	20.9%	90,146	21.5%
2023	531	3,801	15.9%	62,651	14.9%
2024	315	2,711	11.3%	48,524	11.5%
Thereafter	230	4,652	19.5%	84,197	20.0%
Total	4,681	23,909	100.0%	$ 420,229	100.0%

Analysis of Same Park Adjusted Cost of Operations

Adjusted Cost of Operations for our Same Park portfolio increased 1.2% and 0.6% for the three and six months ended June 30, 2020, respectively, as compared to the same periods in the prior year. The three and six month increases were due primarily to higher property taxes partially offset by lower repairs and maintenance costs and lower utility costs. The six month increase was also partially offset by savings from snow removal costs.

Property taxes increased 7.6% and 7.0% for the three and six months ended June 30, 2020, respectively, as compared to the same periods in the prior year. These increases were due to higher assessed values. We expect potential further property tax growth in the future due to higher assessed values.

Utilities are dependent upon energy prices and usage levels. Changes in usage levels are driven primarily by weather and temperature. Utilities decreased 7.6% and 1.3% during the three and six months ended June 30, 2020, respectively, as compared to the same periods in the prior year due to a rate reduction related to adopting a renewable energy program during the three months ended June 30, 2020 as well as reduced water and electricity usage due to the COVID-19 pandemic. It is difficult to estimate future utility costs, because weather, temperature and energy prices are volatile and not readily predictable. However, we expect that utility costs during the remaining quarters of 2020 to be higher compared to our results for the three months ended June 30, 2020 due to increased traffic at our parks as our customers start to resume normal operations and seasonal nature of utility costs.

Repairs and maintenance expense decreased 6.0% and 4.1% for the three and six months ended June 30, 2020, respectively, as compared to the same periods in the prior year due to a reduction in general repairs and property services as a result of the COVID-19 pandemic. Repairs and maintenance costs are dependent upon many factors including weather conditions, which can impact repair and maintenance needs, inflation in material and labor costs and random events, and as a result are not readily predictable. We expect that repairs and maintenance costs during the remaining quarters of 2020 to be higher compared to our results for the three months ended June 30, 2020 due to our services recommencing as our customers start to resume normal operations combined with increased security and janitorial services.

Snow removal costs decreased 92.4% during the six months ended June 30, 2020 as compared to the same period in the prior year. The six month decrease was due to milder weather in 2020 in our Northern Virginia and Suburban Maryland markets compared to the same period in 2019. Snow removal costs are weather dependent and therefore not predictable.

Payroll and other expenses increased 4.6% and 3.5% for the three and six months ended June 30, 2020, respectively, as compared to the same periods in the prior year. Payroll and other expenses are comprised of on site and supervisory personnel, property insurance and other expenses incurred in the operation of our properties. The three and six month increases were primarily due to an increase in our property insurance premium for the policy period June 2019 to May 2020. We expect increases in payroll and other expenses for the remainder of 2020 to be similar to the increases experienced in the six month period ended June 30, 2020.

Same Park Quarterly Trends

The following table sets forth historical quarterly data related to the operations of our Same Park portfolio for rental income, Adjusted Cost of Operations, weighted average occupancy, annualized revenue per occupied square foot, and RevPAF *(in thousands, except per square foot data)*:

	For the Three Months Ended			
	March 31	June 30	September 30	December 31
Rental income [1]				
2020	$ 97,735	$ 92,657	$ —	$ —
2019	$ 94,604	$ 94,794	$ 95,137	$ 97,415
Adjusted Cost of Operations [2]				
2020	$ 28,134	$ 26,997	$ —	$ —
2019	$ 28,143	$ 26,683	$ 27,452	$ 27,281
NOI [3]				
2020	$ 69,601	$ 65,660	$ —	$ —
2019	$ 66,461	$ 68,111	$ 67,685	$ 70,134
Weighted average square foot occupancy				
2020	92.9%	92.4%	—	—
2019	94.7%	94.2%	94.7%	94.4%
Revenue per occupied square foot [4]				
2020	$ 16.40	$ 15.64	$ —	$ —
2019	$ 15.57	$ 15.68	$ 15.66	$ 16.09
RevPAF [5]				
2020	$ 15.24	$ 14.45	$ —	$ —
2019	$ 14.75	$ 14.78	$ 14.83	$ 15.19

(1) Included in the calculation of Same Park rental income is (a) lease buyout income of $177,000, $780,000, $183,000, $232,000, $259,000, and $257,000 for the three months ended March 31, 2019, June 30, 2019, September 30, 2019, December 31, 2019, March 31, 2020, and June 30, 2020, respectively, (b) accounts receivable write-offs of $180,000, $342,000, $321,000, $190,000, $53,000, and $1.1 million for the three months ended March 31, 2019, June 30, 2019, September 30, 2019, December 31, 2019, March 31, 2020, and June 30, 2020, respectively, and (c) deferred rent receivable write-offs of $86,000, $149,000, $126,000, $147,000, $0, and $2.3 million for the three months ended March 31, 2019, June 30, 2019, September 30, 2019, December 31, 2019, March 31, 2020, and June 30, 2020, respectively.

