PS BUSINESS PARKS, INC.
(Successor to American Office Park Properties, Inc.)
1998 First Quarter Report

701 Western Avenue
P.O. Box 25050
Glendale, California 91221-5050
(818) 244-8080
www.psbusinessparks.com

To Our Shareholders

Enclosed is the 1998 first quarter report from PS Business Parks, Inc. (PSB). This is the first report to shareholders following the merger of American Office Park Properties, Inc. and Public Storage Properties XI, Inc. In the merger, the name of your Company was changed to "PS Business Parks, Inc."

In addition to the letter to shareholders and financial statements, PSB is also providing audited financial statements and notes for 1997. PSB believes this information will be helpful for shareholders in understanding PSB's previous history.

<u>Table of Contents</u>

To Our Shareholders

PS Business Parks, Inc. (PSB) continued to achieve its growth objectives during the first quarter and subsequent weeks of 1998. PSB's objectives are to own, manage and acquire business parks containing office "flex" space in major metropolitan markets across the United States. During the first quarter and subsequent weeks of 1998, PSB expanded its real estate portfolio, issued common equity to fund the acquisitions, and generated in excess of 9 percent growth from its "same park" portfolio.

First quarter results.

Net income for the three months ended March 31, 1998 was $4,330,000 compared to $682,000 for the same period in 1997. Net income per common share on a diluted basis was $.38 (based on weighted average diluted shares outstanding of 11,357,036) for the three months ended March 31, 1998 compared to net income per common share on a diluted basis of $.31 (based on diluted weighted average shares outstanding of 2,192,848) for the three months ended March 31, 1997, a 22.6 percent increase. The significant increase in net income and net income per share reflects significant growth in PSB's asset base through acquisitions and improving Same Park operations.

On a Same Park basis, rental income increased to $9,390,000 for the quarter ended March 31, 1998, compared to $8,876,000 for the same period in 1997, a 5.8 percent increase. Same Parks are comprised of a consistent group of 51 properties (4.2 million net rentable square feet) that PSB has managed for at least three years and, as of March 31, 1998, were owned by PSB. Net operating income (net income before depreciation and amortization) equaled $5,323,000 for the 1998 third quarter, versus $4,849,000 for the same period one year earlier, a 9.8 percent increase. Improved Same Park operations are due to higher revenues, up 5.8 percent, consistent occupancies (95 percent for both periods) and a modest increase in expenses (up 1 percent).

Funds from operation (FFO), an industry performance measurement (basically net income before depreciation), increased from $3,315,000 to $9,444,000 in the first quarter of 1998 vs. the same period in 1997. On a per share basis, FFO was $.50 in first quarter 1998 vs. $.41 in first quarter 1997. This increase of $.09 per share or 22% is the result of three events: 1) the "formation" transactions, ie, contribution of properties in exchange for stock/OP units by Public Storage to establish American Office Park Properties, Inc. (the predecessor company), 2) the property income yield vs. costs of capital on acquisitions and 3) improved Same Park operating results.

PSB believes its current operating performance is benefiting from the strong U.S. economy, which is experiencing low unemployment, reduced inflationary pressures, and a recovering real estate sector in most metropolitan areas.

Dividend policy.

The Board of Directors has established a dividend policy to maximize the retention of operating cash flow and to distribute the minimum amount required for PSB to maintain its tax status as a real estate investment trust. The policy will provide PSB maximum financial flexibility and capital for growth.

On May 7, 1998, PSB declared a regular dividend of $.25 per share. The dividend is payable on June 30, 1998 to shareholders of record as of the close of business on June 15, 1998. This reflects a decrease from $.34 per share which was paid to the previous shareholders of Public Storage Properties XI, Inc.

Portfolio expansion.

PSB has embarked on an acquisition program designed to take advantage of its existing infrastructure, promote synergies and to expand its presence in “growth” markets. During 1997, the Company increased its portfolio by 2.6 million net rentable square feet, from a base of 4.2 million net rentable square feet. The base is the existing portfolio of properties contributed by Public Storage in connection with PSB’s formation.

PSB continued to purchase properties during the first quarter of 1998, acquiring commercial properties (approximately 711,000 net rentable square feet) for a total of $54,485,000, consisting of cash of $38,754,000, assumption of mortgage notes payable of $14,526,000, and issuance of 52,678 Operating Partnership units having a value of approximately $1,205,000. In May 1998, PSB purchased 28 commercial properties (approximately 2.3 million net rentable square feet) and 15 acres of undeveloped land for an aggregate purchase price of approximately $190 million. PSB financed the acquisition with the proceeds from the issuance of $105 million of common stock pursuant to an equity placement committed to in the first quarter of 1998, available cash balances, and borrowings from an affiliate. PSB plans to continue purchasing properties during 1998.

These business parks are in markets where the Company currently operates and are very complimentary to the Company’s existing portfolio.

Equity offerings.

In January 1998, PSB entered into an agreement with a group of institutional investors under which PSB agreed to issue up to 6,744,074 shares of PSB common stock at $22.88 per share in cash (an aggregate of up to $155,000,000) in separate tranches. The first tranche, representing 2,185,189 shares or $50 million (net proceeds were $48,251,000), was issued in January 1998. The remainder of the common shares (4,558,885 common shares) were issued on May 6, 1998, and the net proceeds ($105 million) were used to fund a portion of the property portfolio acquired in May 1998.

