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

FORM 10-K

[X] **Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2001.

or

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

For the transition period from _____ to _____

Commission File Number 1-10709

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

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

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

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

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

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value.....	American Stock Exchange
Depositary Shares Each Representing 1/1,000 of a Share of 9 ¼% Cumulative Preferred Stock, Series A, $0.01 par value .	American Stock Exchange
Depositary Shares Each Representing 1/1,000 of a Share of 9 ½% Cumulative Preferred Stock, Series D, $0.01 par value .	American Stock Exchange
Depositary Shares Each Representing 1/1,000 of a Share of 8 ¾% Cumulative Preferred Stock, Series F, $0.01 par value ..	American Stock Exchange

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

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

Yes X No _____

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 12, 2002:

Common Stock, $0.01 par value, $341,188,658 (computed on the basis of $34.39 per share which was the reported closing sale price of the Company's Common Stock on the American Stock Exchange on March 12, 2002).

The number of shares outstanding of the registrant's class of common stock, as of March 14, 2002:

Common Stock, $0.01 par value, 21,546,449 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement to be filed in connection with the annual shareholders' meeting to be held in 2002 are incorporated by reference into Part III.

PART I.

ITEM 1. BUSINESS

The Company

PS Business Parks, Inc. ("PSB") is a fully-integrated, self-advised and self-managed real estate investment trust ("REIT") that acquires, develops, owns and operates commercial properties, primarily flex, multi-tenant office and industrial space. As of December 31, 2001, PSB owned approximately 75% of the common partnership units of PS Business Parks, L.P. (the "Operating Partnership" or "OP"). The remaining common partnership units were owned by Public Storage, Inc. ("PSI") and its affiliated entities. PSB, as the sole general partner of the Operating Partnership, has full, exclusive and complete responsibility and discretion in managing and controlling the Operating Partnership. Unless otherwise indicated or unless the context requires otherwise, all references to "the Company" mean PS Business Parks, Inc. and its subsidiaries, including the Operating Partnership.

As of December 31, 2001, the Company owned and operated approximately 14.8 million net rentable square feet of commercial space located in 9 states, representing a 17.5% increase in commercial square footage from December 31, 2000. The Company also managed approximately 1.7 million net rentable square feet on behalf of PSI and its affiliated entities, third party owners and a joint venture in which the Company held a 25% ownership interest.

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

AOPP was originally organized in 1986 as a California corporation to serve as the manager of the commercial properties owned by PSI and its affiliated entities. In January 1997, AOPP was reorganized to succeed to the commercial property business of PSI, becoming a fully integrated, self-advised and self-managed REIT. AOPP conducted substantially all of its business as the sole general partner of the Operating Partnership. In 1997, as part of a reorganization, PSI and its consolidated partnerships contributed properties containing 2.9 million square feet of commercial space to AOPP and the Operating Partnership. During the remainder of 1997, AOPP acquired approximately 2 million square feet of additional commercial space from the Acquiport Corporations, subsidiaries of the New York State Common Retirement Fund, and approximately 0.6 million square feet of additional commercial space from other unaffiliated third parties.

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

During 1999, the Company acquired approximately 1.3 million square feet of commercial space from unaffiliated third parties: 483,000 square feet in Texas, 405,000 square feet in Northern Virginia and Maryland, 211,000 square feet in Northern California and 200,000 square feet in Arizona. In addition, the Company completed a 61,000 square foot development in Texas and a 66,000 square foot development in Oregon.

During 2000, the Company acquired 0.3 million square feet of commercial space from Acquiport Two Corporation and 0.5 million square feet of commercial space from unaffiliated third parties: 454,000 square feet in Southern California, 210,000 square feet in Northern Virginia and 178,000 square feet in Northern California. In addition, the Company completed a 22,000 square foot development in Oregon. During 2000, the Company also disposed of 627,000 square feet of properties that did not meet its ongoing strategy. These dispositions resulted in aggregate net proceeds of $23.8 million.

During 2001, the Company acquired 2.2 million square feet from unaffiliated third parties: 658,000 square feet in Northern Virginia, 685,000 square feet in Oregon and 905,000 square feet in Maryland. In addition, the Company completed a 97,000 square foot development in Oregon, a 141,000 square foot development in Northern Virginia and a 102,000 square foot development in Texas. During 2001, the Company also disposed of a 77,000 square foot property in San Diego, California and contributed 294,000 square feet of industrial space in Southern California to a joint venture.

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

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

Business of the Company: The commercial properties owned by the Company consist of flex space, office space and industrial space. The Company owns approximately 11.2 million square feet of flex space. The Company defines "flex" space as buildings that are configured with a combination of part warehouse space and part office space and can be designed to fit a wide variety of uses. The warehouse component of the flex space has a variety of uses including light manufacturing and assembly, storage and warehousing, showroom, laboratory, distribution and research and development activities. The office component of flex space is complementary to the warehouse component by enabling businesses to accommodate management and production staff in the same facility. The Company also owns approximately 2.5 million square feet of low-rise suburban office space generally either in business parks that combine office and flex space or in desirable submarkets where the economics of the market demand an office build-out and approximately 1.1 million square feet of industrial space that have characteristics similar to the warehouse component of the flex space.

The Company's commercial properties typically consist of one to ten low-rise buildings located on three to fifty acres and containing from approximately 20,000 to 700,000 square feet of rentable space in the aggregate. Facilities are managed through either on-site management or area offices central to the facilities. Parking is open or covered. The ratio of parking spaces to rentable square feet ranges from two to six per thousand square feet depending upon the use of the property and its location. Office space generally requires a greater parking ratio than most industrial uses. The Company may acquire properties that do not have these characteristics.

The tenant base for the Company's facilities is diverse. The facilities can be bifurcated into those facilities that service small to medium-sized businesses and those that service larger businesses. Approximately 30% of the annual rents from the portfolio are from facilities that serve small to medium-sized businesses. A property in this facility type is typically divided into units ranging in size from 500 to 5,000 square feet and leases generally range from one to three years. The remaining 70% of the income is derived from facilities that serve larger businesses, with units ranging from 5,000 square feet to multiple buildings leased to a single tenant. The U.S. Government is the largest tenant and leases 361,000 square feet or approximately 3.7% of the Company's portfolio.

The Company intends to continue acquiring commercial properties located throughout the United States. The Company's policy of acquiring commercial properties may be changed by its Board of Directors without shareholder approval. However, the Board of Directors has no intention of changing this policy at this time. Although the Company currently owns properties in nine states, it may expand its operations to other states.

Properties are acquired for both income and potential capital appreciation; there is no limitation on the amount that can be invested in any specific property.

The Company may acquire land for the development of commercial properties. In general, the Company expects to acquire land that is adjacent to commercial properties that the Company already owns or is acquiring. The Company completed development of three facilities in 2001 and currently has no projects under development. The Company owned approximately 6.4 acres of land held for development in Northern Virginia, 27.3 acres in Portland, Oregon and 10.0 acres in Dallas, Texas as of December 31, 2001.

Operating Partnership

The properties in which the Company has an equity interest will generally be owned by the Operating Partnership. The Company has the ability to acquire interests in additional properties in transactions that could defer the contributors' tax consequences by causing the Operating Partnership to issue equity interests in return for interests in properties.

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

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

Summary of the Operating Partnership Agreement

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

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

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

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

Preferred Units: As of December 31, 2001, the Operating Partnership had 7,910,000 preferred units owned by third parties with distribution rates ranging from 8 ¾% to 9 ¼% (per annum) with an aggregate stated value of $197,750,000. The Operating Partnership has the right to redeem the preferred units on or after the fifth anniversary of the issuance date at the original capital contribution plus the cumulative priority return, as defined, to the redemption date to the extent not previously distributed. Each series of preferred units is exchangeable for Cumulative Redeemable Preferred Stock of the respective series of PS Business Parks, Inc. on or after the tenth anniversary of the date of issuance at the option of the Operating Partnership or a majority of the holders of the applicable series of preferred units.

As of December 31, 2001, the Company owned 2,200,000 preferred units with a stated value of $55 million with terms substantially identical to the terms of the publicly traded depositary shares each representing 1/1,000 of a share of 9 ¼% Cumulative Preferred Stock, Series A of the Company and 2,640,000 preferred units with a stated value of $66 million with terms substantially identical to the terms of the publicly traded depositary shares each representing 1/1,000 of a share of 9 ½% Cumulative Preferred Stock, Series D of the Company. In addition, during January 2002, the Company acquired 2,000,000 preferred units with a stated value of $50 million with terms substantially identical to the terms of the publicly traded depositary shares each representing 1/1,000 of a share of 8 ¾% Cumulative Preferred Stock, Series F of the Company.

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

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

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

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

to transact business for, or participate in the management activities or decisions of, the Operating Partnership except as provided in the Operating Partnership Agreement and as permitted by applicable law.

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

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

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

The foregoing provision of the Operating Partnership Agreement would under no circumstances enable or require the Company to engage in a business combination which required the approval of shareholders if the shareholders of the Company did not in fact give the requisite approval. Rather, if the shareholders did approve a business combination, the Company would not consummate the transaction unless the Company as general partner first conducts a vote of partners of the Operating Partnership on the matter. For purposes of the Operating Partnership vote, the Company shall be deemed to vote its partnership interest in the same proportion as the shareholders of the Company voted on the matter (disregarding shareholders who do not vote). The Operating Partnership vote will be deemed approved if the votes recorded are such that if the Operating Partnership vote had been a vote of shareholders, the business combination would have been approved by the shareholders. As a result of these provisions of the Operating Partnership, a third party may be inhibited from making an acquisition proposal for the Company that it would otherwise make, or the Company, despite having the requisite authority under its articles of incorporation, may not be authorized to engage in a proposed business combination.

Tax Protection Provisions: The Operating Partnership Agreement provides that, until 2007, the Operating Partnership may not sell any of 12 designated properties in a transaction that will produce taxable gain for the contributing partner without the prior written consent of PSI. The Operating Partnership is not required to obtain PSI's consent if PSI and its affiliated partnerships do not continue to hold at the time of the sale at least 30% of their original interest in the Operating Partnership. Since PSI's consent is required only in connection with a taxable sale of one of the 12 designated properties, the Operating Partnership will not be required to obtain PSI's consent in connection with a "like-kind" exchange or other nontaxable transaction involving one of these properties.

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

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

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

Cost Allocation and Administrative Services

Pursuant to a cost sharing and administrative services agreement, the Company shares costs with PSI and affiliated entities for certain administrative services. These services include employee relations, insurance, administration, management information systems, legal, income tax and office services. Under this agreement, costs are allocated to the Company in accordance with its proportionate share of these costs.

Common Officers and Directors

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

Property Management

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

Management

Ronald L. Havner, Jr. (44), President, Chairman and Chief Executive Officer, heads the Company's senior management team. Mr. Havner has been President and Chief Executive Officer of the Company or AOPP since December 1996. He became Chairman of the Company in March 1998. He was Senior Vice President and Chief Financial Officer of PSI from 1992 until December 1996. The Company's executive management includes: Jack Corrigan (41), Vice President and Chief Financial Officer; Michael Lynch (49), Vice President-Acquisitions and Development; Stephen King (45), Vice President and Chief Operating Officer; Jeffrey Reinstein (38), Vice President-Business Services; Joseph Miller (38) Vice President and Corporate Controller; Angelique Benschneider (39), Vice President (Midwest Division); David Bischoff (50), Vice President (Eastern Division); Maria Hawthorne (42), Vice President (Northern Virginia Division); Bill McFaul (36) Vice President (Maryland Division); and Eileen Newkirk (53), Vice President (Pacific Northwest Division).

REIT Structure

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

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

Growth Strategy

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

Increase Net Cash Flow of Existing Properties: The Company seeks to increase the net cash flow generated by its existing properties by (i) maximizing average occupancy rates, (ii) achieving higher levels of realized monthly rents per occupied square foot, and (iii) reducing its operating cost structure by improving operating efficiencies and economies of scale. The Company believes that its experienced property management personnel and comprehensive systems combined with increasing economies of scale will enhance the Company's ability to meet these goals. The Company seeks to increase occupancy rates and realized monthly rents per square foot by providing its field personnel with incentives to lease space to higher credit tenants and to maximize the return on investment in each lease transaction. The return for these incentive purposes is measured by the internal rate of return on each lease transaction after deducting tenant improvements and lease commissions. The Company seeks to reduce its cost structure by controlling capital expenditures associated with re-leasing space by acquiring and owning properties with easily reconfigured space that appeal to a wide range of tenants.

Focus on Targeted Markets: The Company intends to continue investing in markets that have characteristics which enable them to be competitive economically in the short and long-term. The Company believes that markets with above average population growth, education levels and personal income will produce better economic returns. As of December 31, 2001, 95% of the Company's square footage was located in these targeted core markets. Based on information provided by Claritas Inc., these markets have experienced over twice the population growth of the United States average over the past decade. In addition, these markets, on average, have 35% more college graduates and 23% more household income than the United States average. The Company targets individual properties in those markets that are close to important services and universities and have easy access to major transportation arteries.

Use Knowledge of Core Markets to Make Opportunistic Acquisitions in a Fragmented Industry: The Company believes its knowledge of its core markets enhances its ability to identify attractive acquisition opportunities and capitalize on the overall fragmentation in the "flex" space industry. The Company maintains local market information on rates, occupancies and competition in each of its core markets. According to Torto Wheaton Research, there was approximately 1.4 billion square feet of "flex" space facilities in the United States as of December 31, 2001. The Company as one of the largest operators of flex space owns less than 1% of the total market. The Company believes that the fragmented nature of this market creates opportunities for the Company to use its knowledge to make acquisitions on favorable terms. The Company expects that acquisitions from third parties will be its most significant source of growth in assets, revenue and funds from operations during fiscal 2002, if attractive investment opportunities continue to be available.

Reduce Expenditures and Increase Occupancy Rates by Providing Flexible Properties and Attracting a Diversified Tenant Base: By focusing on properties with easily reconfigured space, the Company can offer facilities that appeal to a wide range of potential tenants, which aids in reducing the capital expenditures associated with re-leasing space. Such property flexibility also allows the Company to better serve existing tenants by accommodating their inevitable expansion and contraction needs. In addition, the Company believes that a diversified tenant base and property flexibility helps it maintain high occupancy rates during periods when market demand is weak.

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

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

Develop New Properties in Existing Core Markets: The Company's development strategy is to selectively construct new properties next to business parks in which it already owns properties. The Company develops these properties using the expertise of local development companies. The Company plans to keep development properties to less than 5% of its portfolio on a book value basis before deducting accumulated depreciation. In addition, the Company plans to limit development activity in 2002 to existing developments and developments that have been pre-leased.

Financing Strategy

The Company's primary objective in its financing strategy is to maintain financial flexibility and a low risk capital structure using permanent capital to finance its growth. Key elements of this strategy are:

Retain Operating Cash Flow: The Company seeks to retain significant funds (after funding its distributions and capital improvements) for additional investments and debt reduction. During the year ended December 31, 2001, the Company distributed 41% of its funds from operations ("FFO") to common shareholders/unitholders and retained $43.3 million for principal payments on debt, repurchasing its common stock and reinvestment into real estate assets. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources."

Perpetual Preferred Stock/Units: The primary source of leverage in the capital structure is perpetual preferred stock or the equivalent units in the operating partnership. This method of financing eliminates interest rate and refinancing risks because the dividend rate is fixed and the stated value or capital contribution is not required to be repaid.

Debt Financing: The Company uses debt financing to a limited degree. This debt financing comes in three forms. 1) An unsecured $100 million revolving line of credit with Wells Fargo Bank is used as a temporary short term source of acquisition financing, 2) the Company entered into a seven year unsecured $50 million term loan facility with Fleet National Bank to provide flexibility under the line of credit but also continue to take advantage of the short-term interest rate environment and 3) the Company assumes mortgage debt in connection with property acquisitions.

Access to Acquisition Capital: The Company believes that its strong financial position will enable it to access capital to finance its acquisitions. The Company targets a leverage ratio of 40% (defined as debt and preferred equity as a percentage of market capitalization). Market capitalization includes debt, preferred equity and the fair market value of the common shares and partnership units based upon the quoted market price. In addition, the Company targets a ratio of FFO to combined fixed charges and preferred distributions of 2.5 to 1.0. Fixed charges include interest expense and capitalized interest. Preferred distributions include amounts paid to preferred shareholders and preferred Operating Partnership unitholders. As of December 31, 2001 and for the year then ended, the leverage ratio was 35% and the FFO to combined fixed charges and preferred distributions ratio was 4.6 to 1.0. Subject to market conditions, the Company intends to add leverage to its capital structure primarily through the issuance of preferred stock or partnership units.

Competition

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

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

Investments in Real Estate Facilities

As of December 31, 2001, the Company owned and operated approximately 14.8 million net rentable square feet compared to 12.6 million net rentable square feet at December 31, 2000. The net increase in net rentable square feet was due to the acquisitions of facilities and the development of three properties, partially offset by property dispositions and the contribution of an industrial park to a joint venture.

Restrictions on Transactions with Affiliates

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

Borrowings

As of December 31, 2001, the Company had outstanding mortgage notes payable balances of approximately $30 million, $100 million outstanding on the Credit Facility and $35 million in short term borrowings from PSI. See Notes 5 and 6 to the consolidated financial statements for a summary of the Company's borrowings at December 31, 2001.

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

Under covenants of the Credit Facility, the Company is required to (i) maintain a balance sheet leverage ratio (as defined) of less than 0.50 to 1.00, (ii) maintain interest and fixed charge coverage ratios (as defined) of not less than 2.25 to 1.00 and 1.75 to 1.00, respectively, (iii) maintain a minimum total shareholders' equity (as defined) and (iv) limit distributions to 95% of funds from operations. In addition, the Company is limited in its ability to incur additional borrowings (the Company is required to maintain unencumbered assets with an aggregate book value equal to or greater than two times the Company's unsecured recourse debt) or sell assets. The Company was in compliance with the covenants of the Credit Facility at December 31, 2001.

On February 28, 2002, the Company entered into a seven year $50 million term loan agreement with Fleet National Bank. The note bears interest at LIBOR plus 1.45% and is due on February 20, 2009. The Company paid a one-time fee of 0.35% or $175,000 for the facility. The Company expects to use the proceeds of the loan to reduce the amount drawn on its line of credit with Wells Fargo Bank.

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

Employees

As of December 31, 2001, the Company employed 130 individuals, primarily personnel engaged in property operations. The Company believes that its relationship with its employees is good and none of the employees are represented by a labor union.

Insurance

The Company believes that its properties are adequately insured. Facilities operated by the Company have historically been covered by comprehensive insurance, including fire, earthquake, liability and extended coverage from nationally recognized carriers. The Company also anticipates a 25%-50% increase in insurance costs when its current policies expire in April 2002 due to the terrorist attacks of September 11, 2001. Because the Company's financing strategy generally does not include mortgage debt and because its facilities are generally not located in central business districts, the Company does not expect to incur the cost of insuring against terrorist acts.

ITEM 1A. RISK FACTORS

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

PSI has significant influence over us.

PSI owns a substantial number of our shares and of the units of our operating partnership: At February 28, 2002, PSI and its affiliates owned 25% of the outstanding shares of our common stock (44% upon conversion of its interest in our operating partnership) and 25% of the outstanding common units of our operating partnership (100% of the common units not owned by us). Consequently, PSI has the ability to significantly influence all matters submitted to a vote of our shareholders, including electing directors, changing our articles of incorporation, dissolving and approving other extraordinary transactions such as mergers, and all matters requiring the consent of the limited partners of the operating partnership. In addition, PSI's ownership may make it more difficult for another party to take over our company without PSI's approval.

Provisions in our organizational documents may prevent changes in control.

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

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

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

Our operating partnership poses additional risks to us.

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

We cannot sell certain properties without PSI's approval.

Before 2007, we may not sell 12 specified properties without PSI's approval. Since PSI would be taxed on a sale of these properties, the interests of PSI and our other shareholders may differ as to the best time to sell.

Certain institutional investors have special rights.

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

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

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

Our cash flow would be reduced if our predecessor failed to qualify as a REIT: For us to qualify to be taxed as a REIT, our predecessor, American Office Park Properties, also needed to qualify to be taxed as a REIT. We believe American Office Park Properties qualified as a REIT beginning in 1997 until its March 1998 merger with us. If it is determined that it did not qualify as a REIT, we could also lose our REIT qualification. Before 1997, our predecessor was a taxable corporation and, to qualify as a REIT, was required to distribute all of its cumulative retained profits before the end of 1996. Because a determination of the precise amount of profits retained by a company over a sustained period of time is very difficult, there is some risk that not all of American Office Park Properties' profits were so distributed. While we believe American Office Park Properties qualified as a REIT since 1997, we did not obtain an opinion of an outside expert at the time of its merger with us.

We may need to borrow funds to meet our REIT distribution requirements: To qualify as a REIT, we must generally distribute to our shareholders 90% of our taxable income. Our income consists primarily of our share of our operating partnership's income. We intend to make sufficient distributions to qualify as a REIT and otherwise avoid corporate tax. However, differences in timing between income and expenses and the need to make nondeductible expenditures such as capital improvements and principal payments on debt could force us to borrow funds to make necessary shareholder distributions.

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

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

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

- the expense of periodically renovating, repairing and reletting spaces;
- increasing operating costs, including real estate taxes, insurance and utilities, if these increased costs cannot be passed through to tenants;
- changes in tax, real estate and zoning laws;
- increase in new developments;
- tenant bankruptcies;
- sublease space; and
- concentration in non-rated private companies.

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

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

During 2001, we were affected by the slowdown in economic activity in the United States in most of its primary markets. These effects were exacerbated by the terrorist attacks of September 11, 2001 and the related aftermath. These effects included a decline in occupancy rates and a reduction in market rates throughout the portfolio, slower than expected lease-up of our development properties, lower interest rates on invested cash and the expectation that insurance costs will rise upon expiration of our policies in March 2002. An extended economic slowdown will put additional downward pressure on occupancies and market rental rates and may lead to pressure for greater rent concessions, or generous tenant improvement allowances and higher broker commissions.

We may encounter significant delays in reletting vacant space, resulting in losses of income: When leases expire, we will incur expenses and we may not be able to release the space on the same terms. Certain leases provide tenants with the right to terminate early if they pay a fee. Our properties as of December 31, 2001 generally have lower vacancy rates than the average for the markets in which they are located, and leases for 35% of our space expire in 2002 or 2003 (leases for 60% of the space occupied by small tenants expire in such years). While we have estimated our cost of renewing leases that expire in 2002, our estimates could be wrong. If we are unable to release space promptly, if the terms are significantly less favorable than anticipated or if the costs are higher, we may have to reduce our distributions to shareholders.

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

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

We may be adversely affected if casualties to our properties are not covered by insurance: We carry insurance on our properties that we believe is comparable to the insurance carried by other operators for similar

properties. However, we could suffer uninsured losses that adversely affect us or even result in loss of properties. We might still remain liable on any mortgage debt related to that property.

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

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

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

We acquired a property in Beaverton, Oregon ("Creekside Corporate Park") in May 1998 that is currently the subject of an environmental investigation being conducted by two current and past owner/operators of an industrial facility on adjacent property, pursuant to an Order on Consent ("Order") issued by the Oregon Department of Environmental Quality ("ODEQ"). There is no evidence that our past or current use of the Creekside Corporate Park property contributed in any way to the contamination that is the subject of the current investigation, nor has the ODEQ alleged any such contribution, and we are not a party to the Order.

Based on the results of the site investigation, ODEQ has recommended a final remedy that would include permanent treatment of contaminants in the groundwater, including expanded groundwater extraction and treatment on all parcels of the former industrial property, including portions of Creekside Corporate Park. The estimated cost of this remedy is $3.3 million over a 30-year time period. In the event we are ultimately deemed responsible for any costs relating to this matter, we believe that the party from whom the property was purchased will be responsible for any expenses or liabilities that we may incur as a result of this contamination. In addition, we believe we may have recourse against other potentially responsible parties, including, but not limited to, one or both of the owner/operators of the adjacent industrial facility. However, if we are deemed responsible for any expenses related to removal or remedial actions on the property, and we are not successful in obtaining reimbursement from one or more third parties, our operations and financial condition could be harmed.

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

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

We own most of our properties through our operating partnership. Our organizational documents do not limit our ability to invest funds with others in partnerships or joint ventures. During 2001, we entered into a joint venture arrangement. This type of investment may present additional risks. For example, our partners may have interests that differ from ours or that conflict with ours, or our partners may become bankrupt. In addition, the

joint venture may default on its debt, which we have guaranteed under certain circumstances. We believe this risk is mitigated by the low level of debt (57% of the cost) in the joint venture.

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

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

We can issue additional securities without shareholder approval.

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

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

One of the factors that influences the market price of our common stock is the annual rate of distributions that we pay on our common stock, as compared with interest rates. Interest rates in late 2001 and early 2002 have been at historically low levels. An increase in interest rates may lead purchasers of REIT shares to demand higher annual distribution rates, which could adversely affect the market price of our common stock.

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

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

We depend on key personnel.

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

ITEM 2. PROPERTIES

As of December 31, 2001, the Company owned approximately 11.2 million square feet of "flex" space, 2.5 million square feet of suburban office and 1.1 million square feet of industrial space concentrated primarily in seven major markets consisting of Southern and Northern California, Southern and Northern Texas, Virginia, Maryland and Oregon. The weighted average occupancy rate at December 31, 2001 was 95.1% and the average rental rate per square foot was $14.15.

The following table contains information about properties owned by the Company and the Operating Partnership as of December 31, 2001:

	Rentable Square Footage				Weighted
City	Flex	Office	Industrial	Total	Occupancy
Arizona					
Mesa	78,038	-	-	78,038	96.5%
Phoenix	199,581	-	-	199,581	91.8%
Tempe	291,264	-	-	291,264	84.9%
	568,883	-	-	568,883	88.9%
Northern California					
Hayward	-	-	406,712	406,712	99.8%
Monterey	-	12,003	-	12,003	99.1%
Sacramento	-	366,203	-	366,203	91.3%
San Jose	387,631	-	-	387,631	96.7%
San Ramon	-	52,149	-	52,149	95.3%
Santa Clara	178,132	-	-	178,132	100.0%
So. San Francisco	93,775	-	-	93,775	99.0%
	659,538	430,355	406,712	1,496,605	96.5%
Southern California					
Buena Park	-	-	317,312	317,312	96.3%
Carson	77,255	-	-	77,255	93.2%
Cerritos	-	31,270	394,610	425,880	95.8%
Culver City	146,402	-	-	146,402	97.2%
Irvine	-	160,499	-	160,499	95.9%
Laguna Hills	613,947	-	-	613,947	96.2%
Lake Forest	296,597	-	-	296,597	94.7%
Lakewood	-	56,902	-	56,902	90.7%
Monterey Park	199,056	-	-	199,056	95.0%
San Diego	535,345	-	-	535,345	98.7%
Signal Hill	178,146	-	-	178,146	96.4%
Studio City	22,092	-	-	22,092	100.0%
Torrance	147,220	-	-	147,220	94.0%
	2,216,060	406,151	711,922	3,176,653	96.2%
Kansas					
Overland Park	61,836	-	-	61,836	94.3%
	61,836	-	-	61,836	94.3%

City	Rentable Square Footage				Weighted Occupancy
	Flex	Office	Industrial	Total	
Maryland					
Beltsville	307,791	-	-	307,791	98.9%
Gaithersburg	-	28,994	-	28,994	100.0%
Landover (2)	379,471	-	-	379,471	95.6%
Largo	149,918	-	-	149,918	100.0%
Rockville	213,853	691,434	-	905,287	93.7%
	1,051,033	720,428	-	1,771,461	97.7%
Oregon					
Beaverton	1,524,005	346,376	-	1,870,381	97.2%
Milwaukee	101,578	-	-	101,578	95.9%
	1,625,583	346,376	-	1,971,959	97.1%
Tennessee					
Nashville	138,004	-	-	138,004	94.7%
	138,004	-	-	138,004	94.7%
Northern Texas					
Dallas	236,997	-	-	236,997	97.8%
Garland	36,458	-	-	36,458	95.5%
Houston	176,977	131,214	-	308,191	88.3%
Las Colinas (1)	944,743	-	-	944,743	94.8%
Mesquite	56,541	-	-	56,541	92.7%
Missouri City	66,000	-	-	66,000	94.3%
Plano	184,809	-	-	184,809	100.0%
Richardson	116,800	-	-	116,800	69.6%
	1,819,325	131,214	-	1,950,539	93.0%
Southern Texas					
Austin	832,548	-	-	832,548	94.4%
San Antonio	-	199,269	-	199,269	78.7%
	832,548	199,269	-	1,031,817	91.4%
Virginia					
Alexandria	208,519	-	-	208,519	96.5%
Chantilly (2)	494,618	-	-	494,618	89.6%
Merrifield	302,723	355,127	-	657,850	95.0%
Herndon (2)	244,373	-	-	244,373	96.2%
Lorton	246,520	-	-	246,520	99.0%
Springfield	359,742	-	-	359,742	98.8%
Sterling (2)	295,625	-	-	295,625	96.6%
Woodbridge	113,629	-	-	113,629	97.6%
	2,265,749	355,127	-	2,620,876	95.7%
Washington					
Renton	27,912	-	-	27,912	87.8%
	27,912	-	-	27,912	87.8%
Totals - 9 states	11,241,831	2,456,080	1,118,634	14,816,545	95.1%

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

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

Each of these properties will continue to be used for its current purpose. Competition exists in the market areas in which these properties are located. Barriers to entry are relatively low for competitors with the necessary capital and the Company will be competing for properties and tenants with entities that have greater financial resources than the Company. The Company believes that while the current overall demand for commercial space has softened in 2001 and 2002, there is sufficient demand to maintain healthy occupancy rates.

The Company has risks that tenants will default on leases and declare bankruptcy. Management believes these risks are mitigated through the Company's geographic diversity and diverse tenant base. As of December 31, 2001, tenants occupying less than approximately 90,000 square feet of commercial space had declared bankruptcy and all of the bankrupt tenants were current on their monthly rental payments.

As of and for the year ended December 31, 2001, one of the Company's properties had a book value of more than 10% of the Company's total assets or accounted for more than 10% of its aggregate gross revenues. The property known as Metro Park North is a business park in Rockville, Maryland consisting of 17 buildings (905,000 square feet) including nine office buildings (691,000 square feet) and eight flex-space buildings (214,000 square feet). The property was purchased on December 27, 2001 and has a book value of $127 million representing approximately 11% of the Company's total assets at December 31, 2001.

The following table sets forth information with respect to occupancy and rental rates at Metro Park North for each of the last five years:

	1997	1998	1999	2000	2001
Occupancy Rate	98.2%	81.5%	75.9%	86.9%	93.5%
Rental Rate per square foot	$16.93	$15.36	$15.73	$16.91	$18.83

The following table sets forth information with respect to tenants occupying ten percent or more of the rentable square footage at Metro Park North:

Tenant Name	Square Feet	Annual Rent per Square Feet	Lease Expiration	Renewal Option	Business Description
Lockheed Martin	24,552	$23.17	9/30/05	1, 5-year	Aerospace
FDA	22,713	$28.77	8/3/06	1, 5-year	Government
LSI	15,786	$25.50	4/30/08	1, 5-year	Hi-Tech
Axcelis	105,015	$15.93	12/31/04	1, 5-year	Hi-Tech
Fusing Lighting	25,051	$14.25	12/31/02	1, 5-year	Hi-Tech
Montgomery TV	12,152	$15.00	6/30/11	1, 5-year	Television
FDA	53,227	$18.08	12/31/02	1, 5-year	Government
CAC	53,623	$20.83	6/30/03	1, 5-year	Insurance
FDA	113,912	$19.07	11/14/05	1, 5-year	Government
Hughes	53,806	$23.62	8/31/05	1, 5-year	Hi-Tech
Montgomery Co.	38,800	$22.95	10/7/04	1, 5-year	Education

The following table sets forth information with respect to lease expirations at Metro Park North:

Year of Lease Expiration	Rentable Square Footage Subject to Expiring Leases	Annual Base Rents Under Expiring Leases	Percentage of Total Annual Base Rents Represented by Expiring Leases
2002	85,559	$1,478,000	8.5%
2003	108,373	2,073,000	11.8%
2004	219,472	3,819,000	21.8%
2005	317,321	7,179,000	41.0%
2006	74,976	1,975,000	11.3%
2007	-	-	-
2008	15,786	403,000	2.3%
2009	3,150	74,000	0.4%
2010	-	-	-
2011	15,560	265,000	1.5%
Thereafter	4,912	237,000	1.4%
Total	845,109	$17,503,000	100.0%

The following table sets forth information with respect to tax depreciation at Metro Park North:

	Tax Basis	Rate of Depreciation	Method	Life In Years	Accumulated Depreciation
Improvements	$12,592,193	20.00%	MACRS, 200% DDB	5	2,607,216
Improvements	5,817,593	14.29%	MACRS, 200% DDB	7	831,085
Improvements	16,483,181	6.67%	MACRS, 150% DDB	15	824,159
Buildings	74,659,109	2.56%	MACRS, SL	39	79,885
Total	$109,552,076				4,253,569

The Company's portfolio services two sets of customers with different characteristics. Approximately 70% of the Company's portfolio serves primarily large tenants. These tenants generally sign longer leases, require higher tenant improvements, are represented by a broker and are better credit tenants. The other 30% of the Company's portfolio serves primarily small tenants with average space requirements of 1,600 square feet and a shorter lease term duration. Tenant improvements are relatively small for these tenants and most leases are done in-house with no lease commissions.. These tenants have lower credit profiles and delinquencies and bankruptcies are more frequent. The following tables set forth the lease expirations for the properties owned as of December 31, 2001 in addition to bifurcating the lease expirations on properties serving primarily small businesses and those properties serving primarily larger businesses:

Lease Expirations (Entire Portfolio) as of December 31, 2001

Year of Lease Expiration	Rentable Square Footage Subject to Expiring Leases	Annual Base Rents Under Expiring Leases	Percentage of Total Annual Base Rents Represented by Expiring Leases
2002	2,634,000	$30,380,000	16.6%
2003	2,696,000	33,138,000	18.1%
2004	2,630,000	30,006,000	16.4%
2005	2,272,000	32,951,000	18.0%
2006	1,680,000	25,509,000	13.9%

Thereafter	2,162,000	31,232,000	17.0%
Total	14,074,000	$183,216,000	100.0%

Lease Expirations (Small Tenant Portfolio) as of December 31, 2001

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

Year of Lease Expiration	Rentable Square Footage Subject to Expiring Leases	Annual Base Rents Under Expiring Leases	Percentage of Total Annual Base Rents Represented by Expiring Leases
2002	1,350,000	$16,366,000	31.6%
2003	1,157,000	14,780,000	28.5%
2004	761,000	9,916,000	19.2%
2005	287,000	4,554,000	8.8%
2006	225,000	3,378,000	6.5%
Thereafter	233,000	2,821,000	5.4%
Total	4,013,000	$51,815,000	100.0%

Lease Expirations (Large Tenant Portfolio) as of December 31, 2001

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

Year of Lease Expiration	Rentable Square Footage Subject to Expiring Leases	Annual Base Rents Under Expiring Leases	Percentage of Total Annual Base Rents Represented by Expiring Leases
2002	1,284,000	$14,014,000	10.7%
2003	1,539,000	18,358,000	14.0%
2004	1,869,000	20,090,000	15.3%
2005	1,985,000	28,397,000	21.6%
2006	1,455,000	22,131,000	16.8%
Thereafter	1,929,000	28,411,000	21.6%
Total	10,061,000	$131,401,000	100.0%

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

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

The Company acquired a property in Beaverton, Oregon ("Creekside Corporate Park") in May 1998. A portion of Creekside Corporate Park, as well as properties adjacent to Creekside Corporate Park, are currently the subject of an environmental investigation that is being conducted by two current and past owner/operators of an industrial facility on adjacent property, pursuant to an Order on Consent issued by the Oregon Department of

Environmental Quality ("ODEQ"). Results to date indicate that the contamination from the industrial facility has migrated onto portions of Creekside Corporate Park owned by the Company. There is no evidence that the Company's past or current use of the Creekside Corporate Park property contributed in any way to the contamination that is the subject of the current investigation, nor has the ODEQ alleged any such contribution.

The Company, which is not a party to the Order on Consent, executed separate Access Agreements with the two owner/operators to allow access to portions of Creekside Corporate Park to conduct the required sampling and testing, and to permit one of the owner/operators subject to the Order on Consent to construct, install and operate a groundwater treatment system on a portion of Creekside Corporate Park owned by the Company. Operation and maintenance of this groundwater treatment system, which is required by the Interim Remedial Action Plan approved by ODEQ, is the sole responsibility of the owner/operator, and not the Company.

Based on the results of the site investigation, ODEQ has recommended a final remedy that would include permanent treatment of contaminants in the groundwater, including expanded groundwater extraction and treatment on all parcels of the former industrial property, including portions of Creekside Corporate Park. The estimated cost of this remedy is $3.3 million over a 30-year time period.

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

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

ITEM 3. LEGAL PROCEEDINGS

On November 3, 1999, the Company filed an action titled *PS Business Parks, Inc. v. Larry Howard et al.* (Case No. BC219580) in Los Angeles Superior Court seeking damages in excess of $1 million. The complaint alleges that Mr. Howard and entities controlled by him engaged in unfair trade practices. Some of the Company's claims have been dismissed on summary adjudication, and the balance is in the process of being referred to the arbitration proceedings described below for adjudication. Mr. Howard filed a cross-complaint which the Company intends to vigorously contest and which is also in the process of being referred to arbitration for adjudication.

On November 27, 2000, Mary Jayne Howard, a former officer of the Company filed a demand for arbitration with the American Arbitration Association alleging claims against the Company for breach of contract, gender discrimination, marital discrimination, and wrongful termination based on public policy. The demand seeks damages of approximately $2 million. The Company plans to vigorously contest these claims. The Company has also filed in the arbitration a cross-claim against Ms. Howard alleging that she breached her fiduciary duties to the Company and committed fraud, among other claims, seeking damages in excess of $1 million.

On February 2, 2000, the Company filed an action against Mary Piper, its former Vice President of operations, in Riverside County Superior Court, alleging claims for breach of fiduciary duties, fraud and deceit, constructive fraud, negligent misrepresentation, violation of Section 17000 of Business and Professions Code, violation of Section 17200 of the Business and Professions Code and culpable negligence. The Company's claims arose from Ms. Piper's alleged participation in a plan that resulted in the payment of improper kickbacks to Larry Howard, a former vendor of the Company and the husband of Mary Jayne Howard, a former officer of the Company. Ms. Piper subsequently filed a cross-complaint which the Company intends to vigorously contest.

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

The Company did not submit any matter to a vote of security holders in the fourth quarter of the fiscal year ended December 31, 2001.

ITEM 4A. EXECUTIVE OFFICERS

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

Ronald L. Havner, Jr., age 44, has been Chairman, President and Chief Executive Officer of the Company since March 1998. From December 1996 until March 1998, Mr. Havner was Chairman, President and Chief Executive Officer of AOPP. He was Senior Vice President and Chief Financial Officer of PSI, an affiliated REIT, and Vice President of the Company and certain other REITs affiliated with PSI, until December 1996. Mr. Havner became an officer of PSI in 1986, prior to which he was in the audit practice of Arthur Andersen & Company. He is a member of the American Institute of Certified Public Accountants (AICPA), the National Association of Real Estate Investments Trusts (NAREIT) and the Urban Land Institute (ULI) and a Director of Business Machine Security, Inc., Mobile Storage Group, Inc. and Burnham Pacific Properties, Inc. Mr. Havner earned a Bachelor of Arts degree in Economics from the University of California, Los Angeles.

Jack E. Corrigan, age 41, a certified public accountant, has been Vice President, Chief Financial Officer and Secretary of the Company since June 1998. From February 1991 until June 1998, Mr. Corrigan was a partner of LaRue, Corrigan & McCormick with responsibility for the audit and accounting practice. He was Vice President and Controller of PSI (formerly Storage Equities, Inc.) from 1989 until February 1991. Mr. Corrigan earned a Bachelor of Science degree in Accounting from Loyola Marymount University.

J. Michael Lynch, age 49, has been Vice President-Director of Acquisitions and Development of the Company since June 1998. Mr. Lynch was Vice President of Acquisitions and Development of Nottingham Properties, Inc. from 1995 until May 1998. He has 18 years of real estate experience, primarily in acquisitions and development. From 1988 until 1995, Mr. Lynch was a development project manager for The Parkway Companies. From 1983 until 1988, he was an Assistant Vice President, Real Estate Investment Department of First Wachovia Corporation. Mr. Lynch earned a Bachelor of Arts degree in Economics from Mt. St. Mary's College and a Masters of Architecture from the Virginia Polytechnic Institute.

Stephen S. King, age 45, has been Vice President, Chief Operating Officer of the Company since August 2001. Mr. King joined the Company as Vice President in April 2000 with responsibility for property operations for the Southwest Division. He became an executive officer of the Company in March 2001. From 1998 to April 2000, Mr. King was Vice President of Asset Management for The RREEF Funds with responsibility for over 10 million square feet of industrial property owned in a joint venture with the California Public Employees Retirement System (CalPERS). From 1989 through 1998, Mr. King was Assistant Vice President, Western Division for USAA Real Estate Company. He has over twenty years of development, construction, property management and leasing experience. Mr. King is a licensed California real estate broker and a member of the Institute for Real Estate Management (IREM) and the National Association of Industrial and Office Properties (NAIOP). Mr. King earned a Bachelor of Arts degree in Economics from Texas A&M.

Jeffrey H. Reinstein, age 38, has been Vice President-Business Services of the Company since May 2000. From March 1997 until April 2000, Mr. Reinstein was the President and Chief Operating Officer of Barrister Executive Suites and was responsible for overseeing and managing all activities for the company including operations, business development, marketing, human resources, finance and accounting. From May 1987 to October 1996, Mr. Reinstein held various positions for Weyerhaeuser Financial Investments, Inc. where he was involved in developing, managing, leasing, financing and disposing of all types of real estate assets. Mr. Reinstein earned a Bachelor of Science degree in Business Administration from California State University, Northridge.

Joseph E. Miller, age 38, was promoted to Vice President, Corporate Controller in December 2001 with responsibilities for financial and operational accounting, reporting, and analysis. Mr. Miller joined the Company in August 2001 as Vice President, Property Operations Controller focusing on operational systems and processes. Previously, Mr. Miller was Corporate Controller for Maguire Partners, a prominent Los Angeles commercial real estate developer, owner, and manager, from May 1987 to August 2001. Prior to joining Maguire Partners, Mr. Miller was an audit manager at Ernst & Young with a focus on real estate clients. Mr. Miller is a Certified Public

Accountant and has earned a Bachelor of Science degree in Business Administration from California State University, Northridge, and a Masters of Business Administration from the University of Southern California.

Angelique A. Benschneider, age 39, joined the Company as Vice President in November 2000 with responsibility for property operations for the Midwest Division. Ms. Benschneider became an executive officer of the Company in March 2001. From 1999 to November 2000, Ms. Benschneider was a Senior Asset Manager for Amerishop Real Estate Services, where she was responsible for retail portfolio performance for the Company on the East Coast. From 1996 to 1999, Ms. Benschneider was a General Manager for GIC Real Estate, Inc. and was responsible for the management and leasing of Thanksgiving Tower, a 1,500,000 square foot high rise office tower. Mrs. Benschneider has extensive experience in regional malls, working on the redevelopment of the 2,900,000 square foot King of Prussia Mall in Philadelphia, Pennsylvania. Ms. Benschneider earned a Bachelor of Science degree in Business Administration from the University of North Texas and a Masters of Business Administration from the University of Texas, Dallas.

David C. Bischoff, age 50, has been Vice President of the Company since August 1999 with responsibility for property operations for the Eastern Division. He became an executive officer of the Company in March 2001. From June 1996 to July 1999, Mr. Bischoff was Managing Director in the Client Advisory Group with CB Richard Ellis (CBRE) with responsibility for overseeing, directing and managing all the various business services (property management, leasing, appraisal, acquisition and disposition) provided by CBRE to several large institutional clients. From September 1984 to May 1996, Mr. Bischoff held a variety of positions with ABKB Realty Advisors (acquired by LaSalle Advisors) responsible for several pension fund clients, with responsibilities including raising and investing capital, selecting, directing and managing the personnel and business services provided by third party firms, and financing and ultimate disposition of client assets. Mr. Bischoff earned an Associates of Arts degree from the Philadelphia Community College.

Maria R. Hawthorne, age 42, has been a Vice President of the Company since June 2001 with responsibility for property operations for the Northern Virginia Division. Mrs. Hawthorne has been with the Company and its predecessors for the past sixteen years. From July 1994 to June 2002, Mrs. Hawthorne was a Regional Manager of the Company. From August 1988 to July 1994, Mrs. Hawthorne was the Director of Leasing and Property Manager for AOPP. Ms. Hawthorne earned a Bachelor of Arts degree in International Relations from Pomona College.

William A. McFaul, age 36, was promoted to Vice President of PS Business Parks, Inc. in December 2001 with responsibility for property operations for the Maryland Division. Mr. McFaul has been with the Company since July 1999. Mr. McFaul became a Regional Manager in January 2001 with responsibility for property operations of the Maryland Region and was a Senior Property Manager from July 1999 until December 2000. Prior to joining PS Business Parks, Mr. McFaul worked for The Rouse Company, a national real estate development firm, for ten years holding various positions in leasing and operations. Mr. McFaul earned a Bachelor of Science degree in Business Administration and a Masters of Business Administration from Loyola College in Maryland.

Eileen M. Newkirk, age 53, has been a Vice President of the Company since March 2000 with responsibility for property operations for the Pacific Northwest Division. Ms. Newkirk became an executive officer of the Company in March 2001. From August 1998 to March 2000, Ms. Newkirk was a Regional Manager of the Company. From 1997 to 1998, Ms. Newkirk held the position of United States Facilities Manager for N-Cube, a high tech company based in Foster City, California. From 1994 to 1997, she was a Property Manager for AOPP. Prior to joining AOPP, Ms. Newkirk held a variety of development and operations management positions, including the management of a Class A central business district high-rise. Ms. Newkirk maintains an Oregon real estate license.