(2) Adjusted Cost of Operations excludes stock compensation expense for employees whose compensation expense is recorded in cost of operations, which can vary significantly period to period based upon the performance of the Company.

(3) NOI represents rental income less Adjusted Cost of Operations.

(4) Revenue per occupied square foot is computed by dividing rental income for the period by weighted average occupied square feet for the same period. Revenue per occupied square foot for the three and six month periods is annualized.

(5) RevPAF is computed by dividing rental income for the period by weighted average available square feet for the same period. RevPAF for the three and six month periods is annualized.

Analysis of Same Park Market Trends

The following tables set forth rental income, Adjusted Cost of Operations, weighted average occupancy, annualized revenue per occupied square foot, and RevPAF data in our Same Park portfolio *(in thousands, except per square foot data):*

Region	For the Three Months Ended June 30, 2020	For the Three Months Ended June 30, 2019	Change	For the Six Months Ended June 30, 2020	For the Six Months Ended June 30, 2019	Change
Geographic Data on Same Park						
Rental income						
Northern California (7.2 million feet)	$ 26,550	$ 26,783	(0.9%)	$ 53,631	$ 52,839	1.5%
Southern California (3.3 million feet)	12,682	13,542	(6.4%)	26,921	27,149	(0.8%)
Dallas (2.9 million feet)	8,146	8,681	(6.2%)	16,831	17,001	(1.0%)
Austin (2.0 million feet)	8,149	7,786	4.7%	16,468	15,414	6.8%
Northern Virginia (3.9 million feet)	17,405	18,266	(4.7%)	35,626	37,132	(4.1%)
South Florida (3.9 million feet)	10,304	10,725	(3.9%)	21,464	21,616	(0.7%)
Seattle (1.4 million feet) [(1)]	4,642	4,179	11.1%	9,526	8,363	13.9%
Suburban Maryland (1.1 million feet)	4,779	4,832	(1.1%)	9,925	9,884	0.4%
Total Same Park (25.7 million feet)	92,657	94,794	(2.3%)	190,392	189,398	0.5%
Adjusted Cost of Operations						
Northern California	6,052	5,786	4.6%	12,218	11,830	3.3%
Southern California	3,349	3,491	(4.1%)	7,074	7,037	0.5%
Dallas	3,196	2,926	9.2%	6,241	5,838	6.9%
Austin	2,963	2,886	2.7%	5,922	5,610	5.6%
Northern Virginia	5,747	5,904	(2.7%)	11,964	12,986	(7.9%)
South Florida	2,960	3,002	(1.4%)	5,952	5,885	1.1%
Seattle [(1)]	1,171	1,023	14.5%	2,448	2,024	20.9%
Suburban Maryland	1,559	1,665	(6.4%)	3,312	3,616	(8.4%)
Total Same Park	26,997	26,683	1.2%	55,131	54,826	0.6%
Net operating income						
Northern California	20,498	20,997	(2.4%)	41,413	41,009	1.0%
Southern California	9,333	10,051	(7.1%)	19,847	20,112	(1.3%)
Dallas	4,950	5,755	(14.0%)	10,590	11,163	(5.1%)
Austin	5,186	4,900	5.8%	10,546	9,804	7.6%
Northern Virginia	11,658	12,362	(5.7%)	23,662	24,146	(2.0%)
South Florida	7,344	7,723	(4.9%)	15,512	15,731	(1.4%)
Seattle [(1)]	3,471	3,156	10.0%	7,078	6,339	11.7%
Suburban Maryland	3,220	3,167	1.7%	6,613	6,268	5.5%
Total Same Park	$ 65,660	$ 68,111	(3.6%)	$ 135,261	$ 134,572	0.5%
Weighted average square foot occupancy						
Northern California	91.0%	95.8%	(5.0%)	91.2%	96.2%	(5.2%)
Southern California	95.3%	94.7%	0.6%	95.0%	95.2%	(0.2%)
Dallas	89.7%	92.7%	(3.2%)	90.0%	92.5%	(2.7%)
Austin	93.9%	91.3%	2.8%	94.7%	91.0%	4.1%
Northern Virginia	92.8%	94.7%	(2.0%)	92.5%	94.2%	(1.8%)
South Florida	92.4%	94.5%	(2.2%)	93.2%	95.4%	(2.3%)
Seattle [(1)]	97.4%	94.9%	2.6%	98.2%	95.5%	2.8%
Suburban Maryland	89.4%	88.7%	0.8%	90.3%	88.7%	1.8%
Total Same Park	92.4%	94.2%	(1.9%)	92.6%	94.5%	(2.0%)
Revenue per occupied square foot [(2)]						
Northern California	$ 16.12	$ 15.44	4.4%	$ 16.24	$ 15.17	7.1%
Southern California	$ 16.21	$ 17.43	(7.0%)	$ 17.27	$ 17.38	(0.6%)
Dallas	$ 12.58	$ 12.96	(2.9%)	$ 12.95	$ 12.72	1.8%
Austin	$ 17.67	$ 17.38	1.7%	$ 17.71	$ 17.26	2.6%
Northern Virginia	$ 19.15	$ 19.69	(2.7%)	$ 19.67	$ 20.12	(2.2%)
South Florida	$ 11.53	$ 11.74	(1.8%)	$ 11.91	$ 11.72	1.6%
Seattle [(1)]	$ 14.12	$ 13.04	8.3%	$ 14.37	$ 12.98	10.7%
Suburban Maryland	$ 18.63	$ 18.99	(1.9%)	$ 19.16	$ 19.40	(1.2%)
Total Same Park	$ 15.64	$ 15.68	(0.3%)	$ 16.02	$ 15.63	2.5%
RevPAF [(3)]						
Northern California	$ 14.66	$ 14.79	(0.9%)	$ 14.80	$ 14.59	1.4%
Southern California	$ 15.45	$ 16.50	(6.4%)	$ 16.40	$ 16.54	(0.8%)
Dallas	$ 11.29	$ 12.03	(6.2%)	$ 11.66	$ 11.78	(1.0%)
Austin	$ 16.61	$ 15.87	4.7%	$ 16.78	$ 15.70	6.9%
Northern Virginia	$ 17.77	$ 18.65	(4.7%)	$ 18.19	$ 18.96	(4.1%)
South Florida	$ 10.66	$ 11.10	(4.0%)	$ 11.10	$ 11.18	(0.7%)
Seattle [(1)]	$ 13.75	$ 12.38	11.1%	$ 14.11	$ 12.39	13.9%
Suburban Maryland	$ 16.70	$ 16.88	(1.1%)	$ 17.34	$ 17.26	0.5%
Total Same Park	$ 14.45	$ 14.78	(2.2%)	$ 14.84	$ 14.76	0.5%