In May 1998, PSB completed two common stock offerings, raising equity capital totaling approximately $118.9 million. In the first offering, PSB sold 4,000,000 newly issued common shares to BancAmerica Robertson Stephens, resulting in approximately $95.2 million of net proceeds. These shares were subsequently re-sold to various institutional investors. A portion of the proceeds were used to retire debt incurred in the $190 million property portfolio acquisition. In the second offering, PSB sold 1,025,800 newly issued common shares to PaineWebber Incorporated, resulting in approximately $23.7 million of net proceeds. The shares were included in the PaineWebber Equity Trust, REIT Series 1.

Summary.

The Company has established the foundation for consistent growth. It is continuing to execute on its business plan of acquiring facilities in markets where it currently operates, which are very strong, improving its cost structure and funding its growth with permanent capital.

Thank you for your continued support.

Ronald L. Havner, Jr.
Chairman of the Board

June 30, 1998

PS BUSINESS PARKS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 1998 (unaudited)	December 31, 1997
ASSETS		
Cash and cash equivalents	$ 11,259,000	$ 3,884,000
Real estate facilities, at cost:		
Land	122,784,000	91,754,000
Buildings and equipment	301,042,000	226,466,000
	423,826,000	318,220,000
Accumulated depreciation	(6,133,000)	(3,982,000)
	417,693,000	314,238,000
Intangible assets, net	1,808,000	3,272,000
Other assets	2,233,000	2,060,000
Total assets	$ 432,993,000	$ 323,454,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accrued and other liabilities	$ 10,069,000	$ 8,331,000
Mortgage notes payable	14,526,000	-
Note payable to affiliate	-	3,500,000
Total liabilities	24,595,000	11,831,000
Minority interest	140,904,000	168,665,000
Shareholders' equity:		
Preferred Stock, $0.10 par value, 100,000,000 shares authorized, none outstanding at March 31, 1998 and December 31, 1997	-	-
Common stock, $0.10 par value, 100,000,000 shares authorized, 14,020,965 shares issued and outstanding at March 31, 1998 (7,728,309 shares issued and outstanding at December 31, 1997)	1,402,000	773,000
Paid in capital	266,237,000	142,581,000
Cumulative net income	7,484,000	3,154,000
Cumulative distributions	(7,629,000)	(3,550,000)
Total shareholders' equity	267,494,000	142,958,000
Total liabilities and shareholders' equity	$ 432,993,000	$ 323,454,000

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

	For the three months ended March 31,	
	1998	1997
Revenues:		
Rental income	$ 14,353,000	$ 5,805,000
Facility management fees primarily from affiliates	202,000	247,000
Interest and other income	233,000	29,000
	14,788,000	6,081,000
Expenses:		
Cost of operations	4,627,000	2,493,000
Cost of facility management	25,000	60,000
Depreciation and amortization	2,300,000	820,000
General and administrative	445,000	213,000
Interest expense	247,000	-
	7,644,000	3,586,000
Income before minority interest	7,144,000	2,495,000
Minority interest in income	(2,814,000)	(1,813,000)
Net income	$ 4,330,000	$ 682,000
Net income per share:		
Basic	$ 0.38	$ 0.31
Diluted	$ 0.38	$ 0.31
Weighted average shares outstanding:		
Basic	11,314,469	2,192,848
Diluted	11,357,036	2,192,848

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

	For the three months ended March 31, 1998	1997
Cash flows from operating activities:		
Net income	$ 4,330,000	$ 682,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	2,300,000	820,000
Minority interest in income	2,814,000	1,813,000
Increase in other assets	(521,000)	358,000
Increase in accrued and other liabilities	371,000	388,000
Total adjustments	4,964,000	3,379,000
Net cash provided by operating activities	9,294,000	4,061,000
Cash flows from investing activities:		
Payment received from sellers for net property operating liabilities assumed	-	1,779,000
Acquisition of real estate facilities	(38,754,000)	-
Acquisition cost of business combination	(424,000)	-
Capital improvements to real estate facilities	(857,000)	(582,000)
Net cash used in investing activities	(40,035,000)	1,197,000
Cash flows from financing activities:		
Repayment of note payable to affiliate	(3,500,000)	-
Increase in receivable from affiliate	-	(308,000)
Net proceeds from the issuance of common stock	48,251,000	80,000
Dividends paid to shareholders	(4,079,000)	-
Distributions to minority interests	(2,556,000)	-
Net cash provided by (used in) financing activities	38,116,000	(228,000)
Net increase in cash and cash equivalents	7,375,000	5,030,000
Cash and cash equivalents at the beginning of the period	3,884,000	919,000
Cash and cash equivalents at the end of the period	$ 11,259,000	$ 5,949,000

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

	For the three months ended March 31, 1998	1997
Supplemental schedule of non cash investing and financial activities:		
Acquisitions of real estate facilities in exchange for preferred stock, minority interests, and mortgage notes payable:		
Real estate facilities	$ (16,680,000)	$ (117,180,000)
Other assets	800,000	-
Accrued and other liabilities	149,000	-
Minority interest	1,205,000	97,180,000
Preferred stock	-	120,000
Paid in capital	-	19,880,000
Mortgage notes payable	14,526,000	-
Business combination:		
Real estate facilities	(48,000,000)	-
Other assets	(452,000)	-
Accrued and other liabilities	1,218,000	-
Common stock	228,000	-
Paid in capital	46,582,000	-
Conversion of OP Units into shares of common stock:		
Minority interest	(33,023,000)	-
Common stock	179,000	-
Additional paid in capital	32,844,000	-
Adjustment to reflect minority interest to underlying ownership interest:		
Minority interest	3,799,000	-
Additional paid in capital	(3,799,000)	-
Exchange of preferred stock for common stock:		
Preferred stock	-	(210,000)
Common stock	-	210,000
Adjustment to acquisition cost:		
Real estate facilities	(1,315,000)	(7,146,000)
Accumulated depreciation	-	(820,000)
Intangible assets	1,315,000	(4,395,000)
Paid in capital	-	12,361,000