PART II

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

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

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

		Range	
Year	Quarter	High	Low
2001	1st	$28.10	$26.50
	2nd	$29.57	$25.80
	3rd	$28.30	$26.00
	4th	$32.95	$29.75
2000	1st	$22.88	$19.88
	2nd	$25.13	$20.25
	3rd	$28.13	$23.88
	4th	$28.79	$25.75

As of February 7, 2002, there were approximately 688 holders of record of the Common Stock.

b. Dividends

Holders of Common Stock are entitled to receive distributions when, as and if declared by the Company's Board of Directors out of any funds legally available for that purpose. The Company is required to distribute at least 90% of its net taxable ordinary income prior to the filing of the Company's tax return and 85%, subject to certain adjustments, during the calendar year, to maintain its REIT status for federal income tax purposes. It is management's intention to pay distributions of not less than these required amounts.

Distributions paid per share of Common Stock for 2001 and 2000 amounted to $1.31 and $1.00 per year, respectively. Since the second quarter of 1998 and through the fourth quarter of 2000, the Company had declared regular quarterly dividends of $0.25 per common share. In March 2001, the Board of Directors increased the quarterly dividends from $0.25 to $0.29 per common share. In December 2001, the Board of Directors declared a special dividend of $0.15 per common share. The Board of Directors has established a distribution policy to maximize the retention of operating cash flow and only distribute the minimum amount required for the Company to maintain its tax status as a REIT. Pursuant to restrictions contained in the Credit Facility, distributions may not exceed 95% of funds from operations, as defined.

c. Issuance of Unregistered Securities

On September 21, 2001, the Operating Partnership issued 2,120,000 preferred units with a preferred distribution rate of 9 ¼%. The Operating Partnership received net proceeds from the sale of these preferred units of approximately $51.6 million. The Operating Partnership sold the preferred units in a private placement in reliance on an exemption from the registration requirements of the Securities Act pursuant to Section 4(2) and Rule 506 of Regulation D promulgated thereunder. The preferred units were issued to a single institutional "accredited investor" within the meaning of Regulation D.

ITEM 6. SELECTED FINANCIAL DATA (1)

The following sets forth selected consolidated and combined financial and operating information on a historical basis for the Company and its predecessors. The following information should be read in conjunction with the consolidated financial statements and notes thereto of the Company included elsewhere in this Form 10-K.

	For the Years Ended December 31,				For the Periods (2)	
					April 1, 1997 through December 31,	January 1, 1997 through March 31,
	2001	2000	1999	1998	1997	1997
	(In thousands, except per share data)					
Revenues:						
Rental income	$ 167,062	$ 144,171	$ 125,327	$ 88,320	$ 24,364	$ 5,805
Facility management fees primarily from affiliates	683	539	471	529	709	247
Business services	353	547	-	-	-	-
Equity in income of joint venture	25	-	-	-	-	-
Interest income	2,251	4,076	2,356	1,411	424	29
Dividend income	17	1,301	459	-	-	-
	170,391	150,634	128,613	90,260	25,497	6,081
Expenses:						
Cost of operations	45,214	39,290	34,891	26,073	9,837	2,493
Cost of facility management	152	111	94	77	129	60
Cost of business services	572	344	-	-	-	-
Depreciation and amortization	41,067	35,637	29,762	18,908	4,375	820
General and administrative	4,320	3,954	3,153	2,233	1,248	213
Interest expense	1,715	1,481	3,153	2,361	1	-
	93,040	80,817	71,053	49,652	15,590	3,586
Income before disposition of investments, minority interest and extraordinary item	77,351	69,817	57,560	40,608	9,907	2,495
Gain on investment in marketable securities	8	7,849	-	-	-	-
Gain on disposition of properties	-	256	-	-	-	-
Income before minority interest and extraordinary item	77,359	77,922	57,560	40,608	9,907	2,495
Minority interest in income – preferred units	(14,107)	(12,185)	(4,156)	-	-	-
Minority interest in income – common units	(13,382)	(14,556)	(11,954)	(11,208)	(6,753)	(1,813)
Income before extraordinary item	49,870	51,181	41,450	29,400	3,154	682
Extraordinary item, net of minority interest	-	-	(195)	-	-	-
Net income	$ 49,870	$ 51,181	$ 41,255	$ 29,400	$ 3,154	$ 682
Net income allocation:						
Allocable to preferred shareholders	$ 8,854	$ 5,088	$ 3,406	$ -	$ -	$ -
Allocable to common shareholders	41,016	46,093	37,849	29,400	3,154	682
	$ 49,870	$ 51,181	$ 41,255	$ 29,400	$ 3,154	$ 682
Per Common Share:						
Distribution (3)	$ 1.31	$ 1.00	$ 1.00	$ 1.10	$ 0.68	$ 0.00
Net income – Basic	$ 1.84	$ 1.98	$ 1.60	$ 1.52	$ 0.92	$ 0.31
Net income – Diluted	$ 1.83	$ 1.97	$ 1.60	$ 1.51	$ 0.92	$ 0.31
Weighted average common shares-Basic	22,350	23,284	23,641	19,361	3,414	2,193
Weighted average common shares-Diluted	22,435	23,365	23,709	19,429	3,426	2,193
Balance Sheet Data:						
Total assets	$ 1,169,955	$ 930,756	$ 903,741	$ 709,414	$ 323,454	$ 136,922
Total debt	165,145	30,971	37,066	50,541	3,500	-
Minority interest – preferred units	197,750	144,750	132,750	-	-	-
Minority interest - common units	162,141	161,728	157,199	153,015	168,665	97,180
Preferred stock	121,000	55,000	55,000	-	-	-
Common shareholders' equity	$ 478,731	$ 509,343	$ 500,531	$ 489,905	$ 142,958	$ 36,670
Other Data:						
Net cash provided by operating activities	$ 126,677	$ 111,197	$ 88,440	$ 60,228	$ 13,597	$ 5,840
Net cash used in investing activities	(318,367)	(77,468)	(131,318)	(308,646)	(47,105)	(582)
Net cash provided by (used in) financing activities	145,471	(58,654)	111,030	250,602	31,443	(228)
Funds from operations (4)	$ 93,568	$ 85,977	$ 76,353	$ 57,430	$ 14,282	$ 3,315
Square footage owned at end of period	14,817	12,600	12,359	10,930	6,009	3,014

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

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

(3) In March 2001, the Board of Directors increased the annual distribution to $1.16 per common share. In December 2001, the Board of Directors declared a special distribution of $0.15 per common share.

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

Company's operating results, FFO should be analyzed in conjunction with net income as presented in the Company's consolidated financial statements included elsewhere in this Form 10-K.

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

The following discussion and analysis of the results of operations and financial condition of PS Business Parks, Inc. (the "Company") should be read in conjunction with the selected financial data and the Company's consolidated financial statements and notes thereto included elsewhere in the Form 10-K.

Forward-Looking Statements: Forward-looking statements are made throughout this Annual Report on Form 10-K. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," "seeks," "estimates," and similar expressions are intended to identify forward-looking statements. There are a number of important factors that could cause the results of the Company to differ materially from those indicated by such forward-looking statements, including those detailed under the heading "Item 1A. Risk Factors." In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of the information contained in such forward-looking statements 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.

Effect of Economic Conditions on the Company's Operations: During 2001, the Company was affected by the slowdown in economic activity in the United States in most of its primary markets. These effects were exacerbated by the terrorist attacks of September 11, 2001 and the related aftermath. These effects include a decline in occupancy rates and a reduction in market rates throughout the portfolio, slower than expected lease-up of our development properties, lower interest rates on invested cash and the expectation that insurance costs will rise upon expiration of our policies in March 2002.

The reduction in occupancies and market rental rates has been the result of several factors related to general economic conditions. There are more businesses contracting than expanding, more businesses failing than starting-up and businesses are uncertain, resulting in slower decision-making and requests for shorter term leases. There is also more competing vacant space including substantial amounts of sub-lease space in many of the Company's markets. Many of the Company's properties have lower vacancy rates than the average rates for the markets in which they are located; consequently, the Company may have difficulty in maintaining its occupancy rates as leases expire. An extended economic slowdown will put additional downward pressure on occupancies and market rental rates. The economic slowdown and the abundance of space alternatives to customers has led to pressure for greater rent concessions, more generous tenant improvement allowances and higher broker commissions.

The Company's three development properties were 63% leased as of December 31, 2001, but they have not been leased as rapidly as the Company had anticipated. The development properties consist of a 102,000 square foot development in the Las Colinas submarket of Dallas, Texas that was 100% leased, a 141,000 square foot flex development in Northern Virginia that was 60% leased, and a 94,000 square foot development in the Beaverton submarket of Portland, Oregon that was 27% leased. The interest of tenants in the Oregon property has been significantly affected by the economic slowdown.

Historically, the Company has raised capital prior to identifying opportunities to deploy the capital. This has generally resulted in some short-term earnings dilution. Interest rates on cash investments have declined 350 basis points over the twelve months ended December 31, 2001, resulting in a significantly greater dilution to earnings from holding capital waiting to be deployed. During this period of low interest rates, the Company has determined that the cost of this strategy currently exceeds the benefits derived from it. As a result, the Company has used its line of credit and other short-term borrowing sources to provide the capital to complete acquisitions.

The Company also anticipates a 25%-50% increase in insurance costs when our current policies expire in April 2002 due to the terrorist attacks of September 11, 2001. The Company does not expect the increase to materially impact its results since insurance expense represents less than 3% of the Company's operating costs and

the Company believes that most of the cost can be passed along to the Company's customers in accordance with the applicable lease agreements.

Effect of Economic Conditions on the Company's Primary Markets: The Company has concentrated its operations in seven major markets. Each of these markets has been affected by the slowdown in economic activity. The Company's overall view of these markets is summarized below as of December 31, 2001. For purposes of market occupancy statistics, the Company has compiled these statistics using broker reports for these respective markets. These sources are deemed to be reliable by the Company, but there can be no assurance that these reports are accurate.

The Company owns approximately 1.9 million square feet in the Beaverton sub market of Portland, Oregon. The average vacancy rate in this market is 18% for office and 11% for flex. Leasing activity slowed dramatically during 2001, but is beginning to show signs of improvement. On the supply side, a significant amount of flex and office space was added in 2001, but the Company does not believe significant new construction starts will occur in 2002. The Company's vacancy rate is 3.4%.

The Company owns approximately 1.5 million square feet in Northern California with a concentration in South San Francisco, Santa Clara and San Jose. The vacancy rate in this market stands at 20% or more throughout most of the Bay Area. Market rates dropped dramatically in 2001 and continue to decrease and are now at approximately the same level they were at in 1999, and most construction starts have been postponed or terminated. The Company's vacancy rate is 2.7%.

The Company owns approximately 3.5 million square feet in Southern California (including its partial ownership in a joint venture). This is one of the most stable markets in the country but continues to experience slowing. Vacancy rates have increased throughout Southern California for flex, industrial and office, ranging from 5% to 25%, depending on sub-markets and product type, and the rental rates for the Company's properties have dropped slightly. The Company's vacancy is 1.3% in San Diego, 1.0% in Los Angeles and 2.5% in Orange County.

The Company owns approximately 0.8 million square feet in Austin, Texas. This market experienced a drastic increase in office and flex vacancy, running at 19% and 17%, respectively. One half of the office vacancy is due to sub-lease space. Construction deliveries of office and flex space continue to add to the vacancy rate resulting in downward pressure on rental rates. The Company's vacancy rate is 8.7%.

The Company owns approximately 1.9 million square feet in Northern Texas. The vacancy rate in Las Colinas, where most of the Company's properties are concentrated, is 19.5% for flex and 23% for office. Over the 12 months ended December 31, 2001, the number of new properties constructed has decreased, virtually no new construction has commenced and very little pre-leasing of space has occurred. The Company believes that any such new construction will cause vacancy rates to rise. Leasing activity has slowed overall and sub-leasing is continuing to increase in the Telecom Corridor. The Company's vacancy rate is 3.9%.

The Company owns approximately 2.6 million square feet in Northern Virginia, where the vacancy rate grew from 3.9% to 11.9% during 2001. Prospective tenants in the sub-markets near downtown and the D.C. Beltway, such as Ballston, Alexandria and Merrifield, have shown increased interest in renting space recently, primarily as a result of the demand for space by the GSA and government contractors. Vacancy rates have risen to over 20% in the sub-markets in the western technology corridor, such as Herndon, Chantilly and Sterling, primarily as a result of the decline in the technology sector. The Company's vacancy rate in is 3.1%.

The Company owns approximately 1.8 million square feet in Maryland. In Montgomery County, Maryland's 1-270 Corridor vacancy rates are 10% for office and 8% for flex space. The Company expects that the business of the GSA, defense contractors and the biotech industry will continue to grow in 2002. With most 2002 construction deliveries pre-leased, the Company expects that the vacancy rate will remain flat or decline. The Company's vacancy rate is 5%.

Growth of the Company's Operations: During 2000 and 2001, the Company focused on increasing cash flow from its existing core portfolio of properties, expanding its presence in existing markets through strategic acquisitions and developments and strengthening its balance sheet, primarily through the issuance of preferred stock/units. The Company has maintained low debt and overall leverage levels including preferred stock/units which give it the flexibility for future growth without the issuance of additional common stock.

During 2001, the Company added approximately 2.2 million square feet to its portfolio at an aggregate cost of approximately $303 million. These acquisitions increased the Company's presence in its existing markets. The Company acquired 658,000 square feet in Northern Virginia for approximately $88 million, 685,000 square feet in Oregon for approximately $88 million and 905,000 square feet in Maryland for approximately $127 million. In addition, the Company completed development of three properties totaling 339,000 square feet in Northern Virginia, Portland and Dallas for approximately $28.5 million. The Company also disposed of a property aggregating 77,000 square feet for approximately $9 million. The Company also formed a joint venture to own and operate an industrial park. This park consisting of 294,000 square feet, was acquired in December 2000 at a cost of approximately $14.4 million and was contributed to the joint venture at its original cost for a 25% equity interest in the joint venture.

During 2000, the Company added approximately 0.8 million square feet to its portfolio at an aggregate cost of approximately $82 million. The Company acquired 454,000 square feet in Southern California for $40 million, 178,000 square feet in Northern California for $23 million and 210,000 square feet in Northern Virginia for approximately $19 million. In addition, the Company completed development of a property totaling 22,000 square feet in Oregon for approximately $3 million. The Company also disposed of five properties in non-core markets aggregating 627,000 square feet for approximately $23.8 million.

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

Comparison of 2001 to 2000

Results of Operations: Net income for the year ended December 31, 2001 was $49,870,000 compared to $51,181,000 for the same period in 2000. Net income allocable to common shareholders (net income less preferred stock dividends) for the year ended December 31, 2001 was $41,016,000 compared to $46,093,000 for the same period in 2000. Net income per common share on a diluted basis was $1.83 for the year ended December 31, 2001 compared to $1.97 for the same period in 2000 (based on weighted average diluted common shares outstanding of 22,435,000 and 23,365,000, respectively). The decreases in net income and net income per common share reflect a non-recurring realized and unrealized gain on the Company's investment in the common stock of Pacific Gulf Properties, Inc. ("PAG") recognized in the prior year.

The Company's property operations account for almost all of the net operating income earned by the Company. The following table presents the pre-depreciation operating results of the properties for the years ended December 31, 2001 and 2000:

	Years Ended December 31,		
	2001	2000	Change
Rental income:			
"Same Park" facilities (11.4 million net rentable square feet)	$140,844,000	$133,386,000	5.6%
Other facilities	26,218,000	10,785,000	143.1%
Total rental income	$167,062,000	$144,171,000	15.9%
Cost of operations (excluding depreciation):			
"Same Park" facilities	$36,385,000	$35,061,000	3.8%
Other facilities	8,829,000	4,229,000	108.8%
Total cost of operations	$45,214,000	$39,290,000	15.1%
Net operating income (rental income less cost of operations):			
"Same Park" facilities (1)	$104,459,000	$98,325,000	6.2%
Other facilities	17,389,000	6,556,000	165.2%
Total net operating income	$121,848,000	$104,881,000	16.2%

(1) See "Supplemental Property Data and Trends" below for a definition of "Same Park" facilities.

Rental income and rental income less cost of operations or net operating income prior to depreciation (defined as "NOI" for purposes of the following tables) are summarized for the year ended December 31, 2001 by major geographic region below:

Region	Square Footage	Percent of Total	Rental Income	Percent of Total	NOI	Percent of Total
Southern California	3,177,000	22%	$44,053,000	26%	$32,951,000	27%
Northern California	1,495,000	10%	19,576,000	12%	14,876,000	12%
Southern Texas	1,032,000	7%	11,796,000	7%	7,089,000	6%
Northern Texas	1,951,000	13%	19,828,000	12%	13,549,000	11%
Virginia	2,621,000	18%	34,338,000	21%	25,008,000	21%
Maryland	1,771,000	12%	10,112,000	6%	7,819,000	6%
Oregon	1,973,000	13%	19,868,000	12%	16,162,000	13%
Other	797,000	5%	7,491,000	4%	4,394,000	4%
	14,817,000	100%	$167,062,000	100%	$121,848,000	100%

Supplemental Property Data and Trends: In order to evaluate the performance of the Company's overall portfolio, management analyzes the operating performance of a consistent group of properties constituting 11.4 million net rentable square feet ("Same Park" facilities). The Company currently has an ownership interest in these properties and has owned and operated them for the comparable periods. These properties do not include properties that have been acquired or sold during 2000 and 2001. The "Same Park" facilities represent approximately 90% of the weighted average square footage of the Company's portfolio for 2001.

The following table summarizes the pre-depreciation historical operating results of the "Same Park" facilities excluding the effects of accounting for rental revenues on a straight-line basis for the years ended December 31, 2001 and 2000.

"Same Park" Facilities (11.4 million square feet)

	Years Ended December 31,		
	2001	2000	Change
Rental income [(1)]	$139,239,000	$131,347,000	6.0%
Cost of operations	36,385,000	35,061,000	3.8%
Net operating income	$102,854,000	$ 96,286,000	6.8%
Gross margin [(2)]	73.9%	73.3%	0.6%
Weighted average for period:			
Occupancy	95.6%	96.8%	(1.2%)
Annualized realized rent per square foot.[(3)]	$12.78	$11.90	7.4%

(1) Rental income is presented on a cash basis and excludes the effect of straight-line accounting of $1,904,000 and $2,204,000 for the years ended December 31, 2001 and 2000, respectively.

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

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

The following tables summarize the "Same Park" operating results prior to depreciation by major geographic region for the years ended December 31, 2001 and 2000:

Region	Revenues 2001	Revenues 2000	Increase	NOI 2001	NOI 2000	Increase
Southern California	$37,275,000	$35,011,000	6.5%	$28,702,000	$26,965,000	6.4%
Northern California	16,697,000	14,719,000	13.5%	12,610,000	10,728,000	17.5%
Southern Texas	9,413,000	8,799,000	6.7%	6,289,000	5,762,000	9.1%
Northern Texas	19,076,000	18,680,000	2.1%	13,058,000	12,855,000	1.6%
Virginia	23,198,000	21,952,000	5.7%	16,868,000	15,986,000	5.5%
Maryland	9,853,000	9,808,000	0.5%	7,598,000	7,398,000	2.7%
Oregon	16,293,000	15,179,000	7.3%	13,343,000	12,260,000	8.8%
Other	7,434,000	7,199,000	3.2%	4,386,000	4,332,000	1.3%
	$139,239,000	$131,347,000	6.0%	$102,854,000	$96,286,000	6.8%

The increases noted above reflect the performance of the Company's existing markets. Northern California benefited from the expiration of leases with below market rents, as did all other markets to a lesser extent, resulting in revenue and NOI increases in all of our markets.

Facility Management Operations: The Company's facility management accounts for a small portion of the Company's net operating income. During the year ended December 31, 2001, $531,000 in net operating income was recognized from facility management operations compared to $428,000 for the same period in 2000. Facility management fees have increased due to the increase in rental rates of the properties managed by the Company and additional properties brought under management during 2000 and 2001.

Business Services: Business services include construction management fees and fees from telecommunication service providers. During the year ended December 31, 2001, the Company incurred a net operating loss of $219,000 from such services compared to net operating income of $203,000 recognized for the same period in 2000. Business services revenues have declined due to the bankruptcies of Darwin Networks, Winstar and Teligent. Expenses have increased as a result of a full year of operations in 2001.

Equity in Income of Joint Venture: On October 23, 2001, the Company formed a joint venture with an unaffiliated investor to own and operate an industrial park in the City of Industry submarket of Los Angeles County. The Company recognized income of $25,000 in 2001 which represented the Company's 25% equity interest in the joint venture.

Interest Income: Interest income reflects earnings on interest bearing investments. Interest income was $2,251,000 for the year ended December 31, 2001 compared to $4,076,000 for the same period in 2000. The decrease is attributable to lower interest rates and lower average cash balances. Weighted average interest bearing investments and effective interest rates for the year ended December 31, 2001 were approximately $53 million and 4.2% compared to $62 million and 6.5% for the same period in 2000.

Dividend Income: Dividend income reflects dividends received from marketable securities. Dividend income was $17,000 for the year ended December 31, 2001 compared to $1,301,000 for the same period in 2000. Dividend income decreased due to the liquidation of PAG during the year ended December 31, 2001.

Cost of Operations: Cost of operations was $45,214,000 for the year ended December 31, 2001 compared to $39,290,000 for the same period in 2000. The increase is due primarily to the growth in the square footage of the Company's portfolio of properties. Cost of operations as a percentage of rental income decreased from 27.3% in 2000 to 27.1% in 2001 as a result of economies of scale achieved through the acquisition and development of properties in core markets and the disposition of properties outside of the Company's core markets. Cost of operations for the year ended December 31, 2001 consists primarily of property taxes ($14,241,000), property maintenance ($9,386,000), utilities ($8,046,000) and direct payroll ($6,957,000).

Depreciation and Amortization Expense: Depreciation and amortization expense was $41,067,000 for the year ended December 31, 2001 compared to $35,637,000 for the same period in 2000. The increase is due to the acquisition and development of real estate facilities during 2000 and 2001 and recurring capitalized expenditures.

General and Administrative Expense: General and administrative expense was $4,320,000 for the year ended December 31, 2001 compared to $3,954,000 for the same period in 2000. The increase is due primarily to the increased size and activities of the Company offset by a decrease in legal costs. Included in general and administrative costs are internal acquisition costs and abandoned transaction costs. Internal acquisition expenses were $587,000 and $553,000 for the year ended December 31, 2001 and 2000, respectively. Abandoned transaction costs was $7,000 for both the years ended December 31, 2001 and 2000. Legal costs were $176,000 and $837,000 for the years ended December 31, 2001 and 2000, respectively. Legal costs were higher in 2000 as a result of the litigation matters described in Item 3 of this Form 10-K.

Interest Expense: Interest expense was $1,715,000 for the year ended December 31, 2001 compared to $1,481,000 for the same period in 2000. The increase is primarily attributable to increased average debt balances during the period and greater capitalized interest in 2000 as a result of more construction in progress. Interest expense of $1,091,000 and $1,415,000 was capitalized as part of building costs associated with properties under development during the years ended December 31, 2001 and 2000, respectively.

Minority Interest in Income: Minority interest in income reflects the income allocable to equity interests in the Operating Partnership that are not owned by the Company. Minority interest in income was $27,489,000 ($14,107,000 allocated to preferred unitholders and $13,382,000 allocated to common unitholders) for the year ended December 31, 2001 compared to $26,741,000 ($12,185,000 allocated to preferred unitholders and $14,556,000 allocated to common unitholders) for the same period in 2000. The increase in minority interest in income is due primarily to the issuance of preferred operating partnership units during 2000 and 2001 and higher earnings at the operating partnership level, partially offset by a conversion of units to common stock during 2000.

Gain on Investment in Marketable Securities: Gain on investments in marketable securities was $8,000 for the year ended December 31, 2001 compared to $7,849,000 for the same period in 2000. The Company received a liquidating distribution from PAG of approximately $21.8 million and recognized a non-recurring gain of approximately $7.8 million during the year ended December 31, 2000.

Disposition of Properties: Certain properties that were identified as not meeting the Company's ongoing investment strategy were designated for sale in 2000 and 2001. The Company disposed of a property in San Diego with 77,000 square feet for approximately $9 million in November 2001 and deferred a gain of $5,366,000. The Company disposed of five properties aggregating 627,000 square feet for approximately $23.8 million during the year ended December 31, 2000 at a gain of $256,000.

Comparison of 2000 to 1999

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

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

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

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

Region	Square Footage	Percent of Total	Rental Income	Percent of Total	NOI	Percent of Total
Southern California	3,548,000	28.1%	$37,670,000	26.1%	$28,874,000	27.5%
Northern California	1,495,000	11.8%	16,977,000	11.8%	12,655,000	12.1%
Southern Texas	1,032,000	8.2%	11,084,000	7.7%	6,661,000	6.4%
Northern Texas	1,849,000	14.7%	19,183,000	13.3%	13,259,000	12.6%
Virginia	1,822,000	14.5%	22,375,000	15.5%	16,404,000	15.6%
Maryland	866,000	6.9%	12,592,000	8.7%	9,117,000	8.7%
Oregon	1,191,000	9.5%	16,653,000	11.6%	13,306,000	12.7%
Other	797,000	6.3%	7,637,000	5.3%	4,605,000	4.4%
	12,600,000	100.0%	$144,171,000	100.0%	$104,881,000	100.0%

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

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

"Same Park" Facilities (10.5 million square feet)

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

(1) Rental income is presented on a cash basis and excludes the effect of straight-line accounting of $2,204,000 and $3,407,000 for the years ended December 31, 2000 and 1999, respectively.

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

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

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

Region	Revenues 2000	Revenues 1999	Increase	NOI 2000	NOI 1999	Increase
Southern California...	$36,160,000	$33,116,000	9.2%	$27,591,000	$24,811,000	11.2%
Northern California...	12,005,000	10,888,000	10.3%	9,143,000	8,187,000	11.7%
Southern Texas	9,666,000	8,996,000	7.4%	5,613,000	5,422,000	3.5%
Northern Texas	15,971,000	15,236,000	4.8%	11,103,000	10,138,000	9.5%
Virginia	15,988,000	14,739,000	8.5%	11,699,000	10,680,000	9.5%
Maryland	9,805,000	9,406,000	4.2%	7,397,000	6,876,000	7.6%
Oregon.....	15,174,000	14,333,000	5.9%	12,257,000	11,398,000	7.5%
Other	4,863,000	4,620,000	5.3%	2,994,000	2,839,000	5.5%
	$119,632,000	$111,334,000	7.5%	$87,797,000	$80,351,000	9.3%

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

Facility Management Operations: Facility management accounted for a small portion of the Company's net operating income. During the year ended December 31, 2000, $428,000 in net operating income was recognized from facility management operations compared to $377,000 for the same period in 1999. Facility management fees have increased due to the increase in rental rates of the properties managed by the Company and an additional property brought under management during 2000.

Business Services: The Company hired a Vice President in 2000 to focus on creating new revenue opportunities for the Company and additional products and services for our customers. The Company began receiving income in 2000 from construction management fees and fees from telecommunication service providers. During the year ended December 31, 2000, $203,000 in net operating income was derived from such services compared to none for the same period in 1999.

Interest Income: Interest income reflects earnings on cash balances. Interest income was $4,076,000 for the year ended December 31, 2000 compared to $2,356,000 for the same period in 1999. The increase is attributable to higher interest rates and higher average cash balances. Weighted average cash balances and effective interest rates for the year ended December 31, 2000 were approximately $62 million and 6.5%compared to $43 million and 5.5% for the same period in 1999.

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

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

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

General and Administrative Expense: General and administrative expense was $3,954,000 for the year ended December 31, 2000 compared to $3,153,000 for the same period in 1999. The increase is due primarily to the increased size and activities of the Company and legal costs related to litigation matters described in Item 3 of this Form 10-K. Included in general and administrative costs are internal acquisition costs and abandoned transaction costs. Internal acquisition expenses were $553,000 and $430,000 for the years ended December 31, 2000 and 1999, respectively. Abandoned transaction costs were $7,000 and $41,000 for the years ended December 31, 2000 and 1999, respectively. Legal costs were $837,000 and $147,000 for the years ended December 31, 2000 and 1999, respectively.

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

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

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

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

Liquidity and Capital Resources

Net cash provided by operating activities for the year ended December 31, 2001 and 2000 was $126,677,000 and $111,197,000, respectively. Management believes that its internally generated net cash provided by operating activities will continue to be sufficient to enable it to meet its operating expenses, capital improvements and debt service requirements, and to maintain the level of distributions to shareholders in addition to providing additional retained cash for future growth, debt repayment and stock repurchases. There are various factors, however, that could cause net cash provided by operating activities to be less than management anticipates, including the factors set forth in Item 1A "Risk Factors". In particular, leases for 35% of the space in the Company's properties expire in 2002 or 2003 (leases for 60% of the space occupied by small tenants expire in such years). If the Company is not able to maintain the occupancy rate of its properties, which in many of the Company's markets is significantly higher than the average for such markets, the Company's retained cash flow will decrease and if there is substantial deterioration in occupancy rates, the Company may have to reduce its level of distributions and/or increase the level of its borrowings.

The Company disposed of a property in San Diego with 77,000 square feet for approximately $9 million in November 2001 and deferred a gain of $5,366,000. The Company disposed of five properties in non-core markets for approximately $23.8 million during the year ended December 31, 2000 at a gain of $256,000.

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

	Years Ended December 31,	
	2001	2000
Net income	$49,870,000	$51,181,000
Gain on disposition of properties	-	(256,000)
Gain on investment in Pacific Gulf Properties, Inc.	(8,000)	(7,849,000)
Depreciation and amortization	41,067,000	35,637,000
Minority interest in income	27,489,000	26,741,000
Change in working capital	8,259,000	5,743,000
Net cash provided by operating activities	126,677,000	111,197,000
Maintenance capital expenditures	(4,202,000)	(3,228,000)
Tenant improvements	(4,926,000)	(5,264,000)
Capitalized lease commissions	(2,513,000)	(3,275,000)
Funds available for distribution to shareholders, minority interests, acquisitions and other corporate purposes	115,036,000	99,430,000
Cash distributions to common and preferred shareholders and minority interests	(61,559,000)	(47,877,000)
Excess funds available for principal payments on debt, investments in real estate and other corporate purposes	$53,477,000	$51,553,000

The Company's capital structure is characterized by a low level of leverage. As of December 31, 2001, the Company had seven fixed rate mortgage notes payable totaling $30,145,000 which represented 2.7% of its total capitalization (based on book value, including minority interests and debt). As of December 31, 2001, the weighted average interest rate for the mortgage notes was 7.56% and the weighted average maturity was 4.4 years.

The Company used its short-term borrowing capacity to complete acquisitions totaling $303 million in 2001. The Company borrowed $100 million from its line of credit and $35 million from PSI. The remaining balance was funded from the issuance of preferred stock and preferred units in the operating partnership totaling

$116 million and existing cash of $52 million. During January 2002, the Company issued 2,000,000 depositary shares, each representing 1/1,000 of a share of 8 ¾% Cumulative Preferred Stock, Series F, resulting in net proceeds of $48.4 million. This was used to repay PSI and to increase financial flexibility.

During February 2002, the Company entered into a seven year $50 million term loan agreement with Fleet National Bank. The note bears interest at LIBOR plus 1.45% and is due on February 20, 2009. The Company paid a one-time fee of 0.35% or $175,000 for the facility. The Company expects to use the proceeds of the loan to reduce the amount drawn on its line of credit with Wells Fargo Bank.

The Company expects to fund its growth strategies primarily with permanent capital, including the issuance of common and preferred stock and internally generated retained cash flows and to a lesser extent with secured or unsecured debt. In addition, the Company may sell properties that no longer meet its investment criteria. The Company may finance acquisitions on a temporary basis with borrowings from its Credit Facility. The Company intends to repay amounts borrowed under the Credit Facility from undistributed cash flow or, as market conditions permit and as determined to be advantageous, from the public or private placement of preferred and common stock/OP units of the Company or Operating Partnership or the formation of joint ventures. The Company targets a leverage ratio of 40% (defined as debt and preferred equity as a percentage of market capitalization). In addition, the Company targets a ratio of Funds from Operations ("FFO") to combined fixed charges and preferred distributions of 3.0 to 1.0. As of December 31, 2001 and for the year then ended, the leverage ratio was 35% and the FFO to fixed charges and preferred distributions coverage ratio was 4.6 to 1.0.

During 1999, the Company issued 2,200,000 depositary shares, each representing 1/1,000 of a share of 9 1/4% Cumulative Preferred Stock, Series A. The net proceeds of $53.1 million were used to repay borrowings from PSI and a mortgage note payable of approximately $11 million. The remaining proceeds were used for investment in real estate. During 2001, the Company issued 2,640,000 depositary shares, each representing 1/1,000 of a share of 9 1/2% Cumulative Preferred Stock, Series D. The net proceeds of $64.3 million were used for investment in real estate and general corporate purposes.

During 1999, the Operating Partnership issued 2,110,000 preferred units with a preferred distribution rate of 8 7/8% and 3,200,000 preferred units with a preferred distribution rate of 8 3/4%. The net proceeds of approximately $129.6 million were used to repay borrowings from PSI and a mortgage note payable of approximately $8.5 million. The remaining proceeds were used for investment in real estate and general corporate purposes. During 2000, the Operating Partnership issued 480,000 preferred units with a preferred distribution rate of 8 7/8%. The net proceeds of $11.7 million were used for investment in real estate. During 2001, the Operating Partnership issued 2,120,000 preferred units with a preferred distribution rate of 9 1/4%. The net proceeds of $51.6 million were used for investment in real estate.

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

In October 2001, the Company formed a joint venture with an unaffiliated investor to own and operate an industrial park in the City of Industry submarket of Los Angeles County. The park, consisting of 294,000 square feet of industrial space, was acquired in December 2000 at a cost of approximately $14.4 million. The property was contributed to the joint venture at its original cost. The joint venture is capitalized with equity capital consisting of 25% from the Company and 75% from the unaffiliated joint venture partner. The joint venture has a variable rate mortgage obligation of $7,015,000, which currently bears interest at a rate of 5.45% per annum and matures on November 1, 2005. The Company has guaranteed repayment of this obligation, but the obligation is

not included in the Company's total liabilities set forth on its balance sheet in the financial statements. See Note 2 to the Financial Statements included in this Form 10-K.

Funds from Operations: FFO is defined as net income, computed in accordance with generally accepted accounting principles ("GAAP"), before depreciation, amortization, minority interest in income, straight line rent adjustments and extraordinary or non-recurring items. FFO is presented because the Company considers FFO to be a useful measure of the operating performance of a REIT which, together with net income and cash flows provides investors with a basis to evaluate the operating and cash flow performances of a REIT. FFO does not represent net income or cash flows from operations as defined by GAAP. FFO does not take into consideration scheduled principal payments on debt or capital improvements. The Company believes that in order to facilitate a clear understanding of the Company's operating results, FFO should be analyzed in conjunction with net income as presented in the Company's consolidated financial statements included elsewhere in this Form 10-K. Accordingly, FFO is not necessarily a substitute for cash flow or net income as a measure of liquidity or operating performance or ability to make acquisitions and capital improvements or ability to make distributions or debt principal payments. Also, FFO as computed and disclosed by the Company may not be comparable to FFO computed and disclosed by other REITs.

FFO for the Company is computed as follows:

	Years Ended December 31,	
	2001	2000
Net income allocable to common shareholders	$41,016,000	$46,093,000
Less: Gain on investment in PAG	(8,000)	(7,849,000)
Less: Gain on disposition of properties	-	(256,000)
Depreciation and amortization	41,067,000	35,637,000
Depreciation from joint venture	15,000	-
Minority interest in income – common units	13,382,000	14,556,000
Effects of straight line rents	(1,904,000)	(2,204,000)
Consolidated FFO allocable to common shareholders and minority interests	93,568,000	85,977,000
FFO allocated to minority interests – common units	(23,018,000)	(20,634,000)
FFO allocated to common shareholders	$70,550,000	$65,343,000

Capital Expenditures: During 2001, the Company incurred $11.6 million or $0.91 per weighted average square foot in maintenance capital expenditures, tenant improvements and capitalized leasing commissions. On a recurring annual basis, the Company expects $0.90 to $1.20 per square foot in recurring capital expenditures ($13 - $18 million based on square footage at December 31, 2001). In addition, the Company expects to make $18 million in additional capital expenditures in 2002. These investments include reserves to bring acquired properties up to the Company's standards of $6.6 million, first generation tenant improvements and leasing commissions on development properties of $7 million and the renovation of properties in Southern California and Northern Virginia totaling $4.4 million.

During 2000, the Company incurred $11.8 million or $0.96 per weighted average square foot in maintenance capital expenditures, tenant improvements and capitalized leasing commissions.

Stock Repurchase: On November 7, 2001, the Board of Directors increased the number of common shares authorized to be repurchased from 2,500,000 to 4,500,000. The shares may be repurchased periodically on the open market or in privately negotiated transactions. The Company repurchased 1,599,111 shares of common stock and 30,484 common units at an aggregate cost of approximately $43.9 million and $808,000, respectively during the year ended December 31, 2001. Since inception of the program (March 2000) through December 31, 2001, the Company has repurchased 2,321,711 shares of common stock and 30,484 common units at an aggregate cost of approximately $61.4 million. Any significant reduction in the Company's net cash from operations will limit the Company's ability to repurchase shares or units.

Distributions: The Company has elected and intends to qualify as a REIT for federal income tax purposes. In order to maintain its status as a REIT, the Company must meet, among other tests, sources of income, share ownership and certain asset tests. As a REIT, the Company is not taxed on that portion of its taxable income that is distributed to its shareholders provided that at least 90% of its taxable income is distributed to its shareholders prior to filing of its tax return.

Related Party Transactions: At February 28, 2002, PSI owns 25% of the outstanding shares of the Company's common stock (44% upon conversion of its interest in the Operating Partnership) and 25% of the outstanding common units of the Operating Partnership (100% of the common units not owned by the Company). Ronald L. Havner, Jr., the Company's Chairman, President and Chief Executive Officer, is also an employee of PSI. As of December 31, 2001, the Company had $35 million in short-term borrowings from PSI. The notes bore interest at 3.25% and were repaid as of January 28, 2002. Pursuant to a cost sharing and administrative services agreement, the Company shares costs with PSI and affiliated entities for certain administrative services. These services include employee relations, insurance, administration, management information systems, legal, income tax and office services. Under this agreement, costs are allocated to the Company in accordance with its proportionate share of these costs. Finally, the Company provides property management services for properties owned by PSI and its affiliates for a fee of 5% of the gross revenues of such properties in addition to reimbursement of direct costs.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

To limit the Company's exposure to market risk, the Company principally finances its operations and growth with permanent equity capital consisting either of common or preferred stock. At December 31, 2001, the Company's debt as a percentage of shareholders' equity (based on book values) was 27.5%.

The Company's market risk sensitive instruments include mortgage notes payable which totaled $30,145,000 at December 31, 2001. All of the Company's mortgage notes payable bear interest at fixed rates. See Note 6 of the Notes to Consolidated Financial Statements for terms, valuations and approximate principal maturities of the mortgage notes payable as of December 31, 2001. Based on borrowing rates currently available to the Company, the carrying amount of debt approximates fair value.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements of the Company at December 31, 2001 and 2000 and for the years ended December 31, 2001, 2000 and 1999 and the report of Ernst & Young LLP, Independent Auditors, thereon and the related financial statement schedule, are included elsewhere herein. Reference is made to the Index to Consolidated Financial Statements and Schedules in Item 14.

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

Not Applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item with respect to directors is hereby incorporated by reference to the material appearing in the Company's definitive proxy statement to be filed in connection with the annual shareholders' meeting to be held in 2002 (the "Proxy Statement") under the caption "Election of Directors." Information required by this item with respect to executive officers is provided in Item 4A of this report. See "Executive Officers."

ITEM 11. EXECUTIVE COMPENSATION

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

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

PART IV

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

a. 1. Financial Statements

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

2. Financial Statements Schedule

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

3. Exhibits

See Index to Exhibits contained herein.

b. Reports on Form 8-K

The Registrant filed a Current Report on Form 8-K dated October 8, 2001 (filed October 9, 2001) pursuant to Item 9, relating to Regulation FD Disclosure.

The Registrant filed a Current Report on Form 8-K dated November 20, 2001 (filed November 21, 2001) pursuant to Item 9, relating to Regulation FD Disclosure.

The Registrant filed a Current Report on Form 8-K dated November 20, 2001 (filed November 27, 2001), as amended by Form 8-K/A dated November 20, 2001 (filed December 18, 2001) pursuant to Item 5, which filed Combined Statements of Certain Revenues and Certain Operating Expenses for the Prosperity Business Campus for the nine months ended September 30, 2001 and for the year ended December 31, 2000 and Combined Statements of Certain Revenues and Certain Operating Expenses for the Cornell Oaks Corporate Center for the nine months ended September 30, 2001 and for the year ended December 31, 2000.

c. Exhibits

See Index to Exhibits contained herein.

d. Financial Statement Schedules

Not applicable.

PS BUSINESS PARKS, INC.

EXHIBIT INDEX

(Items 14(a)(3) and 14(c))

2.1	Amended and Restated Agreement and Plan of Reorganization among Registrant, American Office Park Properties, Inc. ("AOPP") and Public Storage, Inc. ("PSI") dated as of December 17, 1997. Filed with Registrant's Registration Statement No. 333-45405 and incorporated herein by reference.
3.1	Restated Articles of Incorporation. Filed with Registrant's Registration Statement No. 333-78627 and incorporated herein by reference.
3.2	Certificate of Determination of Preferences of 8 ¾% Series C Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999 and incorporated herein by reference.
3.3	Certificate of Determination of Preferences of 8 7/8% Series X Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999 and incorporated herein by reference.
3.4	Amendment to Certificate of Determination of Preferences of 8 7/8% Series X Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999 and incorporated herein by reference.
3.5	Certificate of Determination of Preferences of 8 7/8% Series Y Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2000 and incorporated herein by reference.
3.6	Certificate of Determination of Preferences of 9 1/2% Series D Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8-K dated May 7, 2001 and incorporated herein by reference.
3.7	Amendment to Certificate of Determination of Preferences of 9 1/2% Series D Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2001 and incorporated herein by reference.
3.8	Certificate of Determination of Preferences of 9 1/4% Series E Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2001 and incorporated herein by reference.
3.9	Certificate of Determination of Preferences of 8.750% Series F Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8-K dated January 18, 2002 and incorporated herein by reference.
3.10	Restated Bylaws. Filed with Registrant's Current Report on Form 8-K dated March 17, 1998 and incorporated herein by reference.
10.1	Amended Management Agreement between Storage Equities, Inc. and Public Storage Commercial Properties Group, Inc. dated as of February 21, 1995. Filed with PSI's Annual Report on Form 10-K for the year ended December 31, 1994 and incorporated herein by reference.
10.2*	Registrant's 1997 Stock Option and Incentive Plan. Filed with Registrant's Registration Statement No. 333-48313 and incorporated herein by reference.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

10.22 Amendment to Agreement of Limited Partnership of PS Business Parks L.P. Relating to 9 1/2% Series D Cumulative Redeemable Preferred Units, dated as of May 10, 2001. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2001 and incorporated herein by reference.

10.23 Amendment No. 1 to Amendment to Agreement of Limited Partnership of PS Business Parks L.P. Relating to 9 1/2% Series D Cumulative Redeemable Preferred Units, dated as of June 18, 2001. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2001 and incorporated herein by reference.

10.24 Amendment to Agreement of Limited Partnership of PS Business Parks L.P. Relating to 9 1/4% Series E Cumulative Redeemable Preferred Units, dated as of September 21, 2001. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2001 and incorporated herein by reference.

10.25 Amendment to Agreement of Limited Partnership of PS Business Parks L.P. Relating to 8 3/4% Series F Cumulative Redeemable Preferred Units, dated as of January 18, 2002. Filed herewith.

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

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

10.28 Third Amendment to Revolving Credit Agreement dated as of February 15, 2002 among PS Business Parks, L.P., Wells Fargo Bank, National Association, as Agent, and the Lenders named therein. Filed herewith.

10.29 Term Loan Agreement dated as of February 20, 2002 among PS Business Parks, L.P. and Fleet National Bank, as Agent. Filed herewith.

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

21 List of Subsidiaries

23 Consent of Independent Auditors. Filed herewith.

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* Compensatory benefit plan.

** Management contract.

SIGNATURES

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

Dated: March 14, 2002

PS BUSINESS PARKS, INC.