(1) Two industrial buildings totaling 40,000 square feet located in Redmond, Washington, have been classified as held for sale as of June 30, 2020, which are subject to an eminent domain process. As such, these buildings have been removed from Same Park results for the three and six months ended June 30, 2020 and 2019.

(2) Revenue per occupied square foot is computed by dividing rental income for the period by weighted average occupied square feet for the same period. Revenue per occupied square foot for the three and six month periods is annualized.

(3) RevPAF is computed by dividing rental income for the period by weighted average available square feet for the same period. RevPAF for the three and six month periods is annualized.

Our past revenue growth has come from contractual annual rent increases, as well as re-leasing of space at rates above outgoing rental rates. We believe the percentage difference between outgoing cash rent inclusive of estimated expense recoveries and incoming cash rent inclusive of estimated expense recoveries for leases executed (the "Cash Rental Rate Change") is useful in understanding trends in current market rates relative to our existing lease rates. The following tables summarize the Cash Rental Rate Change and other key statistical information with respect to the Company's leasing production for its Same Park portfolio, on a regional basis, for the three and six months ended June 30, 2020 *(square feet in thousands)*:

	For the Three Months Ended June 30, 2020			
Regions	**Square Footage Leased**	**Customer Retention**	**Transaction Costs per Executed Foot**	**Cash Rental Rate Change** [(1)]
Northern California	531	85.0%	$ 2.61	14.8%
Southern California	265	71.1%	$ 2.05	(3.6%)
Dallas	177	55.6%	$ 2.47	2.3%
Austin	85	64.5%	$ 3.75	(4.7%)
Northern Virginia	203	72.0%	$ 3.89	(5.9%)
South Florida	370	56.2%	$ 0.74	(2.2%)
Seattle	54	56.0%	$ 0.65	4.5%
Suburban Maryland	36	52.3%	$ 4.87	(3.2%)
Total	1,721	66.0%	$ 2.30	2.3%

	For the Six Months Ended June 30, 2020			
Regions	**Square Footage Leased**	**Customer Retention**	**Transaction Costs per Executed Foot**	**Cash Rental Rate Change** [(1)]
Northern California	900	80.8%	$ 2.65	15.2%
Southern California	600	70.2%	$ 2.39	3.3%
Dallas	374	56.2%	$ 3.09	3.0%
Austin	174	63.3%	$ 3.59	0.6%
Northern Virginia	550	75.4%	$ 5.45	(1.1%)
South Florida	549	54.1%	$ 1.00	1.0%
Seattle	316	82.4%	$ 0.78	23.2%
Suburban Maryland	84	57.9%	$ 7.59	0.9%
Total	3,547	68.6%	$ 2.83	6.2%

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(1) Cash Rental Rate Change is computed by taking the percentage difference between the incoming initial billed monthly cash rental rates inclusive of estimated expense recoveries (excluding the impact of certain items such as concessions or future escalators) on new leases or extensions executed in the period, and the outgoing monthly cash rental rates inclusive of estimated expense recoveries last billed on the previous lease for that space. Leases executed on spaces vacant for more than the preceding twelve months have been excluded from this measure.