PS BUSINESS PARKS, INC.
(SUCCESSOR TO AMERICAN OFFICE PARK PROPERTIES, INC.)
CONSOLIDATED BALANCE SHEETS
December 31, 1997 and 1996

	December 31, 1997	December 31, 1996
ASSETS		
Cash and cash equivalents	$ 3,884,000	$ 919,000
Real estate facilities, at cost:		
Land	91,754,000	-
Buildings	226,466,000	-
	318,220,000	-
Accumulated depreciation	(3,982,000)	-
	314,238,000	
Intangible assets, net	3,272,000	-
Receivable from affiliate	-	827,000
Other assets	2,060,000	195,000
Total assets	$ 323,454,000	$ 1,941,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accrued and other liabilities	$ 8,331,000	$ 207,000
Note payable to affiliate	3,500,000	-
Minority interest	168,665,000	-
Shareholders' equity:		
Preferred Stock, $0.10 par value, $15,010,000 aggregate liquidation preference, 100,000,000 shares authorized, 899,608 shares outstanding at December 31, 1996 (none at December 31, 1997)	-	90,000
Common stock, $0.10 par value, 100,000,000 shares authorized, 7,728,309 shares issued and outstanding at December 31, 1997 (94,697 shares issued and outstanding at December 31, 1996)	773,000	9,000
Paid-in capital	142,581,000	1,484,000
Retained earnings	3,154,000	151,000
Cumulative distributions	(3,550,000)	-
Total shareholders' equity	142,958,000	1,734,000
Total liabilities and shareholders' equity	$ 323,454,000	$ 1,941,000

See accompanying notes.

PS BUSINESS PARKS, INC.
(SUCCESSOR TO AMERICAN OFFICE PARK PROPERTIES, INC.)
CONSOLIDATED STATEMENTS OF INCOME

	For the Periods (Note 2)		For the Years Ended December 31,	
	April 1, 1997 through December 31, 1997	January 1, 1997 through March 31, 1997	1996	1995
Revenues:				
Rental income	$ 24,364,000	$ 5,805,000	$ -	$ -
Facility management fees primarily from affiliates	709,000	247,000	2,133,000	2,044,000
Interest and other income	424,000	29,000	43,000	37,000
	25,497,000	6,081,000	2,176,000	2,081,000
Expenses:				
Cost of operations	9,837,000	2,493,000	-	-
Cost of facility management	129,000	60,000	514,000	570,000
Depreciation and amortization	4,375,000	820,000	-	-
General and administrative	1,248,000	213,000	1,143,000	319,000
Interest expense	1,000	-	-	-
	15,590,000	3,586,000	1,657,000	889,000
Income before minority interest and income taxes	9,907,000	2,495,000	519,000	1,192,000
Minority interest in income	(6,753,000)	(1,813,000)	-	-
Income before income taxes	3,154,000	682,000	-	-
Income tax expense	-	-	(216,000)	(472,000)
Net income	$ 3,154,000	$ 682,000	$ 303,000	$ 720,000
Net income per share:				
Basic	$ 0.92	$ 0.31	$ 0.32	$ 0.80
Diluted	$ 0.92	$ 0.31	$ 0.32	$ 0.80
Weighted average shares outstanding:				
Basic	3,414,069	2,192,848	946,956	905,472
Diluted	3,426,574	2,192,848	946,956	905,472

See accompanying notes.

PS BUSINESS PARKS, INC.
(SUCCESSOR TO AMERICAN OFFICE PARK PROPERTIES, INC.)
STATEMENTS OF SHAREHOLDERS' EQUITY
For the periods from January 1, 1997 through March 31, 1997 and April 1, 1997 through December 31, 1997 and for the years ended December 31, 1996 and 1995

	Preferred Stock		Common Stock			Retained	Accumulated	Total Shareholders'
	Shares	Amount	Shares	Amount	Paid-in Capital	Earnings	Distributions	Equity
Balances at December 31, 1994	-	$ -	2,950	$ 3,000	$ -	$ 343,000	$ -	$ 346,000
Issuance of common stock for cash	-	-	47,348	5,000	785,000	-	-	790,000
Exchange of common stock for preferred stock	899,608	90,000	(2,950)	(3,000)	(87,000)	-	-	-
Net income	-	-	-	-	-	720,000	-	720,000
Distributions	-	-	-	-	-	(815,000)	-	(815,000)
Balances at December 31, 1995	899,608	90,000	47,348	5,000	698,000	248,000	-	1,041,000
Issuance of common stock for cash	-	-	47,349	5,000	785,000	-	-	790,000
Net income	-	-	-	-	-	303,000	-	303,000
Distributions	-	-	-	-	-	(400,000)	-	(400,000)
Balances at December 31, 1996	899,608	90,000	94,697	10,000	1,483,000	151,000	-	1,734,000
Issuance of preferred stock in exchange for real estate facilities	1,198,680	120,000	-	-	19,880,000	-	-	20,000,000
Net income	-	-	-	-	-	682,000	-	682,000
Issuance of common stock for cash	-	-	4,797	-	80,000	-	-	80,000
Adjustment to reflect cost of PSI's investment in PSBP	-	-	-	-	12,361,000	-	-	12,361,000
Exchange of preferred stock for common stock	(2,098,288)	(210,000)	2,098,288	210,000	833,000	(833,000)	-	-
Adjustment to reflect minority interests' to underlying ownership interest	-	-	-	-	1,813,000	-	-	1,813,000
Balances at March 31, 1997	-	-	2,197,782	220,000	36,450,000	-	-	36,670,000
Issuance of common stock for cash	-	-	2,025,769	203,000	33,597,000	-	-	33,800,000
Issuance of common stock in exchange for real estate facilities	-	-	3,504,758	350,000	75,624,000	-	-	75,974,000
Net income	-	-	-	-	-	3,154,000	-	3,154,000
Distributions	-	-	-	-	-	-	(3,550,000)	(3,550,000)
Adjustment to reflect minority interests' to underlying ownership interest	-	-	-	-	(3,090,000)	-	-	(3,090,000)
Balances at December 31, 1997	-	$ -	7,728,309	$ 773,000	$ 142,581,000	$ 3,154,000	$ (3,550,000)	$142,958,000