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

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

Signature	Title	Date
/s/ Ronald L. Havner, Jr. Ronald L. Havner, Jr.	President, Chairman of the Board and Chief Executive Officer (principal executive officer)	March 14, 2002
/s/ Jack E. Corrigan Jack E. Corrigan	Vice President and Chief Financial Officer (principal financial officer and principal accounting officer)	March 14, 2002
/s/ Harvey Lenkin Harvey Lenkin	Director	March 14, 2002
/s/ Vern O. Curtis Vern O. Curtis	Director	March 14, 2002
/s/ James H. Kropp James H. Kropp	Director	March 14, 2002
/s/ Jack D. Steele Jack D. Steele	Director	March 14, 2002
/s/ Alan K. Pribble Alan K. Pribble	Director	March 14, 2002
/s/ Arthur M. Friedman Arthur M. Friedman	Director	March 14, 2002

PS BUSINESS PARKS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

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

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

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated balance sheets of PS Business Parks, Inc. as of December 31, 2001 and 2000, and the related consolidated statements of income, shareholders' equity and cash flows for the years ended December 31, 2001, 2000 and 1999. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PS Business Parks, Inc. at December 31, 2001 and 2000, and the consolidated results of its operations and its cash flows for the years ended December 31, 2001, 2000 and 1999 in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

Los Angeles, California
January 30, 2002

PS BUSINESS PARKS, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2001	December 31, 2000
ASSETS		
Cash and cash equivalents	$ 3,076,000	$ 49,295,000
Marketable securities	9,134,000	6,065,000
Real estate facilities, at cost:		
Land	288,792,000	214,020,000
Buildings and equipment	948,899,000	709,328,000
	1,237,691,000	923,348,000
Accumulated depreciation	(121,609,000)	(83,841,000)
	1,116,082,000	839,507,000
Properties held for disposition, net	9,498,000	-
Land held for development	10,629,000	5,737,000
Construction in progress	-	19,467,000
	1,136,209,000	864,711,000
Investment in joint venture	974,000	-
Rent receivable	745,000	445,000
Interest receivable	137,000	16,000
Note receivable	7,450,000	-
Deferred rent receivables	9,601,000	7,697,000
Intangible assets, net	679,000	981,000
Other assets	1,950,000	1,546,000
Total assets	$ 1,169,955,000	$ 930,756,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accrued and other liabilities	$ 39,822,000	$ 28,964,000
Deferred gain on property disposition	5,366,000	-
Line of credit	100,000,000	-
Notes payable to affiliate	35,000,000	-
Mortgage notes payable	30,145,000	30,971,000
Total liabilities	210,333,000	59,935,000
Minority interest:		
Preferred units	197,750,000	144,750,000
Common units	162,141,000	161,728,000
Shareholders' equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, 4,840 and 2,200 shares issued and outstanding at December 31, 2001 and December 31, 2000, respectively	121,000,000	55,000,000
Common stock, $0.01 par value, 100,000,000 shares authorized, 21,539,783 and 23,044,635 shares issued and outstanding at December 31, 2001 and December 31, 2000, respectively	215,000	230,000
Paid-in capital	422,161,000	464,855,000
Cumulative net income	174,860,000	124,990,000
Comprehensive gain	108,000	-
Cumulative distributions	(118,613,000)	(80,732,000)
Total shareholders' equity	599,731,000	564,343,000
Total liabilities and shareholders' equity	$ 1,169,955,000	$ 930,756,000

See accompanying notes.

PS BUSINESS PARKS, INC.
CONSOLIDATED STATEMENTS OF INCOME

	For the Years Ended December 31,		
	2001	2000	1999
Revenues:			
Rental income	$167,062,000	$144,171,000	$125,327,000
Facility management fees primarily from affiliates	683,000	539,000	471,000
Business services	353,000	547,000	-
Equity in income of joint venture	25,000	-	-
Interest income	2,251,000	4,076,000	2,356,000
Dividend income	17,000	1,301,000	459,000
	170,391,000	150,634,000	128,613,000
Expenses:			
Cost of operations	45,214,000	39,290,000	34,891,000
Cost of facility management	152,000	111,000	94,000
Cost of business services	572,000	344,000	-
Depreciation and amortization	41,067,000	35,637,000	29,762,000
General and administrative	4,320,000	3,954,000	3,153,000
Interest expense	1,715,000	1,481,000	3,153,000
	93,040,000	80,817,000	71,053,000
Income before disposition of investments, minority interest and extraordinary item	77,351,000	69,817,000	57,560,000
Gain on investment in marketable securities	8,000	7,849,000	-
Gain on disposition of properties	-	256,000	-
Income before minority interest and extraordinary item	77,359,000	77,922,000	57,560,000
Minority interest in income – preferred units	(14,107,000)	(12,185,000)	(4,156,000)
Minority interest in income – common units	(13,382,000)	(14,556,000)	(11,954,000)
Income before extraordinary item	49,870,000	51,181,000	41,450,000
Extraordinary loss on early extinguishment of debt, net of minority interest	-	-	(195,000)
Net income	$ 49,870,000	$ 51,181,000	$ 41,255,000
Net income allocation:			
Allocable to preferred shareholders	$ 8,854,000	$ 5,088,000	$ 3,406,000
Allocable to common shareholders	41,016,000	46,093,000	37,849,000
	$ 49,870,000	$ 51,181,000	$ 41,255,000
Net income per common share – basic:			
Income before extraordinary item	$ 1.84	$ 1.98	$ 1.61
Extraordinary loss, net of minority interest	-	-	(0.01)
Net income	$ 1.84	$ 1.98	$ 1.60
Net income per common share – diluted:			
Income before extraordinary item	$ 1.83	$ 1.97	$ 1.61
Extraordinary loss, net of minority interest	-	-	(0.01)
Net income	$ 1.83	$ 1.97	$ 1.60
Weighted average common shares outstanding:			
Basic	22,350,000	23,284,000	23,641,000
Diluted	22,435,000	23,365,000	23,709,000

See accompanying notes.

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

	Preferred Stock		Common Stock		Paid-in	Cumulative	Other Comprehensive	Cumulative	Shareholders'
	Shares	Amount	Shares	Amount	Capital	Net Income	Income	Distributions	Equity
Balances at December 31, 1998	-	-	23,635,650	236,000	482,471,000	32,554,000	-	(25,356,000)	489,905,000
Issuance of preferred stock, net of costs	2,200	55,000,000	-	-	(1,936,000)	-	-	-	53,064,000
Exercise of stock options	-	-	9,811	-	179,000	-	-	-	179,000
Net income	-	-	-	-	-	41,255,000	-	-	41,255,000
Distributions paid:									
Preferred stock	-	-	-	-	-	-	-	(3,406,000)	(3,406,000)
Common stock	-	-	-	-	-	-	-	(23,641,000)	(23,641,000)
Adjustment to reflect minority interest to underlying ownership interest	-	-	-	-	(1,825,000)	-	-	-	(1,825,000)
Balances at December 31, 1999	2,200	55,000,000	23,645,461	236,000	478,889,000	73,809,000	-	(52,403,000)	555,531,000
Issuance of common stock:									
Conversion of common OP units	-	-	107,517	1,000	2,530,000	-	-	-	2,531,000
Exercise of stock options	-	-	14,257	-	261,000	-	-	-	261,000
Repurchase of common stock	-	-	(722,600)	(7,000)	(16,634,000)	-	-	-	(16,641,000)
Net income	-	-	-	-	-	51,181,000	-	-	51,181,000
Distributions paid:									
Preferred stock	-	-	-	-	-	-	-	(5,088,000)	(5,088,000)
Common stock	-	-	-	-	-	-	-	(23,241,000)	(23,241,000)
Adjustment to reflect minority interest to underlying ownership interest	-		-	-	(191,000)	-	-	-	(191,000)
Balances at December 31, 2000	2,200	55,000,000	23,044,635	230,000	464,855,000	124,990,000	-	(80,732,000)	564,343,000
Issuance of preferred stock, net of costs	2,640	66,000,000	-	-	(1,663,000)	-	-	-	64,337,000
Issuance of common stock:									
Exercise of stock options	-	-	94,259	1,000	1,602,000	-	-	-	1,603,000
Unrealized gain – appreciation in marketable securities	-	-	-	-	-	-	108,000	-	108,000
Repurchase of common stock	-	-	(1,599,111)	(16,000)	(43,910,000)	-	-	-	(43,926,000)
Net income	-	-	-	-	-	49,870,000	-	-	49,870,000
Distributions paid:									
Preferred stock	-	-	-	-	-	-	-	(8,854,000)	(8,854,000)
Common stock	-	-	-	-	-	-	-	(29,027,000)	(29,027,000)
Adjustment to reflect minority interest to underlying ownership interest	-		-	-	1,277,000	-	-	-	1,277,000
Balances at December 31, 2001	4,840	$ 121,000,000	21,539,783	$ 215,000	$ 422,161,000	$ 174,860,000	$ 108,000	$ (118,613,000)	$ 599,731,000

See accompanying notes.

PS BUSINESS PARKS, INC.
STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2001	2000	1999
Cash flows from operating activities:			
Net income	$ 49,870,000	$ 51,181,000	$ 41,255,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on investment in marketable securities	(8,000)	(7,849,000)	-
Gain on disposition of properties	-	(256,000)	-
Depreciation and amortization expense	41,067,000	35,637,000	29,762,000
Minority interest in income	27,489,000	26,741,000	16,049,000
Increase in receivables and other assets	(2,642,000)	(2,004,000)	(3,868,000)
Increase in accrued and other liabilities	10,901,000	7,747,000	5,242,000
Total adjustments	76,807,000	60,016,000	47,185,000
Net cash provided by operating activities	126,677,000	111,197,000	88,440,000
Cash flows from investing activities:			
Distribution from Pacific Gulf Properties, Inc.	-	21,767,000	-
Sale of marketable securities	6,401,000	-	-
Investment in marketable securities	(9,441,000)	(1,720,000)	(18,470,000)
Acquisition of real estate facilities	(301,960,000)	(82,335,000)	(82,087,000)
Disposition of properties	1,175,000	23,763,000	-
Distribution from investment in joint venture	13,122,000	-	-
Capital improvements to real estate facilities	(12,760,000)	(19,127,000)	(16,211,000)
Land held for development and construction in progress	(14,904,000)	(19,816,000)	(14,550,000)
Net cash used in investing activities	(318,367,000)	(77,468,000)	(131,318,000)
Cash flows from financing activities:			
Borrowings from an affiliate	35,000,000	-	-
Borrowings from line of credit	100,000,000	-	14,000,000
Repayment of borrowings from line of credit	-	-	(26,500,000)
Principal payments on mortgage notes payable	(826,000)	(6,095,000)	(20,694,000)
Net proceeds from the issuance of common stock	1,603,000	261,000	179,000
Repurchase of common stock	(43,926,000)	(16,641,000)	-
Redemption of common operating partnership units	(808,000)		
Net proceeds from the issuance of preferred stock	64,337,000	-	53,064,000
Net proceeds from the issuance of preferred operating partnership units	51,650,000	11,698,000	129,613,000
Distributions paid to preferred shareholders	(8,854,000)	(5,088,000)	(3,406,000)
Distributions paid to minority interests – preferred units	(14,107,000)	(12,185,000)	(4,156,000)
Distributions paid to common shareholders	(29,027,000)	(23,241,000)	(23,641,000)
Distributions paid to minority interests – common units	(9,571,000)	(7,363,000)	(7,429,000)
Net cash provided by (used in) financing activities	145,471,000	(58,654,000)	111,030,000
Net (decrease) increase in cash and cash equivalents	(46,219,000)	(24,925,000)	68,152,000
Cash and cash equivalents at the beginning of the period	49,295,000	74,220,000	6,068,000
Cash and cash equivalents at the end of the period	$ 3,076,000	$ 49,295,000	$ 74,220,000
Supplemental disclosures:			
Interest paid	$ 2,121,000	$ 2,896,000	$ 3,053,000

See accompanying notes.

PS BUSINESS PARKS, INC.
STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2001	2000	1999
Supplemental schedule of non cash investing and financing activities:			
Acquisitions of real estate facilities and associated assets and liabilities in exchange for minority interests and mortgage notes payable:			
Real estate facilities	$ -	$ -	$ (20,752,000)
Other assets (deposits on real estate acquisitions)	-	-	-
Accrued and other liabilities	-	-	-
Minority interest – common units	-	-	1,033,000
Mortgage notes payable	-	-	19,719,000
Conversion of common OP units into shares of common stock:			
Minority interest – common units	-	(2,531,000)	-
Common stock	-	1,000	-
Paid-in capital	-	2,530,000	-
Adjustment to reflect minority interest to underlying ownership interest:			
Minority interest – common units	(1,277,000)	191,000	1,825,000
Paid-in capital	1,277,000	(191,000)	(1,825,000)
Transfer of developed properties to real estate facilities:			
Real estate facilities	(29,479,000)	(3,228,000)	(13,650,000)
Construction in progress	29,479,000	3,228,000	13,650,000
Disposition of property:			
Real estate facilities	3,265,000	-	-
Deferred gain on property disposition	5,360,000	-	-
Note receivable	(7,450,000)	-	-
Investment in joint venture:			
Real estate facilities	14,096,000	-	-
Investment in joint venture	(14,096,000)	-	-
Unrealized gain:			
Marketable securities	(108,000)	-	-
Other comprehensive income	108,000	-	-

See accompanying notes.

PS BUSINESS PARKS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2001

1. Organization and description of business

Organization

PS Business Parks, Inc. ("PSB") was incorporated in the state of California in 1990. As of December 31, 2001, PSB owned approximately 75% of the common partnership units of PS Business Parks, L.P. (the "Operating Partnership" or "OP"). The remaining common partnership units were owned by Public Storage, Inc. ("PSI") and its affiliated entities. PSB, as the sole general partner of the Operating Partnership, has full, exclusive and complete responsibility and discretion in managing and controlling the Operating Partnership. PSB and the Operating Partnership are collectively referred to as the "Company."

Description of business

The Company is a fully-integrated, self-advised and self-managed real estate investment trust ("REIT") that acquires, develops, owns and operates commercial properties containing commercial and industrial rental space. As of December 31, 2001, the Company owned and operated approximately 14.8 million net rentable square feet of commercial space located in 9 states. The Company also managed approximately 1.7 million net rentable square feet on behalf of PSI and its affiliated entities, third party owners and a joint venture in which the Company held a 25% ownership interest (See Note 2).

2. Summary of significant accounting policies

Basis of presentation

The accompanying consolidated financial statements include the accounts of PSB and the Operating Partnership. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

Use of estimates

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

Financial instruments

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

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

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

Marketable securities

Marketable securities at December 31, 2001 are classified as "available-for-sale" in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Investments are reflected on the balance sheet at fair market value based upon the quoted market price. The unrealized gain of $108,000 is excluded from earnings and reported in a separate component of shareholders' equity. Dividend income is recognized when earned.

The Company owned approximately one million common shares of Pacific Gulf Properties Inc ("PAG") at December 31, 2000. On December 15, 2000, the Company received a liquidating cash distribution of approximately $21.8 million and recognized a gain of approximately $6.1 million in excess of its original investment. The investment was classified as "trading securities" in accordance with SFAS No. 115. The investment was reflected on the balance sheet at fair market value based upon the quoted market price, resulting in an unrealized gain of $1.7 million which was included in earnings. The Company sold its remaining investment in Pacific Gulf Properties Inc. during the year ended December 31, 2001 and recognized a gain of $15,000.

Real estate facilities

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

Interest cost and property taxes incurred during the period of construction of real estate facilities are capitalized. The Company capitalized $1,091,000, $1,415,000 and $989,000 of interest expense and $321,000, $64,000 and $56,000 of property taxes during the years ended December 31, 2001, 2000 and 1999, respectively.

Investment in joint venture

In October 2001, the Company formed a joint venture with an unaffiliated investor to own and operate an industrial park in the City of Industry submarket of Los Angles County. The park, consisting of 294,000 square feet of industrial space, was acquired in December 2000 at a cost of approximately $14.4 million. The property was contributed to the joint venture at its original cost. The partnership is capitalized with equity capital consisting of 25% from the Company and 75% from the unaffiliated investor and mortgage note payable. Summarized below is financial data for the joint venture as of December 31, 2001.

	For the Year Ended December 31, 2001
Rental income	$ 253,000
Other income	76,000
Total revenues	329,000
Cost of operations	134,000
Depreciation and amortization	59,000
Other expenses	46,000
Total expenses	239,000
Net income	$ 90,000

Real estate, net	$ 14,779,000
Total assets	15,022,000
Notes payable	7,015,000
Total liabilities	9,391,000
Partner's equity	5,631,000
The Company's investment at December 31, 2001	$ 974,000

The joint venture has a variable rate mortgage obligation of $7,015,000, which currently bears interest at 5.45% per annum and is due on November 1, 2005. Under certain conditions, the Company has guaranteed repayment of the mortgage. The debt is not included in the Company's total liabilities. The Company's investment is accounted for under the equity method in accordance with APB 18, "Equity Method of Accounting for Investments." The Company's share of the debt is netted against its share of the assets in determining the investment in the joint venture of $974,000.

Intangible assets

Intangible assets consist of property management contracts for properties managed, but not owned, by the Company. The intangible assets are being amortized over seven years. Accumulated amortization was $1,477,000 and $1,175,000 at December 31, 2001 and December 31, 2000, respectively.

Evaluation of asset impairment

The Company evaluates its assets used in operations, by identifying indicators of impairment and by comparing the sum of the estimated undiscounted future cash flows for each asset to the asset's carrying amount. When indicators of impairment are present and the sum of the undiscounted future cash flows is less than the carrying value of such asset, an impairment loss is recorded equal to the difference between the asset's current carrying value and its value based on discounting its estimated future cash flows. In addition, the Company evaluates its assets held for disposition. Assets held for disposition are reported at the lower of their carrying amount or fair value, less cost of dispositions. At December 31, 2001, no such indicators of impairment have been identified.

Borrowings from and loans to affiliate

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

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

The Company borrowed an aggregate of $35 million from PSI and paid $10,000 in interest expense during the period of December 27, 2001 through December 31, 2001. The notes bore interest at 3.25% (per annum) and were repaid as of January 28, 2002.

Stock-based compensation

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

Revenue and expense recognition

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

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

Property management fees are recognized in the period earned.

General and administrative expense

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

Acquisition costs

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

Income taxes

The Company qualified and intends to continue to qualify as a REIT, as defined in Section 856 of the Internal Revenue Code. As a REIT, the Company is not subject to federal income tax to the extent that it distributes its taxable income to its shareholders. A REIT must distribute at least 90% of its taxable income each year. In addition, REIT's are subject to a number of organizational and operating requirements. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to federal income tax (including any applicable alternative minimum tax) based on its taxable income using corporate income tax rates. Even if the Company qualifies for taxation as a REIT, the Company may be subject to certain state and local taxes on its income and property and to federal income and excise taxes on its undistributed taxable income. The Company believes it met all organization and operating requirements to maintain its REIT status during 2001, 2000 and 1999 and intends to continue to meet such requirements. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Net income per common share

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

	For the Years Ended December 31,		
	2001	2000	1999
Net income allocable to common shareholders	$ 41,016,000	$ 46,093,000	$ 37,849,000
Weighted average common shares outstanding:			
Basic weighted average common shares outstanding	22,350,000	23,284,000	23,641,000
Net effect of dilutive stock options - based on treasury stock method using average market price	85,000	81,000	68,000
Diluted weighted average common shares outstanding	22,435,000	23,365,000	23,709,000
Basic earnings per common share	$ 1.84	$ 1.98	$ 1.60
Diluted earnings per common share	$ 1.83	$ 1.97	$ 1.60

Reclassifications

Certain reclassifications have been made to the consolidated financial statements for 2000 in order to conform to the 2001 presentation.

3. Real estate facilities

The activity in real estate facilities for the years ended December 31, 2001, 2000 and 1999 is as follows:

	Land	Buildings	Accumulated Depreciation	Total
Balances at December 31, 1998	$ 176,241,000	$ 536,697,000	$(22,517,000)	$ 690,421,000
Property acquisitions	18,705,000	84,134,000	-	102,839,000
Property held for disposition	(4,531,000)	(10,706,000)	1,002,000	(14,235,000)
Developed projects	3,725,000	9,925,000	-	13,650,000
Capital improvements	-	16,211,000	-	16,211,000
Depreciation expense	-	-	(29,461,000)	(29,461,000)
Balances at December 31, 1999	194,140,000	636,261,000	(50,976,000)	779,425,000
Property acquisitions	21,517,000	60,818,000	-	82,335,000
Property dispositions	(1,995,000)	(9,748,000)	2,471,000	(9,272,000)
Developed projects	358,000	2,870,000	-	3,228,000
Capital improvements	-	19,127,000	-	19,127,000
Depreciation expense	-	-	(35,336,000)	(35,336,000)
Balances at December 31, 2000	214,020,000	709,328,000	(83,841,000)	839,507,000
Property acquisitions	76,595,000	225,365,000	-	301,960,000
Property dispositions	(930,000)	(2,881,000)	546,000	(3,265,000)
Contribution to joint venture	(3,432,000)	(11,100,000)	436,000	(14,096,000)
Properties held for disposition	(1,860,000)	(9,653,000)	2,015,000	(9,498,000)
Developed projects	4,399,000	25,080,000	-	29,479,000
Capital improvements	-	12,760,000	-	12,760,000
Depreciation expense	-	-	(40,765,000)	(40,765,000)
Balances at December 31, 2001	$ 288,792,000	$ 948,899,000	$(121,609,000)	$ 1,116,082,000

The unaudited basis of real estate facilities for federal income tax purposes was approximately $1 billion at December 31, 2001.

During the years ended December 31, 2001, 2000 and 1999, the Company incurred $14.9 million, $19.8 million, and $14.6 million in development costs, respectively. In 1999, the Company completed a 61,000 square foot development in Dallas, Texas and a 66,000 square foot development in Beaverton, Oregon at a cost of approximately $13.6 million. In 2000, the Company completed a 22,000 square foot development in Beaverton, Oregon at a cost of approximately $3.2 million. In 2001, the Company completed a 97,000 square foot development in Beaverton, Oregon, a 141,000 square foot development in Chantilly, Virginia and a 102,000 square foot development in Dallas, Texas at a cost of approximately $28.5 million.

Two properties have been identified as not meeting the Company's ongoing investment strategy and have been designated as properties held for disposition at December 31, 2001. These properties are currently being marketed and the Company anticipates a gain on the sale in 2002. The following summarizes the condensed results of operations of the property held for disposition which is also included in the condensed consolidated statements of income:

	For the Years Ended December 31,	
	2001	2000
Rental income	$ 2,279,000	$ 2,120,000
Cost of operations	(1,530,000)	(1,372,000)
Depreciation	(709,000)	(480,000)
Net operating income	$ 40,000	$ 268,000

4. Leasing activity

The Company leases space in its real estate facilities to tenants under non-cancelable leases generally ranging from one to ten years. Future minimum rental revenues excluding recovery of expenses as of December 31, 2001 under these leases are as follows:

2002	$ 160,504,000
2003	130,728,000
2004	100,135,000
2005	70,082,000
2006	39,366,000
Thereafter	63,082,000
	$ 563,897,000

In addition to minimum rental payments, tenants pay reimbursements for their pro rata share of specified operating expenses, which amount to $22,764,000, $19,265,000, and $16,591,000 for the years ended December 31, 2001, 2000 and 1999, respectively. These amounts are included as rental income and cost of operations in the accompanying consolidated statements of income.

5. Revolving line of credit

In September 2000, the Company extended its unsecured line of credit (the “Credit Facility”) with Wells Fargo Bank. The Credit Facility has a borrowing limit of $100 million and an expiration date of August 6, 2003. The expiration date may be extended by one year on each anniversary of the Credit Facility. Interest on outstanding borrowings is payable monthly. At the option of the Company, the rate of interest charged is equal to (i) the prime rate or (ii) a rate ranging from the London Interbank Offered Rate (“LIBOR”) plus 0.75% to LIBOR plus 1.35% depending on the Company’s credit ratings and coverage ratios, as defined (currently LIBOR plus 1.00%). In addition, the Company is required to pay an annual commitment fee of 0.25% of the borrowing limit. The Company had drawn $100 million on its line of credit at December 31, 2001 and none at December 31, 2000.

The Credit Facility requires the Company to meet certain covenants including (i) maintain a balance sheet leverage ratio (as defined) of less than 0.50 to 1.00, (ii) maintain interest and fixed charge coverage ratios (as defined) of not less than 2.25 to 1.00 and 1.75 to 1.00, respectively, (iii) maintain a minimum total shareholders' equity (as defined) and (iv) limit distributions to 95% of funds from operations (as defined). In addition, the Company is limited in its ability to incur additional borrowings (the Company is required to maintain unencumbered assets with an aggregate book value equal to or greater than two times the Company's unsecured recourse debt) or sell assets. The Company was in compliance with the covenants of the Credit Facility at December 31, 2001.

6. Mortgage notes payable

Mortgage notes consist of the following:

	December 31, 2001	December 31, 2000
7.050% mortgage note, secured by one commercial property with an approximate carrying amount of $17,951,000, principal and interest payable monthly, due May 2006	$ 8,374,000	$ 8,570,000
8.190% mortgage note, secured by one commercial property with an approximate carrying amount of $11,691,000, principal and interest payable monthly, due March 2007	6,283,000	6,482,000
7.290% mortgage note, secured by one commercial property with an approximate carrying amount of $7,975,000, principal and interest payable monthly, due February 2009	6,164,000	6,272,000
7.280% mortgage note, secured by two commercial properties with approximate carrying amounts totaling $7,476,000, principal and interest payable monthly, due February 2003	4,059,000	4,186,000
8.000% mortgage note, secured by one commercial property with an approximate carrying amount of $5,115,000, principal and interest payable monthly, due April 2003	1,930,000	2,022,000
8.500% mortgage note, secured by one commercial property with an approximate carrying amount of $3,293,000, principal and interest payable monthly, due July 2007	1,797,000	1,850,000
8.000% mortgage note, secured by one commercial property with an approximate carrying amount of $3,405,000, principal and interest payable monthly, due April 2003	1,538,000	1,589,000
	$30,145,000	$30,971,000

At December 31, 2001, approximate principal maturities of mortgage notes payable are as follows:

2002	$ 903,000
2003	7,874,000
2004	699,000
2005	755,000
2006	7,971,000
Thereafter	11,943,000
	$ 30,145,000

The mortgage notes have a weighted average interest rate of 7.56% and an average maturity of 4.4 years.

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

7. Minority interests

Common partnership units

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

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

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

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

On January 12, 2001, the Company redeemed 30,484 common units from unaffiliated third parties for an aggregate cost of $808,000 in cash.

At December 31, 2001, there were 7,305,355 OP units owned by PSI and affiliated entities and which are accounted for as minority interests. On a fully converted basis, assuming all 7,305,355 minority interest OP units were converted into shares of common stock of PSB at December 31, 2001, the minority interest units would convert into approximately 25% of the common shares outstanding. At the end of each reporting period, Company determines the amount of equity (book value of net assets) which is allocable to the minority interest based upon the ownership interest and an adjustment is made to the minority interest, with a corresponding adjustment to paid-in capital, to reflect the minority interests' equity in the Company.

Preferred partnership units

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

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

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

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

On September 21, 2001, the Operating Partnership completed a private placement of 2,120,000 preferred units with a preferred distribution rate of 9 1/4%. The net proceeds from the placement of preferred units were approximately $51.6 million and were used for investment in real estate.

The Operating Partnership has the right to redeem preferred units on or after the fifth anniversary of the applicable issuance date at the original capital contribution plus the cumulative priority return, as defined, to the redemption date to the extent not previously distributed. The preferred units are exchangeable for Cumulative Redeemable Preferred Stock of the respective series of PS Business Parks, Inc. on or after the tenth anniversary of the date of issuance at the option of the Operating Partnership or a majority of the holders of the respective preferred units. The Preferred Stock will have the same distribution rate and par value as the respective units and will have equivalent terms to those described in Note 9.

8. Property management contracts

The Operating Partnership manages industrial, office and retail facilities for PSI and affiliated entities. These facilities, all located in the United States, operate under the "Public Storage" or "PS Business Parks" names. In addition, the Operating Partnership manages properties for third party owners and a joint venture.

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

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

9. Shareholders' equity

Preferred stock

As of December 31, 2001 and December 31, 2000, the Company had the following series of preferred stock outstanding:

		December 31, 2001		December 31, 2000	
Series	Dividend Rate	Shares Outstanding	Carrying Amount	Shares Outstanding	Carrying Amount
Series A	9.250%	2,200	$ 55,000,000	2,200	$ 55,000,000
Series D	9.500%	2,640	66,000,000	-	-
		4,840	$ 121,000,000	2,200	$ 55,000,000

On April 30, 1999, the Company issued 2,200,000 depositary shares, each representing 1/1,000 of a share of 9 1/4% Cumulative Preferred Stock, Series A. Net proceeds from the public perpetual preferred stock offering were approximately $53.1 million and were used to repay borrowings from PSI and a mortgage note payable of approximately $11 million. The remaining proceeds were used for investment in real estate.

On May 10, 2001, the Company issued 1,840,000 depositary shares, each representing 1/1,000 of a share of 9 1/2% Cumulative Preferred Stock, Series D in a public offering. On June 18, 2001, the Company issued 800,000 depositary shares, each representing 1/1,000 of a share of 9 1/2% Cumulative Preferred Stock, Series D in a directed placement. Net proceeds from the offerings were approximately $64.3 million and were used for investment in real estate and general corporate purposes.

Holders of the Company's preferred stock will not be entitled to vote on most matters, except under certain conditions. In the event of a cumulative arrearage equal to six quarterly dividends, the holders of the preferred stock will have the right to elect two additional members to serve on the Company's Board of Directors until all events of default have been cured. At December 31, 2001, 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 following dates: Series A - April 30, 2004 and Series D - May 10, 2006. On or after the respective dates, the respective series of preferred stock will be redeemable, at the option of the Company, in whole or in part, at $25 per depositary share, plus any accrued and unpaid dividends.

The Company paid $8,854,000, $5,088,000 and $3,406,000 in distributions to its preferred shareholders for the years ended December 31, 2001, 2000 and 1999, respectively.

Common Stock

The Company’s Board of Directors has authorized the repurchase from time to time of up to 4,500,000 shares of the Company's common stock on the open market or in privately negotiated transactions. The Company repurchased 1,599,111 shares of common stock at an aggregate cost of approximately $43.9 million (average cost of $27.45 per share) and 722,600 shares at an aggregate cost of approximately $16.6 million (average cost of $22.97 per share) during the years ended December 31, 2001 and 2000, respectively. Since the inception of the program (March 2000), the Company has repurchased an aggregate total of 2,321,711 shares of common stock at an aggregate cost of approximately $60.5 million (average cost of $26.06 per share).

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

The Company paid $29,027,000 ($1.31 per common share), $23,241,000 ($1.00 per common share) and $23,641,000 ($1.00 per common share) in distributions to its common shareholders for the year ended December 31, 2001, 2000 and 1999 respectively. Pursuant to restrictions imposed by the Credit Facility, distributions may not exceed 95% of funds from operations, as defined.

Equity stock

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

10. Stock options

PSB has a 1997 Stock Option and Incentive Plan (the "Plan"). Under the Plan, PSB has granted non-qualified options to certain directors, officers and key employees to purchase shares of PSB's common stock at a price no less than the fair market value of the common stock at the date of grant. Generally, options under the Plan vest over a three-year period from the date of grant at the rate of one third per year and expire ten years after the date of grant. The remaining weighted average contractual lives were 8.6, 8.4 and 7.9 years, respectively at December 31, 2001, 2000 and 1999.

At December 31, 2001, there were 1,500,000 options authorized to grant. Information with respect to the Plan is as follows:

	Number of Options	Exercise Price	Weighted Average Exercise Price
Outstanding at December 31, 1998.....	489,046	$16.69 – $25.00	$20.09
Granted.....	11,000	24.69 – 24.75	24.70
Exercised.....	(7,191)	16.69	16.69
Forfeited.....	(10,497)	16.69 – 25.00	18.67
Outstanding at December 31, 1999.....	482,358	16.69 – 25.00	20.28
Granted.....	305,500	20.50 – 26.95	25.74
Exercised.....	(13,237)	16.69 – 25.00	17.72
Forfeited.....	(135,939)	16.69 – 25.00	21.05
Outstanding at December 31, 2000.....	638,682	16.69 – 26.95	22.78
Granted.....	322,500	26.40 – 29.19	26.96
Exercised.....	(94,259)	16.69 – 26.21	17.00
Forfeited.....	(34,001)	25.00 – 26.95	25.42
Outstanding at December 31, 2001.....	832,922	$16.69 – $29.19	$24.94
Exercisable at:			
December 31, 1999.....	226,417	$16.69 – $25.00	$19.16
December 31, 2000.....	278,340	$16.69 – $25.00	$19.32
December 31, 2001.....	310,577	$16.69 – $26.80	$22.37

The Company applies APB 25 and related interpretations in accounting for its stock option plan. Accordingly, no compensation cost has been recognized. The weighted average grant date fair value of the options for

2001, 2000 and 1999 were $3.22, $4.42 and $4.16, respectively. Had compensation cost for the plan been determined based on the fair value at the grant date for awards under the plan consistent with the method prescribed by SFAS No. 123, the Company's pro forma net income available to common shareholders would have been:

	For the Years Ended December 31,		
	2001	2000	1999
Pro forma net income allocable to common shareholders.....	$ 40,330,000	$ 45,545,000	$ 37,224,000
Pro forma earnings per common share - Basic.....	$ 1.80	$ 1.96	$ 1.57
Pro forma earnings per common share - Diluted.....	$ 1.80	$ 1.96	$ 1.57

For these disclosure purposes, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2001, 2000 and 1999, respectively; dividend yield of 4.7%, 4.1% and 4.3%; expected volatility of 17.9%, 19.4% and 21.3%; expected lives of five years; and risk-free interest rates of 4.6%, 6.2% and 5.6%. The pro forma effect on net income allocable to common shareholders during 2001, 2000 and 1999 will not be representative of the pro forma effect on net income allocable to common shareholders in future years.

During 2001 and 2000, the Company also granted 30,000 and 36,500 restricted stock units to employees under the Plan, of which 57,500 restricted stock units were outstanding at December 31, 2001. The restricted stock units were granted at a zero exercise price. The fair market value of the restricted stock units at the date of grant ranged from $24.02 to $28.27 per restricted stock unit. The restricted stock units are subject to a five-year vesting schedule, at 30% in year three, 30% in year four and 40% in year five. Compensation expense of $282,000 and $86,000 was recognized during the years ended December 31, 2001 and 2000, respectively. No restricted stock units were converted to common stock in 2001 and 2000.

11. Recent accounting pronouncements

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

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement addresses financial accounting and reporting for the disposal of long-lived assets and becomes effective for financial statements issued for fiscal years beginning after December 15, 2001. The Company is studying this statement to determine its effect on the consolidated financial statements and will adopt this statement in the year ending December 31, 2002.

12. Supplementary quarterly financial data (unaudited)

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

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

	Three Months Ended			
	March 31, 2001	June 30, 2001	September 30, 2001	December 31, 2001
Revenues.....	$ 39,475,000	$ 41,082,000	$ 43,885,000	$ 45,949,000
Net income allocable to common shareholders ...	$ 10,193,000	$ 10,927,000	$ 10,010,000	$ 9,886,000
Net income per share:				
Basic.....	$0.44	$0.48	$0.45	$0.46
Diluted.....	$0.44	$0.48	$0.45	$0.46

13. Commitments and contingencies

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

The Company acquired a property in Beaverton, Oregon ("Creekside Corporate Park") in May 1998. A portion of Creekside Corporate Park, as well as properties adjacent to Creekside Corporate Park, are currently the subject of an environmental investigation that is being conducted by two current and past owner/operators of an industrial facility on adjacent property, pursuant to an Order on Consent issued by the Oregon Department of Environmental Quality ("ODEQ"). Results to date indicate that the contamination from the industrial facility has migrated onto portions of Creekside Corporate Park owned by the Company. There is no evidence that the Company's past or current use of the Creekside Corporate Park property contributed in any way to the contamination that is the subject of the current investigation, nor has the ODEQ alleged any such contribution.

The Company, which is not a party to the Order on Consent, executed separate Access Agreements with the two owner/operators to allow access to portions of Creekside Corporate Park to conduct the required sampling and testing, and to permit one of the owner/operators subject to the Order on Consent to construct, install and operate a groundwater treatment system on a portion of Creekside Corporate Park owned by the Company. Operation and maintenance of this groundwater treatment system, which is required by the Interim Remedial Action Plan approved by ODEQ, is the sole responsibility of the owner/operator, and not the Company.

Based on the results of the site investigation, ODEQ has recommended a final remedy that would include permanent treatment of contaminants in the groundwater, including expanded groundwater extraction and treatment on all parcels of the former industrial property, including portions of Creekside Corporate Park. The estimated cost of this remedy is $3.3 million over a 30-year time period.

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

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

On November 3, 1999, the Company filed an action titled *PS Business Parks, Inc. v. Larry Howard et al.* (Case No. BC219580) in Los Angeles Superior Court seeking damages in excess of $1 million. The complaint alleges that Mr. Howard and entities controlled by him engaged in unfair trade practices. Some of the Company's claims have been dismissed on summary adjudication, and the balance is in the process of being referred to the arbitration proceedings described below for adjudication. Mr. Howard filed a cross-complaint which the Company intends to vigorously contest and which is also in the process of being referred to arbitration for adjudication.

On November 27, 2000, Mary Jayne Howard, a former officer of the Company filed a demand for arbitration with the American Arbitration Association alleging claims against the Company for breach of contract, gender discrimination, marital discrimination, and wrongful termination based on public policy. The demand seeks damages of approximately $2 million. The Company plans to vigorously contest these claims. The Company has also filed in the arbitration a cross-claim against Ms. Howard alleging that she breached her fiduciary duties to the Company and committed fraud, among other claims, seeking damages in excess of $1 million.

On February 2, 2000, the Company filed an action against Mary Piper, its former Vice President of operations, in Riverside County Superior Court, alleging claims for breach of fiduciary duties, fraud and deceit, constructive fraud, negligent misrepresentation, violation of Section 17000 of Business and Professions Code, violation of Section 17200 of the Business and Professions Code and culpable negligence. The Company's claims arose from Ms. Piper's alleged participation in a plan that resulted in the payment of improper kickbacks to Larry Howard, a former vendor of the Company and the husband of Mary Jayne Howard, a former officer of the Company. Ms. Piper subsequently filed a cross-complaint which the Company intends to vigorously contest.

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

14. Reportable Segments

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

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

	For the Year Ended December 31, 2001			
	Flex	Office	Industrial	Total
Revenue:				
Southern California	$ 28,587,000	$ 9,642,000	$ 5,824,000	$ 44,053,000
Northern California	15,451,000	1,369,000	2,756,000	19,576,000
Southern Texas.....	9,488,000	2,308,000	-	11,796,000
Northern Texas.....	18,005,000	1,823,000	-	19,828,000
Virginia.....	25,747,000	8,591,000	-	34,338,000
Maryland.....	9,600,000	512,000	-	10,112,000
Oregon	15,432,000	4,436,000	-	19,868,000
Other.....	7,491,000	-	-	7,491,000
	$ 129,801,000	$ 28,681,000	$ 8,580,000	$ 167,062,000
NOI:				
Southern California	$ 22,357,000	$ 6,039,000	$ 4,555,000	$ 32,951,000
Northern California	11,706,000	942,000	2,228,000	14,876,000
Southern Texas.....	6,311,000	778,000	-	7,089,000
Northern Texas.....	12,602,000	947,000	-	13,549,000
Virginia.....	19,500,000	5,508,000	-	25,008,000
Maryland.....	7,419,000	400,000	-	7,819,000
Oregon	12,865,000	3,297,000	-	16,162,000
Other.....	4,394,000	-	-	4,394,000
	$ 97,154,000	$ 17,911,000	$ 6,783,000	$ 121,848,000

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

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

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

16. Subsequent Events (unaudited)

On January 28, 2002, the Company issued 2,000,000 depositary shares, each representing 1/1,000 of a share of 8 ¾ % Cumulative Preferred Stock, Series F, in a public offering. Net proceeds from the offering were approximately $48.4 million and were used to partially repay borrowings from PSI of $30 million. The remaining proceeds will be used for general corporate purposes.

In February 2002, the Company entered into a seven year $50 million term loan agreement with Fleet National Bank. The note bears interest at LIBOR plus 1.45% and is due on February 20, 2009. The Company paid a one-time facility fee of 0.35% or $175,000 for the loan. The Company expects to use the proceeds from the loan to reduce the amount drawn on its line of credit with Wells Fargo Bank

PS BUSINESS PARKS, INC.
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2001
(DOLLARS IN THOUSANDS)

Description	Location	Encumbrances	Initial Cost to Company		Cost Capitalized Subsequent to Acquisition	Gross Amount at Which Carried at December 31, 2001			Accumulated Depreciation	Date Acquired	Depreciable Lives (Years)
			Land	Buildings and Improvements	Buildings and Improvements	Land	Buildings and Improvements	Totals			
Overland Park	Overland Park, KS	$ -	$889	$2,176	$423	$889	$2,599	$3,488	$300	3/17/98	5-30
Produce	San Francisco, CA	-	770	1,886	38	770	1,924	2,694	259	3/17/98	5-30
Crenshaw II	Torrance, CA	-	2,318	6,069	776	2,318	6,845	9,163	1,196	4/12/97	5-30
Airport	San Francisco, CA	-	899	2,387	266	899	2,653	3,552	431	4/12/97	5-30
Christopher Ave.	Gaithersburg, MD	-	475	1,203	152	475	1,355	1,830	239	4/12/97	5-30
Monterey Park	Monterey Park, CA	-	3,078	7,862	463	3,078	8,325	11,403	1,418	1/1/97	5-30
Calle Del Oaks	Monterey, CA	-	282	706	112	286	818	1,104	159	1/1/97	5-30
Milwaukie I	Milwaukie, OR	-	1,125	2,857	605	1,125	3,462	4,587	622	1/1/97	5-30
Edwards Road	Cerritos, CA	-	450	1,217	421	450	1,638	2,088	283	1/1/97	5-30
Rainier	Renton, WA	-	330	889	175	330	1,064	1,394	191	1/1/97	5-30
Lusk	San Diego, CA	-	1,500	3,738	524	1,500	4,262	5,762	741	1/1/97	5-30
Eisenhower	Alexandria, VA	-	1,440	3,635	433	1,440	4,068	5,508	695	1/1/97	5-30
McKellips	Tempe, AZ	-	195	522	89	195	611	806	105	1/1/97	5-30
Old Oakland Rd	San Jose, CA	-	3,458	8,765	899	3,458	9,664	13,122	1,624	1/1/97	5-30
Junipero	Signal Hill, CA	-	900	2,510	120	900	2,630	3,530	399	1/1/97	5-30
Watson Plaza	Lakewood, CA	-	930	2,360	248	930	2,608	3,538	427	1/1/97	5-30
Northgate Blvd.	Sacramento, CA	-	1,710	4,567	532	1,710	5,099	6,809	860	1/1/97	5-30
Uplander	Culver City, CA	-	3,252	8,157	1,640	3,252	9,797	13,049	1,815	1/1/97	5-30
University	Tempe, AZ	-	2,160	5,454	1,174	2,160	6,628	8,788	1,154	1/1/97	5-30
E. 28th Street	Signal Hill, CA	-	1,500	3,749	392	1,500	4,141	5,641	699	1/1/97	5-30
W. Main	Mesa, AZ	-	675	1,692	351	675	2,043	2,718	345	1/1/97	5-30
S. Edward	Tempe, AZ	-	645	1,653	488	645	2,141	2,786	387	1/1/97	5-30
Leapwood Ave.	Carson, CA	-	990	2,496	610	990	3,106	4,096	597	1/1/97	5-30
Downtown Center	Nashville, TN	-	660	1,681	602	660	2,283	2,943	408	1/1/97	5-30
Airport South	Nashville, TN	-	660	1,657	231	660	1,888	2,548	324	1/1/97	5-30
Great Oaks	Woodbridge, VA	-	1,350	3,398	390	1,350	3,788	5,138	626	1/1/97	5-30
Ventura Blvd. II	Studio City, CA	-	621	1,530	164	621	1,694	2,315	307	1/1/97	5-30
Largo 95	Largo, MD	-	3,085	7,332	563	3,085	7,895	10,980	1,276	9/24/97	5-30
Gunston	Lorton, VA	-	4,146	17,872	1,137	4,146	19,009	23,155	3,652	6/17/98	5-30
Canada	Lake Forest, CA	-	5,508	13,785	1,634	5,508	15,419	20,927	1,878	12/23/97	5-30
Ridge Route	Laguna Hills, CA	-	16,261	39,559	755	16,261	40,314	56,575	5,596	12/23/97	5-30
Lake Forest Commerce Park	Laguna Hills, CA	-	2,037	5,051	1,088	2,037	6,139	8,176	1,103	12/23/97	5-30
Buena Park Industrial Center	Buena Park, CA	-	3,245	7,703	942	3,245	8,645	11,890	1,358	12/23/97	5-30
Cerritos Business Center	Cerritos, CA	-	4,218	10,273	1,050	4,218	11,323	15,541	1,772	12/23/97	5-30
Parkway Commerce Center	Hayward, CA	-	4,398	10,433	1,337	4,398	11,770	16,168	1,741	12/23/97	5-30
Northpointe E	Sterling, VA	-	1,156	2,957	108	1,156	3,065	4,221	473	12/10/97	5-30
Ammendale	Beltsville, MD	-	4,278	18,380	1,291	4,278	19,671	23,949	4,917	1/13/98	5-30
Centrepointe	Landover, MD	8,374	3,801	16,708	1,422	3,801	18,130	21,931	3,980	3/20/98	5-30

PS BUSINESS PARKS, INC.
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2001
(DOLLARS IN THOUSANDS)