The COVID-19 pandemic has negatively affected occupancy levels as well as rent growth on leasing production across our portfolio subsequent to March 31, 2020. For the three months ended June 30, 2020, weighted average occupancy was 92.4% and weighted average cash rental rate growth was 2.3%, a decrease from weighted average occupancy of 92.9% and weighted average cash rental rate growth of 9.5% for the three months ended March 31, 2020. Average lease term of the leases executed during the three months ended June 30, 2020 was 3.2 years, with associated average transaction costs (tenant improvements and leasing commissions) of $2.30 per square foot. For comparative purposes, average lease term and transaction costs on leases executed in the same period of 2019 were 3.8 years and $3.61 per square foot, respectively. Due to the uncertainty of the COVID-19 pandemic's impact on the Company's future ability to maintain existing occupancy levels, possible decreases in rental rates on new and renewal transactions, and the negative effect of rent deferrals, rent abatements, and customer defaults, we believe it is likely we will experience comparable quarterly Same Park rental income for the remaining quarters of 2020 when compared to our results for the three months ended June 30, 2020.

Non-Same Park Portfolio: The table below reflects the assets comprising our Non-Same Park portfolio *(in thousands):*

Property	Date Acquired	Location	Purchase Price	Square Feet	Occupancy at Acquisition	Occupancy at June 30, 2020
La Mirada Commerce Center	January, 2020	La Mirada, CA	$ 13,513	73	100.0%	97.6%
San Tomas Business Center	December, 2019	Santa Clara, CA	16,787	79	95.6%	86.2%
Hathaway Industrial Park	September, 2019	Santa Fe Springs, CA	104,330	543	100.0%	39.3%
Walnut Avenue Business Park	April, 2019	Signal Hill, CA	13,824	74	98.4%	96.7%
Northern Virginia and Fullerton Road Industrial Parks	June, 2018	Lorton and Springfield, VA	143,766	1,057	76.1%	89.5%
Total			$ 292,220	1,826	85.9%	75.0%

We believe that our management and operating infrastructure typically allows us to generate higher NOI from newly acquired real estate facilities than was achieved by the previous owners. However, it can take 24 or more months for us to fully achieve higher NOI, and the ultimate levels of NOI to be achieved can be affected by changes in general economic conditions. Due to the uncertainty of the COVID-19 pandemic's impact on the Company's ability to generate higher NOI from these newly acquired real estate facilities in the future, there can be no assurance that we will achieve our expectations with respect to newly acquired real estate facilities.

Multifamily: As of June 30, 2020, we have a 95.0% controlling interest in Highgate at the Mile, a 395-unit apartment complex. The following table summarizes the historical operating results of Highgate at the Mile and certain statistical information *(in thousands, except per unit data)*:

	For the Three Months Ended June 30,			For The Six Months Ended June 30,		
	2020	2019	Change	2020	2019	Change
Rental income	$ 2,488	$ 2,475	0.5%	$ 5,048	$ 4,973	1.5%
Cost of operations	1,002	1,002	—	2,018	2,073	(2.7%)
NOI	$ 1,486	$ 1,473	0.9%	$ 3,030	$ 2,900	4.5%
Selected Statistical Data						
Weighted average square foot occupancy	91.7%	95.4%	(3.8%)	93.3%	95.2%	(2.0%)

	As of June 30, 2020
Total costs [(1)]	$ 115,426
Physical occupancy	90.6%
Average rent per unit [(2)]	$ 2,142

(1) The project cost for Highgate at The Mile includes the underlying land at its assigned contribution value upon formation of the joint venture of $27.0 million, which includes unrealized land appreciation of $6.0 million that is not recorded on our balance sheet.

(2) Average rent per unit is defined as the total potential monthly rental income (actual rent for occupied apartment units plus market rent for vacant apartment units) divided by the total number of rentable apartment units.

Due to the uncertainty of the COVID-19 pandemic's impact on the Company's future ability to maintain existing occupancy levels and rental rates at Highgate at The Mile, management expects the COVID-19 pandemic will continue to adversely impact quarterly rental income for the remaining quarters of 2020.

Assets sold or held for sale: These amounts include historical operating results with respect to properties that we sold or are held for sale. Amounts for the three months ended June 30, 2020 reflect the operating results related to two industrial buildings totaling 40,000 square feet reclassified to properties held for sale, net during the three months ended June 30, 2020; amounts for the six months ended June 30, 2020 reflect the operating results related to two industrial buildings totaling 40,000 square feet and a 113,000 square foot asset sold in January, 2020; amounts for the three and six months ended June 30, 2019 reflect the operating results related to the two industrial buildings totaling

40,000 square feet, the 113,000 square foot asset sold in 2020, and 1.3 million square feet of flex and office sold in October, 2019.

Depreciation and Amortization Expense: Depreciation and amortization expense was $23.0 million and $49.6 million for the three and six months ended June 30, 2020, respectively, compared to $24.8 million and $49.6 million for the same periods in 2019, respectively.