See accompanying notes.

PS BUSINESS PARKS, INC.
(SUCCESSOR TO AMERICAN OFFICE PARK PROPERTIES, INC.)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Periods (Note 2)		For the Years Ended December 31,	
	April 1, 1997 through December 31, 1997	January 1, 1997 through March 31, 1997	1996	1995
Cash flows from operating activities:				
Net income	$ 3,154,000	$ 682,000	$ 303,000	$ 720,000
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization expense	4,375,000	820,000	-	-
Minority interest in income	6,753,000	1,813,000	-	-
(Increase) decrease in other assets	(1,465,000)	(400,000)	(28,000)	157,000
Increase in accrued and other liabilities	780,000	2,925,000	138,000	73,000
Total adjustments	10,443,000	5,158,000	110,000	230,000
Net cash provided by operating activities	13,597,000	5,840,000	413,000	950,000
Cash flows from investing activities:				
Acquisition of real estate facilities	(44,122,000)	-	-	-
Capital expenditures	(2,983,000)	(582,000)	-	-
Net cash used in investing activities	(47,105,000)	(582,000)	-	-
Cash flows from financing activities:				
Proceeds from note payable to affiliate	3,500,000	-	-	-
Decrease (increase) in receivable from affiliate	1,135,000	(308,000)	(768,000)	(59,000)
Net proceeds from the issuance of common stock	33,800,000	80,000	790,000	790,000
Dividends paid to shareholders	(3,550,000)	-	(400,000)	(815,000)
Distributions to minority interests	(3,442,000)	-	-	-
Net cash provided by (used in) financing activities	31,443,000	(228,000)	(378,000)	(84,000)
Net (decrease) increase in cash and cash equivalents	(2,065,000)	5,030,000	35,000	866,000
Cash and cash equivalents at the beginning of the period	5,949,000	919,000	884,000	18,000
Cash and cash equivalents at the end of the period	$ 3,884,000	$ 5,949,000	$ 919,000	$ 884,000

See accompanying notes.

PS BUSINESS PARKS, INC.
(SUCCESSOR TO AMERICAN OFFICE PARK PROPERTIES, INC.)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Periods (Note 2)		For the Years Ended December 31,	
	April 1, 1997 through December 31, 1997	January 1, 1997 through March 31, 1997	1996	1995
Supplemental schedule of non cash investing and financial activities:				
Acquisitions of real estate facilities in exchange for preferred stock and minority interests:				
Real estate facilities	$(146,207,000)	$(117,180,000)	$ -	$ -
Intangible assets	730,000	-	-	-
Accrued and other liabilities	4,419,000	-	-	-
Minority interest	65,084,000	97,180,000	-	-
Preferred stock	350,000	120,000	-	-
Paid in capital	75,624,000	19,880,000	-	-
Exchange of preferred stock for common stock:				
Preferred Stock	-	(210,000)	-	-
Common Stock	-	210,000	-	-
Adjustment to reflect PSI's acquisition cost:				
Real estate facilities	-	(7,146,000)	-	-
Accumulated depreciation	-	(820,000)	-	-
Intangible assets	-	(4,395,000)	-	-
Paid in capital	-	12,361,000	-	-

See accompanying notes.

PS BUSINESS PARKS INC.
(SUCCESSOR TO AMERICAN OFFICE PARK PROPERTIES, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1997

1. Organization and Description of Business

PS Business Parks, Inc. ("PSBP") is the successor to American Office Park Properties, Inc. ("AOPP") and the survivor in the merger of AOPP into Public Storage Properties XI, Inc. ("PSP11") on March 17, 1998. Based upon the terms of the merger (Note 9), for financial reporting and accounting purposes the merger will be accounted for as a reverse acquisition whereby AOPP is deemed to have acquired PSP11. However, PSP11 is the continuing legal entity and registrant for both Securities and Exchange Commission filing purposes and income tax reporting purposes. All subsequent references to PSBP prior to March 17, 1998, refer to AOPP.

PSBP was organized in California in 1986 as a wholly-owned subsidiary of Public Storage Management, Inc. ("PSMI"), a privately owned company of B. Wayne Hughes and his family (collectively "Hughes").

On November 16, 1995, Public Storage, Inc. ("PSI") acquired PSMI in a business combination accounted for using the purchase method. In connection with the transaction, PSI exchanged its common stock for all of the non-voting participating preferred stock of PSBP, representing a 95% economic interest, and Hughes purchased all the voting common stock of PSBP, representing the remaining 5% economic interest. During December 1996, Ronald L. Havner, Jr. (then an executive officer of PSI) acquired all of Hughes' common stock in PSBP.