			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition	Gross Amount at Which Carried at December 31, 2001					
Description	Location	Encumbrances	Land	Buildings and Improvements	Buildings and Improvements	Land	Buildings and Improvements	Totals	Accumulated Depreciation	Date Acquired	Depreciable Lives (Years)
Shaw Road	Sterling, VA	-	2,969	10,008	732	2,969	10,740	13,709	2,610	3/9/98	5-30
Creekside-Phase 1	Beaverton, OR	-	4,519	13,651	781	4,519	14,432	18,951	3,112	5/4/98	5-30
Creekside-Phase 2 Bldg-4	Beaverton, OR	-	832	2,542	199	807	2,741	3,548	576	5/4/98	5-30
Creekside-Phase 2 Bldg-5	Beaverton, OR	-	521	1,603	100	521	1,703	2,224	360	5/4/98	5-30
Creekside-Phase 2 Bldg-1	Beaverton, OR	-	1,326	4,035	276	1,326	4,311	5,637	947	5/4/98	5-30
Creekside-Phase 3	Beaverton, OR	-	1,353	4,101	536	1,353	4,637	5,990	1,017	5/4/98	5-30
Creekside-Phase 5	Beaverton, OR	-	1,741	5,301	427	1,741	5,728	7,469	1,274	5/4/98	5-30
Creekside-Phase 6	Beaverton, OR	-	2,616	7,908	259	2,616	8,167	10,783	1,819	5/4/98	5-30
Creekside-Phase 7	Beaverton, OR	-	3,293	9,938	972	3,293	10,910	14,203	2,349	5/4/98	5-30
Creekside-Phase 8	Beaverton, OR	-	1,140	3,644	88	1,140	3,732	4,872	782	5/4/98	5-30
Woodside-Phase 1	Beaverton, OR	-	2,987	8,982	895	2,987	9,877	12,864	2,091	5/4/98	5-30
Woodside-Phase 2 Bldg-6	Beaverton, OR	-	255	784	71	255	855	1,110	205	5/4/98	5-30
Woodside-Phase 2 Bldg-7&8	Beaverton, OR	-	2,101	6,386	224	2,101	6,610	8,711	1,456	5/4/98	5-30
Woodside-Sequent 1	Beaverton, OR	-	2,890	8,672	41	2,890	8,713	11,603	1,896	5/4/98	5-30
Woodside-Sequent 5	Beaverton, OR	-	3,093	9,279	2	3,093	9,281	12,374	2,021	5/4/98	5-30
Northpointe G	Sterling, VA	1,797	824	2,964	137	824	3,101	3,925	632	6/11/98	5-30
Spectrum 95	Landover, MD	-	1,610	7,129	902	1,610	8,031	9,641	1,520	9/30/98	5-30
Las Plumas	San Jose, CA	-	4,379	12,889	470	4,379	13,359	17,738	2,629	12/31/98	5-30
Lafayette	Chantilly, VA	-	671	4,179	26	671	4,205	4,876	681	01/29/99	5-30
CreeksideVII	Beaverton, OR	-	358	3,232	82	358	3,314	3,672	222	04/17/00	5-30
Woodside-Greystone	Beaverton, OR	-	1,262	6,966	2,398	1,262	9,364	10,626	961	7/15/99	5-30
Dulles South	Chantilly, VA	1,827	599	3,098	180	599	3,278	3,877	441	6/30/99	5-30
Sullyfield Circle	Chantilly, VA	2,232	774	3,712	111	774	3,823	4,597	557	6/30/99	5-30
Park East I & II	Chantilly, VA	6,283	2,324	10,875	62	2,324	10,937	13,261	1,570	6/30/99	5-30
Park East III	Chantilly, VA	6,164	1,527	7,154	351	1,527	7,505	9,032	1,057	6/30/99	5-30
Northpointe Business Center A	Sacramento, CA	-	729	3,324	304	729	3,628	4,357	902	7/29/99	5-30
Corporate Park Phoenix	Phoenix, AZ	-	2,761	10,269	396	2,761	10,665	13,426	1,054	12/30/99	5-30
Santa Clara Technology Park	Santa Clara, CA	-	7,673	15,645	22	7,673	15,667	23,340	1,535	3/28/00	5-30
Corporate Pointe	Irvine, CA	-	6,876	18,519	486	6,876	19,005	25,881	1,419	9/22/00	5-30
Lafayette II/Pleasant Valley Rd	Chantilly, VA	-	1,009	9,219	-	1,009	9,219	10,228	144	8/15/01	5-30
Northpointe Business Center B	Sacramento, CA	-	717	3,269	205	717	3,474	4,191	385	7/29/99	5-30
Northpointe Business Center C	Sacramento, CA	-	726	3,313	143	726	3,456	4,182	377	7/29/99	5-30
Northpointe Business Center D	Sacramento, CA	-	427	1,950	27	427	1,977	2,404	216	7/29/99	5-30
Northpointe Business Center E	Sacramento, CA	-	432	1,970	37	432	2,007	2,439	220	7/29/99	5-30
I-95 Building I	Springfield, VA	-	1,308	5,790	-	1,308	5,790	7,098	370	12/20/00	5-30
I-95 Building II	Springfield, VA	-	1,308	5,790	-	1,308	5,790	7,098	369	12/20/00	5-30
I-95 Building III	Springfield, VA	-	919	4,092	7	919	4,099	5,018	260	12/20/00	5-30
2700 Prosperity Avenue	Fairfax, VA	-	3,404	9,883	-	3,404	9,883	13,287	188	6/1/01	5-30
2701 Prosperity Avenue	Fairfax, VA	-	2,199	6,374	-	2,199	6,374	8,573	121	6/1/01	5-30

PS BUSINESS PARKS, INC.
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2001
(DOLLARS IN THOUSANDS)

Description	Location	Encumbrances	Initial Cost to Company		Cost Capitalized Subsequent to Acquisition	Gross Amount at Which Carried at December 31, 2001			Accumulated Depreciation	Date Acquired	Depreciable Lives (Years)
			Land	Buildings and Improvements	Buildings and Improvements	Land	Buildings and Improvements	Totals			
2710 Prosperity Avenue	Fairfax, VA	-	969	2,844	-	969	2,844	3,813	56	6/1/01	5-30
2711 Prosperity Avenue	Fairfax, VA	-	1,047	3,099	-	1,047	3,099	4,146	58	6/1/01	5-30
2720 Prosperity Avenue	Fairfax, VA	-	1,898	5,502	-	1,898	5,502	7,400	105	6/1/01	5-30
2721 Prosperity Avenue	Fairfax, VA	-	576	1,673	-	576	1,673	2,249	32	6/1/01	5-30
2730 Prosperity Avenue	Fairfax, VA	-	3,011	8,841	-	3,011	8,841	11,852	177	6/1/01	5-30
2731 Prosperity Avenue	Fairfax, VA	-	524	1,521	-	524	1,521	2,045	29	6/1/01	5-30
2740 Prosperity Avenue	Fairfax, VA	-	890	2,732	-	890	2,732	3,622	52	6/1/01	5-30
2741 Prosperity Avenue	Fairfax, VA	-	786	2,284	-	786	2,284	3,070	44	6/1/01	5-30
2750 Prosperity Avenue	Fairfax, VA	-	4,203	12,190	-	4,203	12,190	16,393	233	6/1/01	5-30
2751 Prosperity Avenue	Fairfax, VA	-	3,640	10,632	-	3,640	10,632	14,272	205	6/1/01	5-30
Woodside Greystone II & III	Beaverton, OR	-	1,558	9,024	-	1,558	9,024	10,582	84	09/30/01	5-30
Greenbrier Court	Beaverton, OR	-	2,771	8,403	-	2,771	8,403	11,174	31	11/20/01	5-30
Parkside	Beaverton, OR	-	4,348	13,502	-	4,348	13,502	17,850	76	11/20/01	5-30
The Atrium	Beaverton, OR	-	5,535	16,814	-	5,535	16,814	22,349	63	11/20/01	5-30
Waterside	Beaverton, OR	-	4,045	12,419	-	4,045	12,419	16,464	46	11/20/01	5-30
Ridgeview	Beaverton, OR	-	2,478	7,531	-	2,478	7,531	10,009	28	11/20/01	5-30
The Commons	Beaverton, OR	-	1,439	4,566	-	1,439	4,566	6,005	16	11/20/01	5-30
Lamar Boulevard	Austin, TX	-	2,528	6,596	2,131	2,528	8,727	11,255	1,592	1/1/97	5-30
N. Barker's Landing	Houston, TX	-	1,140	3,003	1,372	1,140	4,375	5,515	817	1/1/97	5-30
La Prada	Mesquite, TX	-	495	1,235	128	495	1,363	1,858	229	1/1/97	5-30
NW Highway	Garland, TX	-	480	1,203	75	480	1,278	1,758	214	1/1/97	5-30
Quail Valley	Missouri City, TX	-	360	918	97	360	1,015	1,375	171	1/1/97	5-30
Business Parkway I	Richardson, TX	-	799	3,568	364	799	3,932	4,731	853	5/4/98	5-30
The Summit	Plano, TX	-	1,536	6,654	902	1,536	7,556	9,092	1,848	5/4/98	5-30
Northgate II	Dallas, TX	-	1,274	5,505	846	1,274	6,351	7,625	1,534	5/4/98	5-30
Empire Commerce	Dallas, TX	-	304	1,545	211	304	1,756	2,060	334	5/4/98	5-30
Royal Tech – Digital	Irving, TX	-	319	1,393	169	319	1,562	1,881	360	5/4/98	5-30
Royal Tech – Springwood	Irving, TX	-	894	3,824	476	894	4,300	5,194	928	5/4/98	5-30
Royal Tech – Regent	Irving, TX	-	606	2,615	749	606	3,364	3,970	794	5/4/98	5-30
Royal Tech – Bldg 7	Irving, TX	-	246	1,061	-	246	1,061	1,307	225	5/4/98	5-30
Royal Tech – NFTZ	Irving, TX	-	1,517	6,499	261	1,517	6,760	8,277	1,486	5/4/98	5-30
Royal Tech – Olympus	Irving, TX	-	1,060	4,531	17	1,060	4,548	5,608	971	5/4/98	5-30
Royal Tech – Honeywell	Irving, TX	-	548	2,347	172	548	2,519	3,067	549	5/4/98	5-30
Royal Tech – Bldg 12	Irving, TX	-	1,466	6,263	8	1,466	6,271	7,737	1,340	5/4/98	5-30
Royal Tech – Bldg 13	Irving, TX	-	955	4,080	258	955	4,338	5,293	941	5/4/98	5-30
Royal Tech – Bldg 14	Irving, TX	-	2,010	10,242	37	2,010	10,279	12,289	2,040	5/4/98	5-30
Royal Tech – Bldg 15	Irving, TX	-	1,307	5,600	153	1,307	5,753	7,060	1,194	11/4/98	5-30

			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition	Gross Amount at Which Carried at December 31, 2001					

PS BUSINESS PARKS, INC.
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2001
(DOLLARS IN THOUSANDS)

Description	Location	Encumbrances	Land	Buildings and Improvements	Buildings and Improvements	Land	Buildings and Improvements	Totals	Accumulated Depreciation	Date Acquired	Depreciable Lives (Years)
Westchase Corporate Park	Houston, TX	-	2,173	7,338	114	2,173	7,452	9,625	800	12/30/99	5-30
Ben White 1	Austin, TX	-	789	3,571	23	789	3,594	4,383	656	12/31/98	5-30
Ben White 5	Austin, TX	-	761	3,444	78	761	3,522	4,283	648	12/31/98	5-30
McKalla 3	Austin, TX	-	662	2,994	166	662	3,160	3,822	580	12/31/98	5-30
McKalla 4	Austin, TX	-	749	3,390	59	749	3,449	4,198	646	12/31/98	5-30
Mopac 6	Austin, TX	-	307	1,390	178	307	1,568	1,875	294	12/31/98	5-30
Waterford A	Austin, TX	-	597	2,752	1	597	2,753	3,350	473	1/06/99	5-30
Waterford B	Austin, TX	-	367	1,672	-	367	1,672	2,039	250	5/20/99	5-30
Waterford C	Austin, TX	-	1,144	5,225	11	1,144	5,236	6,380	787	5/20/99	5-30
McNeil 6	Austin, TX	-	437	2,013	-	437	2,013	2,450	346	1/6/9	5-30
Rutland 11	Austin, TX	-	325	1,536	-	325	1,536	1,861	259	1/6/99	5-30
Rutland 12	Austin, TX	-	535	2,487	54	535	2,541	3,076	454	1/6/99	5-30
Rutland 13	Austin, TX	-	469	2,190	30	469	2,220	2,689	383	1/6/99	5-30
Rutland 14	Austin, TX	-	535	2,422	91	535	2,513	3,048	468	12/31/98	5-30
Rutland 19	Austin, TX	-	158	762	133	158	895	1,053	169	1/6/99	5-30
Royal Tech - Bldg 16	Irving, TX	-	2,464	2,703	2,011	2,464	4,714	7,178	309	7/1/99	5-30
Royal Tech - Bldg 17	Irving, TX	-	1,832	6,901	-	1,832	6,901	8,733	128	8/15/01	5-30
Monroe Business Center	Herndon, VA	-	5,926	13,944	1,657	5,926	15,601	21,527	2,957	8/1/97	5-30
Lusk II-R&D	San Diego, CA	-	1,077	2,644	106	1,077	2,750	3,827	377	3/17/98	5-30
Lusk II-Office	San Diego, CA	-	1,230	3,005	619	1,230	3,624	4,854	516	3/17/98	5-30
Norris Cn-Office	San Ramon, CA	-	1,486	3,642	409	1,486	4,051	5,537	568	3/17/98	5-30
Northpointe D	Sterling, VA	1,538	787	2,857	364	787	3,221	4,008	603	6/11/98	5-30
Monroe II	Herndon, VA	1,930	811	4,967	310	811	5,277	6,088	973	1/29/99	5-30
Metro Park I	Rockville, MD	-	5,383	15,404	-	5,383	15,404	20,787	6	12/27/01	5-30
Metro Park I R&D	Rockville, MD	-	5,404	15,748	-	5,404	15,748	21,152	6	12/27/01	5-30
Metro Park II	Rockville, MD	-	1,223	3,490	-	1,223	3,490	4,713	1	12/27/01	5-30
Metro Park II	Rockville, MD	-	2,287	6,533	-	2,287	6,533	8,820	2	12/27/01	5-30
Metro Park III	Rockville, MD	-	4,555	13,039	-	4,555	13,039	17,594	5	12/27/01	5-30
Metro Park IV	Rockville, MD	-	4,188	12,035	-	4,188	12,035	16,223	4	12/27/01	5-30
Metro Park V	Rockville, MD	-	9,813	28,214	-	9,813	28,214	38,027	10	12/27/01	5-30
Kearny Mesa-Office	San Diego, CA	-	785	1,933	613	785	2,546	3,331	380	3/17/98	5-30
Kearny Mesa-R&D	San Diego, CA	-	2,109	5,156	129	2,109	5,285	7,394	703	3/17/98	5-30
Bren Mar-Office	Alexandria, VA	-	572	1,401	678	572	2,079	2,651	382	3/17/98	5-30
Lusk III	San Diego, CA	-	1,904	4,662	177	1,904	4,839	6,743	657	3/17/98	5-30
Bren Mar-R&D	Alexandria, VA	-	1,625	3,979	93	1,625	4,072	5,697	537	3/17/98	5-30
Alban Road-Office	Springfield, VA	-	988	2,418	845	988	3,263	4,251	480	3/17/98	5-30
Alban Road-R&D	Springfield, VA	-	947	2,318	184	947	2,502	3,449	335	3/17/98	5-30
		$30,145	$288,813	$895,746	$53,153	$288,792	$948,899	$1,237,691	$121,609		

EXHIBIT 10.25

PS BUSINESS PARKS, L.P.

AMENDMENT TO AGREEMENT OF LIMITED PARTNERSHIP RELATING TO 8¾% SERIES F CUMULATIVE REDEEMABLE PREFERRED UNITS

This Amendment to the Agreement of Limited Partnership of PS Business Parks, L.P., a California limited partnership (the "**Partnership**"), dated as of January 28, 2002 (this "**Amendment**"), amends the Agreement of Limited Partnership of the Partnership, dated as of March 17, 1998, as amended, by and among PS Business Parks, Inc. (the "**General Partner**") and each of the limited partners described on Exhibit A to that partnership agreement (the "**Partnership Agreement**"). Section references are (unless otherwise specified) references to sections in this Amendment.

WHEREAS, the General Partner agreed to issue 2,000,000 Depositary Shares each representing 1/1000th of a share of the General Partner's preferred stock designated as the "8.750% Cumulative Preferred Stock, Series F" (the "**Depositary Shares**") for a price of $25.00 per Depositary Share;

WHEREAS, Section 4.1(b)(2) of the Partnership Agreement requires the General Partner to contribute to the Partnership the funds raised through the issuance of additional shares of the General Partner in return for additional Partnership Units, and provides that the General Partner's capital contribution shall be deemed to equal the amount of the gross proceeds of that share issuance (i.e., the net proceeds actually contributed, plus any underwriter's discount or other expenses incurred, with any such discount or expense deemed to have been incurred on behalf of the Partnership);

WHEREAS, Section 4.2(a) of the Partnership Agreement provides generally for the creation and issuance of Partnership Units with such designations, preferences and relative, participating, optional or other special rights, powers and duties, including rights, powers and duties senior to other Partnership Interests, all as shall be determined by the General Partner, without the consent of the Limited Partners, and Section 4.2(b) of the Partnership Agreement specifically contemplates the issuance of Units to the General Partner having designations, preferences and other rights, all such that the economic interests are substantially similar to the designations, preferences and other rights of shares issued by the General Partner, such as the Depositary Shares;

WHEREAS, the General Partner desires to cause the Partnership to issue additional Units of a new class and series, with the designations, preferences and relative, participating, optional or other special rights, powers and duties set forth herein; and

WHEREAS, the General Partner desires by this Amendment to so amend the Partnership Agreement as of the date first set forth above to provide for the designation and issuance of such new class and series of Units.

NOW, THEREFORE, the Partnership Agreement is hereby amended by establishing and fixing the rights, limitations and preferences of a new class and series of Units as follows:

Section 1. Definitions. Capitalized terms not otherwise defined herein shall have their respective meanings set forth in the Partnership Agreement. Capitalized terms that are used in this Amendment shall have the meanings set forth below:

(a) "Liquidation Preference" means, with respect to the Series F Preferred Units (as defined below), $25.00 per Series F Preferred Unit, plus the amount of any accumulated and unpaid Priority Return (as defined

below) with respect to such Series F Preferred Unit, whether or not declared, minus any distributions in excess of the Priority Return that has accrued with respect to such Series F Preferred Units, to the date of payment.

(b) "Parity Preferred Units" means any class or series of Partnership Interests (as such term is defined in the Partnership Agreement) of the Partnership now or hereafter authorized, issued or outstanding and expressly designated by the Partnership to rank on a parity with the Series F Preferred Units with respect to distributions and rights upon voluntary or involuntary liquidation, winding-up or dissolution of the Partnership, including the 9¼% Series A Cumulative Redeemable Preferred Units (the **"Series A Preferred Units"**), the $8^{7}/_{8}$% Series B Cumulative Redeemable Preferred Units (the **"Series B Preferred Units"**), the 8¾% Series C Cumulative Redeemable Preferred Units (the **"Series C Preferred Units"**), the 9½% Series D Cumulative Redeemable Preferred Units (the **"Series D Preferred Units"**), the 9¼% Series E Cumulative Redeemable Preferred Units (the **"Series E Preferred Units"**), the $8^{7}/_{8}$% Series X Cumulative Redeemable Preferred Units (the **"Series X Preferred Units"**) and the $8^{7}/_{8}$% Series Y Cumulative Redeemable Preferred Units (the **"Series Y Preferred Units"**). Notwithstanding the differing allocation rights set forth in Section 4 below that apply to the Series A, B, C, D and F Preferred Units (as compared to the Series E, X and Y Preferred Units), for purposes of this Amendment those Series A, B, C, D and F Preferred Units and any future series of preferred units that rank in parity with those series also shall be considered Parity Preferred Units to the Series E, X and Y Preferred Units.

(c) "Priority Return" means an amount equal to 8¾% per annum, of the Liquidation Preference per Series F Preferred Unit, commencing on the date of issuance of such Series F Preferred Unit, determined on the basis of a 360-day year (and twelve 30-day months), cumulative to the extent not distributed on any Series F Preferred Unit Distribution Payment Date (as defined below).

Section 2 Creation of Series F Preferred Units. (a) **Designation and Number.** Pursuant to Section 4.2(a) of the Partnership Agreement, a series of Partnership Units (as such term is defined in the Partnership Agreement) in the Partnership designated as the "8¾% Series F Cumulative Redeemable Preferred Units" (the **"Series F Preferred Units"**) is hereby established effective as of January 28, 2002. The number of Series F Preferred Units shall be 2,000,000. The Holders of Series F Preferred Units shall not have any Percentage Interest (as such term is defined in the Partnership Agreement) in the Partnership.

(b) Capital Contribution. In return for the issuance to the General Partner of the Series F Preferred Units set forth on Exhibit C to this Amendment, the General Partner has contributed to the Partnership the funds raised through the General Partner's issuance of the Depositary Shares (the General Partner's capital contribution shall be deemed to equal the amount of the gross proceeds of that share issuance, *i.e.*, the net proceeds actually contributed, plus any underwriter's discount or other expenses incurred, with any such discount or expense deemed to have been incurred by the General Partner on behalf of the Partnership).

(c) Construction. The Series F Preferred Units have been created and are being issued in conjunction with the General Partner's issuance of the Depositary Shares relating to the General Partner's 8.750% Cumulative Preferred Stock, Series F, and as such, the Series F Preferred Units are intended to have designations, preferences and other rights, all such that the economic interests are substantially similar to the designations, preferences and other rights of the Depositary Shares, and the terms of this Amendment shall be interpreted in a fashion consistent with this intent.

Section 3. Distributions. (a) **Payment of Distributions.** Subject to the rights of holders of Parity Preferred Units as to the payment of distributions, pursuant to Section 5.1 of the Partnership Agreement, holders of Series F Preferred Units shall be entitled to receive, when, as and if declared by the Partnership acting through the General Partner, the Priority Return. Such distributions shall be cumulative, shall accrue from the original date of issuance of the Series F Preferred Units and, notwithstanding Section 5.1 of the Partnership Agreement, will be payable (i) quarterly in arrears on March 31, June 30, September 30 and December 31 of each year commencing on March 31, 2002 and (ii) in the event of a redemption of Series F Preferred Units (each a **"Series F Preferred Unit Distribution Payment Date"**). If any date on which distributions are to be made on the Series F Preferred Units is not a Business Day (as defined below), then payment of the distribution to be made on such date will be made on

the Business Day immediately preceding such date with the same force and effect as if made on such date. Distributions on the Series F Preferred Units will be made to the holders of record of the Series F Preferred Units on the relevant record dates to be fixed by the Partnership acting through the General Partner, which record dates shall in no event exceed fifteen (15) Business Days prior to the relevant Series F Preferred Unit Distribution Payment Date. Business Day shall be any day other than a Saturday, Sunday or day on which banking institutions in the State of New York or the State of California are authorized or obligated by law to close, or a day which is or is declared a national or a New York or California state holiday.

(b) Prohibition on Distribution. No distributions on Series F Preferred Units shall be authorized by the General Partner or paid or set apart for payment by the Partnership at any such time as the terms and provisions of any agreement of the Partnership or the General Partner, including any agreement relating to their indebtedness, prohibits such authorization, payment or setting apart for payment or provides that such authorization, payment or setting apart for payment would constitute a breach thereof or a default thereunder, or to the extent that such authorization or payment shall be restricted or prohibited by law.

(c) Distributions Cumulative. Distributions on the Series F Preferred Units will accrue whether or not the terms and provisions of any agreement of the Partnership, including any agreement relating to its indebtedness at any time prohibit the current payment of distributions, whether or not the Partnership has earnings, whether or not there are funds legally available for the payment of such distributions and whether or not such distributions are authorized. Accrued but unpaid distributions on the Series F Preferred Units will accumulate as of the Series F Preferred Unit Distribution Payment Date on which they first become payable. Distributions on account of arrears for any past distribution periods may be declared and paid at any time, without reference to a regular Series F Preferred Unit Distribution Payment Date to holders of record of the Series F Preferred Units on the record date fixed by the Partnership acting through the General Partner which date shall not exceed fifteen (15) Business Days prior to the payment date. Accumulated and unpaid distributions will not bear interest.

(d) Priority as to Distributions. Subject to the provisions of Article 13 of the Partnership Agreement:

(i) So long as any Series F Preferred Units are outstanding, no distribution of cash or other property shall be authorized, declared, paid or set apart for payment on or with respect to any class or series of Partnership Interest ranking junior as to the payment of distributions or rights upon a voluntary or involuntary liquidation, dissolution or winding-up of the Partnership to the Series F Preferred Units (collectively, "**Junior Unit**s"), nor shall any cash or other property be set aside for or applied to the purchase, redemption or other acquisition for consideration of any Series F Preferred Units, any Parity Preferred Units or any Junior Units, unless, in each case, all distributions accumulated on all Series F Preferred Units and all classes and series of outstanding Parity Preferred Units have been paid in full. The foregoing sentence shall not prohibit (x) distributions payable solely in Junior Units, or (y) the conversion of Junior Units or Parity Preferred Units into Partnership Interests ranking junior to the Series F Preferred Units.

(ii) So long as distributions have not been paid in full (or a sum sufficient for such full payment is not irrevocably deposited in trust for payment) upon the Series F Preferred Units, all distributions authorized and declared on the Series F Preferred Units and all classes or series of outstanding Parity Preferred Units shall be authorized and declared so that the amount of distributions authorized and declared per Series F Preferred Unit and such other classes or series of Parity Preferred Units shall in all cases bear to each other the same ratio that accrued distributions per Series F Preferred Unit and such other classes or series of Parity Preferred Units (which shall not include any accumulation in respect of unpaid distributions for prior distribution periods if such class or series of Parity Preferred Units do not have cumulative distribution rights) bear to each other.

(e) No Further Rights. Holders of Series F Preferred Units shall not be entitled to any distributions, whether payable in cash, other property or otherwise, in excess of the full cumulative distributions described herein.

Section 4. Allocations. Section 6.1(a)(ii) of the Partnership Agreement is amended to read, in its entirety, as follows:

> " (ii) (A) Notwithstanding anything to the contrary contained in this Agreement, in any taxable year: (1) the holders of series A, B, C, D and F Preferred Units shall first be allocated an amount of gross income equal to the Priority Return distributed to such holders in such taxable year, and (2) subject to any prior allocation of Profit pursuant to the loss chargeback set forth in Section 6.1(a)(ii)(B) below, the holders of Series E, X and Y Preferred Units shall then be allocated an amount of Profit equal to the Priority Return distributed to such holders either in such taxable year or in prior taxable years to the extent that such distributions have not previously been matched with an allocation of Profit pursuant to this Section 6.1(a)(ii)(A)(2).
>
> (B) After the Capital Account balances of all Partners other than holders of any series of Preferred Units have been reduced to zero, Losses of the Partnership that otherwise would be allocated so as to cause deficit Capital Account balances for those other Partners shall be allocated to the holders of the Series A, B, C, D, E, F, X and Y Preferred Units in proportion to the positive balances of their Capital Accounts until those Capital Account balances have been reduced to zero. If Losses have been allocated to the holders of the Series A, B, C, D, E, F, X and Y Preferred Units pursuant to the preceding sentence, the first subsequent Profits shall be allocated to those preferred partners so as to recoup, in reverse order, the effects of the loss allocations.
>
> (C) Upon liquidation of the Partnership or the interest of the holders of Series A, B, C, D, E, F, X or Y Preferred Units in the Partnership: (1) items of gross income or deduction shall first be allocated to the holders of Series A, B, C, D and F Preferred Units in a manner such that, immediately prior to such liquidation, the Capital Account balances of such holders shall equal the amount of their Liquidation Preferences, and (2) an amount of Profit or Loss shall then be allocated to the holders of Series E, X and Y Preferred Units in a manner such that, immediately prior to such liquidation, the Capital Account balances of such holders shall equal the amount of their Liquidation Preferences.

Section 5. "Optional Redemption. The Series F Preferred Units shall be redeemed at the same time, to the same extent, and applying, except as set forth below, similar procedures, as any redemption by the General Partner of the Depositary Shares. The redemption price, payable in cash, shall equal the Liquidation Preference (the **"Redemption Price"**). The Partnership will deliver into escrow with an escrow agent acceptable to the Partnership and the holders of the Series F Preferred Units being redeemed (the **"Escrow Agent"**) the Redemption Price and an executed Redemption Agreement, in substantially the form attached as Exhibit A (the **"Redemption Agreement"**), and an Amendment to the Agreement of Limited Partnership evidencing the Redemption, in substantially the form attached as Exhibit B. The holders of the Series F Preferred Units to be redeemed will also deliver into escrow with the Escrow Agent an executed Redemption Agreement and an executed Amendment to the Agreement of Limited Partnership evidencing the redemption. Upon delivery of all of the above-described items by both parties, on the redemption date the Escrow Agent shall release the Redemption Price to the holders of the Series F Preferred Units and the fully-executed Redemption Agreement and Amendment to Agreement of Limited Partnership to both parties. On and after the date of redemption, distributions will cease to accumulate on the Series F Preferred Units called for redemption, unless the Partnership defaults in the payment of the Redemption Price. The Redemption Right (as such term is defined in the Partnership Agreement) given to Limited Partners (as such term is defined in the Partnership Agreement) in Section 8.6 of the Partnership Agreement shall not be available to the holders of the Series F Preferred Units and all references to Limited Partners in said Section 8.6 (and related provisions of the Partnership Agreement) shall not include holders of the Series F Preferred Units.

Section 6. Voting Rights. Holders of the Series F Preferred Units will not have any voting rights or right to consent to any matter requiring the consent or approval of the Limited Partners, except as set forth in Section 14.1 of the Partnership Agreement and in this Section 6. Solely for purposes of Section 14.1 of the Partnership Agreement, each Series F Preferred Unit shall be treated as one Partnership Unit.

Section 7. Transfer Restrictions. The holders of Series F Preferred Units shall be subject to all of the provisions of Section 11 of the Partnership Agreement.

Section 8. No Conversion Rights. The holders of the Series F Preferred Units shall not have any rights to convert such units into shares of any other class or series of stock or into any other securities of, or interest in, the Partnership.

Section 9. No Sinking Fund. No sinking fund shall be established for the retirement or redemption of Series F Preferred Units.

Section 10. Exhibit A to Partnership Agreement. In order to duly reflect the issuance of the Series F Preferred Units provided for herein, the Partnership Agreement is hereby further amended pursuant to Section 12.3 of the Partnership Agreement by replacing the current form of Exhibit A to the Partnership Agreement with the form of Exhibit A that is attached to this Amendment as Exhibit C.

Section 11. Inconsistent Provisions. Nothing to the contrary contained in the Partnership Agreement shall limit any of the rights or obligations set forth in this Amendment.

IN WITNESS WHEREOF, this Amendment has been executed as of the date first above written.

PS BUSINESS PARKS, INC.

By:/s/ David Goldberg
Name: David Goldberg
Title: Vice President

Exhibit 10.28

THIRD AMENDMENT TO REVOLVING CREDIT AGREEMENT

dated as of February 15, 2002

among

PS BUSINESS PARKS, L.P.,

THE LENDERS LISTED HEREIN,

and

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Agent

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THIRD AMENDMENT TO REVOLVING CREDIT AGREEMENT

THIS THIRD AMENDMENT TO REVOLVING CREDIT AGREEMENT (this "Amendment") dated as of February 15, 2002 among PS BUSINESS PARKS, L.P., a California limited partnership (the "Borrower"), the lenders listed on the signature pages hereof ("Lenders"), and WELLS FARGO BANK, NATIONAL ASSOCIATION, as agent and representative for the Lenders (in such capacity, the "Agent").

WHEREAS, Borrower, the Agent and the Lenders entered into that certain Revolving Credit Agreement dated as of August 6, 1998 (the "Original Agreement"), which Original Agreement was amended by that certain First Amendment to Revolving Credit Agreement dated as of August 19, 1999 (the "First Amendment") among the Borrower, the Agent and the Lenders, and further amended by that certain Second Amendment to Revolving Credit Agreement dated as of September 29, 2000 (the "Second Amendment") (the Original Agreement as amended by the First Amendment and the Second Amendment being referred to herein as the "Modified Credit Agreement");

WHEREAS, Borrower, the Lenders and the Agent wish to make certain amendments to the Modified Credit Agreement effective as of January 1, 2002. The Modified Credit Agreement, as modified by this Amendment may be referred to herein as the "Credit Agreement";

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements hereinafter set forth, the Borrower, the Lenders and the Agent agree as follows:

ARTICLE I.

the AMENDMENTS

SECTION 1.1. Definitions. The following terms shall be substituted in lieu of the corresponding terms in, Section 1.1 of the Modified Credit Agreement:

"Capitalization Rate" means nine and one-half percent (9.5%).

"Unencumbered Asset Value" means, at any time, with respect to Unencumbered Assets that have been Wholly-Owned for at least one full Fiscal Quarter at such time, the product of the Property NOI of such Unencumbered Assets during the period of the full Fiscal Quarter ended most recently, multiplied by 4, less the product of (i) $.95 multiplied by (ii) the gross rentable square footage of all Unencumbered Assets that have been Wholly-Owned owned for such period, divided by the Capitalization Rate (the foregoing may be referred to herein as the "Unencumbered Pool Value") plus (y) Cash and Cash Equivalents (excluding tenant deposits and other restricted cash) and (z) the book value of Construction-in-Process and Land Holdings; provided that the value of clause (z) shall be limited to 5% of the Unencumbered Pool Value.

SECTION 1.2. Employees. Section 4.12 is hereby deleted in its entirety.

SECTION 1.3. Shareholder Agreement. Section 5.10 is hereby deleted in its entirety as the Shareholder Agreement expired on its own terms on December 31, 2001.

SECTION 1.4. Limitation of Guarantor. Section 5.11 of the Modified Credit Agreement is hereby modified to delete the last two sentences thereof.

SECTION 1.5. Year 2000. Section 5.14 is hereby deleted in its entirety.

SECTION 1.6. Change in Management. Section 5.15 is hereby deleted in its entirety and the following shall be substituted in lieu thereof:

5.15 Change in Management. Borrower shall provide to Lender prompt notice of (i) any change in the senior management of the Borrower, or any other Subsidiary and (ii) any change in the business, assets, liabilities, financial condition, results of operations or business prospects of the Borrower or any Subsidiary which has had or could have a Material Adverse Effect.

SECTION 1.7. Transactions with Affiliates. Section 6.6 shall be deleted in its entirety and the following shall be substituted in lieu thereof:

6.6 Transactions with Affiliates. Borrower Parties shall not, directly or indirectly, permit to exist or enter into any transaction (including the purchase, sale, lease or exchange of any property or the rendering of any service) with any Affiliate of the Borrower or with any director, officer or employee of any Subsidiary, except transactions in the ordinary course of, and pursuant to, the reasonable requirements of the business of the Borrower or any of its Subsidiaries and upon fair and reasonable terms and are no less favorable to the Borrower or such Subsidiary than would be obtained in a comparable arm's length transaction with a Person that is not an Affiliate.

ARTICLE II.

Conditions to Effectiveness of this Amendment

The closing hereunder shall occur on the date when each of the following conditions is satisfied (or waived by the Agent and the Lenders) (the "Amendment Date"), each document to be dated the Amendment Date unless otherwise indicated:

(a) the Borrower, the Agent and each of the Lenders shall have executed and delivered to the Borrower and the Agent a duly executed original of this Amendment;

(b) Guarantor shall have executed and delivered to the Agent a duly executed consent to this Amendment reaffirming Guarantor's obligations under the Guaranty;

(c) the Agent shall have received all documents the Agent may reasonably request relating to the existence of the Borrower and Guarantor, the authority for and the validity of this Amendment and the other Loan Documents, and any other matters relevant hereto, all in form and substance satisfactory to the Agent. Such documentation shall include, without limitation, the agreement of limited partnership of the Borrower, as well as the certificate of limited partnership of the Borrower, both as amended, modified or supplemented to the Amendment Date, certified to be true, correct and complete by a senior officer of the Borrower as of a date not more than ten (10) days prior to the Amendment Date, as well as the articles of incorporation and bylaws of Guarantor, as amended, modified or supplemented to the Amendment Date, certified to be true, correct and complete by a senior officer of Guarantor as of a date not more than ten (10) days prior to the Amendment Date;

(d) the Borrower and Guarantor shall have taken all actions required to authorize the execution and delivery of this Amendment and the other Loan Documents and the performance thereof by the Borrower and Guarantor, as the case may be;

(e) the Agent shall have received, by debit(s) to Borrower's account with Lender numbered 4828-665364, which debit(s) Agent is hereby authorized to make as follows: (i) the sum of $15,000 as a modification fee due to Agent and Lender and (ii) the sum of $2,500 for legal fees due to Gibson, Dunn & Crutcher LLP; and

(f) no Default or Event of Default shall have occurred.

ARTICLE III.

Representations of Borrower

The Borrower hereby represents and warrants to the Agent and each of the Lenders the following:

(a) All of the representations and warranties contained in the Modified Credit Agreement are true and correct on and as of the date hereof and will be true and correct after giving effect to this Amendment; the foregoing representation and warranty is not intended to modify Section 7.1.4 of the Credit Agreement.

(b) No event which constitutes a Default or an Event of Default under the Modified Credit Agreement, as amended hereby, has occurred and is continuing, or would result from the execution and delivery of this Amendment.

(c) The Borrower has the power and authority to execute and deliver this Amendment and to perform its obligations under the Modified Credit Agreement, as amended hereby, and under the Notes; and all such action has been duly authorized by all necessary proceeding on its part. Each of the Modified Credit Agreement, this Amendment and the Notes has been duly and validly executed and delivered by the Borrower and constitutes the valid and legally binding obligation of the Borrower enforceable in accordance with its terms, except as limited by moratorium, bankruptcy, reorganization, insolvency or other laws affecting creditor's rights generally or by the exercise of judicial discretion in accordance with general principles of equity.

ARTICLE IV.

Miscellaneous

SECTION 4.1 Capitalized Terms The capitalized terms used herein which are defined in the Modified Credit Agreement and not otherwise defined herein shall have the meanings specified therein.

SECTION 4.2 Ratification The Modified Credit Agreement, as hereby amended, is in all respects ratified and confirmed, and all other rights and powers created thereby or thereunder shall be and remain in full force and effect.

SECTION 4.3 Counterparts This Amendment may be executed in several counterparts, and each counterpart, when so executed and delivered, shall constitute an original instrument, and all such separate counterparts shall constitute one and the same instrument.

SECTION 4.4 Governing Law THIS AMENDMENT AND THE OTHER LOAN DOCUMENTS AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER AND THEREUNDER SHALL BE CONSTRUED IN ACCORDANCE WITH AND BE GOVERNED BY THE LAWS OF THE STATE OF CALIFORNIA EXCEPT TO THE EXTENT PREEMPTED BY FEDERAL LAW (WITHOUT GIVING EFFECT TO THE PRINCIPLES THEREOF RELATING TO CONFLICTS OF LAW).

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective authorized officers as of the day and year first above written.

Borrower:

PS BUSINESS PARKS, L.P.,
a California limited partnership

By: PS BUSINESS PARKS, INC.,
a California corporation,
General Partner

By: /s/ Jack E. Corrigan
Name: Jack E. Corrigan
Title: Vice President

Address: PS BUSINESS PARKS, L.P.
701 Western Avenue
Glendale, California 91201
Attn: Chief Financial Officer
Telephone: (818) 244-8080
Telecopier: (818) 244-9267

Agent:

Wells Fargo Bank, National Association

By: /s/ Kim Surch
Name: Kim Surch
Title: Vice President

Address:

Wells Fargo Bank, National Association
2030 Main Street, 8th Floor
Irvine, California 92614
Attention: Office Manager
Telephone: (949) 251-4300
Telecopier: (949) 851-9728

Lender:

Wells Fargo Bank, National Association

By: /s/ Kim Surch
Name: Kim Surch
Title: Vice President

Address:

Wells Fargo Bank, National Association
2030 Main Street, 8th Floor
Irvine, California 92614
Attention: Office Manager
Telephone: (949) 251-4300
Telecopier: (949) 851-9728

LIBOR LENDING OFFICE:

Wells Fargo Bank, National Association
2120 East Park Place, Suite 100
El Segundo, California 90245
Attention: Anne Colvin
Telephone: (310) 335-9458
Telecopier: (310) 615-1014

CONSENT OF GUARANTOR

The undersigned, PS BUSINESS PARKS, INC., a California corporation ("Guarantor"), (i) hereby consents to the foregoing Third Amendment to Revolving Credit Agreement dated as of February 15, 2002 (the "Third Amendment") among PS BUSINESS PARKS, L.P., a California limited partnership ("Borrower"), the lenders listed therein (the "Lenders") and WELLS FARGO BANK, NATIONAL ASSOCIATION, as Agent (in such capacity, the "Agent"), and (ii) hereby reaffirms its obligations under that certain General Continuing Repayment Guaranty dated as of August 6, 1998 made by Guarantor in favor of the Lenders and the Agent pursuant to which, among other things, Guarantor guarantees the payment and performance of Borrower's obligations under the Revolving Credit Agreement dated as of August 6, 1998 among Borrower, the Lenders and the Agent, as amended by each of the First Amendment to Revolving Credit Agreement dated as of August 19, 1999 among Borrower, the Lenders and the Agent, the Second Amendment to Revolving Credit Agreement dated as of September 29, 2000 among Borrower, the Lenders and the Agent and the Third Amendment.

PS BUSINESS PARKS, INC.,
a California corporation

By: /s/ Jack E. Corrigan
Name: Jack E. Corrigan
Title: Vice President

Exhibit 10.29

TERM LOAN AGREEMENT

DATED AS OF FEBRUARY 20, 2002

among

PS BUSINESS PARKS, L.P.,
AS BORROWER,

PS BUSINESS PARKS, INC.,
AS A GUARANTOR,

and

FLEET NATIONAL BANK

and

THE OTHER BANKS WHICH MAY BECOME
PARTIES TO THIS AGREEMENT

and

FLEET NATIONAL BANK,
AS AGENT

TERM LOAN AGREEMENT

THIS TERM LOAN AGREEMENT is made as of the 20th day of February, 2002 by and among PS BUSINESS PARKS, L.P. (the "Borrower"), a California limited partnership, PS BUSINESS PARKS, INC. ("PSB"), a California corporation, each having its principal place of business at 701 Western Avenue, Glendale, California 91201-2397, FLEET NATIONAL BANK ("Fleet"), the other lending institutions which may become parties hereto pursuant to §18 (collectively, Fleet (except when acting as the Agent), and each other lending institution which may become a party hereto shall be referred to as the "Banks," and individually as a "Bank"), and FLEET NATIONAL BANK, as Agent for the Banks (the "Agent").

RECITALS

WHEREAS, Borrower has requested that the Banks provide a term loan facility to Borrower; and

WHEREAS, Agent and the Banks are willing to provide such facility to Borrower upon the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the recitals herein and the mutual covenants contained herein, the parties hereto hereby covenant and agree as follows:

§ 1. DEFINITIONS AND RULES OF INTERPRETATION

§1.1 Definitions. The following terms shall have the meanings set forth in this §l or elsewhere in the provisions of this Agreement referred to below:

Additional Guarantor. See §5.2.

Adjusted Consolidated Total Assets. On a consolidated basis for PSB and its Subsidiaries, Adjusted Consolidated Total Assets shall mean the sum (without duplication) of the following:

(i) an amount equal to the sum of (x) the product of (i) Consolidated EBITDA of PSB for the two (2) fiscal quarters just ended prior to the date of determination multiplied by (ii) two (2), divided by (y) 0.095 (which is the capitalization rate); plus

(ii) the book value of Land Assets and Construction in Progress of PSB and its Subsidiaries on the last day of the fiscal quarter just ended; plus

(iii) the aggregate amount of (x) all unrestricted cash and marketable securities of PSB and its Subsidiaries plus (y) all restricted cash held by any Person serving as a "qualified intermediary" for purposes of an exchange pursuant to Section 1031 of the Code on behalf of PSB or any of its Subsidiaries.

Adjusted Consolidated Total Assets will be adjusted, as appropriate, for acquisitions, dispositions and other changes to the portfolio during a quarter. All income, expense and value associated with the assets disposed of during any quarter will be eliminated from calculations.

Adjusted Net Operating Income. As of the end of any fiscal quarter, the sum of (i) the product of (A) the aggregate Net Operating Income for all of the Unencumbered Borrowing Base Properties for such quarter and the immediately preceding fiscal quarter, multiplied by (B) two (2), minus (ii) the Capital Expenditure Reserve for such Unencumbered Borrowing Base Properties.

Affiliates. An Affiliate, as applied to any Person, shall mean any other Person directly or indirectly controlling, controlled by, or under common control with, that Person. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling", "controlled by" and "under common control with"), as applied to any Person, means (a) the possession, directly or indirectly, of the power to vote ten percent (10%) or more of the stock, shares, voting trust certificates, beneficial interest, partnership interests, member interests or other interests having voting power for the election of directors of such Person or otherwise to direct or cause the direction of the management and policies of that Person, whether through the ownership of voting securities or by contract or otherwise, or (b) the ownership of (i) a general partnership interest, (ii) a managing member's interest in a limited liability company or (iii) a limited partnership interest or preferred stock (or other ownership interest) representing ten percent (10%) or more of the outstanding limited partnership interests, preferred stock or other ownership interests of such Person.

Agent. Fleet National Bank acting as administrative agent for the Banks, and its successors and assigns.

Agent's Head Office. The Agent's head office located at 100 Federal Street, Boston, Massachusetts 02110, or at such other location as the Agent may designate from time to time by notice to the Borrower and the Banks.

Agent's Special Counsel. Long Aldridge & Norman LLP or such other counsel as may be approved by the Agent.

Agreement. This Term Loan Agreement, including the Schedules and Exhibits hereto.

Agreement Regarding Fees. The Agreement Regarding Fees dated of even date herewith between the Borrower and Fleet.

Asset Value. The Asset Value of the Unencumbered Borrowing Base Properties shall be an amount equal to (a) the sum of the aggregate Adjusted Net Operating Income from the Unencumbered Borrowing Base Properties divided by (b) 0.095 (the capitalization rate).

Balance Sheet Date. The date of this Agreement.

Banks. Fleet and any other Person who becomes an assignee of any rights of a Bank pursuant to §18 (but not including any Participant, as defined in §18).

Base Rate. The greater of (a) the variable annual rate of interest announced from time to time by Agent at Agent's Head Office as its "prime rate", and (b) one-half of one percent (0.5%) above the Federal Funds Effective Rate (rounded upwards, if necessary, to the next one-eighth of one percent). The Base Rate is a reference rate and does not necessarily represent the lowest or best rate being charged to any customer. Any change in the rate of interest payable hereunder resulting from a change in the Base Rate shall become effective as of the opening of business on the day on which such change in the Base Rate becomes effective, without notice or demand of any kind.

Base Rate Loans. Those Loans bearing interest calculated by reference to the Base Rate.

Borrower. As defined in the preamble hereto.