General and Administrative Expense: General and administrative expense primarily represents executive and other compensation, audit and tax fees, legal expenses and other costs associated with being a public company. For the three and six months ended June 30, 2020, general and administrative expense increased $177,000, or 6.3%, and $267,000, or 4.4%, respectively, compared to the same periods in 2019. The three and six month increases were primarily due to an increase in compensation expense and an increase in professional fees related to various corporate service projects.

Gain on sale of real estate facility: On January 7, 2020, we sold a 113,000 square foot office building located at Metro Park North in Montgomery County, Maryland, for net sale proceeds of $29.3 million, which resulted in a gain of $19.6 million.

Liquidity and Capital Resources

This section should be read in conjunction with our consolidated statements of cash flows for the six months ended June 30, 2020 and 2019 and the notes to our consolidated financial statements, which set forth the major components of our historical liquidity and capital resources. The discussion below sets forth the factors which we expect will affect our future liquidity and capital resources or which may vary substantially from historical levels.

Capital Raising Strategy: As a REIT, we generally distribute substantially all of our “REIT taxable income” to our shareholders, which relative to a taxable C corporation, limits the amount of cash flow from operations that we can retain for investment purposes. As a result, in order to grow our asset base, access to capital is important.

Our financial profile is characterized by strong credit metrics, including low leverage relative to our total capitalization and operating cash flows. We are a highly rated REIT, as determined by Moody’s and Standard & Poor’s. Our corporate credit rating by Standard and Poor’s is A-, while our preferred shares are rated BBB by Standard and Poor’s and Baa2 by Moody’s. We believe our credit profile and ratings will enable us to efficiently access both the public and private capital markets to raise capital, as necessary.

In order to maintain efficient access to the capital markets, we target a minimum ratio of FFO (as defined below) to combined fixed charges and preferred distributions of 3.0 to 1.0. Ratio of FFO to fixed charges and preferred distributions is calculated by dividing FFO excluding fixed charges and preferred distributions by fixed charges and preferred distributions. Fixed charges include interest expense, capitalized interest and preferred distributions paid to preferred shareholders. For the six months ended June 30, 2020, the ratio of FFO to combined fixed charges and preferred distributions paid was 5.7 to 1.0.

We have a $250.0 million revolving Credit Facility that can be expanded to $400.0 million and expires in January, 2022. We can use the Credit Facility as necessary as temporary financing until we are able to raise longer term capital. Historically, we have funded our long-term capital requirements with retained operating cash flow and proceeds from the issuance of common and preferred securities. We will select among these sources of capital based upon availability, relative cost, the impact of constraints on our operations (such as covenants), as well as the desire for leverage.

The COVID-19 pandemic has impacted the cost and availability of debt and equity capital, and may have intensified negative impacts if resurgent outbreaks of the virus occur. Based upon our substantial current liquidity relative to our capital requirements noted below, and our strong financial profile and credit ratings, we do not expect such capital market turbulence to have a material impact upon our capital and growth plans over the next 12 months. However, there can be no assurance that it would not in the future, if it were to persist for a long period of time or intensify.

Short-term Liquidity and Capital Resource Analysis: We believe that our net cash provided by our operating activities will continue to be sufficient to enable us to meet our ongoing requirements for debt service, capital expenditures and distributions to our shareholders for the foreseeable future.

As of June 30, 2020, we had $98.8 million in unrestricted cash. In the last five years, we have retained approximately $40 to $60 million in operating cash flow per year. Retained operating cash flow represents cash flow provided by operating activities, less shareholder and unit holder distributions and capital expenditures.

Required Debt Repayment: As of June 30, 2020, we have no debt outstanding on our Credit Facility. We are in compliance with all of the covenants and other requirements of our Credit Facility.

Capital Expenditures: We define recurring capital expenditures as those necessary to maintain and operate our real estate at its current economic value. Nonrecurring capital improvements generally are related to property renovations and expenditures related to repositioning asset acquisitions. The following table sets forth our commercial capital expenditures paid for in the six months ended June 30, 2020 and 2019, respectively, on an aggregate and per square foot basis:

	For the Six Months Ended June 30,			
	2020	**2019**	**2020**	**2019**
Commercial Real Estate	(in thousands)		(per square foot)	
Recurring capital expenditures				
Capital improvements	$ 4,788	$ 3,608	$ 0.17	$ 0.13
Tenant improvements	7,701	8,567	0.28	0.30
Lease commissions	3,336	3,373	0.12	0.12
Total commercial recurring capital expenditures	15,825	15,548	0.57	0.55
Nonrecurring capital improvements	213	1,955	0.01	0.07
Total commercial capital expenditures	$ 16,038	$ 17,503	$ 0.58	$ 0.62

The following table summarizes the recurring capital expenditures paid and the related percentage of NOI for Same Park, Non-Same Park, multifamily and assets sold or held for sale by region for the six months ended June 30, 2020 and 2019 *(in thousands)*:

	For the Six Months Ended June 30,				
	Recurring Capital Expenditures			**Recurring Capital Expenditures as a Percentage of NOI**	
	2020	**2019**	**Change**	**2020**	**2019**
Region					
Same Park					
Northern California	$ 3,229	$ 1,253	157.7%	7.8%	3.1%
Southern California	1,690	1,836	(8.0%)	8.5%	9.1%
Dallas	1,985	1,886	5.2%	18.7%	16.9%
Austin	686	1,756	(60.9%)	6.5%	17.9%
Northern Virginia	5,804	4,520	28.4%	24.5%	18.7%
South Florida	1,062	1,252	(15.2%)	6.8%	8.0%
Seattle	342	291	17.5%	4.8%	4.6%
Suburban Maryland	724	907	(20.2%)	10.9%	14.5%
Total Same Park	15,522	13,701	13.3%	11.5%	10.2%
Non-Same Park					
Northern California	26	—	100.0%		
Northern Virginia	261	1,317	(80.2%)		
Total Non-Same Park	287	1,317	(78.2%)		
Assets sold or held for sale	16	530	(97.0%)		
Total	$ 15,825	$ 15,548	1.8%		

In the last five years, our recurring capital expenditures have ranged between 11.5% and 16.3% as a percentage of NOI, and we expected full year 2020 recurring capital expenditures to fall within this range. While what we disclose herein with respect to capital expenditures represents our best estimates at this time, there can be no assurance that these amounts will not change substantially in the future for various reasons, including the potential impact of the COVID-19 pandemic on capital projects and leasing volume.

Redemption of Preferred Stock: Historically, we have reduced our cost of capital by refinancing higher coupon preferred securities with lower coupon preferred securities. Redemption of such preferred shares will depend upon many factors, including our cost of capital. None of our preferred securities are redeemable at the option of the holders.

Acquisitions of real estate facilities: On January 10, 2020, we acquired a multi-tenant industrial park comprised of approximately 73,000 rentable square feet in La Mirada, California, for a total purchase price of $13.5 million, inclusive of capitalized transaction costs. We continue to seek to acquire additional real estate facilities; however, there is significant competition to acquire existing facilities and there can be no assurance as to the volume of future acquisition activity.

Sale of real estate: During the three months ended June 30, 2020, the Company reclassified two industrial buildings totaling 40,000 square feet located in Redmond, Washington, to properties held for sale, net, which are subject to an eminent domain process that is expected to be completed later this year. On January 7, 2020, the Company sold a 113,000 square foot office building located at Metro Park North in Montgomery County, Maryland, for net sale proceeds of $29.3 million, which resulted in a gain of $19.6 million.

Development of real estate facilities: As noted above, we have a 123,000 square foot vacant building located within The Mile that we are seeking to redevelop into a multifamily property. There can be no assurance as to the timing or amount of any investment that may occur; however, the timing of this redevelopment project is within our control and as such, we will commence construction when we deem appropriate based on market conditions.

Repurchase of Common Stock: No shares of common stock were repurchased under the board-approved common stock repurchase program during the six months ended June 30, 2020 or the year ended December 31, 2019. As of June 30, 2020, management has the authorization to repurchase an additional 1,614,721 shares.

Requirement to Pay Distributions: Our election to be taxed as a REIT, as defined by the Code, applies to all periods presented herein. As a REIT, we do not incur federal income tax on our "REIT taxable income" that is distributed each year (for this purpose, certain distributions paid in a subsequent year may be considered), and we continue to meet certain organizational and operational requirements. We believe we have met these requirements in all periods presented herein, and we expect we will continue to qualify as a REIT in future periods.

We paid REIT qualifying distributions of $81.8 million ($24.1 million to preferred shareholders and $57.7 million to common shareholders) during the six months ended June 30, 2020.

We estimate the annual distribution requirements with respect to our preferred shares outstanding at June 30, 2020 to be $48.2 million per year.

Our consistent, long-term dividend policy has been to set dividend distribution amounts based on our taxable income. Future quarterly distributions with respect to common shares will continue to be determined based upon our REIT distribution requirements and, after taking into consideration distributions to preferred shareholders, we expect will be funded with cash provided by operating activities.

Funds from Operations, Core Funds from Operations, and Funds Available for Distributions

Funds from Operations ("FFO") is a non-GAAP measure defined by the National Association of Real Estate Investment Trusts and is considered a helpful measure of REIT performance by REITs and many REIT analysts. FFO represents GAAP net income before real estate depreciation and amortization expense, gains or losses on sales of operating properties and land and impairment charges on real estate assets.

We also present Core FFO and Funds Available for Distribution ("FAD") which are both also non-GAAP measures. Core FFO is defined by the Company as FFO excluding the net impact of (i) income allocated to preferred shareholders to the extent redemption value exceeds the related carrying value and (ii) other nonrecurring income or expense items as appropriate. FAD represents Core FFO adjusted to (i) deduct recurring capital improvements and capitalized tenant improvements and lease commissions and (ii) remove certain non-cash income or expenses such as amortization of deferred rent receivable and stock compensation expense.