On January 2, 1997, in connection with the reorganization of the commercial property operations of PSI and affiliated entities, PSBP formed a partnership (the "Operating Partnership") whereby PSBP became the general partner. Concurrent with the formation of the Operating Partnership, PSI and affiliated entities contributed commercial properties to the Operating Partnership in exchange for limited partnership units ("OP Units"). In addition, PSI contributed commercial properties to PSBP in exchange for shares of non-voting participating preferred stock, and such properties were immediately contributed by PSBP along with its commercial property management operations and cash to the Operating Partnership for OP Units.

Subject to certain limitations as described in Note 5, holders of OP Units, other than PSBP, have the right to require PSBP to redeem such holders' OP Units 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.

On March 31, 1997, PSI exchanged its non-voting participating preferred stock into common shares of PSBP. As a result of the exchange, PSI owned a majority of the voting common stock and effectively gained control of PSBP at that time.

From 1986 through 1996, PSBP's sole business activities consisted of the property management of commercial properties owned by PSI and affiliated entities. Commencing in 1997, PSBP began to own and operate commercial properties for its own behalf. At December 31, 1997, PSBP and the Operating Partnership collectively owned and operated 49 commercial properties (approximately 6.0 million net rentable square feet) located in 10 states. In addition, on December 31, 1997, the Operating Partnership managed on behalf of PSI and affiliated entities 49 additional commercial properties (approximately 1.9 million net rentable square feet).

2. Summary of significant accounting policies

Basis of presentation:

The financial statements for fiscal 1996 and 1995 include only the accounts of PSBP. The consolidated financial statements for 1997 include the accounts of PSBP and the Operating Partnership. PSBP, as the sole general partner of the Operating Partnership, has full, exclusive and complete responsibility and discretion in managing and controlling the Operating Partnership. PSI owned approximately 53% of the outstanding common stock of PSBP at December 31, 1997, with the remainder owned primarily by a subsidiary of a state pension plan. Historical financial data of PSP11 have not been included in the historical financial statements of PSBP.

On March 31, 1997, PSBP and PSI agreed to exchange the non-voting participating preferred stock held by PSI for 2,098,288 shares of voting common stock of PSBP. After the exchange, PSI owned in excess of 95% of the outstanding common voting common stock of PSBP and PSBP accounted for the transaction as if PSI purchased PSBP. Accordingly, PSBP reflected PSI's cost of its investment in PSBP in accordance with Accounting Principles Board Opinion No. 16. As a result of PSI attaining control of PSBP, the carrying value of PSBP's assets and liabilities were adjusted to reflect PSI's acquisition cost of its controlling interest in PSBP of approximately $35 million. As a result, the carrying value of real estate facilities was increased approximately $8.0 million, intangible assets increased approximately $4.4 million and paid in capital increased approximately $12.4 million.

Prior to March 31, 1997, control of PSBP was held by entities other than PSI. As a result of PSI acquiring a majority of the voting common stock and control of PSBP 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.

Stock-based compensation

In October 1995, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123 "Accounting for Stock-Based Compensation" ("Statement 123") which provides companies an alternative to accounting for stock-based compensation as prescribed under APB Opinion No. 25 ("APB 25"). Statement 123 encourages, but does not require companies to recognize expense for stock-based awards based on their fair value at date of grant. Statement 123 allows companies to continue to follow existing accounting rules (intrinsic value method under APB 25) provided that pro-forma disclosures are made of what net income and earnings per share would have been had the new fair value method been used. The Company has elected to adopt the disclosure requirements of Statement 123 but will account for stock-based compensation under APB 25. Statement 123's disclosure requirements are applicable to stock-based awards granted in fiscal years beginning after December 15, 1994.

Stock split and stock dividend:

On January 1, 1997, the number of outstanding shares of preferred and common stock increased as a result of a 10 for 1 stock split. In March 1997, the preferred stock of PSBP was converted into common stock on a share for share basis. In December 1997, PSBP declared a common stock dividend at a rate of .01583 shares for each common share outstanding. Similarly, the Operating Partnership's outstanding OP Units were adjusted in December 1997 to reflect an increase of .01583 OP Units for each OP Unit outstanding. No adjustment was made to the outstanding OP Units for the January 1997 stock split, as the issuance of OP Units during 1997 already reflected the stock split.

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

References in the consolidated financial statements and notes thereto with respect to shares of preferred stock, common stock, stock options, and OP Units and the related per share/per unit amounts have been retroactively adjusted to reflect the January 1997 stock split, the December 1997 stock dividend and the March 1998 conversion in connection with the merger.

Cash and cash equivalents:

PSBP considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents.

Real estate facilities:

Costs related to the improvements of properties are capitalized. Expenditures for repair and maintenance are charged to expense when incurred. After March 31, 1997, acquisition of facilities from PSI and entities controlled by PSI are recorded at the predecessor's basis until such time that PSBP is not controlled by PSI. Buildings and equipment are depreciated on the straight line method over the estimated useful lives, which is generally 25 and 5 years, respectively.

Intangible assets:

Intangible assets consist of property management contracts for properties managed, but not owned, by PSBP. The intangible assets are being amortized over seven years. As properties managed are subsequently acquired by PSBP, the unamortized basis of intangible assets related to such property is included in the cost of acquisition of such property. During April 1997, PSBP acquired four properties from PSI and included in the cost of real estate facilities for such properties are $730,000 of cost previously classified as intangible assets. Intangible assets at December 31, 1997 are net of accumulated amortization of $393,000, which reflects the amortization for the period April 1, 1997 through December 31, 1997.

