PS BUSINESS PARKS, INC.
1999 First Quarter Report

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To Our Shareholders

Your Company achieved good operating results during the first quarter while maintaining financial flexibility and a disciplined approach to acquisitions. "Same Park" operations combined with better than expected results from our acquired properties resulted in reasonable growth in funds from operations ("FFO"). In addition, the Company benefited from the use of temporary low-interest borrowings to fund acquisitions. These temporary borrowings were replaced with permanent capital in April, 1999.

Financial Results

First quarter financial results reflected increased revenues and net operating income ("NOI") from "Same Park" facilities and the successful integration of the properties acquired over the last twelve months.

Funds from operations for the three months ended March 31, 1999 were $18,390,000, or $0.59 per common share/OP unit (31,115,000 weighted average shares/units) on a diluted basis compared to $9,444,000, or $0.50 per common share/OP unit (18,704,000 weighted average shares/units) on a diluted basis for the same period in 1998.

Net income for the three months ended March 31, 1999 was $9,442,000 ($0.40 per common share on a diluted basis) compared to $4,330,000 ($0.38 per common share on a diluted basis) for the same period in 1998, representing an increase of $5,112,000. Revenues for the three months ended March 31, 1999 increased to $29,251,000 compared to $14,788,000 for the same period in 1998, representing an increase of $14,463,000. The significant increase in revenues and net income for the three months ended March 31, 1999 compared to the same period in 1998 was primarily the result of the acquisition of additional real estate facilities during 1998 and 1999 and improved "Same Park" operations.

"Same Park" performance remains on strong pace

In order to evaluate the performance of the Company's overall portfolio, management analyzes the operating performance of a consistent group of properties (7.2 million net rentable square feet). These 62 properties in which the Company currently has an ownership interest (herein referred to as the "Same Park" facilities) have been managed by the Company since January 1998. The following tables summarize the pre-depreciation historical operating results of the "Same Park" facilities excluding the effects of accounting for rental revenues on a straight-line basis. Beginning with this quarter, the Company has added 11 properties operated throughout 1998 totaling approximately three million square feet to its "Same Park" facilities. These additional properties have been operated for the comparable periods and will provide a more comprehensive analysis of the portfolio's operations. The "Same Park" facilities now represent approximately 64% of the square footage of our portfolio at March 31, 1999.

“Same Park” Facilities (62 Properties)

	Three Months Ended March 31,		
	1999	1998 (1)	Change
Rental income (2)	$ 17,489,000	$ 16,174,000	8.1%
Cost of operations	5,378,000	5,236,000	2.7%
Net operating income	$ 12,111,000	$ 10,938,000	10.7%
Weighted Average for period:			
Occupancy	96.4%	94.1%	2.3%
Annualized realized rent per sq. ft. (3)	$10.10	$9.56	5.6%

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

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

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

On a “Same Park” basis, rental income advanced to $17,489,000 for the quarter ended March 31, 1999, compared to $16,174,000 for the same period in 1998, an 8.1 percent increase. Net operating income (net income before depreciation and amortization) equaled $12,111,000 for the first quarter of 1999, versus $10,938,000 for the same period in 1998, a 10.7% increase. Improved “Same Park” operations for the first quarter of 1999 are due primarily to higher revenues as a result of higher occupancy levels (2.3%) and higher rental rates (5.6%) with a moderate increase in expenses due primarily to increases in property tax expense. The moderate increase in expenses was achieved as a result of economies of scale achieved through the acquisition of properties in existing markets.

Facility Acquisitions

The Company acquired approximately 338,000 square feet of commercial space for an aggregate cost of approximately $24 million during the first quarter of 1999. These acquisitions were comprised of 230,000 square feet adjacent to the Company’s existing park in Austin, Texas and 108,000 square feet in Northern Virginia and a 9.2 acre parcel of land which the Company plans to develop into a 136,000 square foot flex building. In May, 1999, the Company completed its acquisition of a portfolio of properties in Austin, Texas with the acquisition of two facilities totaling 75,359 square feet for $8.3 million.

The Company continues its strategy of focusing its acquisitions in its existing markets. Management believes its primary markets have the characteristics for long-term growth. These characteristics include better than average population growth, income growth and higher than average education levels. In addition, these markets have excellent transportation and proximity to universities. Management believes that these are characteristics that lead to business formation and expansion, which creates demand for the Company’s property type.

Development

As previously announced, the Company continues to develop office and flex properties that are located within or adjacent to existing parks. The properties are being developed using the expertise of local development companies on a fee basis. There are two projects currently under development aggregating 131,000 square feet with a total estimated cost of $17 million. Construction of these projects is expected to be completed in July 1999.

Preferred Stock/Unit Offerings

In April, 1999, the Company completed a private placement of preferred OP units and a public offering of depositary shares representing fractional interests in preferred stock with net proceeds totaling $65.7 million. The net proceeds from the preferred OP unit placement, completed April 23, 1999, were approximately $12.5 million. The preferred OP units have a preferred distribution rate of 8 7/8% on a stated value of $12.75 million. The preferred OP units have equivalent terms to those of perpetual preferred stock. Net proceeds from the public perpetual preferred stock offering completed April 30, 1999 were $53.2 million. The preferred stock has a dividend rate of 9¼% on a stated value of $55 million. Proceeds from the issuances were used to pay off borrowings from an affiliate and a mortgage note payable of approximately $11 million and to fund the acquisition of the remainder of the Austin portfolio in May, 1999. The remaining proceeds will be used for investment in real estate.