For the three and six months ended June 30, 2020 and 2019, Core FFO was equal to FFO as the Company did not incur any preferred share redemption charges or any nonrecurring income or expenses in either period.

FFO for the three and six months ended June 30, 2020 was $1.59 per share and $3.30 per share, respectively, representing decreases of 9.5% and 3.6% from the same periods in 2019. On a per share basis, the write-offs of accounts receivable and deferred rent receivable reduced FFO by $0.03 and $0.07 per share, respectively, for the three and six months ended June 30, 2020.

The following table reconciles net income allocable to common shareholders to FFO, Core FFO and FAD as well as net income per share to FFO per share and Core FFO per share *(amounts in thousands, except per share data)*:

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2020		2019		2020		2019	
Net income allocable to common shareholders	$	25,522	$	28,579	$	67,137	$	54,900
Adjustments								
Gain on sale of real estate facility		—		—		(19,621)		—
Depreciation and amortization expense		22,963		24,768		49,582		49,643
Net income allocated to noncontrolling interests		6,795		7,623		17,887		14,650
Net income allocated to restricted stock unit holders		119		212		394		480
FFO allocated to JV partner		(38)		(37)		(81)		(66)
FFO allocable to diluted common shares and units	$	55,361	$	61,145	$	115,298	$	119,607
Core FFO allocable to diluted common shares and units	$	55,361	$	61,145	$	115,298	$	119,607
Adjustments								
Recurring capital improvements		(3,565)		(2,428)		(4,788)		(3,608)
Tenant improvements		(4,155)		(5,016)		(7,701)		(8,567)
Capitalized lease commissions		(1,254)		(1,417)		(3,336)		(3,373)
Amortization of deferred rent receivable		(2,513)		(652)		(3,281)		(1,309)
In-place lease adjustment		(71)		4		(137)		25
Tenant improvement reimbursement amortization, net of lease incentive amortization		(162)		(284)		(392)		(663)
Stock compensation expense		931		918		1,873		1,889
Cash paid for taxes in lieu of shares upon vesting of restricted stock units		(5)		(6)		(3,660)		(5,500)
FAD allocable to diluted common shares and units	$	44,567	$	52,264	$	93,876	$	98,501
Weighted average outstanding								
Common shares		27,479		27,426		27,464		27,400
Common operating partnership units		7,305		7,305		7,305		7,305
Restricted stock units		43		109		65		132
Common share equivalents		81		106		93		105
Total common and dilutive shares		34,908		34,946		34,927		34,942
Reconciliation of Earnings per Share to FFO per Share								
Net income per common share—diluted	$	0.93	$	1.04	$	2.44	$	2.00
Gain on sale of real estate facilities		—		—		(0.56)		—
Depreciation and amortization expense		0.66		0.71		1.42		1.42
FFO per share	$	1.59	$	1.75	$	3.30	$	3.42

We believe FFO, Core FFO and FAD assist investors in analyzing and comparing the operating and financial performance of a company's real estate between periods. FFO, Core FFO and FAD are not substitutes for GAAP net income. In addition, other REITs may compute FFO, Core FFO and FAD differently, which could inhibit comparability.

Off-Balance Sheet Arrangements: The Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a material effect on the Company's financial condition, results of operations, liquidity, capital expenditures or capital resources.

Contractual Obligations: We paid $24.1 million in distributions to our preferred shareholders for the six months ended June 30, 2020 and expect to continue to pay quarterly distributions of $12.0 million to our preferred shareholders for the foreseeable future or until such time as there is a change in the amount or composition of our series of preferred

equity outstanding. Dividends on preferred equity are paid when and if declared by the Company's Board and accumulate if not paid. Shares of preferred equity are redeemable by the Company in order to preserve its status as a REIT and are also redeemable five years after issuance, but are not redeemable at the option of the holder.

Our significant contractual obligations as of June 30, 2020 and their impact on our cash flow and liquidity are summarized below *(in thousands)*:

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**More than 5 years**
Transaction costs [1]	$ 12,342	$ 12,342	$ —	$ —	$ —
Ground lease obligations [2]	1,868	99	596	397	776
Total	$ 14,210	$ 12,441	$ 596	$ 397	$ 776

(1) Represents transaction costs, including tenant improvements and lease commissions, which we are committed to under the terms of executed leases.

(2) Represents future contractual payments on land under various operating leases.

ITEM 3. *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 of either common or preferred stock. The Company had no debt outstanding as of as of June 30, 2020.

Our exposure to market risk for changes in interest rates relates primarily to the Credit Facility, which is subject to variable interest rates. See Notes 2 and 5 to the consolidated financial statements included in this Quarterly Report on Form 10-Q for additional information regarding the terms, valuations and approximate principal maturities of the Company's indebtedness, including the Credit Facility.