Borrowing Base. The Borrowing Base shall be the amount which is the maximum amount of the total outstanding balance of all Funded Unsecured Indebtedness of Borrower, PSB and their respective Subsidiaries (including the Loans) that would not exceed fifty percent (50%) of the aggregate Asset Value of the Unencumbered Borrowing Base Properties; provided, however, that at any time that the ratio of the Consolidated Total Liabilities of PSB and its Subsidiaries to the Adjusted Consolidated Total Assets of PSB and its Subsidiaries is equal to or

greater than 0.25 to 1, then the Borrowing Base shall be the amount which is the lesser of (a) the maximum amount of the total outstanding balance of all Funded Unsecured Indebtedness of Borrower, PSB and their respective Subsidiaries (including the Loans) that would not exceed fifty percent (50%) of the aggregate Asset Value of the Unencumbered Borrowing Base Properties, and (b) the maximum amount of the total outstanding balance of all Funded Unsecured Indebtedness of Borrower, PSB and their respective Subsidiaries (including the Loans) that would not exceed the Debt Service Coverage Amount for the Unencumbered Borrowing Base Properties.

Business Day. Any day on which banking institutions located in the same city and State as Agent's Head Office are located and are open for the transaction of banking business and, in the case of LIBOR Rate Loans, which also is a LIBOR Business Day.

Capital Expenditure Reserve. With respect to an Unencumbered Borrowing Base Property or any other improved Real Estate, a reserve in the aggregate amount of ninety-five cents ($0.95) per annum multiplied by the average Net Rentable Area contained therein of each such property.

Capitalized Lease. A lease under which a Person is the lessee or obligor, the discounted future rental payment obligations under which are required to be capitalized on the balance sheet of the lessee or obligor in accordance with generally accepted accounting principles.

CERCLA. See §6.17(a).

Change in Control. A Change in Control shall exist upon the occurrence of any of the following:

(a) any Person (including a Person's Affiliates and associates) or group (as that term is understood under Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the rules and regulations thereunder) shall have acquired after the Closing Date beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of a percentage (based on voting power, in the event different classes of stock shall have different voting powers) of the voting stock of PSB equal to at least twenty-five percent (25%), unless otherwise approved in writing by Agent, such approval not to be unreasonably withheld; or

(b) as of any date a majority of the Board of Directors of PSB consists of individuals who were not either (i) directors of PSB as of the corresponding date of the previous year (provided, however, that the initial Board of Directors for reference purposes of this clause (b)(i) shall be the Board of Directors as of the Closing Date), (ii) selected or nominated to become directors by the Board of Directors of PSB of which a majority consisted of individuals described in clause (b)(i) above, or (iii) selected or nominated to become directors by the Board of Directors of PSB of which a majority consisted of individuals described in clause (b)(i), above and individuals described in clause (b)(ii), above; or

(c) PSB fails to directly own, free of any lien, encumbrance or other claim, a fifty-one percent (51%) common equity interest in Borrower, shall fail to be the sole general partner of Borrower, or shall fail to control the management and policies of Borrower; or

(d) PSB fails to own, free of any lien, encumbrance or other claim, at least fifty-one percent (51%) of the common equity interest and Voting Interest of Borrower.

Closing Date. The first date on which all of the conditions set forth in §10 have been satisfied.

Code. The Internal Revenue Code of 1986, as amended.

Commitment. With respect to each Bank, initially the amount set forth on Schedule 1 hereto as the amount of such Bank's Commitment to make or maintain Loans to the Borrower, and thereafter the Commitment

of each Bank shall equal its Commitment Percentage of the aggregate principal amount of the Loans from time to time outstanding.

Commitment Percentage. With respect to each Bank, the percentage set forth on Schedule 1 hereto as such Bank's percentage of the aggregate Commitments of all of the Banks.

Completed Property. At any time, Real Estate (i) which is at least eighty-five percent (85%) leased (pursuant to written Leases which have been signed by both landlord and tenant and under which the payment of base rent has commenced) or (ii) which is at least eighty percent (80%) occupied by tenants which have signed (together with the landlord) a Lease, accepted the premises, opened for business, and with respect to which the date for the commencement of payment of base rent has been established.

Compliance Certificate. See §7.4(c).

Consolidated or combined. With reference to any term defined herein, that term as applied to the accounts of a Person and its Subsidiaries, consolidated or combined in accordance with generally accepted accounting principles.

Consolidated EBITDA. With respect to any period of a Person, an amount equal to the EBITDA of such Person and its Subsidiaries for such period consolidated in accordance with generally accepted accounting principles.

Consolidated Tangible Net Worth. The amount by which the sum of GAAP Consolidated Total Assets of a Person and its Subsidiaries exceeds Consolidated Total Liabilities of such Person and its Subsidiaries, and less the sum of:

(e) the total book value of all assets of a Person and its Subsidiaries properly classified as intangible assets under generally accepted accounting principles, including such items as goodwill, the purchase price of acquired assets in excess of the fair market value thereof, trademarks, trade names, service marks, brand names, copyrights, patents and licenses, and rights with respect to the foregoing; plus

(f) all amounts representing any write-up in the book value of any assets of such Person or its Subsidiaries resulting from a revaluation thereof subsequent to the Balance Sheet Date.

Consolidated Total Liabilities. All liabilities of a Person and its Subsidiaries determined on a consolidated basis in accordance with generally accepted accounting principles and all Indebtedness of such Person and its Subsidiaries, whether or not so classified.

Construction in Progress. For any Real Estate, calculated on a consolidated basis for the Borrower, PSB and their respective Subsidiaries, the sum of (x) construction-in-progress as shown from time to time on the books and records of such Persons, maintained in accordance with generally accepted accounting principles, plus (y) the book value, calculated in accordance with generally accepted accounting principles, of any Real Estate that (i) previously constituted construction-in-progress and (ii) has not yet become a Completed Property. For the purposes of calculating Construction in Progress of Borrower, PSB and their respective Subsidiaries with respect to development of Joint Ventures pursuant to §8.9, the Construction in Progress of Borrower, PSB and their respective Subsidiaries with respect to development of Joint Ventures shall be the Investment of such Persons in such Joint Ventures.

Contribution Agreement. The Contribution Agreement dated of even date herewith among the Borrower, the Guarantors and each Additional Guarantor which may hereafter become a party thereto.

Conversion Request. A notice given by the Borrower to the Agent of its election to convert or continue a Loan in accordance with §4.1.

Debt Offering. The issuance and sale by the Borrower or any Guarantor of any debt securities of the Borrower or such Guarantor.

Debt Service. For any period, the sum of all interest (including capitalized interest) and mandatory or scheduled principal payments due and payable during such period (including any payments due under any Capitalized Leases) excluding any balloon payments due upon maturity of any indebtedness.

Debt Service Coverage Amount. At any time determined by the Agent, an amount equal to the maximum principal amount of all Funded Unsecured Indebtedness (including Loans) that may be outstanding pursuant to the following formula:

$$\frac{\text{Adjusted NOI}}{2.0 \times D} = P$$

Where P = maximum principal balance of all Funded Unsecured Indebtedness (including the Loans) that may be outstanding

D = the greatest of (a) a loan constant based upon the then-current annual yield on ten (10) year obligations issued by the United States Treasury most recently prior to the date of determination plus 1.75% payable on a 25-year mortgage style amortization schedule (expressed as a decimal), (b) .09, and (c) the actual blended rate of interest then payable with respect to the Loans (expressed as a decimal)

NOI = the product of (a) Net Operating Income from the Unencumbered Borrowing Base Properties for the preceding two (2) fiscal quarters most recently ended multiplied by (b) two (2)

Adjusted NOI = the sum of (a) NOI less (b) the Capital Expenditure Reserve for the Unencumbered Borrowing Base Properties

Attached hereto as Schedule 2 is an example of the calculation of Debt Service Coverage Amount (such example is meant only as an illustration based upon the assumptions set forth in such example, and shall not be interpreted so as to limit the Agent in its good faith determination of the Debt Service Coverage Amount hereunder as hereinafter provided). The determination of the Debt Service Coverage Amount and the components thereof by the Agent shall, so long as the same shall be reasonably determined in good faith, be conclusive and binding absent manifest error. The Debt Service Coverage Amount shall not be used in determining the Borrowing Base except as provided in the definition thereof.

Default. See §12.1.

Default Rate. See §4.12.

Derivative Obligations. All Interest Rate Contracts and all other obligations of any Person in respect of any interest rate swap transaction, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, forward equity transaction, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, forward transaction, collar transaction, currency swap, cross-

currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of the foregoing transactions) or any combination of the foregoing transactions.

Distribution. With respect to any Person, the declaration or payment of any cash, cash flow, dividend or distribution on or in respect of any shares of any class of stock, partnership interest, membership interest or other beneficial interest of a Person, other than dividends or distributions payable solely in equity securities of such Person; the purchase, redemption, exchange or other retirement of any shares of any class of stock, partnership interest, membership interest or other beneficial interest of a Person, directly or indirectly through a Subsidiary of such Person or otherwise; the return of capital by a Person to its shareholders, partners, members or other owners as such; or any other distribution on or in respect of any shares of any class of stock, partnership interest, membership interest or other beneficial interest of a Person. Without limiting the foregoing, Distributions shall include Preferred Distributions.

Dollars or $. Dollars in lawful currency of the United States of America.

Domestic Lending Office. Initially, the office of each Bank designated as such in Schedule 1 hereto; thereafter, such other office of such Bank, if any, located within the United States that will be making or maintaining Base Rate Loans.

Drawdown Date. The date on which any Loan is made or is to be made, and the date on which any Loan is converted or combined in accordance with §4.1.

EBITDA. With respect to a Person or a Subsidiary of a Person (or any asset of a Person or a Subsidiary of such Person) for any period, an amount equal to the sum of (a) the Net Income (or Loss) of such Person (or attributable to such asset) for such period plus (b) depreciation and amortization, interest, income taxes and any extraordinary or non-recurring losses deducted in calculating such Net Income minus (c) any extraordinary or non-recurring gains included in calculating such Net Income, minus (d) Net Income of any Joint Venture (other than a Subsidiary of such Person) in which such Person or one of its Subsidiaries has an interest (to the extent of their interest in such Net Income) plus (e) cash distributions received by such Person or any of its Subsidiaries from Joint Ventures, plus (f) any Net Income allocable to any minority interest of other Persons in such first Person or its Subsidiaries determined in accordance with generally accepted accounting principles, all as determined in accordance with generally accepted accounting principles.

Employee Benefit Plan. Any employee benefit plan within the meaning of §3(3) of ERISA maintained or contributed to by the Borrower or any ERISA Affiliate, other than a Multiemployer Plan.

Environmental Laws. See §6.17(a).

Equity Offering. The issuance and sale by the Borrower or any Guarantor of any equity securities (whether common or preferred) of the Borrower or such Guarantor; provided, however, that the issuance by the Borrower or any Guarantor of any equity securities of such Person or any securities or instruments convertible, exchangeable or exercisable for equity securities of such Person to any of the following shall not be deemed an Equity Offering: (i) directors, officers and employees of the Borrower or any Guarantor pursuant to an incentive stock or stock option, employee stock purchase, long-term incentive or stock bonus plans, whether now in effect or adopted in the future; or (ii) any Person pursuant to a dividend reinvestment or stock purchase program sponsored by the Borrower or any Guarantor, whether now in effect or adopted in the future.

ERISA. The Employee Retirement Income Security Act of 1974, as amended and in effect from time to time and any rules and regulations promulgated pursuant thereto.

ERISA Affiliate. Any Person which is treated as a single employer with the Borrower or its Subsidiaries under §414 of the Code.

ERISA Reportable Event. A reportable event with respect to a Guaranteed Pension Plan within the meaning of §4043 of ERISA and the regulations promulgated thereunder as to which the requirement of notice has not been waived.

Event of Default. See §12.1.

Federal Funds Effective Rate. For any day, the rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published, the average of the quotations for such day on such transactions received by the Agent from three Federal funds brokers of recognized standing selected by the Agent.

Fixed Charges. With respect to PSB and its Subsidiaries for any Test Period, an amount equal to the sum of (a) the product of the Debt Service of PSB and its Subsidiaries for such Test Period multiplied by two (2) plus (b) the aggregate Capital Expenditure Reserve for all of the Real Estate of PSB and its Subsidiaries plus (c) the product of the Preferred Distributions of PSB and its Subsidiaries for such Test Period multiplied by two (2), plus (d) the product of any ground lease payments payable by PSB and its Subsidiaries for such Test Period multiplied by two (2).

Fleet. Fleet National Bank.

Funded Unsecured Indebtedness. At any time, the sum of (i) the Loans, plus; (ii) the outstanding principal balance of other Indebtedness of any of PSB, Borrower or their respective Subsidiaries which is not secured by a Lien (provided, however, that Indebtedness pursuant to which any of PSB, Borrower or their respective Subsidiaries shall have granted a negative pledge or similar promise shall not be deemed to be secured by a Lien).

Funding Deadline. See §2.5.

Funds from Operations. With respect to any Person for any fiscal period, an amount equal to the sum of (a) Consolidated EBITDA of such Person and its Subsidiaries, minus (b) the consolidated Interest Expense of such Person and its Subsidiaries, minus (c) Preferred Distributions of such Person and its Subsidiaries.

GAAP Consolidated Total Assets. All assets of a Person and its Subsidiaries determined on a consolidated basis in accordance with generally accepted accounting principles. All real estate assets shall be valued on an undepreciated cost basis.

Generally accepted accounting principles. Principles that are (a) consistent with the principles promulgated or adopted by the Financial Accounting Standards Board and its predecessors, as in effect from time to time and (b) consistently applied with past financial statements of the Person adopting the same principles; provided that a certified public accountant would, insofar as the use of such accounting principles is pertinent, be in a position to deliver an unqualified opinion (other than a qualification regarding changes in generally accepted accounting principles) as to financial statements in which such principles have been properly applied.

Guaranteed Pension Plan. Any employee pension benefit plan within the meaning of §3(2) of ERISA maintained or contributed to by the Borrower or any ERISA Affiliate the benefits of which are guaranteed on termination in full or in part by the PBGC pursuant to Title IV of ERISA, other than a Multiemployer Plan.

Guarantors. PSB, TPLP and each Additional Guarantor, and individually any one of them.

Guaranty. Collectively, the Unconditional Guaranty of Payment and Performance dated of even date herewith made by PSB in favor of Agent and the Banks, and each Unconditional Guaranty of Payment and Performance made by each Additional Guarantor in favor of Agent and the Banks, as the same may be modified or amended, such Guaranty to be in form and substance satisfactory to the Agent.

Hazardous Substances. See §6.17(b).

Indebtedness. All obligations, contingent and otherwise, that in accordance with generally accepted accounting principles should be classified upon the obligor's balance sheet as liabilities, or to which reference should be made by footnotes thereto, including in any event and whether or not so classified: (a) all debt and similar monetary obligations, whether direct or indirect (including, without limitation, any obligations evidenced by bonds, debentures, notes or similar debt instruments and all subordinated debt); (b) all liabilities secured by any mortgage, pledge, security interest, lien, charge or other encumbrance existing on property owned or acquired subject thereto, whether or not the liability secured thereby shall have been assumed; (c) all guarantees, endorsements and other contingent obligations whether direct or indirect in respect of indebtedness of others, including any unconditional obligation to supply funds to or in any manner to invest directly or indirectly in a Person other than in the ordinary course of business, to purchase indebtedness, or to assure the owner of indebtedness against loss through an agreement to purchase goods, supplies or services for the purpose of enabling the debtor to make payment of the indebtedness held by such owner, through indemnity or otherwise, and the obligation to reimburse the issuer in respect of any letter of credit; (d) any obligation as a lessee or obligor under a Capitalized Lease; (e) all obligations with respect to letters of credit or similar instruments issued by a Person; and (f) all indebtedness, obligations or other liabilities (other than interest expense liability) determined in accordance with generally accepted accounting principles under or with respect to (i) Interest Rate Contracts (valued as the termination value thereof computed in accordance with a method approved by the International Swap Dealers Association and agreed to by such Person in the applicable hedging agreement), and (ii) foreign currency exchange agreements, and (g) all obligations of a Person in respect of any equity or equity index swap, forward equity transaction, equity or equity index option or any other similar transaction. Notwithstanding the foregoing, in the event that a Person has incurred Indebtedness with respect to which another Person included within the consolidated financial statements of the first Person is also liable (by reason of a guaranty or otherwise), such Indebtedness shall only be counted once for the purposes of such consolidated financial statements.

Interest Expense. For any period, the sum of all interest (including capitalized interest and any payments under Capitalized Leases allocable to interest) due and payable during such period.

Interest Payment Date. As to each Loan, the first day of each calendar month during the term of such Loan.

Interest Period. With respect to each LIBOR Rate Loan (a) initially, the period commencing on the Drawdown Date of such Loan and ending one, two, three, six or twelve months thereafter, and (b) thereafter, each period commencing on the day following the last day of the next preceding Interest Period applicable to such Loan and ending on the last day of one of the periods set forth above, as selected by the Borrower in a Conversion Request; provided that all of the foregoing provisions relating to Interest Periods are subject to the following:

(i) if any Interest Period with respect to a LIBOR Rate Loan would otherwise end on a day that is not a LIBOR Business Day, that Interest Period shall end and the next Interest Period shall commence on the next succeeding LIBOR Business Day, unless such next succeeding LIBOR Business Day occurs in the next calendar month, in which case such Interest Period shall end on the next preceding LIBOR Business Day as determined conclusively by the Agent in accordance with the then current bank practice in London;

(ii) if the Borrower shall fail to give notice as provided in §4.1, the Borrower shall be deemed to have requested a conversion of the affected LIBOR Rate Loan to a Base Rate Loan on the last day of the then current Interest Period with respect thereto; and

(iii) no Interest Period relating to any LIBOR Rate Loan shall extend beyond the Maturity Date.

Interest Rate Contracts. Interest rate swap, collar, cap or similar agreements providing interest rate protection.

Investments. With respect to any Person, all shares of capital stock, evidences of Indebtedness and other securities issued by any other Person, all loans, advances, or extensions of credit to, or contributions to the capital of, any other Person and all purchases of the securities or business or integral part of the business of any other Person, all interests in real property, and all other investments; provided, however, that the term "Investment" shall not include (i) equipment, inventory and other tangible personal property acquired in the ordinary course of business, or (ii) current trade and customer accounts receivable for services rendered in the ordinary course of business and payable in accordance with customary trade terms. In determining the aggregate amount of Investments outstanding at any particular time: (a) there shall be included as an Investment all interest accrued with respect to Indebtedness constituting an Investment unless and until such interest is paid; (b) there shall be deducted in respect of each such Investment any amount received as a return of capital (but only by repurchase, redemption, retirement, repayment, liquidating dividend or liquidating distribution); (c) there shall not be deducted or increased in respect of any Investment any amounts received as earnings on such Investment, whether as dividends, interest or otherwise, except that accrued interest included as provided in the foregoing clause (a) may be deducted when paid; and (d) there shall not be deducted from the aggregate amount of Investments any decrease in the value thereof.

Joint Venture. An Investment by PSB, Borrower or any of their respective Subsidiaries with third persons in joint ventures, general partnerships, limited partnerships, limited liability companies or any other business association. Joint Ventures include non-wholly owned Subsidiaries of PSB.

Land Assets. Land with respect to which the commencement of grading, construction of improvements or infrastructure has not yet commenced, and all unimproved land according to generally accepted accounting principles.

LIBOR Business Day. Any day on which commercial banks are open for international business (including dealings in Dollar deposits) in the London interbank market.

LIBOR Lending Office. Initially, the office of each Bank designated as such in Schedule 1 hereto; thereafter, such other office of such Bank, if any, that shall be making or maintaining LIBOR Rate Loans.

LIBOR Rate. As applicable to any Interest Period for any LIBOR Rate Loan, the rate per annum (rounded upwards, if necessary, to the nearest 1/32nd of one percent) as determined on the basis of the offered rates for deposits in Dollars, for the period of time comparable to such Interest Period which appears on the Telerate page 3750 as of 11:00 a.m. London time on the day that is two (2) LIBOR Business Days preceding the first day of such Interest Period; provided, however, if the rate described above does not appear on the Telerate System on any applicable interest determination date, the LIBOR Rate shall be the rate (rounded upwards as described above, if necessary) for deposits in Dollars for a period substantially equal to the Interest Period on the Reuters Page "LIBO" (or such other page as may replace the LIBO Page on that service for the purpose of displaying such rates), as of 11:00 a.m. (London Time), on the day that is two (2) LIBOR Business Days prior to the beginning of such Interest Period. If both the Telerate and Reuters systems are unavailable, then the rate for that date will be determined on the basis of the offered rates for deposits in Dollars for a period of time comparable to such Interest Period which are offered by four major banks in the London interbank market at approximately 11:00 a.m. London time, on the day that is two (2) LIBOR Business Days preceding the first day of such Interest Period as selected by Agent. The principal London office of each of the four major London banks will be requested to provide a quotation of its U.S. dollar deposit offered rate. If at least two such quotations are provided, the rate for that date will be the arithmetic mean of the quotations. If fewer than two quotations are provided, the rate for that date will be determined on the basis of the rates quoted for loans in Dollars to leading European banks for a period of time comparable to such

Interest Period offered by major banks in New York City at approximately 11:00 a.m. (New York City time), on the day that is two (2) LIBOR Business Days preceding the first day of such Interest Period. In the event that Agent is unable to obtain any such quotation as provided above, it will be deemed that the LIBOR Rate pursuant to a LIBOR Rate Loan cannot be determined and the provisions of §4.6 shall apply. In the event that the Board of Governors of the Federal Reserve System shall impose a Reserve Percentage with respect to LIBOR deposits of Agent, then for any period during which such Reserve Percentage shall apply, the LIBOR Rate shall be equal to the amount determined above divided by an amount equal to 1 minus the Reserve Percentage.

LIBOR Rate Loans. Loans bearing interest calculated by reference to a LIBOR Rate.

Liens. See §8.2.

Loan Documents. This Agreement, the Notes, the Guaranty and all other documents, instruments or agreements now or hereafter executed or delivered by or on behalf of the Borrower or the Guarantor in connection with the Loans.

Loan Request. See §2.5.

Loans. The aggregate Loans to be made by the Banks hereunder.

Majority Banks. As of any date, the Bank or Banks whose aggregate Commitment Percentage is equal to or greater than the required percentage, as determined by the Banks, required to approve such matter, as disclosed by the Agent to the Borrower from time to time.

Maturity Date. February 20, 2009 or such earlier date on which the Loans shall become due and payable pursuant to the terms hereof.

Moody's. Moody's Investor Service, Inc.

Multiemployer Plan. Any multiemployer plan within the meaning of §3(37) of ERISA maintained or contributed to by the Borrower or any ERISA Affiliate.

Net Income (or Loss). With respect to any Person (or any asset of any Person) for any fiscal period, the net income (or loss) of such Person (or attributable to such asset), after deduction of all expenses, taxes and other proper charges, determined in accordance with generally accepted accounting principles.

Net Operating Income. For each Unencumbered Borrowing Base Property, for any period of time, the sum of the following amounts: (a) the portion of the Net Income of Borrower attributable to such Unencumbered Borrowing Base Property, plus (b) depreciation and amortization, interest expense and any taxes and extraordinary or non-recurring losses deducted in calculating such Net Income, minus (c) any extraordinary or non-recurring gains included in calculating such Net Income, minus (d) any accrued rent or other amounts with respect to tenants or other users that are more than ninety (90) days in arrears in the payment of rent, and adjusted for non-cash revenue attributable to Rent Adjustments or other adjustments in accordance with generally accepted accounting principles for free rent. For purposes of the foregoing, income attributable to third-party leasing commissions or management fees shall be excluded. If such period is less than a year, expenses of an Unencumbered Borrowing Base Property that are payable less frequently than monthly during the course of a year (e.g., real estate taxes and insurance premiums) shall be adjusted by "straight lining" the amounts so that such expenses are accrued on a monthly basis over the course of a year and fairly stated for each period.

Net Rentable Area. With respect to any Real Estate, the floor area of any buildings, structures or improvements available for leasing to tenants determined in accordance with the Rent Roll for such Real Estate, the manner of such determination to be consistent for all Real Estate unless otherwise approved by the Agent.

95% of FFO Limit. See §8.7(a).

Notes. See §2.2.

Notice. See §19.

Obligations. All indebtedness, obligations and liabilities of the Borrower and the Guarantors to any of the Banks and the Agent, individually or collectively, under this Agreement or any of the other Loan Documents or in respect of any of the Loans or the Notes, or other instruments at any time evidencing any of the foregoing, whether existing on the date of this Agreement or arising or incurred hereafter, direct or indirect, joint or several, absolute or contingent, matured or unmatured, liquidated or unliquidated, secured or unsecured, arising by contract, operation of law or otherwise.

Office Property. An income producing operating property utilized principally for office/flex/industrial purposes.

Outstanding. With respect to the Loans, the aggregate unpaid principal thereof as of any date of determination.

PBGC. The Pension Benefit Guaranty Corporation created by §4002 of ERISA and any successor entity or entities having similar responsibilities.

Permitted Liens. Liens, security interests and other encumbrances permitted by §8.2.

Plan. Any pension, retirement, disability, defined benefit, defined contribution, profit sharing, deferred compensation, employee stock ownership, employee stock purchase, health, life insurance, or other employee benefit plan or arrangement, other than a Multiemployer Plan, irrespective of whether any of the foregoing is funded, in which any personnel of PSB, the Borrower or any of their ERISA Affiliates participate or from which any such personnel may derive a benefit.

Plan Assets. Assets of any employee benefit plan subject to Part 4, Subtitle A, Title I of ERISA.

Preferred Distributions. For any period, the amount of any and all Distributions paid, declared but not yet paid or otherwise due and payable to the holders of any form of preferred stock, partnership interest or other ownership or beneficial interest in Borrower, PSB or any of their Subsidiaries (whether perpetual, convertible or otherwise) that entitles the holders thereof to preferential payment or distribution priority with respect to dividends, distributions, assets or other payments over the holders of any other stock, partnership interest or other ownership or beneficial interest in such Person.

Prospectus. The 10Q of PSB dated September 30, 2001 and filed with the SEC.

PSB. PS Business Parks, Inc., a California corporation.

Real Estate. All real property at any time owned or leased (as lessee or sublessee) by the Borrower, a Guarantor or any of their respective Subsidiaries.

Record. The grid attached to any Note, or the continuation of such grid, or any other similar record, including computer records, maintained by any Bank with respect to any Loan referred to in such Note.

Register. See §18.2.

REIT Status. The status of PSB as a real estate investment trust as defined in §856(a) of the Code.

Release. See §6.17(c)(iii).

Rent Adjustments. For any Person, straight line adjustments to rent payable under leases, as determined in accordance with generally accepted accounting principles.

Rent Roll. A report prepared by the Borrower showing for any Real Estate, its location, Net Rentable area, occupancy status, rent and other information in substantially the form presented to the Agent prior to the date hereof or in such other form as may have been approved by the Agent, such approval not to be unreasonably withheld.

Reserve Percentage. For any day with respect to a LIBOR Rate Loan, the maximum rate (expressed as a decimal) at which any lender subject thereto would be required to maintain reserves (including, without limitation, all base, supplemental, marginal and other reserves) under Regulation D of the Board of Governors of the Federal Reserve System (or any successor or similar regulations relating to such reserve requirements) against "Eurocurrency Liabilities" (as that term is used in Regulation D or any successor or similar regulation), if such liabilities were outstanding. The Reserve Percentage shall be adjusted automatically on and as of the effective date of any change in the Reserve Percentage.

Revolving Credit Agreement. The Revolving Credit Agreement dated August 6, 1998 among Borrower, Wells Fargo Bank, National Association, individually and as Agent, and the other lenders a party thereto, as the same may have heretofore been, or may hereafter be, amended, modified, renewed, extended, restated, consolidated, supplemented or replaced.

SEC. The federal Securities and Exchange Commission.

Secured Indebtedness. Indebtedness of a Person that is pursuant to a Capitalized Lease, is directly or indirectly secured by a Lien (provided, however, that Indebtedness pursuant to which a Person shall have granted a negative pledge or similar promise shall not be deemed to be secured by a Lien).

Short-term Investments. Investments described in subsections (a) through (g), inclusive, of §8.3. For all purposes of this Agreement and the other Loan Documents, the value of Short-term Investments at any time shall be the current market value thereof determined in a manner reasonably satisfactory to the Agent.

S&P. Standard & Poor's Ratings Group.

Stabilized Property. Real Estate which for the three month period most recently ended has an occupancy level of tenants in possession and operating and which are paying rent on a current basis of at least eighty-five percent (85%) of the Net Rentable Area within such Real Estate and with respect to which the rental income actually received with respect to such Real Estate during such period exceeds the expenses of owning and operating such Real Estate during such period (including without limitation, debt service and the allocable portion of such expenses not payable on a monthly basis), as reasonably determined by Agent.

State. A state of the United States of America.

Subsidiary. Any corporation, association, partnership, trust, or other business entity of which the designated parent shall at any time own directly or indirectly through a Subsidiary or Subsidiaries at least a majority (by number of votes or controlling interests) of the outstanding Voting Interests, and any other entity the accounts of which are consolidated with the accounts of the designated parent.

Test Period. See §9.3.

Total Commitment. The sum of the Commitments of the Banks, as in effect from time to time. As of the date hereof, the Total Commitment is $50,000,000.00.

TPLP. TPLP Office Park Properties, a Texas limited partnership.

Type. As to any Loan, its nature as a Base Rate Loan or a LIBOR Rate Loan.

Unencumbered Borrowing Base Properties. Unencumbered Borrowing Base Properties shall mean Real Estate which satisfies all of the conditions set forth in §7.13. The initial properties designated by Borrower to be Unencumbered Borrowing Base Properties are described on Schedule 1.1 hereto.

Voting Interests. Stock or similar ownership interests, of any class or classes (however designated), the holders of which are at the time entitled, as such holders, (a) to vote for the election of a majority of the directors (or persons performing similar functions) of the corporation, association, partnership, limited liability company, trust or other business entity involved, or (b) to control, manage, or conduct the business of the corporation, partnership, association, trust or other business entity involved.

§1.2 Rules of Interpretation.

(a) A reference to any document or agreement shall include such document or agreement as amended, modified or supplemented from time to time in accordance with its terms and the terms of this Agreement.

(b) The singular includes the plural and the plural includes the singular.

(c) A reference to any law includes any amendment or modification to such law.

(d) A reference to any Person includes its permitted successors and permitted assigns.

(e) Accounting terms not otherwise defined herein have the meanings assigned to them by generally accepted accounting principles applied on a consistent basis by the accounting entity to which they refer.

(f) The words "include", "includes" and "including" are not limiting.

(g) The words "approval" and "approved", as the context so requires, means an approval in writing given to the party seeking approval after full and fair disclosure to the party giving approval of all material facts necessary in order to determine whether approval should be granted.

(h) All terms not specifically defined herein or by generally accepted accounting principles, which terms are defined in the Uniform Commercial Code as in effect in the Commonwealth of Massachusetts, have the meanings assigned to them therein.

(i) Reference to a particular "§", refers to that section of this Agreement unless otherwise indicated.

(j) The words "herein", "hereof", "hereunder" and words of like import shall refer to this Agreement as a whole and not to any particular section or subdivision of this Agreement.

§ 2. THE TERM LOAN FACILITY

§2.1 Commitment to Lend. Subject to the terms and conditions set forth in this Agreement, each of the Banks severally agrees to lend to the Borrower on or before the Funding Deadline the aggregate principal amount of its Commitment to be used by the Borrower for the purposes set forth in §2.4. The Loans shall be made pro

rata in accordance with each Bank's Commitment Percentage. The acceptance of the funding of a Loan hereunder shall constitute a representation and warranty by the Borrower that all of the conditions set forth in §10 have been satisfied. No Bank shall have any obligation to make Loans to the Borrower in the maximum aggregate principal amount outstanding of more than the principal face amount of its Note.

§2.2 Notes. The Loans shall be evidenced by separate promissory notes of the Borrower in substantially the form of Exhibit A hereto (collectively, the "Notes"), dated the date of this Agreement and completed with appropriate insertions. One Note shall be payable to the order of each Bank in the principal face amount equal to such Bank's Commitment, or if less the outstanding amount of all Loans made by such Bank, and shall be payable as set forth below. The Borrower irrevocably authorizes each Bank to make or cause to be made, at or about the time of the Drawdown Date of any Loan or at the time of receipt of any payment of principal thereof, an appropriate notation on such Bank's Record reflecting the making of such Loan or (as the case may be) the receipt of such payment. The outstanding amount of the Loans set forth on such Bank's Record shall be prima facie evidence of the principal amount thereof owing and unpaid to such Bank, but the failure to record, or any error in so recording, any such amount on such Bank's Record shall not limit or otherwise affect the obligations of the Borrower hereunder or under any Note to make payments of principal of or interest on any Note when due.

§2.3 Interest on Loans.

(a) Each LIBOR Rate Loan shall bear interest for the period commencing with the Drawdown Date thereof and ending on the last day of the Interest Period with respect thereto at the rate per annum equal to the sum of the LIBOR Rate determined for such Interest Period plus one and 45/100ths percent (1.45%).

(b) Each Base Rate Loan shall bear interest for the period commencing with the Drawdown Date thereof and ending on the date on which such Base Rate Loan is repaid or converted to a LIBOR Rate Loan at the rate per annum equal to the sum of the Base Rate plus one-half of one percent (0.5%).

(c) The Borrower promises to pay interest on each Loan in arrears on each Interest Payment Date with respect thereto.

(d) Base Rate Loans and LIBOR Rate Loans may be converted to Loans of the other Type as provided in §4.1.

§2.4 Use of Proceeds. The Borrower will use the proceeds of the Loans (a) for refinancing certain indebtedness of Borrower incurred in connection with the acquisition of a business park commonly referred to as Metro Park North located in Rockville, Maryland, (b) for paying closing expenses, and (c) for working capital purposes of the Borrower.

§2.5 Requests for Loans. The Borrower shall give to the Agent written notice in the form of Exhibit D hereto (or telephonic notice confirmed in writing in the form of Exhibit D hereto) of a request for the funding of a Loan (the "Loan Request") no later than 12:00 noon (Boston time) three (3) Business Days prior to the proposed Drawdown Date if such Loan is to be a LIBOR Rate Loan or no later than 12:00 noon (Boston time) one (1) Business Day prior to the proposed Drawdown Date if such Loan is to be a Base Rate Loan. Such notice shall specify with respect to the requested Loan the proposed principal amount, the Drawdown Date, Interest Period (if applicable) and Type. Each such notice shall also contain a certification by the chief financial or accounting officer of the Borrower that the Borrower and PSB are and will be in compliance with all covenants under the Loan Documents after giving effect to the making of such Loan. Promptly upon receipt of any such notice, the Agent shall notify each of the Banks thereof. Such Loan Request shall be irrevocable and binding on the Borrower and shall obligate the Borrower to accept the Loan requested from the Banks on the proposed Drawdown Date. The Borrower may, without cost or penalty, revoke a Loan Request by delivering notice thereof to each of the Banks no later than 3:00 p.m. (Boston time) three (3)

Business Days prior to the Drawdown Date with respect to a LIBOR Rate Loan, or no later than 3:00 p.m. (Boston time) one (1) Business Day prior to the Drawdown Date with respect to a Base Rate Loan. Each Loan Request shall be (a) for a Base Rate Loan in a minimum aggregate amount of $1,000,000 or an integral multiple of $100,000 in excess thereof, or (b) for a LIBOR Rate Loan in a minimum aggregate amount of $2,000,000 or an integral multiple of $100,000 in excess thereof; provided, however, that there shall be no more than eight (8) separate Interest Periods applicable to LIBOR Rate Loans outstanding at any one time. In the event that Borrower shall fail to deliver a Loan Request for a disbursement of the balance of the undisbursed Total Commitment on or before 1:00 p.m. (Boston time) on March 20, 2002 (the "Funding Deadline"), then the Borrower shall irrevocably be deemed to have requested a disbursement of the balance of the undisbursed Total Commitment as a Base Rate Loan, such advance to be made on the date of the Funding Deadline. In the event that the Borrower shall fail to satisfy the conditions to obtaining a disbursement of the balance of the Total Commitment by the Funding Deadline, the obligation of the Banks to advance any undisbursed amount of the Total Commitment to Borrower shall automatically terminate.

§2.6 Funds for Loans.

(a) Not later than 12:00 noon (Boston time) on the Drawdown Date (but subject to the terms of §2.5), each of the Banks will make available to the Agent, at the Agent's Head Office, in immediately available funds, the amount of such Bank's Commitment Percentage of the amount of each Loan. Upon receipt from each Bank of such amount, and upon receipt of the documents required by §10 and the satisfaction of the other conditions set forth therein, to the extent applicable, the Agent will make available to the Borrower the aggregate amount of such Loans made available to the Agent by the Banks by wire transfer in accordance with Borrower's instructions. The failure or refusal of any Bank to make available to the Agent at the aforesaid time and place on the Drawdown Date the amount of its Commitment Percentage of the Loans to the extent it is obligated to fund such Loan hereunder shall not relieve any other Bank from its several obligation hereunder to make available to the Agent the amount of such other Bank's Commitment Percentage of the Loans. In the event of any such failure or refusal, the Banks not so failing or refusing shall be entitled to a priority position as against the Bank or Banks so failing or refusing for such Loans as provided in §12.4.

(b) Unless Agent shall have been notified by any Bank prior to the applicable Drawdown Date that such Bank will not make available to Agent such Bank's pro rata share of a proposed Loan, Agent may in its discretion assume that such Bank has made such Loan available to Agent in accordance with the provisions of this Agreement and Agent may, if it chooses, in reliance upon such assumption make such Loan available to Borrower, and such Bank shall be liable to the Agent for the amount of such advance. If such Bank does not pay such corresponding amount upon the Agent's demand therefor, the Agent will promptly notify the Borrower, and the Borrower shall promptly pay such corresponding amount to the Agent. The Agent shall also be entitled to recover from such Bank or the Borrower, as the case may be, interest on such corresponding amount in respect of each day from the date such corresponding amount was made available by the Agent to the Borrower to the date such corresponding amount is recovered by the Agent at a per annum rate equal to (i) from the Borrower at the applicable rate for such Loan or (ii) from such Bank at the Federal Funds Effective Rate.

§ 3. REPAYMENT OF THE LOANS

§3.1 Stated Maturity. The Borrower promises to pay on the Maturity Date and there shall become absolutely due and payable on the Maturity Date, all of the Loans outstanding on such date, together with any and all accrued and unpaid interest thereon.

§3.2 Mandatory Prepayments.

(a) If at any time the sum of the Funded Unsecured Indebtedness exceeds the Borrowing Base, then the Borrower shall immediately pay to the Agent for the respective accounts of the Banks such amount as is necessary to reduce the principal balance of the Loans such that the sum of the Funded Unsecured Indebtedness does not exceed the Borrowing Base.

(b) Unless the Borrower shall have provided to the Agent a Compliance Certificate with respect to any proposed or completed sale, transfer, casualty, condemnation or other disposition of any of the Unencumbered Borrowing Base Properties, adjusted in the best good-faith estimate of the Borrower to give effect to such event and demonstrating that no Default or Event of Default with respect to the covenants referred to therein shall exist after giving effect to such event, the Borrower shall pay to the Agent for the account of the Banks as a prepayment of the Loans to the extent of the outstanding balance of the Loans such amount as is necessary to reduce the outstanding principal balance of the Loans so that no Default or Event of Default shall exist after the occurrence of such event.

§3.3 Optional Prepayments. Subject to the terms of this Agreement (including §3.5) the Borrower shall have the right, at its election, to prepay the outstanding amount of the Loans, as a whole or in part, at any time; provided, that the Loans may not be prepaid pursuant to this §3.3 to an amount less than $25,000,000.00 unless the Loans are being paid in full; and provided further that if any full or partial prepayment of the outstanding amount of any LIBOR Rate Loans is made on a date that is not the last day of the Interest Period relating thereto, such payment shall be accompanied by the payment of any amounts payable pursuant to §4.8. The Borrower shall give the Agent, no later than 10:00 a.m., Boston time, at least three (3) Business Days' prior written notice of any prepayment pursuant to this §3.3, in each case specifying the proposed date of payment of Loans and the principal amount to be paid.

§3.4 Prepayments. Each partial prepayment of the Loans under §3.2 and §3.3 shall be in the minimum amount of $2,000,000 or an integral multiple of $100,000 in excess thereof, shall be accompanied by the payment of accrued interest on the principal prepaid to the date of payment and any other amounts due pursuant to §3.5 or §4.8 and, after payment of such interest and other amounts, shall be applied, in the absence of instruction by the Borrower, first to the principal of Base Rate Loans and then to the principal of LIBOR Rate Loans.

§3.5 Prepayment Fee. In connection with any prepayment of the Loans, the Borrower shall pay Agent for the account of the Banks any sums that may be due under §4.8 and a prepayment fee in an amount equal to the product of the percentage set forth on Schedule 3.5 corresponding to the date on which such prepayment occurs multiplied by the principal amount of the Loans prepaid. No prepayment fees shall be due on prepayments made after February 20, 2004. Under any and all circumstances where all or any portion of the Notes is paid prior to the date set forth above, whether such prepayment is voluntary or involuntary, even if such prepayment results from a payment pursuant to §3.2, or Agent's or the Banks' exercise of their rights upon the occurrence of an Event of Default and acceleration of the Maturity Date of the Notes, Borrower shall to the extent permitted by applicable law pay to the Banks the prepayment fee calculated as provided above, which prepayment fee shall be in addition to any other sums due hereunder or under any of the other Loan Documents. No tender of a prepayment of the Notes with respect to which a prepayment fee is due shall be effective unless such prepayment is accompanied by the prepayment fee. Borrower acknowledges that the prepayment fee is a bargained for consideration and not a penalty, and Borrower recognizes that the Banks would incur substantial additional costs and expenses in the event of a prepayment of the Loans and that the prepayment fee compensates the Banks for such costs and expenses (including, without limitation, the loss of the Banks' investment opportunity for the period following the prepayment). Borrower agrees that the Banks shall not, as a condition to receiving the prepayment fee, be obligated to actually reinvest the amount prepaid in any treasury obligation or in any other manner whatsoever.

§3.6 Effect of Prepayments. Amounts of the Loans prepaid may not be reborrowed.

§3.7 Facility Fee. Borrower shall pay on March 21, 2002 to the Agent for the account of the Banks in accordance with their Commitment Percentages a facility fee with respect to the amount of the Loan that Borrower shall fail to request a disbursement of, or shall otherwise fail to satisfy the conditions to obtaining the disbursement of, prior to the Funding Deadline, such fee to be equal to the product of (a) the amount of the Loan not so requested or not so disbursed multiplied by (b) 1.80%. Such fee shall compensate the Banks for holding the Commitments open until the Funding Deadline and shall be fully earned when paid and non-refundable under any circumstances.

§ 4. CERTAIN GENERAL PROVISIONS

§4.1 Conversion Options.

(a) The Borrower may elect from time to time to convert any outstanding Loan to a Loan of another Type and such Loan shall thereafter bear interest as a Base Rate Loan or a LIBOR Rate Loan, as applicable; provided that (i) with respect to any such conversion of a LIBOR Rate Loan to a Base Rate Loan, the Borrower shall give the Agent at least one (1) Business Day prior written notice of such election, and such conversion shall only be made on the last day of the Interest Period with respect to such LIBOR Rate Loan; (ii) with respect to any such conversion of a Base Rate Loan to a LIBOR Rate Loan, the Borrower shall give the Agent at least three (3) LIBOR Business Days' prior written notice of such election and the Interest Period requested for such Loan, the principal amount of the Loan so converted shall be in a minimum aggregate amount of $2,000,000 or an integral multiple of $100,000 in excess thereof and, after giving effect to the making or conversion of such Loan, there shall be no more than eight (8) separate Interest Periods applicable to LIBOR Rate Loans outstanding at any one time; and (iii) no Loan may be converted into a LIBOR Rate Loan when any Default or Event of Default has occurred and is continuing. Promptly upon receipt of any such Conversion Request, the Agent shall notify each of the Banks thereof. All or any part of the outstanding Loans of any Type may be converted as provided herein, provided that no partial conversion shall result in a Base Rate Loan in an aggregate principal amount of less than $1,000,000 or a LIBOR Rate Loan in an aggregate principal amount of less than $2,000,000 and that the aggregate principal amount of each Loan shall be in an integral multiple of $100,000. On the date on which such conversion is being made, each Bank shall take such action as is necessary to transfer its Commitment Percentage of such Loans to its Domestic Lending Office or its LIBOR Lending Office, as the case may be. Each Conversion Request relating to the conversion of a Base Rate Loan to a LIBOR Rate Loan shall be irrevocable by the Borrower.

(b) Any LIBOR Rate Loan may be continued as such Type upon the expiration of an Interest Period with respect thereto by compliance by the Borrower with the terms of §4.1; provided that no LIBOR Rate Loan may be continued as such when any Default or Event of Default has occurred and is continuing, but shall be automatically converted to a Base Rate Loan on the last day of the Interest Period relating thereto ending during the continuance of any Default or Event of Default.

(c) In the event that the Borrower does not notify the Agent of its election hereunder with respect to any LIBOR Rate Loan, such Loan shall be automatically converted to a Base Rate Loan at the end of the applicable Interest Period.

§4.2 Closing Fee. On the Closing Date, the Borrower shall pay to Fleet a facility and loan structuring fee pursuant to the Agreement Regarding Fees, which fees shall be fully earned and non-refundable.

§4.3 Intentionally Omitted.

§4.4 Funds for Payments.

(a) All payments of principal, interest, closing fees, and any other amounts due hereunder or under any of the other Loan Documents shall be made to the Agent, for the respective accounts of the Banks and the Agent, as the case may be, at the Agent's Head Office, not later than 11:00 a.m. (Boston time) on the day when due, in each case in lawful money of the United States in immediately available funds. The Agent is hereby authorized to charge the account of the Borrower with Fleet, on the dates when the amount thereof shall become due and payable, with the amounts of the principal of and interest on the Loans and all fees, charges, expenses and other amounts owing to the Agent and/or the Banks under the Loan Documents.