Evaluation of asset impairment:

In 1995, the FASB issued SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" which requires impairment losses to be recorded on long-lived assets. PSBP 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. Statement 121 also addresses the accounting for long-lived assets that are expected to be disposed of. Such assets are to be reported at the lower of their carrying amount or fair value, less cost to sell. PSBP adopted Statement 121 in 1996 and the adoption had no effect. PSPB's subsequent evaluations have indicated no impairment in the carrying amount of its assets.

Note payable to affiliate:

Note payable to affiliate at December 31, 1997 of $3,500,000 reflects borrowings from PSI which occurred on that date. The note bears interest at 6.97% ($1,000 of interest expense was paid in 1997), and was repaid on January 31, 1998.

Revenue and expense recognition:

All leases are classified as operating 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.

Net income per common share:

In 1997, the FASB issued SFAS No. 128, *Earnings per Share*. Statement 128 replaced the calculation of "primary" and "fully diluted" earnings per share with "basic" and "diluted" earnings per share. PSBP's adoption of this accounting standard has no impact upon previously reported earnings per share.

"Diluted" shares include the dilutive effect of stock options, while "basic" shares exclude such effect. In addition, weighted average shares utilized in computing basic and diluted earnings per share includes the weighted average participating preferred shares, because such shares were allocated income (subject to certain preferences upon liquidation described below) on an equal per share basis with the common shares.

Income taxes:

Prior to November 16, 1995, PSBP's earnings were included in the consolidated federal and combined state income tax returns of PSMI. Under the terms of a tax sharing agreement, taxes were allocated to PSBP as though it filed separate federal and state tax returns. For periods subsequent to November 16, 1995, separate federal and state income tax returns were filed for PSBP.

Income taxes are accounted for under SFAS No. 109, "Accounting for Income Taxes", which requires income taxes to be recorded using the liability method. Under the liability method, deferred taxes are provided for temporary differences between the financial reporting and income tax bases of assets and liabilities, applying presently enacted tax rates and laws. Taxes have been paid by PSI and PSMI on behalf of PSBP, and are included in due from affiliate.

During 1997, PSBP qualified and intends to continue to qualify as a real estate investment trust ("REIT"), as defined in Section 856 of the Internal Revenue Code. As a REIT, PSBP is not taxed on that portion of its taxable income which is distributed to its shareholders provided that PSBP meets certain tests. PSBP believes it has met these tests during 1997; accordingly, no provision for income taxes has been made in the accompanying financial statements. In addition, PSP11 (the legal entity for income tax reporting purposes subsequent to the March 17, 1998 merger) believes it has also met the REIT tests during each of 1997, 1996 and 1995.

The income tax provision for fiscal 1996 and 1995 is as follows:

1996:	
Federal	$ 166,000
State	50,000
	$ 216,000
1995:	
Federal	$ 372,000
State	100,000
	$ 472,000

The income tax provision is different from that which would be computed by applying the Federal income tax rate to income before taxes as follows:

	1996	**1995**
Tax at statutory rate	$ 177,000	$ 405,000
State income taxes	33,000	66,000
Other	6,000	1,000
	$ 216,000	$ 472,000

Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles 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 those estimates.

General and administrative expense:

General and administrative expense includes legal expense, office expense, state income taxes (in the case of 1997), executive salaries, and other such administrative items. Such amounts include amounts incurred by PSI on behalf of PSBP, which were subsequently charged to PSBP.

3. Real estate facilities

On January 2, 1997, concurrent with the formation of the Operating Partnership, PSI and affiliated entities contributed 26 commercial properties (approximately 2.4 million square feet) to the Operating Partnership in exchange for 5,824,383 OP Units. In addition, PSI contributed 9 commercial properties to PSBP in exchange for 1,198,680 shares of non-voting participating preferred. PSBP immediately contributed these 9 commercial properties (approximately 0.6 million square feet) to the Operating Partnership for 1,198,680 OP Units. These transactions were accounted for as a purchase of properties by PSBP and the Operating Partnership at fair value (approximately $117.2 million in aggregate).

In April 1997, PSI contributed 4 commercial properties (approximately 0.4 million square feet) to the Operating Partnership in exchange for 1,480,968 OP Units. The cost of these properties was recorded at PSI's carrying cost of approximately $23.9 million.

In separate transactions in July, September, and December 1997, PSBP and the Operating Partnership acquired a total of four commercial properties (approximately 0.6 million square feet) from unaffiliated third parties. The aggregate purchase cost of these facilities was approximately $47.5 million, consisting of the issuance of 27,495 OP Units having a value of approximately $0.6 million and $46.9 million in cash.

In addition, on December 24, 1997, PSBP and the Operating Partnership issued 3,504,758 shares of PSBP common stock and 1,785,007 OP Units, respectively, to subsidiaries of a state pension plan, and the subsidiaries, through a merger and contribution, transferred to PSBP and the Operating Partnership a total of six commercial properties (approximately 2.0 million net rentable square feet) and $1.0 million in cash. The total cost of the six properties was approximately $118.9 million.