ITEM 4. CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of June 30, 2020. These controls and procedures have been designed to ensure that information required for disclosure is recorded, processed, summarized and reported within the requisite time periods and that such information is accumulated and communicated to management. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of the Company's disclosure controls and procedures as of June 30, 2020, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of such date, the Company's disclosure controls and procedures were effective at the reasonable assurance level.

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. *LEGAL PROCEEDINGS*

The Company currently is not subject to any material legal proceedings other than ordinary routine litigation and administrative proceedings incidental to its business.

ITEM 1A. ***RISK FACTORS***

In addition to the other information in this Quarterly Report on Form 10-Q, you should carefully consider the risks described in our Annual Report on Form 10-K filed for the year ended December 31, 2019, in Part I, Item 1A, Risk Factors, and in our other filings with the SEC. These factors may materially affect our business, financial condition and operating results and could cause our actual results to differ materially from expectations. Except as described below, there have been no material changes to the risk factors relating to the Company disclosed in our Form 10-K for the year ended December 31, 2019.

In addition, in considering the forward-looking statements contained in this Form 10-Q and elsewhere, you should refer to the qualifications and limitations on our forward-looking statements that are described in Forward Looking Statements at the beginning of Part I, Item 2 of this Form 10-Q.

We are subject to risks from the COVID-19 pandemic and we may in the future be subject to risks from other public health crises.

Since being reported in December 2019, the COVID-19 pandemic has spread globally, including to every state in the United States, adversely affecting public health and economic activity. Our business is subject to risks from the COVID-19 pandemic, including, among others:

- risks associated with the COVID-19 pandemic, including but not limited to illness or death of our employees or customers, negative impacts to the economic environment and to our customers which could reduce the demand for commercial property space or reduce our ability to collect rent, or potential regulatory action to close certain of our facilities that were determined not to be an “essential business” or for other reasons;

- risk that even after the initial restrictions due to the COVID-19 pandemic ease, they could be reinstituted in case of future waves of infection or if additional pandemics occur;

- risk that the economic effects of the COVID-19 pandemic could reduce consumer confidence and result in an elevated level of move-outs of our long-term customers, resulting in a reduction in rental income due to occupancy reductions and increased “rent roll down” due to new customers having lower rental rates than departing customers; and

- risk of negative impacts on the cost and availability of debt and equity capital as a result of the COVID-19 pandemic, which could have a material impact upon our capital and growth plans.

We believe that the degree to which the COVID-19 pandemic adversely impacts our business, operating results, cash flows and/or financial condition will be driven primarily by the duration, spread and severity of the pandemic, all of which are uncertain and difficult to predict. As a result, we are not able at this time to estimate the effect of these factors on our business, but the adverse impact on our business, results of operations, financial condition and cash flows could be material. Future public health crises could have similar impacts.

ITEM 2. ***UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS***

The Company’s Board of Directors has authorized the repurchase, from time to time, of up to 6.5 million shares of the Company’s common stock on the open market or in privately negotiated transactions. The authorization has no expiration date. Purchases will be made subject to market conditions and other investment opportunities available to the Company.

During the three months ended June 30, 2020, there were no shares of the Company’s common stock repurchased. As of June 30, 2020, 1,614,721 shares remain available for purchase under the program.

See Note 10 to the consolidated financial statements for additional information on repurchases of equity securities.

ITEM 6. *EXHIBITS*

Exhibits Number	Description
Exhibit 31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
Exhibit 31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
Exhibit 32.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith.
Exhibit 101.INS	Inline XBRL Instance Document. Filed herewith.
Exhibit 101.SCH	Inline XBRL Taxonomy Extension Schema. Filed herewith.
Exhibit 101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase. Filed herewith.
Exhibit 101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase. Filed herewith.
Exhibit 101.LAB	Inline XBRL Taxonomy Extension Label Linkbase. Filed herewith.
Exhibit 101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase. Filed herewith.
Exhibit 104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

SIGNATURES

Pursuant to the requirements 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: August 4, 2020

PS BUSINESS PARKS, INC.

BY: /s/ Jeffrey D. Hedges

Jeffrey D. Hedges
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 31.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John W. Petersen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PS Business Parks, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ John W. Petersen
Name: John W. Petersen
Title: Interim Chief Executive Officer
Date: August 4, 2020

Exhibit 31.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jeffrey D. Hedges, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PS Business Parks, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Jeffrey D. Hedges
Name: Jeffrey D. Hedges
Title: Chief Financial Officer
Date: August 4, 2020

Exhibit 32.1

Certification of CEO and CFO Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q of PS Business Parks, Inc. (the “Company”) for the period ending June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), John W. Petersen, as Interim Chief Executive Officer of the Company and Jeffrey D. Hedges, as Chief Financial Officer of the Company each hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John W. Petersen
Name: John W. Petersen
Title: Interim Chief Executive Officer
Date: August 4, 2020

/s/ Jeffrey D. Hedges
Name: Jeffrey D. Hedges
Title: Chief Financial Officer
Date: August 4, 2020