(b) All payments by the Borrower hereunder and under any of the other Loan Documents shall be made without setoff or counterclaim and free and clear of and without deduction for any taxes, levies, imposts, duties, charges, fees, deductions, withholdings, compulsory loans, restrictions or conditions of any nature now or hereafter imposed or levied by any jurisdiction or any political subdivision thereof or taxing or other authority therein unless the Borrower is compelled by law to make such deduction or withholding. If any such obligation is imposed upon the Borrower with respect to any amount payable by it hereunder or under any of the other Loan Documents, the Borrower will pay to the Agent, for the account of the Banks or (as the case may be) the Agent, on the date on which such amount is due and payable hereunder or under such other Loan Document, such additional amount in Dollars as shall be necessary to enable the Banks or the Agent to receive the same net amount which the Banks or the Agent would have received on such due date had no such obligation been imposed upon the Borrower. The Borrower will deliver promptly to the Agent certificates or other valid vouchers for all taxes or other charges deducted from or paid with respect to payments made by the Borrower hereunder or under such other Loan Document.

(c) Each Bank organized under the laws of a jurisdiction outside the United States, if requested in writing by the Borrower (but only so long as such Bank remains lawfully able to do so), shall provide the Borrower with such duly executed form(s) or statement(s) which may, from time to time, be prescribed by law and, which, pursuant to applicable provisions of (i) an income tax treaty between the United States and the country of residence of such Bank, (ii) the Code, or (iii) any applicable rules or regulations in effect under (i) or (ii) above, indicates the withholding status of such Bank; provided that nothing herein (including without limitation the failure or inability to provide such form or statement) shall relieve the Borrower of its obligations under §4.4(b). In the event that the Borrower shall have delivered the certificates or vouchers described above for any payments made by the Borrower and such Bank receives a refund of any taxes paid by the Borrower pursuant to §4.4(b), such Bank will pay to the Borrower the amount of such refund promptly upon receipt thereof; provided that if at any time thereafter such Bank is required to return such refund, the Borrower shall promptly repay to such Bank the amount of such refund.

§4.5 Computations. All computations of interest on the Loans and of other fees to the extent applicable shall be based on a 360-day year and paid for the actual number of days elapsed. Except as otherwise provided in the definition of the term "Interest Period" with respect to LIBOR Rate Loans, whenever a payment hereunder or under any of the other Loan Documents becomes due on a day that is not a Business Day, the due date for such payment shall be extended to the next succeeding Business Day, and interest shall accrue during such extension. The outstanding amount of the Loans as reflected on the records of the Agent from time to time shall be considered prima facie evidence of such amount.

§4.6 Inability to Determine LIBOR Rate. In the event that, prior to the commencement of any Interest Period relating to any LIBOR Rate Loan, the Agent shall determine in the exercise of its good faith business judgment that adequate and reasonable methods do not exist for ascertaining the LIBOR Rate for such Interest Period, the Agent shall forthwith give notice of such determination (which shall be conclusive and binding on the Borrower and the Banks) to the Borrower and the Banks. In such event (a) any Loan Request with respect to LIBOR Rate Loans shall be automatically withdrawn and shall be deemed a request for Base Rate Loans, and (b) each LIBOR Rate Loan will automatically, on the last day of the then current Interest Period thereof, become a Base Rate Loan, and the obligations of the Banks to make LIBOR Rate Loans shall be suspended until the Agent determines that the circumstances giving rise to such suspension no longer exist, whereupon

the Agent shall so notify the Borrower and the Banks. In the event that the ability of the Borrower to obtain LIBOR Rate Loans is suspended pursuant to this §4.6, such suspension continues for more than thirty (30) consecutive days, and Borrower and the Banks are unable to agree upon an acceptable substitute reference rate within such 30-day period, then so long as such suspension is continuing Borrower may elect within sixty (60) days following the expiration of such initial 30-day period to prepay the Loans in full without the payment of any prepayment fee payable pursuant to §3.5.

§4.7 Illegality. Notwithstanding any other provisions herein, if any present or future law, regulation, treaty or directive or the interpretation or application thereof shall make it unlawful, or any central bank or other governmental authority having jurisdiction over a Bank or its LIBOR Lending Office shall assert that it is unlawful, for any Bank to make or maintain LIBOR Rate Loans, such Bank shall forthwith give notice of such circumstances to the Agent and the Borrower and thereupon (a) the commitment of the Banks to make LIBOR Rate Loans or convert Loans of another type to LIBOR Rate Loans shall forthwith be suspended and (b) the LIBOR Rate Loans then outstanding shall be converted automatically to Base Rate Loans on the last day of each Interest Period applicable to such LIBOR Rate Loans or within such earlier period as may be required by law.

§4.8 Additional Interest. If any LIBOR Rate Loan or any portion thereof is repaid or is converted to a Base Rate Loan for any reason on a date which is prior to the last day of the Interest Period applicable to such LIBOR Rate Loan, or if repayment of the Loans has been accelerated as provided in §12.1, the Borrower will pay to the Agent upon demand for the account of the applicable Banks in accordance with their respective Commitment Percentages, in addition to any amounts of interest otherwise payable hereunder, any amounts required to compensate such Banks for any losses, costs or expenses which may reasonably be incurred as a result of such payment or conversion, including, without limitation, an amount equal to daily interest for the unexpired portion of such Interest Period on the LIBOR Rate Loan or portion thereof so repaid or converted at a per annum rate equal to the excess, if any, of (a) the interest rate calculated on the basis of the LIBOR Rate applicable to such LIBOR Rate Loan (including any spread over such LIBOR Rate) minus (b) the yield obtainable by the Agent upon the purchase of debt securities customarily issued by the Treasury of the United States of America which have a maturity date most closely approximating the last day of such Interest Period (it being understood that the purchase of such securities shall not be required in order for such amounts to be payable and that a Bank shall not be obligated or required to have actually obtained funds at the LIBOR Rate or to have actually reinvested such amount as described above). Such amount shall be reduced to present value by using the rate on the United States Treasury Securities described in the foregoing sentence and the number of days remaining in the unexpired portion of the Interest Period in question.

§4.9 Additional Costs, Etc. Notwithstanding anything herein to the contrary, if any present or future applicable law, which expression, as used herein, includes statutes, rules and regulations thereunder and legally binding interpretations thereof by any competent court or by any governmental or other regulatory body or official with appropriate jurisdiction charged with the administration or the interpretation thereof and requests, directives, instructions and notices at any time or from time to time hereafter made upon or otherwise issued to any Bank or the Agent by any central bank or other fiscal, monetary or other authority (whether or not having the force of law), shall:

(a) subject any Bank or the Agent to any tax, levy, impost, duty, charge, fee, deduction or withholding of any nature with respect to this Agreement, the other Loan Documents, such Bank's Commitment or the Loans (other than taxes based upon or measured by the income or profits of such Bank or the Agent), or

(b) materially change the basis of taxation (except for changes in taxes on income or profits) of payments to any Bank of the principal of or the interest on any Loans or any other amounts payable to any Bank under this Agreement or the other Loan Documents, or

(c) impose or increase or render applicable any special deposit, reserve, assessment, liquidity, capital adequacy or other similar requirements (whether or not having the force of law) against assets held by, or deposits in or for the account of, or loans by, or commitments of an office of any Bank, or

(d) impose on any Bank or the Agent any other conditions or requirements with respect to this Agreement, the other Loan Documents, the Loans, such Bank's Commitment or any class of loans or commitments of which any of the Loans or such Bank's Commitment forms a part; and the result of any of the foregoing is

(i) to increase the cost to any Bank of making, funding, issuing, renewing, extending or maintaining any of the Loans or such Bank's Commitment, or

(ii) to reduce the amount of principal, interest or other amount payable to such Bank or the Agent hereunder on account of such Bank's Commitment or any of the Loans, or

(iii) to require such Bank or the Agent to make any payment or to forego any interest or other sum payable hereunder, the amount of which payment or foregone interest or other sum is calculated by reference to the gross amount of any sum receivable or deemed received by such Bank or the Agent from the Borrower hereunder,

then, and in each such case, the Borrower will, within fifteen (15) days of demand made by such Bank or (as the case may be) the Agent at any time and from time to time and as often as the occasion therefor may arise, pay to such Bank or the Agent such additional amounts as such Bank or the Agent shall determine in good faith to be sufficient to compensate such Bank or the Agent for such additional cost, reduction, payment or foregone interest or other sum, upon presentation by such Bank of a statement of the amount setting forth the Bank's calculation thereof. Each Bank and the Agent in determining such amounts may use any reasonable averaging and attribution methods, generally applied by such Bank or the Agent.

§4.10 Capital Adequacy. If after the date hereof any Bank determines that (a) the adoption of or change in any law, rule, regulation, guideline, directive or request (whether or not having the force of law) regarding capital requirements for banks or bank holding companies or any change in the interpretation or application thereof by any governmental authority, central bank or comparable agency charged with the administration thereof, or (b) compliance by such Bank or its parent bank holding company with any guideline, request or directive of any such entity regarding capital adequacy (whether or not having the force of law), has the effect of reducing the return on such Bank's or such holding company's capital as a consequence of such Bank's commitment to make Loans hereunder to a level below that which such Bank or holding company could have achieved but for such adoption, change or compliance (taking into consideration such Bank's or such holding company's then existing policies with respect to capital adequacy and assuming the full utilization of such entity's capital) by any amount deemed by such Bank to be material, then such Bank may notify the Borrower thereof. The Borrower agrees to pay to such Bank the amount of such reduction in the return on capital as and when such reduction is determined, upon presentation by such Bank of a statement of the amount setting forth the Bank's calculation thereof. In determining such amount, such Bank may use any reasonable averaging and attribution methods.

§4.11 Indemnity of Borrower. The Borrower agrees to indemnify each Bank and to hold each Bank harmless from and against any loss, cost or expense that such Bank may sustain or incur as a consequence of (a) default by the Borrower in payment of the principal amount of or any interest on any LIBOR Rate Loans as and when due and payable, including any such loss or expense arising from interest or fees payable by such Bank to lenders of funds obtained by it in order to maintain its LIBOR Rate Loans, or (b) default by the Borrower in making a borrowing or conversion after the Borrower has given (or is deemed to have given) a Conversion Request.

§4.12 Interest on Overdue Amounts; Late Charge. Following the occurrence and during the continuance of any Event of Default, and regardless of whether or not the Agent or the Banks shall have accelerated the maturity of the Loans, all Loans shall bear interest payable on demand at a rate per annum equal to four percent (4%) above the rate that would otherwise be applicable at such time (the "Default Rate"), until such amount shall be paid in full (after as well as before judgment), or if such rate shall exceed the maximum rate permitted by law, then at the maximum rate permitted by law. In addition, the Borrowers shall pay a late charge equal to five percent (5%) of any amount of interest and/or principal payable on the Loans or any other amounts payable hereunder or under the Loan Documents, which is not paid within ten days of the date when due.

§4.13 Certificate. A certificate setting forth any amounts payable pursuant to §4.8, §4.9, §4.10, §4.11 or §4.12 and a brief explanation of such amounts which are due, submitted by any Bank or the Agent to the Borrower, shall be conclusive in the absence of manifest error.

§4.14 Limitation on Interest. Notwithstanding anything in this Agreement or the other Loan Documents to the contrary, all agreements between or among the Borrower and the Banks and the Agent, whether now existing or hereafter arising and whether written or oral, are hereby limited so that in no contingency, whether by reason of acceleration of the maturity of any of the Obligations or otherwise, shall the interest contracted for, charged or received by the Banks exceed the maximum amount permissible under applicable law. If, from any circumstance whatsoever, interest would otherwise be payable to the Banks in excess of the maximum lawful amount, the interest payable to the Banks shall be reduced to the maximum amount permitted under applicable law; and if from any circumstance the Banks shall ever receive anything of value deemed interest by applicable law in excess of the maximum lawful amount, an amount equal to any excessive interest shall be applied to the reduction of the principal balance of the Obligations and to the payment of interest or, if such excessive interest exceeds the unpaid balance of principal of the Obligations, such excess shall be refunded to the Borrower. All interest paid or agreed to be paid to the Banks shall, to the extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full period until payment in full of the principal of the Obligations (including the period of any renewal or extension thereof) so that the interest thereon for such full period shall not exceed the maximum amount permitted by applicable law. This section shall control all agreements between the Borrower and the Banks and the Agent.

§ 5. SECURITY

§5.1 Unsecured Loan. The Banks have agreed to make the Loans to the Borrower on an unsecured basis. Notwithstanding the foregoing, the Obligations shall be guaranteed by the Guarantors pursuant to the Guaranty.

§5.2 Additional Guarantors. In the event that Borrower or PSB shall, after the Closing Date, have an Investment in any Subsidiary in which Borrower or PSB directly or indirectly owns a one hundred percent (100%) interest, Borrower shall cause each such Subsidiary to execute and deliver to Agent a Guaranty, and such Subsidiary shall become a Guarantor hereunder (each such Subsidiary is an "Additional Guarantor"); provided, however, to the extent Borrower has an Investment in any such Subsidiary which is established as a special purpose entity to own Real Estate or equity interests related thereto and any loan documents, if any, to which any new Subsidiary directly owning title to any Real Estate is a party prohibit such new Subsidiary from guarantying the Obligations, Borrower shall not be obligated to cause such new Subsidiary to become a Guarantor. Borrower and PSB further covenant and agree that Borrower and PSB shall cause each Subsidiary of Borrower that becomes a Guarantor pursuant to this §5.2 to become a party to the Contribution Agreement. The organizational agreements of each such Subsidiary created after the Closing Date shall specifically authorize each such Subsidiary to guarantee the Obligations and to execute the Contribution Agreement. Borrower and PSB shall further cause all representations, covenants and agreements in the Loan Documents with respect to Guarantors to be true and correct with respect to each such Subsidiary. In connection with the delivery of such Guaranty, Borrower and PSB shall deliver to the Agent such organizational agreements, resolutions, consents, opinions and other documents and instruments as the Agent may reasonably require.

§5.3 Release of Certain Guarantors. In the event that a Guarantor shall transfer all of its assets for fair value and for cash in the ordinary course of its business, then such Guarantor may be released by Agent from liability under the Guaranty provided that the Borrower shall deliver to Agent evidence satisfactory to Agent that (a) the Borrower will be in compliance with all covenants of this Agreement after giving effect to such sale and release, (b) such Guarantor shall be legally dissolved after its release from the Guaranty, and (c) the net cash proceeds from such sale are being distributed to Borrower as part of such dissolution. The provisions of this §5.3 shall not apply to PSB.

§ 6. REPRESENTATIONS AND WARRANTIES

Each of the Borrower and PSB represents and warrants to the Agent and the Banks as follows:

§6.1 Corporate Authority, Etc.

(a) Incorporation; Good Standing. The Borrower is a California limited partnership duly organized pursuant to its limited partnership agreement and certificate of limited partnership filed with the Secretary of State of California and is validly existing and in good standing under the laws of California. PSB is a California corporation duly organized pursuant to its Articles of Incorporation and amendments thereto filed with the Secretary of State of California and is validly existing and in good standing under the laws of California. Each other Guarantor is a corporation, limited partnership or limited liability company duly organized pursuant to its organizational agreements and is validly existing and in good standing under the laws of the state of its organization. Each of the Borrower and the Guarantors (i) has all requisite power to own its respective property and conduct its respective business as now conducted and as presently contemplated, and (ii) is in good standing as a foreign entity and is duly authorized to do business in the jurisdictions where the Unencumbered Borrowing Base Properties are located and in each other jurisdiction where a failure to be so qualified in such other jurisdiction could likely have a materially adverse effect on the business, assets or financial condition of such Person. PSB conducts its business in a manner which enables it to qualify as a real estate investment trust under, and to be entitled to the benefits of, §856 of the Code, and has elected to be treated and is entitled to the benefits of a real estate investment trust thereunder. All of the capital stock of PSB has been issued in compliance with all applicable laws.

(b) Subsidiaries. Each of the Subsidiaries of the Borrower and the Guarantors (i) is a corporation, limited partnership, limited liability company or trust duly organized under the laws of its State of organization and is validly existing and in good standing under the laws thereof, (ii) has all requisite power to own its property and conduct its business as now conducted and as presently contemplated, and (iii) is in good standing and is duly authorized to do business in each jurisdiction where a failure to be so qualified could likely have a materially adverse effect on the business, assets or financial condition of the Borrower, the Guarantors or such Subsidiary.

(c) Authorization. The execution, delivery and performance of this Agreement and the other Loan Documents to which any of the Borrower or the Guarantors are or are to become a party and the transactions contemplated hereby and thereby (i) are within the authority of such Person, (ii) have been duly authorized by all necessary proceedings on the part of such Person, (iii) do not and will not conflict with or result in any breach or contravention of any provision of law, statute, rule or regulation to which such Person is subject or any judgment, order, writ, injunction, license or permit applicable to such Person, (iv) do not and will not conflict with or constitute a default (whether with the passage of time or the giving of notice, or both) under any provision of the articles of incorporation, partnership agreement, declaration of trust or other charter documents or bylaws of, or any mortgage, indenture, agreement, contract or other instrument binding upon, such Person or any of its properties or to which such Person is subject, (v) do not and will not result in or require the imposition of any lien or other encumbrance on any of the properties, assets or rights of such Person, and (vi) do not require the approval or consent of any Person other than those already obtained and delivered to Agent.

(d) Enforceability. The execution and delivery of this Agreement and the other Loan Documents to which any of the Borrower or the Guarantors are or are to become a party are valid and legally binding obligations of such Person enforceable in accordance with the respective terms and provisions hereof and thereof, except as enforceability is limited by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights and except to the extent that availability of the remedy of specific performance or injunctive relief is subject to the discretion of the court before which any proceeding therefor may be brought.

§6.2 Approvals. The execution, delivery and performance by the Borrower and the Guarantors of this Agreement and the other Loan Documents to which such Person is a party and the transactions contemplated hereby and thereby do not require the approval or consent of any Person or the authorization, consent or approval of, or any license or permit issued by, or any filing or registration with, or the giving of any notice to, any court, department, board, commission or other governmental agency or authority other than those already obtained.

§6.3 Title to Properties; Leases. PSB and its Subsidiaries own all of the assets reflected in the consolidated balance sheet of PSB as of the Balance Sheet Date or acquired since that date except the minority interests reflected therein (except property and assets sold or otherwise disposed of in the ordinary course of business since that date), subject to no rights of others, including any mortgages, leases, conditional sales agreements, title retention agreements, liens or other encumbrances except Permitted Liens. Without limiting the foregoing, PSB and its Subsidiaries have good and marketable fee simple title to all real property reasonably necessary for the operation of its business in whole, free from all liens or encumbrances of any nature whatsoever, except for Permitted Liens. PSB or one of its Subsidiaries, as the case may be, is the insured under owner's policies of title insurance covering all real property owned by it, in each case in an amount not less than the purchase price for such real property.

§6.4 Financial Statements. The Borrower and PSB have furnished to the Agent: (a) the consolidated balance sheet of PSB and its Subsidiaries as of the Balance Sheet Date and their related consolidated statements of operations and cash flows certified by an officer of PSB, (b) an unaudited statement of operating income for each of the properties within the Unencumbered Borrowing Base Properties as of the Closing Date for the fiscal quarter ended September 30, 2001 satisfactory in form to the Agent and certified by the chief financial officer of the Borrower, as fairly presenting the operating income for such parcels for such periods, and (c) certain other financial information relating to the Borrower, the Guarantors and the Real Estate. Such balance sheet and statements have been prepared in accordance with generally accepted accounting principles and fairly present the financial condition of the Borrower and the Guarantors and their respective Subsidiaries as of such dates and the results of the operations of the Borrower, the Guarantors and their respective Subsidiaries for such periods. There are no liabilities, contingent or otherwise, of the Borrower, the Guarantors or any of their respective Subsidiaries involving material amounts not disclosed in said financial statements and the related notes thereto.

§6.5 No Material Changes. Since the Balance Sheet Date, there has occurred no materially adverse change in the financial condition or business of the Borrower, the Guarantors and their respective Subsidiaries taken as a whole as shown on or reflected in the consolidated balance sheet of PSB, as of the Balance Sheet Date, or its consolidated statement of income or cash flows for the fiscal year then ended, other than changes in the ordinary course of business that have not had any materially adverse effect either individually or in the aggregate on the business or financial condition of such Person.

§6.6 Franchises, Patents, Copyrights, Etc. The Borrower, the Guarantors and their respective Subsidiaries possess all franchises, patents, copyrights, trademarks, trade names, service marks, licenses and permits, and rights in respect of the foregoing, adequate for the conduct of their business substantially as now conducted without known conflict with any rights of others, except where failure to possess such rights could not likely have a materially adverse effect on the business, assets or financial condition of such Person.

§6.7 Litigation. Except as set forth on Schedule 6.7 hereto, there are no actions, suits, proceedings or investigations of any kind pending or to the knowledge of such Person threatened against the Borrower, the Guarantors or any of their respective Subsidiaries before any court, tribunal, administrative agency or board, mediator or arbitrator that, if adversely determined, might likely, either in any case or in the aggregate, materially adversely affect the properties, assets, financial condition or business of such Person or materially impair the right of such Person to carry on business substantially as now conducted by it, or result in any liability not adequately covered by insurance, or for which adequate reserves are not maintained on the balance sheet of such Person, or which question the validity of this Agreement or any of the other Loan Documents, any action taken or to be taken pursuant hereto or thereto or any lien or security interest created or intended to be created pursuant hereto or thereto, or which will adversely affect the ability of the Borrower or the Guarantors to pay and perform the Obligations in the manner contemplated by this Agreement and the other Loan Documents. There are no judgments outstanding against or affecting the Borrower, the Guarantors or any of their respective Subsidiaries or any of their properties individually or in the aggregate involving amounts in excess of $5,000,000.00.

§6.8 No Materially Adverse Contracts, Etc. None of the Borrower, the Guarantors or any of their respective Subsidiaries is subject to any charter, corporate or other legal restriction, or any judgment, decree, order, rule or regulation that has or is expected in the future to have a materially adverse effect on the business, assets or financial condition of such Person. None of the Borrower, the Guarantors or any of their respective Subsidiaries is a party to any mortgage, indenture, contract, agreement or other instrument that has or is expected, in the judgment of the officers or partners of such Person, to have any materially adverse effect on the business, assets or financial condition of any of them.

§6.9 Compliance with Other Instruments, Laws, Etc. None of the Borrower, the Guarantors or any of their respective Subsidiaries is in violation of any provision of its charter or other organizational documents, bylaws, or any agreement or instrument to which it may be subject or by which it or any of its properties may be bound or any decree, order, judgment, statute, license, rule or regulation, in any of the foregoing cases in a manner that could result in the imposition of substantial penalties or materially and adversely affect the financial condition, properties or business of such Person.

§6.10 Tax Status. The Borrower, the Guarantors and each of their respective Subsidiaries (a) has made or filed all federal and state income and all other tax returns, reports and declarations required by any jurisdiction to which it is subject, except in such cases as a valid extension has been obtained, (b) has paid all taxes and other governmental assessments and charges shown or determined to be due on such returns, reports and declarations, except those being contested in good faith and by appropriate proceedings and with respect to which adequate reserves have been established for the payment of any taxes that may be due, and (c) has set aside on its books provisions reasonably adequate for the payment of all taxes for periods subsequent to the periods to which such returns, reports or declarations apply. There are no unpaid taxes in any material amount claimed to be due by the taxing authority of any jurisdiction, and the officers or partners of such Person know of no basis for any such claim.

§6.11 No Event of Default. No Default or Event of Default has occurred and is continuing.

§6.12 Holding Company and Investment Company Acts. None of the Borrower, the Guarantors or any of their respective Subsidiaries is a "holding company", or a "subsidiary company" of a "holding company", or an "affiliate" of a "holding company", as such terms are defined in the Public Utility Holding Company Act of 1935; nor is any of such Persons an "investment company", or an "affiliated company" or a "principal underwriter" of an "investment company", as such terms are defined in the Investment Company Act of 1940.

§6.13 Absence of U.C.C. Financing Statements, Etc. Except with respect to Permitted Liens, there is no financing statement, security agreement, chattel mortgage, real estate mortgage or other document filed or

recorded with any filing records, registry, or other public office, that purports to cover, affect or give notice of any present or possible future lien on, or security interest or security title in, any property of the Borrower, the Guarantors or their respective Subsidiaries or rights thereunder.

§6.14 Certain Transactions. Except as set forth in the Prospectus and other arms-length transactions on terms that would be acceptable to an unaffiliated entity, none of the partners, officers, trustees, directors, or employees of the Borrower, the Guarantors or any of their respective Subsidiaries is a party to any transaction with the Borrower or any of its Subsidiaries (other than for services as partners, employees, officers, trustees and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any partner, officer, trustee, director or such employee or, to the knowledge of the Borrower, any corporation, partnership, trust or other entity in which any partner, officer, trustee, director, or any such employee has a substantial interest or is an officer, director, trustee or partner.

§6.15 Employee Benefit Plans. The Borrower, PSB and each ERISA Affiliate has fulfilled its obligations under the minimum funding standards of ERISA and the Code with respect to each Employee Benefit Plan, Multiemployer Plan or Guaranteed Pension Plan and is in compliance in all material respects with the presently applicable provisions of ERISA and the Code with respect to each Employee Benefit Plan, Multiemployer Plan or Guaranteed Pension Plan. Neither the Borrower, PSB nor any ERISA Affiliate has (a) sought a waiver of the minimum funding standard under Section 412 of the Code in respect of any Employee Benefit Plan, Multiemployer Plan or Guaranteed Pension Plan, (b) failed to make any contribution or payment to any Employee Benefit Plan, Multiemployer Plan or Guaranteed Pension Plan, or made any amendment to any Employee Benefit Plan, Multiemployer Plan or Guaranteed Pension Plan, which has resulted or could result in the imposition of a Lien or the posting of a bond or other security under ERISA or the Code, or (c) incurred any liability under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA. None of the Unencumbered Borrowing Base Properties constitutes a "plan asset" of any Employee Plan, Multiemployer Plan or Guaranteed Pension Plan.

§6.16 Regulations T, U and X. No portion of any Loan is to be used for the purpose of purchasing or carrying any "margin security" or "margin stock" as such terms are used in Regulations T, U and X of the Board of Governors of the Federal Reserve System, 12 C.F.R. Parts 220, 221 and 224. Neither the Borrower nor any Guarantor is engaged, nor will it engage, principally or as one of its important activities in the business of extending credit for the purpose of purchasing or carrying any "margin security" or "margin stock" as such terms are used in Regulations T, U and X of the Board of Governors of the Federal Reserve System, 12 C.F.R. Parts 220, 221 and 224.

§6.17 Environmental Compliance. The Borrower has taken or caused to be taken all commercially reasonable steps to investigate the past and present conditions and usage of the Real Estate and the operations conducted thereon and, based upon such investigation, makes the following representations and warranties.

(a) With respect to the Unencumbered Borrowing Base Properties, and to the best of the Borrower's knowledge with respect to any other Real Estate, except as set forth in Schedule 6.17, none of the Borrower, the Guarantors or their respective Subsidiaries or any operator of the Real Estate, or any operations thereon is in violation, or alleged violation, of any judgment, decree, order, law, license, rule or regulation pertaining to environmental matters, including without limitation, those arising under the Resource Conservation and Recovery Act ("RCRA"), the Comprehensive Environmental Response, Compensation and Liability Act of 1980 as amended ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986 ("SARA"), the Federal Clean Water Act, the Federal Clean Air Act, the Toxic Substances Control Act, or any state or local statute, regulation, ordinance, order or decree relating to the environment (hereinafter "Environmental Laws"), which violation involves the Unencumbered Borrowing Base Properties or other Real Estate and would have a material adverse effect on the environment or the business, assets or financial condition of the Borrower, the Guarantors or any of their respective Subsidiaries.

(b) Neither the Borrower, the Guarantors nor any of their respective Subsidiaries has received notice from any third party including, without limitation, any federal, state or local governmental authority, (i) that it has been identified by the United States Environmental Protection Agency ("EPA") as a potentially responsible party under CERCLA with respect to a site listed on the National Priorities List, 40 C.F.R. Part 300 Appendix B (1986); (ii) that any hazardous waste, as defined by 42 U.S.C. §9601(5), any hazardous substances as defined by 42 U.S.C. §9601(14), any pollutant or contaminant as defined by 42 U.S.C. §9601(33) or any toxic substances, oil or hazardous materials or other chemicals or substances regulated by any Environmental Laws ("Hazardous Substances") which it has generated, transported or disposed of have been found at any site at which a federal, state or local agency or other third party has conducted or has ordered that the Borrower, the Guarantors or any of their respective Subsidiaries conduct a remedial investigation, removal or other response action pursuant to any Environmental Law; or (iii) that it is or shall be a named party to any claim, action, cause of action, complaint, or legal or administrative proceeding (in each case, contingent or otherwise) arising out of any third party's incurrence of costs, expenses, losses or damages of any kind whatsoever in connection with the release of Hazardous Substances.

(c) With respect to the Unencumbered Borrowing Base Properties, and to the best of the Borrower's knowledge, with respect to any other Real Estate, except as set forth in Schedule 6.17, or in the case of Real Estate acquired after the date hereof, except as may be disclosed in writing to the Agent upon the acquisition of the same: (i) no portion of the Real Estate has been used for the handling, processing, storage or disposal of Hazardous Substances except in accordance with applicable Environmental Laws, and no underground tank or other underground storage receptacle for Hazardous Substances is located on any portion of such Real Estate except for such tanks as are monitored and maintained in accordance with applicable Environmental Laws; (ii) in the course of any activities conducted by the Borrower, the Guarantors or any of their respective Subsidiaries or the operators or tenants of any of their properties, no Hazardous Substances have been generated or are being used on the Real Estate of such Person except in the ordinary course of business and in accordance with applicable Environmental Laws; (iii) there has been no past or present releasing, spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, disposing or dumping (a "Release") or threatened Release of Hazardous Substances on, upon, into or from such Real Estate or on, upon, into or from the other properties of the Borrower, the Guarantors or any of their respective Subsidiaries, which Release would have a material adverse effect on the value of any of such Real Estate or adjacent properties or the environment; (iv) there have been no Releases on, upon, from or into any real property in the vicinity of any of such Real Estate which, through soil or groundwater contamination, may have come to be located on, and which would have a material adverse effect on the value of, such Real Estate; and (v) any Hazardous Substances that have been generated on any of such Real Estate have been transported off-site only by carriers having an identification number issued by the EPA or approved by a state or local environmental regulatory authority having jurisdiction regarding the transportation of such substance and treated or disposed of only by treatment or disposal facilities maintaining valid permits as required under all applicable Environmental Laws, which transporters and facilities have been and are, to the best of the Borrower's knowledge operating in compliance with such permits and applicable Environmental Laws. Upon the receipt by the Agent of any such disclosure, the Agent shall promptly notify the Banks thereof.

(d) To the best of the Borrower's knowledge and belief, neither the Borrower, the Guarantors, their respective Subsidiaries nor any Real Estate of such Person is subject to any applicable Environmental Law requiring the performance of Hazardous Substances site assessments, or the removal or remediation of Hazardous Substances, or the giving of notice to any governmental agency or the recording or delivery to other Persons of an environmental disclosure document or statement by virtue of the transactions set forth herein and contemplated hereby, or as a condition to the effectiveness of any other transactions contemplated hereby.

§6.18 Subsidiaries. Schedule 6.18 sets forth all of the Subsidiaries of the Borrower and the Guarantors. The form and jurisdiction of organization of each of the Subsidiaries, the Borrower's or Guarantor's and each other Person's ownership interest therein, and the Real Estate owned by such Subsidiary is set forth in said Schedule 6.18.

§6.19 Loan Documents and the Guarantors. All of the representations and warranties of the Borrower and the Guarantors made in this Agreement and the other Loan Documents or any document or instrument delivered to the Agent or the Banks pursuant to or in connection with any of such Loan Documents are true and correct in all material respects, and neither the Borrower nor the Guarantors has failed to disclose such information as is necessary to make such representations and warranties not misleading. There is no material fact or circumstance that has not been disclosed to the Agent and the Banks, and the written information, reports and other papers and data with respect to the Borrower, any Subsidiary, any Guarantor or the Unencumbered Borrowing Base Properties (other than projections and estimates) furnished to the Agent or the Banks in connection with this Agreement or the obtaining of the Commitments of the Banks hereunder was, at the time so furnished, complete and correct in all material respects, or has been subsequently supplemented by other written information, reports or other papers or data, to the extent necessary to give in all material respects a true and accurate knowledge of the subject matter in all material respects; provided that such representation shall not apply to (a) the accuracy of any engineering and environmental reports prepared by third parties or legal conclusions or analysis provided by the Borrower's and/or Guarantors' counsel (although the Borrower and the Guarantors have no reason to believe that the Agent and the Banks may not rely on the accuracy thereof) or (b) budgets, projections and other forward-looking speculative information prepared in good faith by the Borrower (except to the extent the related assumptions were when made manifestly unreasonable).

§6.20 Property. All of the Borrower's, the Guarantors' and their respective Subsidiaries' properties are in good repair and condition, subject to ordinary wear and tear, other than with respect to deferred maintenance existing as of the date of acquisition of such property which is being corrected in the ordinary course of business. The Borrower further has completed or caused to be completed an appropriate investigation of the environmental condition of each such property as of the later of the date of the Borrower's, the Guarantors' or such Subsidiaries' purchase thereof or the date upon which such property last became security for Indebtedness of the Borrower, the Guarantors or such Subsidiary, including preparation of a "Phase I" report and, if appropriate, a "Phase II" report, in each case prepared by a recognized environmental engineer in accordance with customary standards which discloses that such property is not in violation of the representations and covenants set forth in this Agreement, unless such violation has been disclosed in writing to the Agent and remediation actions satisfactory to Agent are being taken. There are no unpaid or outstanding real estate or other taxes or assessments on or against any property of the Borrower, the Guarantors or any of their respective Subsidiaries which are payable by such Person (except only real estate or other taxes or assessments, that are not yet due and payable). Except as set forth in Schedule 6.20 hereto, there are no pending eminent domain proceedings against any property of the Borrower, the Guarantors or their respective Subsidiaries or any part thereof, and, to the knowledge of the Borrower, no such proceedings are presently threatened or contemplated by any taking authority which may individually or in the aggregate have any materially adverse effect on the business or financial condition of the Borrower or the Guarantors. None of the property of Borrower, the Guarantors or their respective Subsidiaries is now damaged or injured as a result of any fire, explosion, accident, flood or other casualty in any manner which individually or in the aggregate would have any materially adverse effect on the business or financial condition of the Borrower or the Guarantors.

§6.21 Brokers. Neither the Borrower nor any of its Subsidiaries has engaged or otherwise dealt with any broker, finder or similar entity in connection with this Agreement or the Loans contemplated hereunder.

§6.22 Other Debt; Material Agreements. None of the Borrower, the Guarantors or any of their respective Subsidiaries is in default in the payment of any other Indebtedness or under any agreement, mortgage, deed of trust, security agreement, financing agreement, indenture or lease to which any of them is a party in an amount individually or in the aggregate equal to or greater than $3,000,000.00. Neither the Borrower nor any Guarantor is a party to or bound by any agreement, instrument or indenture that may require the subordination in right or time of payment of any of the Obligations to any other indebtedness or obligation of the Borrower or such Guarantor.

§6.23 Solvency. As of the Closing Date and after giving effect to the transactions contemplated by this Agreement and the other Loan Documents, including all of the Loans made or to be made hereunder, neither the Borrower nor any Guarantor is insolvent on a balance sheet basis such that the sum of such Person's assets exceeds the sum of such Person's liabilities, the Borrower and each Guarantor is able to pay its debts as they become due, and the Borrower and each Guarantor has sufficient capital to carry on its business.

§6.24 Transaction in Best Interests of Borrower; Consideration. The transactions evidenced by this Agreement and the other Loan Documents are in the best interests of the Borrower, each Guarantor, their respective Subsidiaries and the creditors of such Persons. The direct and indirect benefits to inure to the Borrower, the Guarantors and their respective Subsidiaries pursuant to this Agreement and the other Loan Documents constitute substantially more than "reasonably equivalent value" (as such term is used in §548 of the Bankruptcy Code) and "valuable consideration," "fair value," and "fair consideration," (as such terms are used in any applicable state fraudulent conveyance law), in exchange for the benefits to be provided by the Borrower, the Guarantors and their respective Subsidiaries pursuant to this Agreement and the other Loan Documents, and but for the willingness of each Guarantor to guaranty the Loan, the Borrower would be unable to obtain the financing contemplated hereunder which financing will enable the Borrower, each Guarantor and their respective Subsidiaries to have available financing to conduct and expand their business.

§6.25 The Ownership of Guarantors. PSB is the sole general partner of the Borrower and, including its limited partnership in Borrower, owns approximately seventy-five percent (75%) of the common units in Borrower. PSB has no Investments other than its interest in Borrower, Short-term Investments and Investments in Real Estate. Borrower directly or indirectly owns 100% of the interests in TPLP.

§6.26 Contribution Agreement. The Borrower and the Guarantors have executed and delivered the Contribution Agreement, and the Contribution Agreement constitutes the valid and legally binding obligations of such parties enforceable against them in accordance with the terms and provisions thereof, except as enforceability is limited by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights and except to the extent that availability of the remedy of specific performance or injunctive relief is subject to the discretion of the court before which any proceeding therefor may be brought.

§ 7. AFFIRMATIVE COVENANTS OF THE BORROWER AND PSB

Each of the Borrower and PSB covenants and agrees that, so long as any Loan or Note is outstanding or any Bank has any obligation to make any Loans:

§7.1 Punctual Payment. The Borrower will duly and punctually pay or cause to be paid the principal and interest on the Loans and all interest and fees provided for in this Agreement, all in accordance with the terms of this Agreement and the Notes as well as all other sums owing pursuant to the Loan Documents.

§7.2 Maintenance of Office. Each of the Borrower and PSB will maintain its chief executive office at 701 Western Avenue, Glendale, California 91201 or at such other place in the United States of America as the Borrower or PSB, as applicable, shall designate upon prior written notice to the Agent and the Banks, where notices, presentations and demands to or upon the Borrower and PSB in respect of the Loan Documents may be given or made.

§7.3 Records and Accounts. The Borrower and PSB will (a) keep, and cause each of its Subsidiaries to keep, true and accurate records and books of account in which full, true and correct entries will be made in accordance with generally accepted accounting principles and (b) maintain adequate accounts for all taxes (including income taxes), depreciation, depletion and amortization of its properties and the properties of its Subsidiaries, contingencies and other reserves. Neither the Borrower, PSB nor any of their Subsidiaries shall,

without the prior written consent of the Majority Banks, make any material change to the accounting procedures used by such Person in preparing the financial statements and other information described §6.4. The Borrower and PSB shall not, without the prior written consent of the Majority Banks, change its fiscal year.

§7.4 Financial Statements, Certificates and Information. The Borrower and PSB will deliver or cause to be delivered to the Agent with sufficient copies for delivery to each of the Banks:

(a) as soon as practicable, but in any event not later than 90 days after the end of each fiscal year of PSB, the audited consolidated balance sheet of PSB and its Subsidiaries at the end of such year, and the related audited consolidated statements of income, changes in shareholder's equity and cash flows for such year, each setting forth in comparative form the figures for the previous fiscal year and all such statements to be in reasonable detail, prepared in accordance with generally accepted accounting principles, and accompanied by an auditor's report prepared without qualification by Ernst & Young or by another "Big Five" accounting firm, the Form 10-K filed by PSB with the SEC (unless the SEC has approved an extension, in which event PSB will deliver to the Agent and each of the Banks a copy of the Form 10-K simultaneously with delivery to the SEC), and any other information the Banks may need to complete a financial analysis of PSB and its Subsidiaries or the Borrower and its Subsidiaries, together with a written statement from such accountants to the effect that they have read a copy of this Agreement and the Guaranty, and that, in making the examination necessary to said certification, they have obtained no knowledge of any Default or Event of Default, or, if such accountants shall have obtained knowledge of any then existing Default or Event of Default they shall disclose in such statement any such Default or Event of Default; provided that such accountants shall not be liable to the Agent or the Banks for failure to obtain knowledge of any Default or Event of Default;

(b) as soon as practicable, but in any event not later than 45 days after the end of each of the first three fiscal quarters of PSB, (i) copies of Form 10-Q filed by PSB with the SEC, or in the event that PSB is not required to file a Form 10-Q, then (ii) copies of the unaudited consolidated balance sheet of PSB and its Subsidiaries as at the end of such quarter, and the related unaudited consolidated statements of income, changes in shareholder's equity and cash flows for the portion of PSB's fiscal year then elapsed, all in reasonable detail and prepared in accordance with generally accepted accounting principles, together with a certification by the principal financial or accounting officer of PSB that the information contained in such financial statements fairly presents the financial position of PSB and its Subsidiaries on the date thereof (subject to year-end adjustments);

(c) simultaneously with the delivery of the financial statements referred to in subsections (a) and (b) above and within thirty (30) days of the filing by PSB of a Form 8-K with the SEC, or the filing with the SEC of any other document amending any other filing made by PSB, a statement (a "Compliance Certificate") certified by the principal financial or accounting officer of the Borrower and PSB in the form of Exhibit B hereto (or in such other form as the Agent may approve from time to time) setting forth in reasonable detail computations evidencing compliance with the covenants contained in §9 and the other covenants described therein, and (if applicable) reconciliations to reflect changes in generally accepted accounting principles since the Balance Sheet Date. The Compliance Certificate shall also be accompanied by the following:

(i) copies of the consolidated statements of Net Operating Income for such fiscal quarter for each of the Unencumbered Borrowing Base Properties, prepared on a basis consistent with the statements furnished to the Agent prior to the date hereof and otherwise in form and substance reasonably satisfactory to the Agent. All income, expense and value associated with Unencumbered Borrowing Base Properties disposed of during any quarter will be eliminated from calculations, where applicable;

(ii) a list setting forth the following information with respect to each new Subsidiary of the Borrower or PSB (except for any Subsidiaries that are not required to become Guarantors pursuant to §5.2): (A) the name and

structure of the Subsidiary, (B) a description of the property owned by such Subsidiary, and (C) such other information as the Agent may reasonably request; and

(iii) a list of the Unencumbered Borrowing Base Properties and the certification of the chief financial or chief accounting officer of the Borrower that the Unencumbered Borrowing Base Properties comply with the terms of §§6.17, 6.20 and 7.13;

(d) concurrently with the delivery of the financial statements described in subsection (b) above, a certificate signed by the President or Chief Financial Officer of the Borrower and PSB to the effect that, having read this Agreement, and based upon an examination which they deem sufficient to enable them to make an informed statement, there does not exist any Default or Event of Default, or if such Default or Event of Default has occurred, specifying the facts with respect thereto;

(e) concurrently with the delivery of the financial statement referred to in §7.4(a), a certification that §7.8 has been satisfied with respect to the Unencumbered Borrowing Base Properties;

(f) contemporaneously with the filing or mailing thereof, copies of all material of a financial nature filed with the SEC or sent to the partners or stockholders of the Borrower or PSB, as applicable;

(g) promptly after they are filed with the Internal Revenue Service, copies of all annual federal income tax returns and amendments thereto of each of the Borrower and PSB;

(h) upon the request of Agent (which request for any particular item described in (A), (B) or (C), so long as no Event of Default has occurred, shall not be made by Agent more frequently than once each calendar year) (A) a statement (i) listing the Real Estate owned by the Borrower, PSB and their respective Subsidiaries (or in which such Person owns an interest) and stating the location thereof, the date acquired, the acquisition cost, its Net Rentable Area, its occupancy level for the quarter most recently ended, its Net Operating Income for rolling two (2) quarters, and major tenants and percentage of Net Rentable Area occupied, (ii) listing the Indebtedness of PSB and its Subsidiaries (excluding Indebtedness of the type described in §8.1(b)-(e)), which statement shall include, without limitation, a statement of the current outstanding amount of such Indebtedness and unfunded amounts available under any such facilities, the holder thereof, the maturity date and any extension options, the interest rate, the collateral provided for such Indebtedness and whether such Indebtedness is recourse or non-recourse, and (iii) listing the properties of PSB and its Subsidiaries which are under "development" (as used in §8.9) and providing a brief summary of the status of such development, (B) a summary Rent Roll with respect to the Unencumbered Borrowing Base Properties in a form reasonably satisfactory to Agent, and (C) operating statements for any and/or all Unencumbered Borrowing Base Properties;

(i) upon the request of Agent following the occurrence of a material capital event affecting Borrower or PSB, projected compliance with the covenants set forth in §§7.13, 8.1, 8.2, 8.3, 8.7, 8.9 and Article 9; and

(j) from time to time such other financial data and information in the possession of the Borrower, PSB or their respective Subsidiaries (including without limitation auditors' management letters, evidence of payment of taxes, property inspection and environmental reports and information as to zoning and other legal and regulatory changes affecting any of such Persons) as the Agent may reasonably request.

§7.5 Notices.

(a) Defaults. The Borrower will promptly notify the Agent in writing of the occurrence of any Default or Event of Default. If any Person shall give any notice or take any other action in respect of a claimed default (whether or not constituting an Event of Default) under this Agreement or under any note, evidence of indebtedness,

indenture or other obligation to which or with respect to which the Borrower, the Guarantors or any of their respective Subsidiaries is a party or obligor, whether as principal or surety, and such default would permit the holder of such note or obligation or other evidence of indebtedness to accelerate the maturity thereof or the existence of which claimed default might become an Event of Default under §12.1(g), the Borrower shall forthwith give written notice thereof to the Agent and each of the Banks, describing the notice or action and the nature of the claimed default.

(b) Environmental Events. The Borrower will promptly give notice to the Agent (i) upon the Borrower or the Guarantors obtaining knowledge of any potential or known Release, or threat of Release, of any Hazardous Substances at or from any Real Estate; (ii) of any violation of any Environmental Law that the Borrower, the Guarantors or any of their respective Subsidiaries reports in writing or is reportable by such Person in writing (or for which any written report supplemental to any oral report is made) to any federal, state or local environmental agency; and (iii) upon becoming aware thereof, of any inquiry, proceeding, investigation, or other action, including a notice from any agency of potential environmental liability, of any federal, state or local environmental agency or board, that in either case involves any Real Estate or has the potential to materially affect the assets, liabilities, financial conditions or operations of such Person.