Rating Agencies Announce Credit Ratings

During April 1999, Moody's Investor Services, Standard & Poor's and Duff & Phelps Credit Rating Co. announced investment grade ratings for the Company's senior unsecured credit. In addition, the agencies announced ratings on the Company's preferred stock issuance of Ba1 from Moody's Investor Services, BB+ from Standard & Poor's and BBB- from Duff & Phelps Credit Rating Co. Interested investors should review separate public announcements from each agency regarding their rating rationale.

Conclusion

Your Company continued to achieve reasonable results from its "Same Park" and acquired portfolios. In addition, the Company was rated by the three major rating agencies and accessed the preferred stock/unit market for permanent capital to maintain its financial profile. Your Company's healthy cash position, unused line of credit and financial condition has it positioned for opportunity.

Thank you for your continued support.

Ronald L. Havner, Jr.
Chairman of the Board

June 30, 1999

PS BUSINESS PARKS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 1999 (unaudited)	December 31, 1998
ASSETS		
Cash and cash equivalents	$ 1,299,000	$ 6,068,000
Real estate facilities, at cost:		
Land	180,245,000	176,241,000
Buildings and equipment	559,686,000	536,697,000
	739,931,000	712,938,000
Accumulated depreciation	(29,175,000)	(22,517,000)
	710,756,000	690,421,000
Construction in progress	11,593,000	7,716,000
	722,349,000	698,137,000
Intangible assets, net	1,508,000	1,583,000
Other assets	4,458,000	3,626,000
Total assets	$ 729,614,000	$ 709,414,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accrued and other liabilities	$ 14,050,000	$ 15,953,000
Line of credit	-	12,500,000
Note payable to affiliate	27,700,000	-
Mortgage notes payable	39,923,000	38,041,000
Total liabilities	81,673,000	66,494,000
Minority interest	154,858,000	153,015,000
Shareholders' equity:		
Preferred Stock, $0.01 par value, 50,000,000 shares authorized, none outstanding at March 31, 1999 and December 31, 1998	-	-
Common stock, $0.01 par value, 100,000,000 shares authorized, 23,637,410 shares issued and outstanding at March 31, 1999 (23,635,650 shares issued and outstanding at December 31, 1998)	236,000	236,000
Paid-in capital	482,116,000	482,471,000
Cumulative net income	41,996,000	32,554,000
Cumulative distributions	(31,265,000)	(25,356,000)
Total shareholders' equity	493,083,000	489,905,000
Total liabilities and shareholders' equity	$ 729,614,000	$ 709,414,000

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

	For the three months ended March 31, 1999	1998
Revenues:		
Rental income	$ 29,117,000	$ 14,353,000
Facility management fees from affiliates	114,000	202,000
Interest income	20,000	233,000
	29,251,000	14,788,000
Expenses:		
Cost of operations	8,376,000	4,627,000
Cost of facility management	23,000	25,000
Depreciation and amortization	6,733,000	2,300,000
General and administrative	802,000	445,000
Interest expense	909,000	247,000
	16,843,000	7,644,000
Income before minority interest	12,408,000	7,144,000
Minority interest in income	(2,966,000)	(2,814,000)
Net income	$ 9,442,000	$ 4,330,000
Net income per share:		
Basic	$ 0.40	$ 0.38
Diluted	$ 0.40	$ 0.38
Weighted average shares outstanding:		
Basic	23,637,000	11,314,000
Diluted	23,705,000	11,357,000

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

	For the three months ended March 31, 1999	1998
Cash flows from operating activities:		
Net income	$ 9,442,000	$ 4,330,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	6,733,000	2,300,000
Minority interest in income	2,966,000	2,814,000
Increase in other assets	(832,000)	(521,000)
Increase (decrease) in accrued and other liabilities	(1,900,000)	371,000
Total adjustments	6,967,000	4,964,000
Net cash provided by operating activities	16,409,000	9,294,000
Cash flows from investing activities:		
Acquisition of real estate facilities	(22,269,000)	(38,754,000)
Acquisition cost of business combination	-	(424,000)
Capital improvements to real estate facilities	(2,204,000)	(857,000)
Construction in progress	(3,877,000)	-
Net cash used in investing activities	(28,350,000)	(40,035,000)
Cash flows from financing activities:		
Borrowings from an affiliate	41,200,000	-
Repayment of borrowings from an affiliate	(13,500,000)	(3,500,000)
Borrowings from line of credit	14,000,000	-
Repayment of borrowings from line of credit	(26,500,000)	-
Principal payments on mortgage notes payable	(305,000)	-
Net proceeds from the issuance of common stock	40,000	48,251,000
Distributions paid to shareholders	(5,909,000)	(4,079,000)
Distributions paid to minority interests	(1,854,000)	(2,556,000)
Net cash provided by financing activities	7,172,000	38,116,000
Net increase (decrease) in cash and cash equivalents	(4,769,000)	7,375,000
Cash and cash equivalents at the beginning of the period	6,068,000	3,884,000
Cash and cash equivalents at the end of the period	$ 1,299,000	$ 11,259,000