The activity in real estate facilities in 1997 is as follows:

	Land	Buildings	Accumulated Depreciation	Total
Balances at December 31, 1996	$ -	$ -	$ -	$ -
Acquisitions from affiliates	35,154,000	82,026,000	-	117,180,000
Capital improvements (Jan - Mar 1997)	-	582,000	-	582,000
Depreciation expense (Jan - Mar 1997)	-	-	(820,000)	(820,000)
Adjustment to reflect PSI's acquisition cost (Note 2)	-	7,146,000	820,000	7,966,000
Balances at March 31, 1997	35,154,000	89,754,000	-	124,908,000
Acquisitions from:				
PSI and affiliates	6,682,000	17,294,000	-	23,976,000
Third parties	49,918,000	116,435,000	-	166,353,000
Capital improvements (Apr - Dec 1997)	-	2,983,000	-	2,983,000
Depreciation expense (Apr - Dec 1997)	-	-	(3,982,000)	(3,982,000)
Balances at December 31, 1997	$91,754,000	$226,466,000	$(3,982,000)	$314,238,000

4. Leasing activity

Future minimum rental revenues under non-cancelable leases as of December 31, 1997 with tenants for the above real estate facilities are as follows:

1998	$ 42,937,000
1999	30,527,000
2000	19,785,000
2001	11,005,000
2002	6,141,000
Thereafter	8,662,000
	$ 119,057,000

5. Minority interests

In consolidation, PSBP classifies ownership interests in the Operating Partnership, other than its own, as minority interest on the consolidated financial statements. Minority interest in income consists of the minority interests' share (approximately 69% on a weighted average basis of income before minority interest in income taxes for the two periods comprising the year ended December 31, 1997) of the consolidated operating results.

Subject to certain limitations described below, each limited partner other than PSBP has the right to require the redemption of such limited partner's partnership interests 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 PSBP, 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 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, PSBP, 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 PSBP common stock for each unit of limited partnership interest redeemed.

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

At December 31, 1997, there were 9,117,854 OP Units owned by minority interests (7,305,352 were owned by PSI and affiliated entities, 1,785,007 were owned by a subsidiary of a state pension fund, and 27,495 were owned by unaffiliated third parties). On a fully converted basis, assuming all 9,117,854 OP Units were converted into shares of common stock of PSBP at December 31, 1997, the minority interests would own approximately 54% of the pro forma common shares outstanding.

In January 1998, the subsidiary of the state pension plan exercised its option to convert its OP Units into shares of common stock of PSBP.

6. Property management contracts

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

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

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

7. Shareholders' equity

PSBP was initially capitalized with 2,500 shares of capital stock. In connection with the November 16, 1995 merger between PSMI and PSI, PSBP's Articles of Incorporation were amended authorizing PSBP to issue only two classes of shares (i) 100,000 shares of $0.10 par value preferred stock and (ii) 100,000 shares of $0.10 par value common stock. PSBP's existing 2,500 shares of capital stock were, concurrent with the amendment, exchanged for 899,608 shares of preferred stock.

The preferred stock participates fully on a share for share basis in any dividends which the Board of Directors of PSBP declares with respect to the common shares. Except under certain conditions, the preferred stock has no voting rights on any matter requiring a vote of shareholders. In the event of any liquidation, dissolution or winding up of PSBP, the preferred stock shall be entitled to receive, in preference to any payment on the common shares, an amount equal to $16.69 per share. After this the common shares receive $16.69 per share. Subsequent to the common shares receiving $16.69 per share, the remainder is distributed ratably among the preferred and common shareholders.

In connection with the November 16, 1995 merger, Hughes purchased 47,348 shares of common stock of PSBP for cash totaling $790,000.

In December 1996, PSBP issued 47,349 shares of common stock to third parties for cash totaling $790,000. In addition, in December 1996, Ronald L. Havner, Jr. acquired all of the common shares of PSBP held by B. Wayne Hughes.

In July 1997, PSBP issued 2,025,769 shares of common stock primarily to PSI for cash totaling $33,800,000.

In December 1997, PSBP issued 3,504,758 shares of common stock to a subsidiary of a state pension plan in connection with the acquisition of commercial properties. PSBP incurred approximately $3,300,000 in transaction costs.

As a REIT, PSBP must distribute to its shareholders in each taxable year an amount at least equal to 95% of its REIT taxable income. In November and December 1997, PSBP paid distributions to its common shareholders totaling $2.1 million ($0.494 per common share) and $1.5 million ($0.189 per common share), respectively. The characterization of dividends for Federal income tax purposes is made based upon earnings and profits of PSBP, as defined by the Internal Revenue Code. Distributions declared by the Board of Directors in 1997 were characterized as ordinary income.

8. Stock options

PSBP has a 1997 Stock Option Plan (the "Plan"). Under the Plan, PSBP has granted non-qualified options to certain directors, officers and key employees to purchase shares of PSBP's common stock at a price equal to 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.

At December 31, 1997, there were 1,500,000 options authorized to grant. Information with respect to the Plan during 1997 is as follows:

	1997	
	Number of Options	Average Price per Share
Options outstanding January 1	-	$ -
Granted	305,570	16.80
Exercised	-	-
Canceled	-	-
Options outstanding December 31	305,570	$ 16.80
Option price range at December 31		$16.69 to $22.88
Options exercisable at December 31	None	
Options available for grant at December 31	1,194,430	

PSBP adopted the disclosure requirement provision of SFAS No. 123 in accounting for stock-based compensation issued to employees. As of December 31, 1997 there were 305,570 options outstanding that were subject to SFAS No. 123 disclosure requirements. The fair value of these options was estimated utilizing prescribed valuation models and assumptions as of each respective grant date. Based on the results of such estimates, management determined that there was no material effect on net income or earnings per share for either of the two periods comprising the year ended December 31, 1997. The remaining contractual lives were 9.1 years at December 31, 1997.

9. Subsequent events

Property acquisitions:

On January 13, 1998, PSBP purchased a commercial property for approximately $22,643,000, consisting of $22,450,000 cash and the issuance of 8,428 OP Units having a value of approximately $193,000.