(c) Notice of Litigation and Judgments. The Borrower will give notice to the Agent in writing within 15 days of becoming aware of any litigation, arbitration, mediation or other proceedings threatened in writing or any pending litigation, arbitration, mediation and other proceedings against the Borrower, the Guarantors or any of their respective Subsidiaries or to which any of such Persons is or is to become a party involving an uninsured claim against such Person that could reasonably be expected to have a materially adverse effect on the Borrower or the Guarantors and stating the nature and status of such litigation or proceedings. The Borrower will give notice to the Agent, in writing, in form and detail satisfactory to the Agent and each of the Banks, within ten days of any judgment or award not covered by insurance, whether final or otherwise, against the Borrower, the Guarantors, any of their respective Subsidiaries in an amount individually or in the aggregate in excess of $15,000,000.00.

(d) Notice of Proposed Sales, Encumbrances, Refinance or Transfer. The Borrower and PSB will give notice to the Agent of any proposed or completed sale, encumbrance, refinance or transfer of any Unencumbered Borrowing Base Property or any other Investment within any fiscal quarter of the Borrower or PSB, such notice to be submitted together with the Compliance Certificate provided or required to be provided to the Banks under §7.4 with respect to such fiscal quarter. For the purposes hereof, a proposed sale shall mean a sale with respect to which a letter of intent or contract has been executed. The Compliance Certificate shall with respect to any proposed or completed sale, encumbrance, refinance or transfer be adjusted in the best good-faith estimate of the Borrower and PSB to give effect to such sale, encumbrance, refinance or transfer and demonstrate that no Default or Event of Default with respect to the covenants referred to therein shall exist after giving effect to such sale, encumbrance, refinance or transfer. Notwithstanding the foregoing, in the event of any sale, encumbrance, refinance or transfer of any assets of PSB or its Subsidiaries involving individually or in a series of related transactions an aggregate amount in excess of $50,000,000.00, the Borrower and PSB shall promptly give notice to the Agent of such transaction, which notice shall be accompanied by a certification of the chief financial officer of the Borrower and PSB that no Default or Event of Default shall exist after giving affect to such event.

(e) ERISA. The Borrower will give notice to the Agent within five (5) Business Days after the Borrower, PSB or any ERISA Affiliate (i) gives or is required to give notice to the PBGC of any "reportable event" (as defined in §4043 of ERISA) with respect to any Guaranteed Pension Plan, Multiemployer Plan or Employee Benefit Plan, or knows that the plan administrator of any such plan has given or is required to give notice of any such reportable event; (ii) gives a copy of any notice of complete or partial withdrawal liability under Title IV of ERISA; or (iii) receives any notice from the PBGC under Title IV or ERISA of an intent to terminate or appoint a trustee to administer any such plan.

(f) Notification of Banks. Promptly after receiving any notice under this §7.5, the Agent will forward a copy thereof to each of the Banks, together with copies of any certificates or other written information that accompanied such notice.

§7.6 Existence; Maintenance of Properties.

(a) The Borrower will do or cause to be done all things necessary to preserve and keep in full force and effect its existence as a California limited partnership. PSB will do or cause to be done all things necessary to preserve and keep in full force and effect its existence as a California corporation. The Borrower and PSB will cause each of their respective Subsidiaries to do or cause to be done all things necessary to preserve and keep in full force and effect their respective legal existence. Each of the Borrower and PSB will do or cause to be done all things necessary to preserve and keep in full force all of its rights and franchises and those of its Subsidiaries. PSB shall at all times comply with all requirements and applicable laws and regulations necessary to maintain REIT Status, and shall continue to elect to receive REIT Status. PSB and the Borrower will, and will cause each of its Subsidiaries to, continue to engage primarily in the businesses now conducted by it and in related businesses.

(b) Irrespective of whether proceeds of the Loans are available for such purpose, the Borrower (i) will cause all of its properties and those of the Guarantors and their respective Subsidiaries used or useful in the conduct of its business or the business of such Persons to be maintained and kept in good condition, repair and working order (ordinary wear and tear excepted) and supplied with all necessary equipment, and (ii) will cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof in all cases in which the failure so to do would have a material adverse effect on the condition of its properties or on the financial condition, assets or operations of the Borrower, the Guarantors or their respective Subsidiaries.

(c) The common stock of PSB will at all times be listed for trading and be traded on the American Stock Exchange, the New York Stock Exchange or NASDAQ.

§7.7 Insurance. The Borrower or PSB will, at its expense, procure and maintain or cause to be procured and maintained insurance covering the Borrower, the Guarantors, their respective Subsidiaries and their respective properties in such amounts and against such risks and casualties as are customary for properties of similar character and location, due regard being given to the type of improvements thereon, their construction, location, use and occupancy.

§7.8 Taxes. The Borrower, the Guarantors and their respective Subsidiaries will duly pay and discharge, or cause to be paid and discharged, before the same shall become overdue, all taxes, assessments and other governmental charges imposed upon it and upon the Real Estate, sales and activities, or any part thereof, or upon the income or profits therefrom, as well as all claims for labor, materials, or supplies that if unpaid might by law become a lien or charge upon any of its property; provided that any such tax, assessment, charge, levy or claim need not be paid if the validity or amount thereof shall currently be contested in good faith by appropriate proceedings and if such Person shall have set aside on its books adequate reserves with respect thereto; and provided, further, that forthwith upon the commencement of proceedings to foreclose any lien that may have attached as security therefor, such Person either (i) will provide a bond issued by a surety reasonably acceptable to the Agent and sufficient to stay all such proceedings or (ii) if no such bond is provided, will pay each such tax, assessment, charge, levy or claim.

§7.9 Inspection of Properties and Books. The Borrower and PSB shall permit the Banks, through the Agent or any representative designated by the Agent, at the Bank's expense to visit and inspect any of the properties of the Borrower, PSB or any of their respective Subsidiaries, to examine the books of account of the Borrower, PSB and their respective Subsidiaries (and to make copies thereof and extracts therefrom) and to discuss the affairs, finances and accounts of the Borrower, PSB and their respective Subsidiaries with, and to be advised as

to the same by, its partners and officers, all at such reasonable times and intervals as the Agent or any Bank may reasonably request; provided that if an Event of Default shall have occurred, Borrower shall be responsible for the expense of such visits and inspections. The Banks shall use good faith efforts to coordinate such visits and inspections so as to minimize the interference with and disruption to the Borrower's and PSB's normal business operations.

§7.10 Compliance with Laws, Contracts, Licenses, and Permits. The Borrower and PSB will comply with, and will cause each of their respective Subsidiaries to comply in all respects with (i) all applicable laws, ordinances, regulations and requirements now or hereafter in effect wherever its business is conducted, including all Environmental Laws, (ii) the provisions of its corporate charter, partnership agreement or declaration of trust, as the case may be, and other charter documents and bylaws, (iii) all mortgages, indentures, contracts, agreements and instruments to which it is a party or by which it or any of its properties may be bound, (iv) all applicable decrees, orders, and judgments, and (v) all licenses and permits required by applicable laws and regulations for the conduct of its business or the ownership, use or operation of its properties, except when failure to so comply with the foregoing will not have a material adverse effect on the business, assets or financial condition of such Person. If at any time while any Loan or Note is outstanding or the Banks have any obligation to make Loans hereunder, any authorization, consent, approval, permit or license from any officer, agency or instrumentality of any government shall become necessary or required in order that the Borrower or PSB may fulfill any of its obligations hereunder, the Borrower and PSB will immediately take or cause to be taken all steps necessary to obtain such authorization, consent, approval, permit or license and furnish the Agent and the Banks with evidence thereof.

§7.11 Further Assurances. The Borrower and PSB will cooperate with, and will cause each of their respective Subsidiaries to cooperate with the Agent and the Banks and execute such further instruments and documents as the Banks or the Agent shall reasonably request to carry out to their satisfaction the transactions contemplated by this Agreement and the other Loan Documents.

§7.12 Management; Business Operations. The Borrower shall cause all Unencumbered Borrowing Base Properties at all times to be managed by the Borrower and no change shall occur in such management without the prior written approval of the Agent. The Borrower, the Guarantors and their respective Subsidiaries shall operate their respective businesses as described in the Prospectus and in compliance with the terms and conditions of this Agreement and the Loan Documents.

§7.13 Unencumbered Borrowing Base Properties.

(a) The Unencumbered Borrowing Base Properties shall at all times satisfy all of the following conditions:

(i) each of the Unencumbered Borrowing Base Properties shall be owned 100% in fee simple by the Borrower or, subject to the terms of this Agreement, a Guarantor free and clear of all Liens other than the Liens permitted in §8.2(i), (iii) and (v);

(ii) to the best of the Borrower's knowledge and belief, none of the Unencumbered Borrowing Base Properties shall have any material title, survey, environmental or other defects that would give rise to a materially adverse effect as to the value, use of or ability to sell or refinance such property;

(iii) prior to inclusion of Real Estate within the Unencumbered Borrowing Base Property, Borrower shall have delivered to Agent such of the items described on Schedule 7.13 hereto as Agent may request (it being agreed that Agent may also at any time following the inclusion of Real Estate within the Unencumbered Borrowing Base Property request that Borrower deliver to Agent any items described on Schedule 7.13 hereto available to Borrower which have not previously been delivered to Agent);

(iv) each of the Unencumbered Borrowing Base Properties shall consist solely of Real Estate (A) which is located within the contiguous 48 states of the continental United States, (B) which is an Office Property consistent with Borrower's business strategy on the date of this Agreement, (C) which contains improvements that are in operating condition and available for occupancy, and (D) with respect to which valid certificates of occupancy or the equivalent for all buildings thereon have been issued and are in full force and effect;

(v) the number of properties within the Unencumbered Borrowing Base Properties shall not be less than ten (10), and the Majority Banks shall be required to provide their prior approval of the removal of any property as an Unencumbered Borrowing Base Property;

(vi) each Unencumbered Borrowing Base Property shall consist solely of Real Estate which has an occupancy level of tenants in possession and operating of at least ninety percent (90%) of the Net Rentable Area within such Unencumbered Borrowing Base Property for the previous two fiscal quarters of the Borrower based on bona fide arms-length tenant leases requiring current rental payments and which are in full force and effect;

(vii) no more than thirty percent (30%) of the Borrowing Base (based upon the Asset Value of the Unencumbered Borrowing Base Properties) shall be located in any single metropolitan area (as determined by Agent in its good faith judgment);

(viii) no one office or retail tenant shall comprise more than ten percent (10%) of the Net Operating Income generated by the Unencumbered Borrowing Base Properties within the Borrowing Base;

(ix) no Unencumbered Borrowing Base Property (based upon the Asset Value of the Unencumbered Borrowing Base Properties) shall comprise more than twenty percent (20%) of the Borrowing Base; and

(x) the Unencumbered Borrowing Base Properties (based upon the Asset Value of the Unencumbered Borrowing Base Properties) owned by the Guarantors shall not exceed twenty percent (20%) of the Borrowing Base.

(b) In the event that all or any material portion of a property within an Unencumbered Borrowing Base Property shall be damaged or taken by condemnation, then such property shall no longer be a part of the Unencumbered Borrowing Base Properties unless and until any damage to such Real Estate is repaired or restored, such Real Estate becomes fully operational, the Agent shall receive evidence satisfactory to the Agent of the value and Net Operating Income of such Real Estate following such repair or restoration, and that such Real Estate otherwise satisfies the requirements of the Agreement applicable to Unencumbered Borrowing Base Properties.

(c) In the event that any Subsidiary of the Borrower that is not a Guarantor owns Real Estate which would otherwise qualify as an Unencumbered Borrowing Base Property and the Borrower desires for the same to become an Unencumbered Borrowing Base Property, then such property may become an Unencumbered Borrowing Base Property but only in the event that all of the terms and conditions of this §7.13(c) are satisfied:

(i) Such Subsidiary shall be an Additional Guarantor;

(ii) The organizational agreements of such Subsidiary or such other resolutions or consents satisfactory to Agent shall specifically authorize such Subsidiary to guaranty the Obligations and to pledge the assets of such Subsidiary as security for the Obligations and the Borrower shall certify to the Agent that applicable law does not preclude such Subsidiary from executing such guaranty or pledging its assets to secure the Obligations;

(iii) All covenants, agreements, and representations in the Loan Documents herein of the Borrower and the Guarantors and their Subsidiaries shall be true and correct with respect to such Additional Guarantor;

(iv) No Default or Event of Default shall exist or might exist in the event that such Subsidiary becomes an Additional Guarantor or acquires such assets; and

(v) The Real Estate assets acquired or owned by such Additional Guarantor shall qualify as Unencumbered Borrowing Base Properties hereunder, and such assets, when taken together with the other Real Estate assets owned by the Guarantors, shall not exceed twenty percent (20%) of the total Asset Value of the Unencumbered Borrowing Base Properties.

§7.14 Limiting Agreements.

(a) Neither Borrower, any Guarantor nor any of their respective Subsidiaries shall enter into, any agreement, instrument or transaction which has or may have the effect of prohibiting or limiting Borrower's or any Guarantor's ability to pledge to Agent the Unencumbered Borrowing Base Properties which are owned by the Borrower or such Guarantor as security for the Loans. Borrower shall take, and shall cause the Guarantors and their respective Subsidiaries to take, such actions as are necessary to preserve the right and ability of Borrower and the Guarantors to pledge the Unencumbered Borrowing Base Properties as security for the Loans without any such pledge after the date hereof causing or permitting the acceleration (after the giving of notice or the passage of time, or otherwise) of any other Indebtedness of Borrower, the Guarantors or any of their respective Subsidiaries.

(b) Borrower shall, upon demand, provide to the Agent such evidence as the Agent may reasonably require to evidence compliance with this §7.14, which evidence shall include, without limitation, copies of any agreements or instruments which would in any way restrict or limit the Borrower's or any Guarantor's ability to pledge assets as security for Indebtedness, or which provide for the occurrence of a default (after the giving of notice or the passage of time, or otherwise) if assets are pledged in the future as security for Indebtedness of the Borrower or any of its Subsidiaries.

§7.15 Distributions of Income to the Borrower. The Borrower shall cause all of its Subsidiaries to promptly distribute to the Borrower (but not less frequently than once each fiscal quarter of the Borrower, unless otherwise approved by the Agent), whether in the form of dividends, distributions or otherwise, all profits, proceeds or other income relating to or arising from its Subsidiaries' use, operation, financing, refinancing, sale or other disposition of their respective assets and properties after (a) the payment by each Subsidiary of its Debt Service and operating expenses for such quarter and (b) the establishment of reasonable reserves for the payment of operating expenses not paid on at least a quarterly basis and capital improvements to be made to such Subsidiary's assets and properties approved by such Subsidiary in the ordinary course of business consistent with its past practices.

§7.16 More Restrictive Agreements. Without limiting the terms of §8.1, should the Borrower or any Guarantor enter into or modify any agreements or documents pertaining to any existing or future Indebtedness, Debt Offering or Equity Offering, which agreements or documents include covenants, whether affirmative or negative, or any other provision which may have the same practical effect as any of the foregoing which are individually or in the aggregate more restrictive against the Borrower, any Guarantor or their respective Subsidiaries than the financial covenants set forth in this Agreement, the Borrower and PSB shall promptly notify the Agent and, if requested by Majority Banks, the Borrower, PSB, the other Guarantors, the Agent and the Majority Banks shall (and, if applicable, the Borrower shall cause the Guarantors to) promptly enter into discussions regarding a possible amendment to this Agreement and the other Loan Documents to include some or all or such more restrictive provisions (provided that there shall be no obligation on the part of the Borrower or the Guarantors to enter into such an amendment). Notwithstanding the foregoing, this §7.16 shall not apply to covenants contained in any agreements or documents evidencing or securing non-recourse Indebtedness or covenants in agreements or documents relating to recourse Indebtedness that relate only to specific Real Estate that is collateral for such Indebtedness.

§7.17 Plan Assets. The Borrower will do, or cause to be done, all things necessary to ensure that none of the Unencumbered Borrowing Base Properties will be deemed to be Plan Assets at any time.

§ 8. CERTAIN NEGATIVE COVENANTS OF THE BORROWER AND PSB

Each of the Borrower and PSB covenants and agrees that, so long as any Loan or Note is outstanding or any of the Banks has any obligation to make any Loans:

§8.1 Restrictions on Indebtedness. The Borrower, PSB and the other Guarantors will not, and will not permit any of their respective Subsidiaries to, create, incur, assume, guarantee or be or remain liable, contingently or otherwise, with respect to any Indebtedness other than:

(a) Indebtedness of Borrower and the Guarantors to the Banks arising under any of the Loan Documents;

(b) current liabilities of the Borrower and its Subsidiaries incurred in the ordinary course of business but not incurred through (i) the borrowing of money, or (ii) the obtaining of credit except for credit on an open account basis customarily extended and in fact extended in connection with normal purchases of goods and services;

(c) Indebtedness in respect of taxes, assessments, governmental charges or levies and claims for labor, materials and supplies to the extent that payment therefor shall not at the time be required to be made in accordance with the provisions of §7.8;

(d) Indebtedness in respect of judgments or awards only to the extent, for the period and for an amount not resulting in a Default;

(e) endorsements for collection, deposit or negotiation and warranties of products or services, in each case incurred in the ordinary course of business;

(f) Indebtedness in respect of reverse repurchase agreements having a term of not more than 180 days with respect to Investments described in §8.3(d) or (e);

(g) subject to the provisions of §9, secured Indebtedness of the Borrower and its Subsidiaries in an aggregate outstanding principal amount not exceeding thirty percent (30%) of PSB's Adjusted Consolidated Total Assets;

(h) subject to the provisions of §8.1(g) and §9, other Indebtedness of Borrower and its Subsidiaries; and

(i) subject to the provisions of §9, Indebtedness of PSB under guaranties of Indebtedness of Borrower permitted under §8.1(a), (g) and (h).

§8.2 Restrictions on Liens, Etc. The Borrower, PSB and the other Guarantors will not, and will not permit their respective Subsidiaries to, (a) create or incur or suffer to be created or incurred or to exist any lien, encumbrance, mortgage, pledge, negative pledge, charge, restriction or other security interest of any kind upon any of its property or assets of any character whether now owned or hereafter acquired, or upon the income or profits therefrom; (b) transfer any of its property or assets or the income or profits therefrom for the purpose of subjecting the same to the payment of Indebtedness or performance of any other obligation in priority to payment of its general creditors; (c) acquire, or agree or have an option to acquire, any property or assets upon conditional sale or other title retention or purchase money security agreement, device or arrangement; (d) suffer to exist for a period of more than 30 days after the same shall have been incurred any Indebtedness or claim or demand against it that if unpaid might by law or upon bankruptcy or insolvency, or otherwise, be

given any priority whatsoever over its general creditors, subject to the rights pursuant to §7.8; (e) assign, pledge or encumber any accounts, contract rights, general intangibles, chattel paper or instruments, with or without recourse; or (f) incur or maintain any obligation to any holder of Indebtedness of the Borrower, PSB, any other Guarantor or such Subsidiary which prohibits the creation or maintenance of any lien securing the Obligations (collectively "Liens"); provided that PSB, the Borrower and any Subsidiary of the Borrower may create or incur or suffer to be created or incurred or to exist:

(i) liens on properties to secure taxes, assessments and other governmental charges or claims for labor, material or supplies in respect of obligations not overdue;

(ii) liens on properties in respect of judgments or awards, the Indebtedness with respect to which is permitted by §8.1(d);

(iii) encumbrances on properties consisting of easements, rights of way, zoning restrictions, restrictions on the use of real property, landlord's or lessor's liens under leases to which the Borrower or any Subsidiary of Borrower is a party, and other minor non-monetary liens or encumbrances none of which interferes materially with the use of the property affected in the ordinary conduct of the business of the Borrower or its Subsidiaries, which defects do not individually or in the aggregate have a materially adverse effect on the business of Borrower individually or of Borrower and its Subsidiaries on a consolidated basis;

(iv) liens on Real Estate and Short-term Investments (other than the Unencumbered Borrowing Base Properties or any interest therein, including the rents and profits therefrom or any interest in a Guarantor or other Subsidiary owning a direct or indirect interest therein) of Borrower and its Subsidiaries securing Indebtedness permitted by §8.1(g) or §8.1(h); and

(v) liens in favor of the Agent and the Banks as security for the Obligations.

Notwithstanding anything herein to the contrary, Borrower shall not create or incur or suffer to be created or incurred any Lien on any direct or indirect interest of Borrower in any of its Subsidiaries.

§8.3 Restrictions on Investments. The Borrower, PSB and the other Guarantors will not, and will not permit any of their respective Subsidiaries to, make or permit to exist or to remain outstanding any Investment except Investments in:

(a) marketable direct or guaranteed obligations of the United States of America that mature within one (1) year from the date of purchase by the Borrower or its Subsidiary;

(b) marketable direct obligations of any of the following: Federal Home Loan Mortgage Corporation, Student Loan Marketing Association, Federal Home Loan Banks, Federal National Mortgage Association, Government National Mortgage Association, Bank for Cooperatives, Federal Intermediate Credit Banks, Federal Financing Banks, Export-Import Bank of the United States, Federal Land Banks, or any other agency or instrumentality of the United States of America;

(c) demand deposits, certificates of deposit, bankers acceptances and time deposits of any Bank or any United States banks having total assets in excess of $100,000,000; provided, however, that the aggregate amount at any time so invested with any single bank having total assets of less than $1,000,000,000 will not exceed $2,500,000;

(d) securities commonly known as "commercial paper" issued by any Bank or by a corporation organized and existing under the laws of the United States of America or any State which at the time of purchase are rated by

Moody's or by S & P at not less than "P 2" if then rated by Moody's, and not less than "A 2", if then rated by S & P;

(e) mortgage-backed securities guaranteed by the Government National Mortgage Association, the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation and other mortgage-backed bonds which at the time of purchase are rated by Moody's or by S & P at not less than "Aa" if then rated by Moody's and not less than "AA" if then rated by S & P;

(f) repurchase agreements having a term not greater than 90 days and fully secured by securities described in the foregoing subsection (a), (b) or (e) with banks described in the foregoing subsection (c) or with financial institutions or other corporations having total assets in excess of $500,000,000;

(g) shares of so-called "money market funds" registered with the SEC under the Investment Company Act of 1940 which maintain a level per-share value, invest principally in investments described in the foregoing subsections (a) through (f) and have total assets in excess of $50,000,000;

(h) Subject to the provisions of this §8.3 and §9.6 hereof, Investments by Borrower and its Subsidiaries in fee interests in Real Estate utilized principally for office/flex/industrial uses;

(i) Subject to the provisions of this §8.3, Investments by Borrower and its Subsidiaries in Joint Ventures, provided that in no event shall such Investments exceed fifteen percent (15%) of PSB's Adjusted Consolidated Total Assets;

(j) Investments by Borrower in wholly-owned Subsidiaries of the Borrower that own assets of the type that Borrower is permitted to own pursuant to this Agreement;

(k) Subject to the provisions of this §8.3 and §9.6 hereof, investments in undeveloped or non-income producing land;

(l) Investments by Borrower not otherwise permitted by this §8.3 which are consistent with Borrower's business strategy as of the date of this Agreement and which would not otherwise create a Default or Event of Default, provided that in no event shall such Investments exceed fifteen percent (15%) of PSB's GAAP Consolidated Total Assets; and

(m) Investments by Borrower not otherwise permitted by this §8.3 and which are not consistent with Borrower's business strategy as of the date of this Agreement and which would not otherwise create a Default or Event of Default, provided that in no event shall such Investments exceed five percent (5%) of PSB's GAAP Consolidated Total Assets.

§8.4 Merger, Consolidation. The Borrower, PSB and the other Guarantors will not, and will not permit any of their respective Subsidiaries to, become a party to any dissolution, liquidation, merger, reorganization, consolidation or other business combination, or agree to effect any asset acquisition, stock acquisition or other acquisition which may have a similar effect as any of the foregoing without the prior written consent of the Majority Banks, except (i) the merger or consolidation of one or more of the Subsidiaries of the Borrower with and into the Borrower where the Borrower is the surviving entity, (ii) the merger or consolidation of two or more Subsidiaries of the Borrower, and (iii) the merger or consolidation of the Borrower with any other Person (excluding PSB), provided that (A) the Borrower is the surviving entity in such merger or consolidation, (B) the assets or business acquired by Borrower as a part of such merger shall be consistent with the business activities conducted by the Borrower as of the date of this Agreement, (C) immediately prior to such merger or consolidation the Borrower shall have provided to the Agent a Compliance Certificate prepared on a pro-forma basis (and adjusted in the best good faith estimate of the Borrower to give effect to

such merger or consolidation) demonstrating that after giving effect to such merger or consolidation, no Default or Event of Default shall exist, and (D) after giving effect to such merger or consolidation, no Default or Event of Default shall exist.

§8.5 Sale and Leaseback. Without the Agent's prior written approval, the Borrower, PSB and the other Guarantors will not, and will not permit their respective Subsidiaries to, enter into any arrangement, directly or indirectly, whereby such Person shall sell or transfer any Real Estate owned by it in order that then or thereafter such Person shall lease back such Real Estate.

§8.6 Compliance with Environmental Laws. The Borrower, PSB and the other Guarantors will not, and will not permit any of their respective Subsidiaries to, do any of the following: (a) use any of the Real Estate or any portion thereof as a facility for the handling, processing, storage or disposal of Hazardous Substances, except for Hazardous Substances used in the ordinary course of business in the operation of such Real Estate and in compliance with all applicable Environmental Laws, (b) cause or permit to be located on any of the Real Estate any underground tank or other underground storage receptacle for Hazardous Substances except in full compliance with Environmental Laws, (c) generate any Hazardous Substances on any of the Real Estate except in full compliance with Environmental Laws, (d) conduct any activity at any Real Estate or use any Real Estate in any manner so as to cause a Release of Hazardous Substances on, upon or into the Real Estate or any surrounding properties or any threatened Release of Hazardous Substances which might give rise to liability under CERCLA or any other Environmental Law, or (e) directly or indirectly transport or arrange for the transport of any Hazardous Substances (except in compliance with all Environmental Laws).

The Borrower, PSB and the other Guarantors shall, and shall cause their respective Subsidiaries to:

(i) in the event of any change in Environmental Laws governing the assessment, release or removal of Hazardous Substances, which change would lead a prudent lender to require additional testing to avail itself of any statutory insurance or limited liability, take all action (including, without limitation, the conducting of engineering tests at the sole expense of the Borrower) to confirm that no Hazardous Substances are or ever were Released or disposed of on the Real Estate; and

(ii) if any Release or disposal of Hazardous Substances shall occur or shall have occurred on the Real Estate of the Borrower, the Guarantors or any of their respective Subsidiaries (including without limitation any such Release or disposal occurring prior to the acquisition of such Real Estate by such Person) cause the prompt containment and removal of such Hazardous Substances and remediation of such Real Estate in full compliance with all applicable laws and regulations; provided, that the Borrower, PSB and the other Guarantors shall be deemed to be in compliance with Environmental Laws for the purpose of this clause (ii) so long as it or a responsible third party with sufficient financial resources is taking reasonable action to remediate or manage any event of noncompliance to the satisfaction of the Majority Banks and no action shall have been commenced by any enforcement agency. The Majority Banks may engage their own environmental engineer to review the environmental assessments and compliance with the covenants contained herein.

At any time after an Event of Default shall have occurred hereunder, or, whether or not an Event of Default shall have occurred, at any time that the Agent or the Majority Banks shall have reasonable grounds to believe that a Release or threatened Release of Hazardous Substances may have occurred, relating to any Real Estate, or that any of the Real Estate is not in compliance with the Environmental Laws, the Agent may at its election (and will at the request of the Majority Banks) obtain such environmental assessments of such Real Estate prepared by an environmental engineer as may be necessary or advisable for the purpose of evaluating or confirming (i) whether any Hazardous Substances are present in the soil or water at or adjacent to such Real Estate and (ii) whether the use and operation of such Real Estate comply with all Environmental Laws. Environmental assessments may include detailed visual inspections of such Real Estate including, without limitation, any and all storage areas, storage tanks, drains, dry wells and leaching areas, and the taking of soil samples, as well as such other investigations or analyses as are necessary or appropriate for a complete determination of the compliance of

such Real Estate and the use and operation thereof with all applicable Environmental Laws. All such environmental assessments shall be at the sole cost and expense of the Borrower.

§8.7 Distributions. Neither the Borrower nor PSB shall make any Distributions which would cause it to violate any of the following covenants:

(a) Neither the Borrower nor PSB shall pay any Distribution to its partners or shareholders if such Distribution is in excess of the amount which, when added to the amount of all other Distributions paid by PSB and its Subsidiaries on a consolidated basis in the same fiscal quarter and the preceding three (3) fiscal quarters, would exceed ninety-five percent (95%) of PSB's consolidated Funds from Operations for the four consecutive fiscal quarters ending prior to the quarter in which such Distribution is paid (the "95% of FFO Limit"); provided that the Borrower and PSB shall be permitted to pay Distributions in an amount in excess of such 95% of FFO Limit if necessary, to (i) permit PSB to maintain its REIT Status, or (ii) permit PSB to pay no federal income tax under either (A) Section 857(b)(1) of the Code, or (B) Section 857(b)(3)(A) of the Code, for each taxable year of PSB in which Loans are Outstanding; and

(b) In the event that an Event of Default shall have occurred and be continuing, neither the Borrower nor PSB shall make any Distributions other than the minimum Distributions required under the Code to maintain the REIT Status of PSB, as evidenced by a certification of the chief financial officer of PSB containing calculations in reasonable detail reasonably satisfactory in form and substance to the Agent; and

(c) In the event that an Event of Default shall have occurred and be continuing and the maturity of the Obligations has been accelerated, neither the Borrower nor PSB shall make any Distributions whatsoever, either directly or indirectly unless approved by the Majority Banks.

§8.8 Asset Sales. Neither the Borrower, PSB, any of the other Guarantors nor any of their respective Subsidiaries shall sell, assign, lease or dispose of all or substantially all of their respective businesses or assets (whether now owned or hereafter acquired), either in a single transaction or in a series of transactions, or enter into any agreement to do any of the foregoing. Neither the Borrower, PSB, any of the other Guarantors nor any of their respective Subsidiaries shall sell, transfer or otherwise dispose of any asset other than for fair market value. Neither the Borrower, PSB, any of the other Guarantors nor any Subsidiary thereof shall sell, transfer or otherwise dispose of any Real Estate in excess of twenty percent (20%) of PSB's Adjusted Consolidated Total Assets (except as the result of a condemnation or casualty and except for the granting of Permitted Liens, as applicable) unless there shall have been delivered to the Agent a statement that no Default or Event of Default exists or will exist and a certification that the Borrower will be in compliance with its covenants referred to therein after giving effect to such sale, transfer or other disposition.

§8.9 Development Activity. Neither the Borrower, PSB, any other Guarantor nor any Subsidiary or Joint Venture thereof shall engage, directly or indirectly, in the development of Real Estate or otherwise except for the development by Borrower or its Subsidiaries or its Joint Ventures of Real Estate to be used principally for Office Uses, provided that, subject to §8.3, the aggregate amount of Construction in Progress by Borrower and its Subsidiaries and its Joint Ventures shall not at any time exceed fifteen percent (15%) of PSB's Adjusted Consolidated Total Assets. For purposes of this §8.9, the term "development" shall include new construction or the substantial renovation or expansion of improvements to real property, but shall not include the addition of amenities or other related facilities to existing Real Estate which is already used principally for Office Uses. Without limiting the foregoing, the Borrower acknowledges that for the purposes of this Agreement, (1) any interest by the Borrower or any Subsidiary or Joint Venture in a property which is proposed to be developed, or any interest therein pursuant to which the Borrower or any Subsidiary or Joint Venture has the right to approve site plans or other plans and specifications or pursuant to which such parties' obligations are conditioned upon the achievement of certain leasing levels, (2) any agreement by the Borrower or any Subsidiary or Joint Venture which obligates such party to contribute or otherwise advance funds in connection with or upon completion of the development of a property, or (3) any acquisition of a property which is

proposed to be developed or which is under development and lease-up at the time such agreement is entered into, shall be considered a "development" for the purposes of this §8.9. Nothing herein shall prohibit the Borrower or any Subsidiary or Joint Venture thereof from entering into an agreement to acquire Real Estate which has been developed and initially leased by another Person.

§8.10 Sources of Capital. The Borrower shall, at all times that the Borrower or any of its Subsidiaries is engaging in any development as provided in §8.9 or has entered into any agreement to provide funds with respect to a development, maintain or have identified available sources of capital equal to the total cost to acquire and complete such developments and to satisfy such funding obligations, which sources of capital shall be acceptable to the Agent in its reasonable discretion.

§8.11 Restriction on Prepayment of Indebtedness. Without the prior written consent of the Agent, neither Borrower, PSB, any other Guarantor nor any of their respective Subsidiaries shall prepay, redeem or purchase the principal amount, in whole or in part, of any Indebtedness other than the Obligations after the occurrence of any Event of Default; provided, however, that this §8.11 shall not prohibit the prepayment of Indebtedness which is financed solely from the proceeds of a new loan which would otherwise be permitted by the terms of §8.1.

§8.12 Ownership Interests. The Borrower will not, directly or indirectly, make or permit to be made, by voluntary or involuntary means, any sale, assignment, transfer, disposition, mortgage, pledge, hypothecation or encumbrance of its interest in any Guarantor that is a Subsidiary of Borrower or any dilution of its interest in any Guarantor that is a Subsidiary of Borrower. PSB will not, directly or indirectly, make or permit to be made, by voluntary or involuntary means, any sale, assignment, transfer, disposition, mortgage, pledge, hypothecation or encumbrance of its interest in Borrower or any dilution of its interest in Borrower.

§8.13 Derivative Obligations. Except as otherwise approved by Agent (such approval shall not be unreasonably withheld), neither the Borrower, PSB, any other Guarantor nor any of their respective Subsidiaries shall contract, create, incur, assume or suffer to exist any Derivative Obligations other than the Interest Rate Contracts entered into in the ordinary course of business with respect to Indebtedness permitted pursuant to §8.1 or with respect to preferred equity in Borrower or PSB.

§8.14 Bankruptcy Remote Subsidiaries. Without the consent of the Agent, neither the Borrower, PSB, any other Guarantor nor any of their respective Subsidiaries shall create any new single purpose, special purpose or other so-called bankruptcy remote subsidiaries (such as an entity to be a borrower in a REMIC), as determined by the Agent in its reasonable discretion. Such consent shall not be required with respect to any such Subsidiary that is created to own Real Estate or interests therein which is security for Indebtedness permitted pursuant to §8.3(g).

§8.15 PSB Covenants.

(a) PSB shall have as its sole business purpose (except as otherwise permitted in this §8.15) being the sole general partner of Borrower and owning general and limited partner interests in Borrower, the making of Distributions to shareholders of PSB and conducting Equity Offerings, and shall own no assets other than (i) its interests in Borrower, (ii) Short-term Investments held on a short-term basis pending the payment of Distributions or the contribution or downstreaming of such assets to PSB pursuant to §8.15(c), and (iii) the ownership of Investments consistent with PSB's business activities conducted as of the date of this Agreement, provided that the maximum amount of such Investments pursuant to clause (iii) shall not exceed twenty percent (20%) of PSB's Adjusted Consolidated Total Assets. In the event that PSB shall establish any Subsidiaries, PSB shall cause such Subsidiaries to become Guarantors as provided in §5.2.

(b) PSB shall not engage in any business or activities other than those described in §8.15(a).

(c) PSB shall promptly contribute or otherwise downstream to Borrower any assets received by PSB from third parties (including, without limitation, the proceeds from any Equity Offering).

§ 9. FINANCIAL COVENANTS OF THE BORROWER AND PSB

Each of the Borrower and PSB covenants and agrees that, so long as any Loan or Note is outstanding or any Bank has any obligation to make any Loans:

§9.1 Borrowing Base. The Borrower and PSB shall not permit the Funded Unsecured Indebtedness to be greater than the Borrowing Base.

§9.2 Liabilities to Assets Ratio. PSB will not permit the ratio of the Consolidated Total Liabilities of PSB and its Subsidiaries to the Adjusted Consolidated Total Assets of PSB and its Subsidiaries to exceed 0.50 to 1.

§9.3 Interest Coverage. PSB will not permit (a) the product of the Consolidated EBITDA of PSB and its Subsidiaries for the then ending period of two (2) consecutive fiscal quarters (treated as a single accounting period) (the "Test Period") multiplied by two (2), to be less than (b) 2.25 times the product of (i) the Interest Expense of PSB and its Subsidiaries for the Test Period multiplied by (ii) two (2).

§9.4 Fixed Charge Coverage. PSB will not permit the ratio of (a) the product of the Consolidated EBITDA of PSB and its Subsidiaries for the Test Period multiplied by two (2) to be less than (b) one (1) times the Fixed Charges of PSB and its Subsidiaries for such Test Period.

§9.5 Net Worth. PSB will not permit the Consolidated Tangible Net Worth of PSB to be less than the sum of (a) $925,000,000.00 plus (b) eighty percent (80%) of the aggregate net proceeds received by the Borrower or any Guarantor after the Closing Date in connection with any Equity Offering to any other Person.

§9.6 Land Assets. PSB shall not permit the value, determined in accordance with generally accepted accounting principles, of its direct and indirect interests in Land Assets to exceed ten percent (10%) of the Adjusted Consolidated Total Assets of PSB and its Subsidiaries.

§ 10. CLOSING CONDITIONS

The obligations of the Agent and the Banks to make the Loans shall be subject to the satisfaction of the following conditions precedent on or prior to February 20, 2002:

§10.1 Loan Documents. Each of the Loan Documents shall have been duly executed and delivered by the respective parties thereto, shall be in full force and effect and shall be in form and substance satisfactory to the Agent. The Agent shall have received a fully executed copy of each such document, except that each Bank shall have received a fully executed counterpart of its Note.

§10.2 Certified Copies of Organizational Documents. The Agent shall have received from the Borrower a copy, certified as of a recent date by the appropriate officer of each State in which the Borrower and the Guarantors, as applicable, is organized or in which the Unencumbered Borrowing Base Properties are located and by a duly authorized officer of such Person to be true and complete, of (a) the limited partnership agreement, corporate charter or other organizational agreements of the Borrower and the Guarantors, as applicable, or (b) its qualification to do business, as applicable, as in effect on such date of certification.

§10.3 Bylaws; Resolutions. All action on the part of the Borrower and the Guarantors, as applicable, necessary for the valid execution, delivery and performance by such Person of this Agreement and the other Loan Documents to which such Person is or is to become a party shall have been duly and effectively taken, and

evidence thereof satisfactory to the Agent shall have been provided to the Agent. The Agent shall have received from the Borrower and the Guarantors true copies of their respective bylaws and the resolutions adopted by their respective boards of directors, general partners or other managers authorizing the transactions described herein, each certified by its secretary or general partner as of a recent date to be true and complete.

§10.4 Incumbency Certificate; Authorized Signers. The Agent shall have received from the Borrower and the Guarantors an incumbency certificate, dated as of the Closing Date, signed by a duly authorized partner, manager or officer of such Person and giving the name and bearing a specimen signature of each individual who shall be authorized to sign, in the name and on behalf of such Person, each of the Loan Documents to which such Person is or is to become a party. The Agent shall have also received from the Borrower a certificate, dated as of the Closing Date, signed by a duly authorized officer of the Borrower and giving the name of and specimen signature of each individual who shall be authorized to make Conversion Requests and to give notices and to take other action on behalf of the Borrower under the Loan Documents.

§10.5 Opinion of Counsel. The Agent shall have received a favorable opinion addressed to the Banks and the Agent and dated as of the Closing Date, in form and substance satisfactory to the Agent, from counsel of the Borrower and the Guarantors, as to such matters as the Agent shall reasonably request.

§10.6 Payment of Fees. The Borrower shall have paid to the Agent the fees required to be paid as of the Closing Date pursuant to §4.2.

§10.7 Performance; No Default. The Borrower and the Guarantors shall have performed and complied with all terms and conditions herein required to be performed or complied with by it on or prior to the Closing Date, and on the Closing Date there shall exist no Default or Event of Default.

§10.8 Representations and Warranties. The representations and warranties made by the Borrower and the Guarantors in the Loan Documents or otherwise made by or on behalf of the Borrower, the Guarantors or any Subsidiaries thereof in connection therewith or after the date thereof shall have been true and correct in all material respects when made and shall also be true and correct in all material respects on the Closing Date.

§10.9 Proceedings and Documents. All proceedings in connection with the transactions contemplated by this Agreement and the other Loan Documents shall be reasonably satisfactory to the Agent and the Agent's Special Counsel in form and substance, and the Agent shall have received all information and such counterpart originals or certified copies of such documents and such other certificates, opinions or documents as the Agent and the Agent's Special Counsel may reasonably require.

§10.10 Compliance Certificate. A Compliance Certificate dated as of the date of the Closing Date demonstrating compliance (based on historical information and on a pro forma basis) with each of the covenants calculated therein as of the most recent fiscal quarter end for which the Borrower and PSB have provided financial statements under §6.4 adjusted in the best good faith estimate of the Borrower and PSB dated as of the date of the Closing Date shall have been delivered to the Agent.

§10.11 Contribution Agreement. The Agent shall have received an executed original counterpart of the Contribution Agreement.

§10.12 Other. The Agent shall have reviewed such other documents, instruments, certificates, opinions, assurances, consents and approvals as the Agent or the Agent's Special Counsel may reasonably have requested.

§ 11. **CONDITIONS TO ALL BORROWINGS.**

The obligations of the Banks to make any Loan shall also be subject to the satisfaction of the following conditions precedent:

§11.1 Prior Conditions Satisfied. All conditions set forth in §10 shall continue to be satisfied as of the date upon which any Loan is to be made.

§11.2 Representations True; No Default. Each of the representations and warranties made by or on behalf of the Borrower, the Guarantors and their respective Subsidiaries contained in this Agreement, the other Loan Documents or in any document or instrument delivered pursuant to or in connection with this Agreement shall be true as of the date as of which they were made and shall also be true at and as of the time of the making of such Loan, with the same effect as if made at and as of that time (except to the extent of changes resulting from transactions contemplated or permitted by this Agreement and the other Loan Documents and changes occurring in the ordinary course of business that singly or in the aggregate are not materially adverse, and except to the extent that such representations and warranties relate expressly to an earlier date) and no Default or Event of Default shall have occurred and be continuing.

§11.3 No Legal Impediment. No change shall have occurred in any law or regulations thereunder or interpretations thereof that in the reasonable opinion of any Bank would make it illegal for such Bank to make such Loan.

§11.4 Governmental Regulation. Each Bank shall have received such statements in substance and form reasonably satisfactory to such Bank as such Bank shall require for the purpose of compliance with any applicable regulations of the Comptroller of the Currency or the Board of Governors of the Federal Reserve System.

§11.5 Proceedings and Documents. All proceedings in connection with the Loan shall be satisfactory in substance and in form to the Majority Banks, and the Majority Banks shall have received all information and such counterpart originals or certified or other copies of such documents as the Requisite Banks may reasonably request.

§11.6 Borrowing Documents. In the case of any request for a Loan, the Agent shall have received a copy of the request for a Loan required by §2.5 in the form of Exhibit D hereto, fully completed.

§11.7 Funding Deadline. The Borrower shall have satisfied all requirements to the funding of the Loan such that the Loan shall be funded before the Funding Deadline.

§ 12. **EVENTS OF DEFAULT; ACCELERATION; ETC.**

§12.1 Events of Default and Acceleration. If any of the following events ("Events of Default" or, if the giving of notice or the lapse of time or both is required, then, prior to such notice or lapse of time, "Defaults") shall occur:

(a) the Borrower shall fail to pay any principal of the Loans when the same shall become due and payable, whether at the stated date of maturity or any accelerated date of maturity or at any other date fixed for payment;

(b) the Borrower shall fail to pay any interest on the Loans or any other sums due hereunder or under any of the other Loan Documents, when the same shall become due and payable, whether at the stated date of maturity or any accelerated date of maturity or at any other date fixed for payment;

(c) the Borrower or PSB shall fail to comply with any covenant contained in §7.4(c), and such failure shall continue for five (5) days after written notice thereof shall have been given to the Borrower by the Agent;

(d) the Borrower or PSB shall fail to comply with any covenant contained in §7.13, §7.14 or §9, and such failure shall continue for thirty (30) days after written notice thereof shall have been given to the Borrower by the Agent;

(e) any of the Borrower, the Guarantors or any of their respective Subsidiaries shall fail to perform any other term, covenant or agreement contained herein or in any of the other Loan Documents (other than those specified in this §12);

(f) any representation or warranty made by or on behalf of the Borrower, the Guarantors or any of their respective Subsidiaries in this Agreement or any other Loan Document, or in any report, certificate, financial statement, request for a Loan or in any other document or instrument delivered pursuant to or in connection with this Agreement, any advance of a Loan or any of the other Loan Documents shall prove to have been false or misleading in any respect upon the date when made or deemed to have been made or repeated;

(g) any of the Borrower, the Guarantors or any of their respective Subsidiaries shall fail to pay at maturity, or within any applicable period of grace, any obligation for borrowed money or credit received or other Indebtedness, or fail to observe or perform any material term, covenant or agreement contained in any agreement by which it is bound, evidencing or securing any such borrowed money or credit received or other Indebtedness for such period of time as would permit (assuming the giving of appropriate notice if required) the holder or holders thereof or of any obligations issued thereunder to accelerate the maturity thereof; provided that the events described in this §12.1(g) shall not constitute an Event of Default unless such failure to pay or perform, together with other failures to pay or perform, involve singly or in the aggregate obligations for borrowed money or credit received or other Indebtedness totaling in excess of $10,000,000.00;

(h) any of the Borrower, the Guarantors or any of their respective Subsidiaries, (i) shall make an assignment for the benefit of creditors, or admit in writing its general inability to pay or generally fail to pay its debts as they mature or become due, or shall petition or apply for the appointment of a trustee or other custodian, liquidator or receiver of any such Person or of any substantial part of the assets of any thereof, (ii) shall commence any case or other proceeding relating to any such Person under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar law of any jurisdiction, now or hereafter in effect, or (iii) shall take any action to authorize or in furtherance of any of the foregoing;

(i) a petition or application shall be filed for the appointment of a trustee or other custodian, liquidator or receiver of any of the Borrower, the Guarantors or any of their respective Subsidiaries or any substantial part of the assets of any thereof, or a case or other proceeding shall be commenced against any such Person under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar law of any jurisdiction, now or hereafter in effect, and any such Person shall indicate its approval thereof, consent thereto or acquiescence therein or such petition, application, case or proceeding shall not have been dismissed within 60 days following the filing or commencement thereof;

(j) a decree or order is entered appointing any such trustee, custodian, liquidator or receiver or adjudicating any of the Borrower, the Guarantors or any of their respective Subsidiaries bankrupt or insolvent, or approving a petition in any such case or other proceeding, or a decree or order for relief is entered in respect of any such Person, in an involuntary case under federal bankruptcy laws as now or hereafter constituted;

(k) there shall remain in force, undischarged, unsatisfied and unstayed, for more than 60 days, whether or not consecutive, any uninsured final judgment against any of the Borrower, the Guarantors or any of their

respective Subsidiaries that, with other outstanding uninsured final judgments, undischarged, against such Persons exceeds in the aggregate $10,000,000.00;

(l) if any of the Loan Documents or the Contribution Agreement shall be canceled, terminated, revoked or rescinded otherwise than in accordance with the terms thereof or with the express prior written agreement, consent or approval of the Banks, or any of the Borrower or the Guarantors or any of their respective holders of Voting Interests shall assert that any of the Loan Documents or the Contribution Agreement do not apply to advances under this Agreement, or any action at law, suit in equity or other legal proceeding to cancel, revoke or rescind any of the Loan Documents or the Contribution Agreement shall be commenced by or on behalf of any of the Borrower, the Guarantors or any of their respective holders of Voting Interests, or any court or any other governmental or regulatory authority or agency of competent jurisdiction shall make a determination that, or issue a judgment, order, decree or ruling to the effect that, any one or more of the Loan Documents or the Contribution Agreement is illegal, invalid or unenforceable in accordance with the terms thereof;

(m) any dissolution, termination, partial or complete liquidation, merger or consolidation of any of the Borrower, the Guarantors or any sale, transfer or other disposition of the assets of any of the Borrower, the Guarantors other than as permitted under the terms of this Agreement or the other Loan Documents;

(n) any suit or proceeding shall be filed against any of the Borrower, or the Guarantors or any of their respective assets which in the good faith business judgment of the Majority Banks after giving consideration to the likelihood of success of such suit or proceeding and the availability of insurance to cover any judgment with respect thereto and based on the information available to them, if adversely determined, would have a materially adverse affect on the ability of the Borrower or a Guarantor to perform each and every one of its obligations under and by virtue of the Loan Documents;

(o) any of the Borrower, the Guarantors or any other Person so related to any of them shall be indicted for a federal crime, a punishment for which could include the forfeiture of any assets of the Borrower or the Guarantor;

(p) with respect to any Guaranteed Pension Plan, an ERISA Reportable Event shall have occurred and the Majority Banks shall have determined in their reasonable discretion that such event reasonably could be expected to result in liability of any of the Borrower, the Guarantors or any of their Subsidiaries to the PBGC or such Guaranteed Pension Plan in an aggregate amount exceeding $1,000,000 and such event in the circumstances occurring reasonably could constitute grounds for the termination of such Guaranteed Pension Plan by the PBGC or for the appointment by the appropriate United States District Court of a trustee to administer such Guaranteed Pension Plan; or a trustee shall have been appointed by the United States District Court to administer such Plan; or the PBGC shall have instituted proceedings to terminate such Guaranteed Pension Plan;

(q) any of the Guarantors denies that such Guarantor has any liability or obligation under the Guaranty, or shall notify the Agent or any of the Banks of such Guarantor's intention to attempt to cancel or terminate the Guaranty, or shall fail to observe or comply with any term, covenant, condition or agreement under the Guaranty;

(r) a Change of Control shall occur;

(s) any Event of Default as defined in any of the other Loan Documents, shall occur; or

(t) any default or breach shall occur and continue beyond the expiration of any applicable grace or notice and cure period under the terms or conditions of the Revolving Credit Agreement;

then, and in any such event, the Agent may, and upon the request of the Majority Banks shall, by notice in writing to the Borrower declare all amounts owing with respect to this Agreement, the Notes and the other Loan Documents to be, and they shall thereupon forthwith become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Borrower; provided that in the event of any Event of Default specified in §12.1(h), §12.1(i) or §12.1(j), all such amounts shall become immediately due and payable automatically and without any requirement of presentment, demand, protest or other notice of any kind from any of the Banks or the Agent.

§12.2 Limitation of Cure Periods.

(a) Notwithstanding anything contained in §12.1 to the contrary, (i) no Event of Default shall exist hereunder upon the occurrence of any failure described in §12.1(b) in the event that the Borrower cures such default within five (5) days following receipt of written notice of such default, provided, however, that Borrower shall not be entitled to receive more than two (2) notices in the aggregate pursuant to this clause (i) in any period of 365 days ending on the date of any such occurrence of default, and provided further that no such cure period shall apply to any payments due upon the maturity of the Notes, and (ii) no Event of Default shall exist hereunder upon the occurrence of any failure described in §12.1(e) in the event that Borrower cures such default within thirty (30) days following receipt of written notice of such default, provided that the provisions of this clause shall not pertain to any default excluded from any provision of cure of defaults contained in any other of the Loan Documents.

(b) Notwithstanding the provisions of §12.1(d), the cure period provided therein shall not be allowed and the occurrence of a Default thereunder immediately shall constitute an Event of Default for all purposes of this Agreement and the other Loan Documents if, within the period of twelve (12) months immediately preceding the occurrence of such Default, there shall have occurred two periods of cure or portions thereof under said subsection.

§12.3 Remedies. In case any one or more of the Events of Default shall have occurred and be continuing, and whether or not the Banks shall have accelerated the maturity of the Loans pursuant to §12.1, the Agent on behalf of the Banks may, and upon direction from the Majority Banks shall, proceed to protect and enforce their rights and remedies under this Agreement, the Notes or any of the other Loan Documents by suit in equity, action at law or other appropriate proceeding, whether for the specific performance of any covenant or agreement contained in this Agreement and the other Loan Documents or any instrument pursuant to which the Obligations are evidenced, including to the full extent permitted by applicable law the obtaining of the ex parte appointment of a receiver, and, if such amount shall have become due, by declaration or otherwise, proceed to enforce the payment thereof or any other legal or equitable right. No remedy herein conferred upon the Agent or the holder of any Note is intended to be exclusive of any other remedy and each and every remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute or any other provision of law. If Borrower or any Guarantor fails to perform any agreement or covenant contained in this Agreement or any of the other Loan Documents beyond any applicable period for notice and cure, Agent may itself perform, or cause to be performed, any agreement or covenant of such Person contained in this Agreement or any of the other Loan Documents which such Person shall fail to perform, and the out-of-pocket costs of such performance, together with any reasonable expenses, including reasonable attorneys' fees actually incurred (including attorneys' fees incurred in any appeal) by Agent in connection therewith, shall be payable by Borrower upon demand and shall constitute a part of the Obligations and shall if not paid within five (5) days after demand bear interest at the Default Rate. In the event that all or any portion of the Obligations is collected by or through an attorney-at-law, the Borrower shall pay all costs of collection including, but not limited to, reasonable attorney's fees.

§12.4 Distribution of Proceeds. In the event that, following the occurrence and during the continuance of any Event of Default, any monies are received in connection with the enforcement of any of the Loan Documents,

or otherwise with respect to the realization upon any of the assets of the Borrower or any other Person liable with respect to the Obligations, such monies shall be distributed for application as follows:

(a) First, to the payment of, or (as the case may be) the reimbursement of, the Agent for or in respect of all reasonable costs, expenses, disbursements and losses which shall have been incurred or sustained by the Agent in connection with the collection of such monies by the Agent, for the exercise, protection or enforcement by the Agent of all or any of the rights, remedies, powers and privileges of the Agent under this Agreement or any of the other Loan Documents or in support of any provision of adequate indemnity to the Agent against any taxes or liens which by law shall have, or may have, priority over the rights of the Agent to such monies;

(b) Second, to all other Obligations and any obligations under Interest Rate Contracts provided by a Bank or its affiliates with respect to the Loan in such order or preference as the Majority Banks shall determine; provided, however, that (i) in the event that any Bank shall have wrongfully failed or refused to make an advance under §2.6 and such failure or refusal shall be continuing, advances made by other Banks during the pendency of such failure or refusal shall be entitled to be repaid as to principal and accrued interest in priority to the other Obligations owing to the delinquent Banks; and (ii) Obligations owing to the Banks with respect to each type of Obligation such as interest, principal, fees and expenses, and any obligations under Interest Rate Contracts provided by a Bank or its affiliate with regard to the Loan shall be made among the Banks pro rata; and provided, further that the Majority Banks may in their discretion make proper allowance to take into account any Obligations not then due and payable; and

(c) Third, the excess, if any, shall be returned to the Borrower or to such other Persons as are entitled thereto.

§ 13. **SETOFF**

Regardless of the adequacy of any collateral, during the continuance of any Event of Default, any deposits (general or specific, time or demand, provisional or final, regardless of currency, maturity, or the branch where such deposits are held) or other sums credited by or due from any of the Banks to the Borrower or the Guarantors and any securities or other property of the Borrower or the Guarantors in the possession of such Bank may be applied to or set off against the payment of Obligations of such Person and any and all other liabilities, direct, or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, of such Person to such Bank. Each of the Banks agrees with each other Bank that if such Bank shall receive from any of the Borrower or the Guarantors, whether by voluntary payment, exercise of the right of setoff, or otherwise, and shall retain and apply to the payment of the Note or Notes held by such Bank any amount in excess of its ratable portion of the payments received by all of the Banks with respect to the Notes held by all of the Banks, such Bank will make such disposition and arrangements with the other Banks with respect to such excess, either by way of distribution, pro tanto assignment of claims, subrogation or otherwise as shall result in each Bank receiving in respect of the Notes held by it its proportionate payment as contemplated by this Agreement; provided that if all or any part of such excess payment is thereafter recovered from such Bank, such disposition and arrangements shall be rescinded and the amount restored to the extent of such recovery, but without interest.

§ 14. **THE AGENT**

§14.1 Authorization. The Agent is authorized to take such action on behalf of each of the Banks and to exercise all such powers as are hereunder and under any of the other Loan Documents and any related documents delegated to the Agent, together with such powers as are reasonably incident thereto, provided that no duties or responsibilities not expressly assumed herein or therein shall be implied to have been assumed by the Agent. The obligations of Agent hereunder are primarily administrative in nature, and nothing contained in this Agreement or any of the other Loan Documents shall be construed to constitute the Agent as a trustee for any Bank or to create an agency or fiduciary relationship. The Borrower and any other Person shall be entitled to conclusively rely on a statement from the Agent that it has the authority to act for and bind the Banks pursuant to this Agreement and the other Loan Documents.

§14.2 Employees and Agents. The Agent may exercise its powers and execute its duties by or through employees or agents and shall be entitled to take, and to rely on, advice of counsel concerning all matters pertaining to its rights and duties under this Agreement and the other Loan Documents. The Agent may utilize the services of such Persons as the Agent may reasonably determine, and all reasonable fees and expenses of any such Persons shall be paid by the Borrower.

§14.3 No Liability. Neither the Agent nor any of its shareholders, directors, officers or employees nor any other Person assisting them in their duties nor any agent, or employee thereof, shall be liable to any of the Banks for any waiver, consent or approval given or any action taken, or omitted to be taken, in good faith by it or them hereunder or under any of the other Loan Documents, or in connection herewith or therewith, or be responsible for the consequences of any oversight or error of judgment whatsoever, except that the Agent or such other Person, as the case may be, may be liable for losses due to its willful misconduct or gross negligence.

§14.4 No Representations. The Agent shall not be responsible for the execution o validity or enforceability of this Agreement, the Notes, any of the other Loan Documents or any instrument at any time constituting, or intended to constitute, collateral security for the Notes, or for the value of any such collateral security or for the validity, enforceability or collectability of any such amounts owing with respect to the Notes, or for any recitals or statements, warranties or representations made herein or in any of the other Loan Documents or in any certificate or instrument hereafter furnished to it by or on behalf of the Borrower or the Guarantors or any of their respective Subsidiaries, or be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or in any other of the Loan Documents. The Agent shall not be bound to ascertain whether any notice, consent, waiver or request delivered to it by the Borrower or the Guarantors or any holder of any of the Notes shall have been duly authorized or is true, accurate and complete. The Agent has not made nor does it now make any representations or warranties, express or implied, nor does it assume any liability to the Banks, with respect to the creditworthiness or financial condition of the Borrower, the Guarantors or any of their respective Subsidiaries, or the value of any assets of such Persons. Each Bank acknowledges that it has, independently and without reliance upon the Agent or any other Bank, and based upon such information and documents as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Bank also acknowledges that it will, independently and without reliance upon the Agent or any other Bank, based upon such information and documents as it deems appropriate at the time, continue to make its own credit analysis and decisions in taking or not taking action under this Agreement and the other Loan Documents.

§14.5 Payments.

(a) A payment by the Borrower or the Guarantors to the Agent hereunder or under any of the other Loan Documents for the account of any Bank shall constitute a payment to such Bank. The Agent agrees to distribute to each Bank not later than one Business Day after the Agent's receipt of good funds, determined in accordance with the Agent's customary practices, such Bank's pro rata share of payments received by the Agent for the account of the Banks except as otherwise expressly provided herein or in any of the other Loan Documents. In the event that the Agent fails to distribute such amounts within one (1) Business Day as provided above, the Agent shall pay interest on such amount at a rate per annum equal to the Federal Funds Effective Rate from time to time in effect.

(b) If in the opinion of the Agent the distribution of any amount received by it in such capacity hereunder, under the Notes or under any of the other Loan Documents might involve it in liability, it may refrain from making distribution until its right to make distribution shall have been adjudicated by a court of competent jurisdiction. If a court of competent jurisdiction shall adjudge that any amount received and distributed by the Agent is to be repaid, each Person to whom any such distribution shall have been made shall either repay to the Agent its proportionate share of the amount so adjudged to be repaid or shall pay over the same in such manner and to such Persons as shall be determined by such court.

(c) Notwithstanding anything to the contrary contained in this Agreement or any of the other Loan Documents, any Bank that fails to comply with the provisions of §13 with respect to making dispositions and arrangements with the other Banks, where such Bank's share of any payment received, whether by setoff or otherwise, is in excess of its pro rata share of such payments due and payable to all of the Banks, in each case as, when and to the full extent required by the provisions of this Agreement, shall be deemed delinquent (a "Delinquent Bank") and shall be deemed a Delinquent Bank until such time as such delinquency is satisfied. A Delinquent Bank shall be deemed to have assigned any and all payments due to it from the Borrower and the Guarantors, whether on account of outstanding Loans, interest, fees or otherwise, to the remaining nondelinquent Banks for application to, and reduction of, their respective pro rata shares of all outstanding Loans. The Delinquent Bank hereby authorizes the Agent to distribute such payments to the nondelinquent Banks in proportion to their respective pro rata shares of all outstanding Loans. A Delinquent Bank shall be deemed to have satisfied in full a delinquency when and if, as a result of application of the assigned payments to all outstanding Loans of the nondelinquent Banks or as a result of other payments by the Delinquent Banks to the nondelinquent Banks, the Banks' respective pro rata shares of all outstanding Loans have returned to those in effect immediately prior to such delinquency and without giving effect to the nonpayment causing such delinquency.

§14.6 Holders of Notes. Subject to the terms of Article 18, the Agent may deem and treat the payee of any Note as the absolute owner or purchaser thereof for all purposes hereof until it shall have been furnished in writing with a different name by such payee or by a subsequent holder, assignee or transferee.

§14.7 Indemnity. The Banks ratably agree hereby to indemnify and hold harmless the Agent from and against any and all claims, actions and suits (whether groundless or otherwise), losses, damages, costs, expenses (including any expenses for which the Agent has not been reimbursed by the Borrower as required by §15), and liabilities of every nature and character arising out of or related to this Agreement, the Notes, or any of the other Loan Documents or the transactions contemplated or evidenced hereby or thereby, or the Agent's actions taken hereunder or thereunder, except to the extent that any of the same shall be directly caused by the Agent's willful misconduct or gross negligence.

§14.8 Agent as Bank. In its individual capacity, Fleet shall have the same obligations and the same rights, powers and privileges in respect to its Commitment and the Loans made by it, and as the holder of any of the Notes as it would have were it not also the Agent.

§14.9 Resignation. The Agent may resign at any time by giving 30 days' prior written notice thereof to the Banks and the Borrower. Upon any such resignation, the Majority Banks shall have the right to appoint as a successor Agent any Bank, or if no such Bank shall accept such appointment, then any other bank whose senior debt obligations are rated not less than "A" or its equivalent by Moody's or not less than "A" or its equivalent by S & P and which has a net worth of not less than $500,000,000. Unless a Default or Event of Default shall have occurred and be continuing, such successor Agent shall be reasonably acceptable to the Borrower. If no successor Agent shall have been so appointed by the Majority Banks and shall have accepted such appointment within 30 days after the retiring Agent's giving of notice of resignation, then the retiring Agent may, on behalf of the Banks, appoint a successor Agent, which shall be any Bank or a bank whose debt obligations are rated not less than "A" or its equivalent by Moody's or not less than "A" or its equivalent by S & P and which has a net worth of not less than $500,000,000. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations hereunder as Agent. After any retiring Agent's resignation, the provisions of this Agreement and the other Loan Documents shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Agent.

§14.10 Duties in the Case of Enforcement. In case one or more Events of Default have occurred and shall be continuing, and whether or not acceleration of the Obligations shall have occurred, the Agent shall, if (a) so requested by the Majority Banks and (b) the Banks have provided to the Agent such additional indemnities

and assurances against expenses and liabilities as the Agent may reasonably request, proceed to exercise all or any legal and equitable and other rights or remedies as it may have. The Majority Banks may direct the Agent in writing as to the method and the extent of any such exercise, the Banks hereby agreeing to indemnify and hold the Agent harmless in accordance with their respective Commitment Percentages from all liabilities incurred in respect of all actions taken or omitted in accordance with such directions, provided that the Agent need not comply with any such direction to the extent that the Agent reasonably believes the Agent's compliance with such direction to be unlawful or commercially unreasonable in any applicable jurisdiction.

§ 15. EXPENSES

The Borrower agrees to pay (a) the reasonable costs of producing and reproducing this Agreement, the other Loan Documents and the other agreements and instruments mentioned herein, (b) any taxes (including any interest and penalties in respect thereto) payable by the Agent or any of the Banks (other than taxes based upon the Agent's or any Bank's gross or net income), including any recording, mortgage, documentary or intangibles taxes in connection with the Loan Documents, or other taxes payable on or with respect to the transactions contemplated by this Agreement, including any such taxes payable by the Agent or any of the Banks after the Closing Date (the Borrower hereby agreeing to indemnify the Agent and each Bank with respect thereto), (c) subject to the separate agreement of Agent and Borrower concerning the legal fees of Agent's counsel payable upon the initial closing of the Loan, the reasonable fees, expenses and disbursements of the counsel to the Agent incurred in connection with the preparation, administration or interpretation of the Loan Documents and other instruments mentioned herein (excluding, however, the preparation of agreements evidencing participations granted under §18.4), each closing hereunder, and amendments, modifications, approvals, consents or waivers hereto or hereunder, (d) the reasonable fees, expenses and disbursements of the Agent incurred by the Agent in connection with the preparation, administration or interpretation of the Loan Documents and other instruments mentioned herein, and the making of each advance hereunder, (e) all reasonable out-of-pocket expenses (including reasonable attorneys' fees and costs, which attorneys may be employees of any Bank or the Agent and the fees and costs of appraisers, engineers, investment bankers or other experts retained by any Bank or the Agent) incurred by any Bank or the Agent in connection with (i) the enforcement of or preservation of rights under any of the Loan Documents against the Borrower or the Guarantors or the administration thereof after the occurrence of a Default or Event of Default and (ii) any litigation, proceeding or dispute whether arising hereunder or otherwise, in any way related to the Agent's or any of the Bank's relationship with the Borrower or the Guarantors, (f) all reasonable actual fees, expenses and disbursements (including reasonable attorney's fees and costs) incurred by Fleet in connection with the syndication of interests in the Loan by Fleet, and (g) all reasonable fees, expenses and disbursements of any Bank or the Agent incurred in connection with U.C.C. searches, U.C.C. filings, title rundowns or title searches The covenants of this §15 shall survive payment or satisfaction of payment of amounts owing with respect to the Notes.

§ 16. INDEMNIFICATION

The Borrower agrees to indemnify and hold harmless the Agent and the Banks and each director, officer, employee, agent and Person who controls the Agent or any Bank from and against any and all claims, actions and suits, whether groundless or otherwise, and from and against any and all liabilities, losses, damages and expenses of every nature and character arising out of or relating to this Agreement or any of the other Loan Documents or the transactions contemplated hereby and thereby including, without limitation, (a) any brokerage, leasing, finders or similar fees, (b) any condition of the Real Estate, (c) any actual or proposed use by the Borrower of the proceeds of the Loans, (d) any actual or alleged infringement of any patent, copyright, trademark, service mark or similar right of the Borrower, the Guarantors or any of their respective Subsidiaries, (e) the Borrower and the Guarantors entering into or performing this Agreement or any of the other Loan Documents, (f) any actual or alleged violation of any law, ordinance, code, order, rule, regulation, approval, consent, permit or license relating to the Real Estate, or (g) with respect to the Borrower, the Guarantors and their respective Subsidiaries and their respective properties and assets, the violation of any Environmental Law, the Release or threatened Release of any Hazardous Substances or any action, suit, proceeding or investigation brought or threatened with respect to any Hazardous Substances (including, but not limited to claims with respect to wrongful death, personal injury or damage to

property), in each case including, without limitation, the reasonable fees and disbursements of counsel and allocated costs of internal counsel incurred in connection with any such investigation, litigation or other proceeding; provided, however, that the Borrower shall not be obligated under this §16 to indemnify any Person for liabilities arising from such Person's own gross negligence or willful misconduct as determined by a court of competent jurisdiction after the exhaustion of all applicable appeal periods. The Agent or a Bank, as applicable, shall promptly notify the Borrower after the Agent or such Bank obtains actual knowledge of the claim to be indemnified pursuant to this §16; provided, that any failure or delay in providing such notice shall not relieve the Borrower of its obligations under this §16 except to the extent that the Borrower is actually prejudiced thereby. In litigation, or the preparation therefor, the Banks and the Agent shall be entitled to select a single law firm as their own counsel and, in addition to the foregoing indemnity, the Borrower agrees to pay promptly the reasonable fees and expenses of such counsel. If, and to the extent that the obligations of the Borrower under this §16 are unenforceable for any reason, the Borrower hereby agrees to make the maximum contribution to the payment in satisfaction of such obligations which is permissible under applicable law. The provisions of this §16 shall survive the repayment of the Loans and the termination of the obligations of the Banks hereunder.

§ 17. SURVIVAL OF COVENANTS, ETC.

All covenants, agreements, representations and warranties made herein, in the Notes, in any of the other Loan Documents or in any documents or other papers delivered by or on behalf of the Borrower, the Guarantors or any of their respective Subsidiaries pursuant hereto or thereto shall be deemed to have been relied upon by the Banks and the Agent, notwithstanding any investigation heretofore or hereafter made by any of them, and shall survive the making by the Banks of any of the Loans, as herein contemplated, and shall continue in full force and effect so long as any amount due under this Agreement or the Notes or any of the other Loan Documents remains outstanding or any Bank has any obligation to make any Loans. The indemnification obligations of the Borrower provided herein and the other Loan Documents shall survive the full repayment of amounts due and the termination of the obligations of the Banks hereunder and thereunder to the extent provided herein and therein. All statements contained in any certificate or other paper delivered to any Bank or the Agent at any time by or on behalf of the Borrower, the Guarantors or any of their respective Subsidiaries pursuant hereto or in connection with the transactions contemplated hereby shall constitute representations and warranties by such Person hereunder.

§ 18. ASSIGNMENT AND PARTICIPATION

§18.1 Conditions to Assignment by Banks. Except as provided herein, each Bank may assign to one or more banks or other entities all or a portion of its interests, rights and obligations under this Agreement (including all or a portion of its Commitment Percentage and Commitment and the same portion of the Loans at the time owing to it, and the Notes held by it); provided that (a) the Agent shall have given its prior written consent to such assignment, which consent shall not be unreasonably withheld or delayed (provided that such consent shall not be required for any assignment to another Bank, to a bank which is under common control with the assigning Bank or to a wholly-owned Subsidiary of such Bank provided that such assignee shall remain a wholly-owned Subsidiary of such Bank), (b) each such assignment shall be of a constant, and not a varying, percentage of all the assigning Bank's rights and obligations under this Agreement, (c) the parties to such assignment shall execute and deliver to the Agent, for recording in the Register (as hereinafter defined), a notice of such assignment in the form of Exhibit C attached hereto and made a part hereof, together with any Notes subject to such assignment, (d) in no event shall any such assignment be to any Person controlling, controlled by or under common control with, or which is not otherwise free from influence or control by, the Borrower or the Guarantors, and (e) such assignee shall acquire an interest in the Loans of not less than $1,000,000 (or if less, the remaining Commitment of the assignor). Upon such execution, delivery, acceptance and recording, of such notice of assignment, (i) the assignee thereunder shall be a party hereto and all other Loan Documents executed by the Banks and, to the extent provided in such assignment, have the rights and obligations of a Bank hereunder, (ii) the assigning Bank shall, to the extent provided in such assignment and upon payment to the Agent of the registration fee referred to in §18.2, be released from its obligations under this Agreement, and (iii) the Agent may unilaterally amend Schedule 1 to reflect such assignment. In

connection with each assignment, the assignee shall represent and warrant to the Agent, the assignor and each other Bank as to whether such assignee is controlling, controlled by, under common control with or is not otherwise free from influence or control by, the Borrower and the Guarantors.

§18.2 Register. The Agent shall maintain a copy of each assignment delivered to it and a register or similar list (the "Register") for the recordation of the names and addresses of the Banks and the Commitment Percentages of, and principal amount of the Loans owing to the Banks from time to time. The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Agent and the Banks may treat each Person whose name is recorded in the Register as a Bank hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Borrower and the Banks at any reasonable time and from time to time upon reasonable prior notice. Upon each such recordation, the assigning Bank agrees to pay to the Agent a registration fee in the sum of $3,500.

§18.3 New Notes. Upon its receipt of an assignment executed by the parties to such assignment, together with each Note subject to such assignment, the Agent shall (a) record the information contained therein in the Register, and (b) give prompt notice thereof to the Borrower. Within five Business Days after receipt of such notice, the Borrower, at its own expense, shall execute and deliver to the Agent, in exchange for each surrendered Note, a new Note to the order of such assignee in an amount equal to the amount assumed by such assignee pursuant to such assignment and, if the assigning Bank has retained some portion of its obligations hereunder, a new Note to the order of the assigning Bank in an amount equal to the amount retained by it hereunder. Such new Notes shall provide that they are replacements for the surrendered Notes, shall be in an aggregate principal amount equal to the aggregate principal amount of the surrendered Notes, shall be dated the effective date of such assignment and shall otherwise be in substantially the form of the assigned Notes. The surrendered Notes shall be canceled and returned to the Borrower.

§18.4 Participations. Each Bank may sell participations to one or more banks or other entities in all or a portion of such Bank's rights and obligations under this Agreement and the other Loan Documents; provided that (a) any such sale or participation shall not affect the rights and duties of the selling Bank hereunder to the Borrower, (b) such sale and participation shall not entitle such participant to any rights or privileges under this Agreement or the Loan Documents (including, without limitation, the right to approve waivers, amendments or modifications), (c) such participant shall have no direct rights against the Borrower or the Guarantors except the rights granted to the Banks pursuant to §13, (d) such sale is effected in accordance with all applicable laws, and (e) such participant shall not be a Person controlling, controlled by or under common control with, or which is not otherwise free from influence or control by, the Borrower or the Guarantors. Any Bank which sells a participation shall promptly notify the Agent of such sale and the identity of the purchaser of such interest.

§18.5 Pledge by Bank. Any Bank may at any time pledge all or any portion of its interest and rights under this Agreement (including all or any portion of its Note) to any of the twelve Federal Reserve Banks organized under §4 of the Federal Reserve Act, 12 U.S.C. §341. Any Bank may with the consent of the Agent and compliance with the terms of this Agreement pledge all or any portion of its interests and rights under this Agreement (including all or any portion of its Note) to a Person approved by the Agent. No such pledge or the enforcement thereof shall release the pledgor Bank from its obligations hereunder or under any of the other Loan Documents.

§18.6 No Assignment by Borrower. Neither the Borrower, PSB nor any other Guarantor shall assign or transfer any of its rights or obligations under any of the Loan Documents without the prior written consent of each of the Banks.

§18.7 Disclosure. The Borrower agrees that in addition to disclosures made in accordance with standard banking practices any Bank may disclose information obtained by such Bank pursuant to this Agreement to assignees or participants and potential assignees or participants hereunder. Each Bank agrees for itself that it

shall use reasonable efforts to hold confidential all non-public information obtained from PSB or Borrower that has been identified as confidential by any of them, and shall use reasonable efforts to not disclose such information to any other Person, it being understood and agreed that, notwithstanding the foregoing, a Bank may make (a) disclosures to its participants, (b) disclosures to its directors, officers, employees, Affiliates, accountants, appraisers, legal counsel and other professional advisors of such Bank, (c) disclosures reasonably required by any bona fide assignee, transferee or participant or their respective directors, officers, employees, Affiliates, accountants, appraisers, legal counsel and other professional advisors in connection with the contemplated assignment or transfer by such Bank of any Loans or any participations therein, or (d) disclosures required or requested by any governmental authority or representative thereof or pursuant to legal process. In addition, each Bank may make disclosure of such information to any contractual counterparty in swap agreements or such contractual counterparty's professional advisors (so long as such contractual counterparty or professional advisors agree to be bound by the provisions of this §18.7). Non-public information shall not include any information which is or subsequently becomes publicly available other than as a result of a disclosure of such information by such Bank, or prior to the delivery to such Bank is within the possession of such Bank if such information is not known by such Bank to be subject to another confidentiality agreement with or other obligations of secrecy to PSB or the Borrower, or is disclosed with the prior approval of PSB. Nothing herein shall prohibit the disclosure of non-public information to the extent necessary to enforce the Loan Documents.

§18.8 Mandatory Assignment. In the event Borrower requests that certain amendments, modifications or waivers be made to this Agreement or any of the other Loan Documents which request is approved by Agent but is not approved by one or more of the Banks (any such non-consenting Bank shall hereafter be referred to as the "Non-Consenting Bank"), then, within thirty (30) days after Borrower's receipt of notice of such disapproval by such Non-Consenting Bank, Borrower shall have the right as to such Non-Consenting Bank, to be exercised by delivery of written notice delivered to the Agent and the Non-Consenting Bank within thirty (30) days of receipt of such notice, to elect to cause the Non-Consenting Bank to transfer its Commitment. The Agent shall promptly notify the remaining Banks that each of such Banks shall have the right, but not the obligation, to acquire a portion of the Commitment, pro rata based upon their relevant Commitment Percentages, of the Non-Consenting Bank (or if any of such Banks does not elect to purchase its pro rata share, then to such remaining Banks in such proportion as approved by the Agent). In the event that the Banks do not elect to acquire all of the Non-Consenting Bank's Commitment, then the Agent shall endeavor to find a new Bank or Banks to acquire such remaining Commitment. Upon any such purchase of the Commitment of the Non-Consenting Bank, the Non-Consenting Bank's interests in the Obligations and its rights hereunder and under the Loan Documents shall terminate at the date of purchase, and the Non-Consenting Bank shall promptly execute and deliver any and all documents reasonably requested by Agent to surrender and transfer such interest, including, without limitation, an assignment and acceptance agreement in the form attached hereto as Exhibit C and such Non-Consenting Bank's original Note. The purchase price for the Non-Consenting Bank's Commitment shall equal any and all amounts outstanding and owed by Borrower to the Non-Consenting Bank, including principal and all accrued and unpaid interest or fees, plus any applicable prepayment fees which would be owed to such Non-Consenting Bank if the Loans were to be repaid in full on the date of such purchase of the Non-Consenting Bank's Commitment.

§ 19. **NOTICES**

Each notice, demand, election or request provided for or permitted to be given pursuant to this Agreement (hereinafter in this §19 referred to as "Notice") must be in writing and shall be deemed to have been properly given or served by personal delivery or by sending same by overnight courier or by depositing same in the United States Mail, postpaid and registered or certified, return receipt requested, or as expressly permitted herein, by telegraph, telecopy, telefax or telex, and addressed as follows:

If to the Agent or any Bank, at the address set forth on the signature page for the Agent or such Bank; and

If to the Borrower:

PS Business Parks, L.P.
701 Western Avenue
Glendale, California 91201-2397
Attn: Chief Financial Officer
Facsimile: 818/242-0566

If to PSB:

PS Business Parks, Inc.
701 Western Avenue
Glendale, California 91201-2397
Attn: Chief Financial Officer
Facsimile: 818/242-0566

and to each other Bank which may hereafter become a party to this Agreement at such address as may be designated by such Bank. Each Notice shall be effective upon being personally delivered or upon being sent by overnight courier or upon being deposited in the United States Mail as aforesaid, or if transmitted by telegraph, telecopy, telefax or telex is permitted, upon being sent and confirmation of receipt. The time period in which a response to such Notice must be given or any action taken with respect thereto (if any), however, shall commence to run from the date of receipt if personally delivered or sent by overnight courier or facsimile, or if so deposited in the United States Mail, the earlier of three (3) Business Days following such deposit or the date of receipt as disclosed on the return receipt. Rejection or other refusal to accept or the inability to deliver because of changed address for which no notice was given shall be deemed to be receipt of the Notice sent. By giving at least fifteen (15) days prior Notice thereof, the Borrower, PSB, a Bank or Agent shall have the right from time to time and at any time during the term of this Agreement to change their respective addresses and each shall have the right to specify as its address any other address within the United States of America.

§ 20. **RELATIONSHIP**

The relationship between each Bank and the Borrower is solely that of a lender and borrower, and nothing contained herein or in any of the other Loan Documents shall in any manner be construed as making the parties hereto partners, joint venturers or any other relationship other than lender and borrower.

§ 21. **GOVERNING LAW; CONSENT TO JURISDICTION AND SERVICE**

THIS AGREEMENT AND EACH OF THE OTHER LOAN DOCUMENTS EXCEPT AS OTHERWISE SPECIFICALLY PROVIDED THEREIN, ARE CONTRACTS UNDER THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS AND SHALL FOR ALL PURPOSES BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF SUCH STATE (EXCLUDING THE LAWS APPLICABLE TO CONFLICTS OR CHOICE OF LAW). THE BORROWER AND PSB AGREE THAT ANY SUIT FOR THE ENFORCEMENT OF THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS MAY BE BROUGHT IN THE COURTS OF THE COMMONWEALTH OF MASSACHUSETTS OR ANY FEDERAL COURT SITTING THEREIN AND CONSENTS TO THE NONEXCLUSIVE JURISDICTION OF SUCH COURT AND THE SERVICE OF PROCESS IN ANY SUCH SUIT BEING MADE UPON THE BORROWER AND PSB BY MAIL AT THE ADDRESS SPECIFIED IN §19. THE BORROWER AND PSB HEREBY WAIVE ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE VENUE OF ANY SUCH SUIT OR ANY SUCH COURT OR THAT SUCH SUIT IS BROUGHT IN AN INCONVENIENT COURT.

§ 22. **HEADINGS**

The captions in this Agreement are for convenience of reference only and shall not define or limit the provisions hereof.

§ 23. COUNTERPARTS

This Agreement and any amendment hereof may be executed in several counterparts and by each party on a separate counterpart, each of which when so executed and delivered shall be an original, and all of which together shall constitute one instrument. In proving this Agreement it shall not be necessary to produce or account for more than one such counterpart signed by the party against whom enforcement is sought.

§ 24. ENTIRE AGREEMENT, ETC.

The Loan Documents and any other documents executed in connection herewith or therewith express the entire understanding of the parties with respect to the transactions contemplated hereby. Neither this Agreement nor any term hereof may be changed, waived, discharged or terminated, except as provided in §27.

§ 25. WAIVER OF JURY TRIAL AND CERTAIN DAMAGE CLAIMS

EACH OF THE BORROWER, PSB, THE AGENT AND THE BANKS HEREBY WAIVES ITS RIGHT TO A JURY TRIAL WITH RESPECT TO ANY ACTION OR CLAIM ARISING OUT OF ANY DISPUTE IN CONNECTION WITH THIS AGREEMENT, ANY NOTE OR ANY OF THE OTHER LOAN DOCUMENTS, ANY RIGHTS OR OBLIGATIONS HEREUNDER OR THEREUNDER OR THE PERFORMANCE OF SUCH RIGHTS AND OBLIGATIONS. EXCEPT TO THE EXTENT EXPRESSLY PROHIBITED BY LAW, EACH OF THE BORROWER AND PSB HEREBY WAIVES ANY RIGHT IT MAY HAVE TO CLAIM OR RECOVER IN ANY SUCH LITIGATION ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES OR ANY DAMAGES OTHER THAN, OR IN ADDITION TO, ACTUAL DAMAGES. EACH OF THE BORROWER AND PSB (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY BANK OR THE AGENT HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH BANK OR THE AGENT WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVERS AND (B) ACKNOWLEDGES THAT THE AGENT AND THE BANKS HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS TO WHICH THEY ARE PARTIES BY, AMONG OTHER THINGS, THE WAIVERS AND CERTIFICATIONS CONTAINED IN THIS §25. EACH OF BORROWER AND PSB ACKNOWLEDGES THAT IT HAS HAD AN OPPORTUNITY TO REVIEW THIS §25 WITH ITS LEGAL COUNSEL AND THAT EACH OF BORROWER AND PSB AGREES TO THE FOREGOING AS ITS FREE, KNOWING AND VOLUNTARY ACT.

§ 26. DEALINGS WITH THE BORROWER AND PSB

The Banks and their affiliates may accept deposits from, extend credit to and generally engage in any kind of banking, trust or other business with the Borrower, the Guarantors, their respective Subsidiaries, or any of their affiliates regardless of the capacity of the Bank hereunder.

§ 27. CONSENTS, AMENDMENTS, WAIVERS, ETC.

Except as otherwise expressly provided in this Agreement, any consent or approval required or permitted by this Agreement may be given, and any term of this Agreement or of any other instrument related hereto or mentioned herein may be amended, and the performance or observance by the Borrower of any terms of this Agreement or such other instrument or the continuance of any Default or Event of Default may be waived (either generally or in a particular instance and either retroactively or prospectively) with, but only with, the written consent of the Majority Banks. Notwithstanding the foregoing, none of the following may occur without the written consent of each Bank: a decrease in the rate of interest on the Notes; an increase in the amount of the

Commitments of the Banks; a forgiveness, reduction or waiver of the principal of any unpaid Loan or any interest thereon or fee payable under the Loan Documents; a decrease in the amount of any fee payable to a Bank hereunder; the postponement of any date fixed for any payment of principal of or interest on the Loan; an extension of the Maturity Date; a change in the manner of distribution of any payments to the Banks or the Agent; the release of the Borrower or the Guarantors except as otherwise provided herein; an amendment to this §27; an amendment of the definition of Majority Banks; or an amendment of any provision of this Agreement or the Loan Documents which requires the approval of all of the Banks or the Majority Banks to require a lesser number of Banks to approve such action. The provisions of §14 may not be amended without the written consent of the Agent. No waiver shall extend to or affect any obligation not expressly waived or impair any right consequent thereon. No course of dealing or delay or omission on the part of the Agent or any Bank in exercising any right shall operate as a waiver thereof or otherwise be prejudicial thereto. No notice to or demand upon the Borrower shall entitle the Borrower to other or further notice or demand in similar or other circumstances.

§ 28. SEVERABILITY

The provisions of this Agreement are severable, and if any one clause or provision hereof shall be held invalid or unenforceable in whole or in part in any jurisdiction, then such invalidity or unenforceability shall affect only such clause or provision, or part thereof, in such jurisdiction, and shall not in any manner affect such clause or provision in any other jurisdiction, or any other clause or provision of this Agreement in any jurisdiction.

§ 29. TIME OF THE ESSENCE

Time is of the essence with respect to each and every covenant, agreement and obligation of the Borrower and PSB under this Agreement and the other Loan Documents.

§ 30. NO UNWRITTEN AGREEMENTS

THE WRITTEN LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

§ 31. REPLACEMENT NOTES

Upon receipt of evidence reasonably satisfactory to Borrower of the loss, theft, destruction or mutilation of any Note, and in the case of any such loss, theft or destruction, upon delivery of an indemnity agreement reasonably satisfactory to Borrower or, in the case of any such mutilation, upon surrender and cancellation of the applicable Note, Borrower will execute and deliver, in lieu thereof, a replacement Note, identical in form and substance to the applicable Note and dated as of the date of the applicable Note and upon such execution and delivery all references in the Loan Documents to such Note shall be deemed to refer to such replacement Note.

§ 32. NO THIRD PARTIES BENEFITED

This Agreement and the other Loan Documents are made and entered into for the sole protection and legal benefit of the Borrower, PSB, the Banks, the Agent and their permitted successors and assigns, and no other Person shall be a direct or indirect legal beneficiary of, or have any direct or indirect cause of action or claim in connection with, this Agreement or any of the other Loan Documents.

[SIGNATURES BEGIN ON NEXT PAGE]

IN WITNESS WHEREOF, the undersigned have duly executed this Agreement as a sealed instrument as of the date first set forth above.

BORROWER:
PS BUSINESS PARKS, L.P., a California limited partnership, by its sole general partner

By: PS Business Parks, Inc., a California corporation

By: /s/ Jack E. Corrigan
Name: Jack E. Corrigan
Title: Vice President
[CORPORATE SEAL]

PSB:

PS BUSINESS PARKS, INC., a California corporation
By: /s/ Jack E. Corrigan
Name: Jack E. Corrigan
Title: Vice President
[CORPORATE SEAL]

FLEET NATIONAL BANK,
individually and as Agent
By: /s/ William Lamb
Name: William Lamb
Title: Vice President

Fleet National Bank
100 Federal Street
Boston, Massachusetts 02110
Attn: Real Estate Division

With a copy to:

Fleet National Bank
115 Perimeter Center Place, N.E.
Suite 500
Atlanta, Georgia 30346
Attn: William Lamb
Facsimile: 770/390-8434

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

	Years Ended December 31,				
	2001	2000	1999	1998	1997
Net income	$49,870,000	$51,181,000	$41,255,000	$29,400,000	$ 3,836,000
Minority interest	27,489,000	26,741,000	16,049,000	11,208,000	8,566,000
Interest expense	1,715,000	1,481,000	3,153,000	2,361,000	1,000
Earnings available to cover fixed charges	$79,074,000	$79,403,000	$60,457,000	$42,969,000	$12,403,000
Fixed charges (1)	$ 2,806,000	$ 2,896,000	$ 4,142,000	$ 2,629,000	$ 1,000
Preferred distributions	22,961,000	17,273,000	7,562,000	-	-
Combined fixed charges and preferred distributions	$25,767,000	$20,169,000	$11,704,000	$ 2,629,000	$ 1,000
Ratio of earnings to fixed charges	28.18	27.42	14.60	16.34	12,403
Ratio of earnings to combined fixed charges and preferred distributions	3.07	3.94	5.17	16.34	12,403

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

	Years Ended December 31,				
	2001	2000	1999	1998	1997
FFO	$93,568,000	$85,977,000	$76,353,000	$57,430,000	$17,597,000
Interest expense	1,715,000	1,481,000	3,153,000	2,361,000	1,000
Minority interest in income – preferred units	14,107,000	12,185,000	4,156,000	-	-
Preferred dividends	8,854,000	5,088,000	3,406,000	-	-
Adjusted FFO available to cover fixed charges	$118,244,000	$104,731,000	$87,068,000	$59,791,000	$17,598,000
Fixed charges (1)	$ 2,806,000	$ 2,896,000	$ 4,142,000	$ 2,629,000	$ 1,000
Preferred distributions	22,961,000	17,273,000	7,562,000	-	-
Combined fixed charges and preferred distributions	$25,767,000	$20,169,000	$11,704,000	$ 2,629,000	$ 1,000
Ratio of FFO to fixed charges	42.14	36.16	21.02	22.74	17,598
Ratio of FFO to combined fixed charges and preferred distributions	4.59	5.19	7.44	22.74	17,598

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

EXHIBIT 21

List of Subsidiaries

The following sets forth the subsidiaries of the Registrant and their respective states of incorporation or organization:

Name	State
American Office Park Properties, TPGP, Inc.	California
PSBP QRS, Inc.	California
Hernmore, Inc.	Maryland
AOPP Acquisition Corp. Two	California
Tenant Advantage, Inc.	California
PS Business Parks, L.P.	California
TPLP Office Park Properties	Texas
PSBP Northpointe D, L.L.C.	Virginia
PSBP Monroe, L.L.C.	Virginia
Monroe Parkway, L.L.C.	Virginia
Metro Park I, L.L.C.	Delaware
Metro Park II, L.L.C.	Delaware
Metro Park III, L.L.C.	Delaware
Metro Park IV, L.L.C.	Delaware
Metro Park V, L.L.C.	Delaware

EXHIBIT 23

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-48313) of PS Business Parks, Inc. pertaining to the PS Business Parks, Inc. 1997 Stock Option and Incentive Plan, the Registration Statement on Form S-8 (No. 333-50274) of PS Business Parks, Inc. pertaining to the PS 401(k)/Profit Sharing Plan, the Registration Statement on Form S-3 (No. 333-78627) and in the related prospectus and the Registration Statement on Form S-3 (No. 333-50463) and the related prospectus of our report dated January 30, 2002 with respect to the consolidated financial statements and schedule of PS Business Parks, Inc. included in the Annual Report (Form 10-K) for the year ended December 31, 2001 filed with the Securities and Exchange Commission.

/s/ ERNST & YOUNG LLP

Los Angeles, California
March 21, 2002