In March 1998, PSBP purchased two commercial properties from unaffiliated third parties for an aggregate cost of approximately $33,139,000, composed of $17,600,000 cash, the issuance of 44,250 OP units having a value of approximately $1,013,000, and the assumption of mortgage notes payable of $14,526,000.

Stock issuances to institutional investors:

In January 1998, PSBP entered into an agreement with a group of institutional investors under which PSBP will issue up to 6,744,074 shares of PSBP common stock at $22.88 per share in cash (an aggregate of up to $155,000,000) in separate tranches. The first tranche, 2,185,189 shares or $50.0 million, was issued in January 1998. The remainder of the shares will be issued as the funds are required by PSBP to purchase commercial properties.

PS BUSINESS PARKS INC.
(SUCCESSOR TO AMERICAN OFFICE PARK PROPERTIES, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1997

Line of credit with PSI:

PSBP has entered into a line of credit agreement with PSI for $100,000,000 with an interest rate of the London Interbank Offered Rate ("LIBOR") plus 1.25%.

March 17, 1998 merger (unaudited):

On March 17, 1998, AOPP merged into PSP11, a publicly traded real estate investment trust and an affiliate of PSI. Upon consummation of the merger of AOPP into PSP11, each share of AOPP's common stock was converted into 1.18 shares of PSP11 common stock. PSP11, the surviving corporation, was renamed "PS Business Parks, Inc." (PSBP as defined in Note 1). Under the merger transaction:

- Each outstanding share of PSP11 Common Stock continues to be owned by current holders or converted into the right to receive $20.50 in cash. The total amount of shares electing cash was 106,155. If a PSP11 shareholder did not elect cash, he or she continues to own PSP11 Common Stock.

- Each share of PSP11 Common Stock Series B and each share of PSP11 Common Stock Series C converted into .8641 share of PSP11 Common Stock.

- Each share of AOPP Common Stock converted into 1.18 shares of PSP11 Common Stock.

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

Pro forma data (unaudited) for the year ended December 31, 1997 as though the merger, property acquisitions which occurred during fiscal 1997 and during 1998 (as described above), had been effective at the beginning of fiscal 1997 is as follows:

	(in thousands except per share data)
Pro forma:	
Revenues	$ 68,625
Net income	18,918
Net income per common share (Basic)	$ 1.35
Net income per common share (Diluted)	1.35
Weighted average shares outstanding (Basic)	13,982
Weighted average shares outstanding (Diluted)	14,021
Total assets	$ 427,872
Notes payable	$ 14,526
Shareholders equity	$ 266,952

The pro forma data does not purport to be indicative either of results of operations that would have occurred had the transactions occurred at the beginning of fiscal 1997 or future results of operations PSBP and the Operating Partnership.

10. Recent accounting pronouncements

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income" ("SFAS 130"), which establishes standards for the reporting of comprehensive income and its components. This statement requires a separate statement to report the components of comprehensive income for each period reported. The provisions of this statement are effective for fiscal years beginning after December 15, 1997. PSBP will implement SFAS 130 for the fiscal year ended December 31, 1998, but PSBP does not expect the impact to be material.

In July 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"), which establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. This statement is effective for periods beginning after December 15, 1997. PSBP does not expect SFAS 131 to have a significant impact upon its reporting presentation.

Report of Independent Auditors

The Board of Directors and Shareholders
PS Business Parks, Inc. (successor to American Office Park Properties, Inc.)

We have audited the accompanying consolidated balance sheets of PS Business Parks, Inc. as of December 31, 1997 and 1996, and the related consolidated statements of income, shareholders' equity, and cash flows for the period from April 1, 1997 through December 31, 1997, from January 1, 1997 through March 31, 1997, and the years ended December 31, 1996 and 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 1997 and 1996, and the results of its operations and its cash flows for the period from April 1, 1997 through December 31, 1997, from January 1, 1997 through March 31, 1997, and the years ended December 31, 1996 and 1995 in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

Los Angeles, California
February 23, 1998 except for Note 9 as to which the date is March 18, 1998

Corporate Data

Board of Directors

Ronald L. Havner, Jr.
President, Chairman and Chief Executive Officer

Harvey Lenkin
Director

Vern O. Curtis
Director

Arthur M. Friedman
Director

James H. Kropp
Director

Alan K. Pribble
Director

Jack D. Steele
Director

Executive Officers

Ronald L. Havner, Jr.
President, Chairman and Chief Executive Officer

Mary Jayne Howard
Executive Vice President President - Operations Group

Jack E. Corrigan
Vice President, Chief Financial Officer and Secretary

J. Michael Lynch
Vice President - Director of Acquisitions and Development

Other Corporate Officers

Mary Piper-Mutz
Vice President

Glenn Benoist
Vice President

Brett Franklin
Vice President - Acquisitions

Property Management

Tricia Abbott
Regional Manager

Lisa Donovan
Regional Manager

Lisa Freitas
Regional Manager

Maria Hawthorne
Regional Manager

Professional Services

Transfer Agent

American Stock Transfer and
Trust Company
40 Wall Street
New York, New York 10005
(800) 937-5449

Independent Auditors

Ernst & Young LLP
Los Angeles, California

Corporate Headquarters

PS Business Parks, Inc.
701 Western Avenue
P.O. Box 25050
Glendale, California 91221
(818) 244-8080

The Company's common stock is traded on the American Stock Exchange. The ticker symbol is PSB.

PS Business Parks, Inc.
701 Western Avenue
P.O. Box 25050
Glendale, California 91221-5050
(818) 244-8080

Address Correction Requested

www.psbusinessparks.com