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

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To Our Shareholders

PS Business Parks made progress on many fronts during the second quarter of 1998. Our strong operational performance and excellent acquisitions combined to result in significantly increased funds from operations (FFO). PSB also continued to access equity capital in order to position the Company for future growth. In addition, the Company continued to expand its portfolio in existing markets through well planned acquisitions. Finally, PSB made two important additions to its senior management team during the second quarter.

Financial Results.

Financial results for the second quarter continued to demonstrate PSB's success at operating its "Same Park" facilities in addition to the ability to continue its successful acquisition program and integrate those acquisitions into the existing portfolio. This combination resulted in exceptional financial results including strong FFO growth.

Funds from operations for the three months ended June 30, 1998 were $14,171,000, or $0.54 per common share/OP Unit (26,122,000 weighted average shares/units) on a diluted basis compared to $4,569,000, or $0.48 per common share/OP Unit (9,426,000 weighted average shares/units) on a diluted basis for the same period in 1997. Funds from operations for the six months ended June 30, 1998 were $23,615,000, or $1.05 per common share/OP Unit (22,460,000 weighted average shares/units) on a diluted basis compared to $7,884,000, or $0.91 per common share/OP Unit (8,863,000 weighted average shares/units) on a diluted basis for the same period in 1997.

Net income for the three months ended June 30, 1998 was $7,046,000 ($0.38 per common share on a diluted basis) compared to $795,000 ($0.36 per common share on a diluted basis) for the same period in 1997, representing an increase of $6,251,000. Revenues for the three months ended June 30, 1998 increased to $21,911,000 compared to $7,316,000 for the same period in 1997, representing an increase of $14,595,000. The significant increase in revenues and net income for the three months ended June 30, 1998 compared to the same period in 1997 was primarily the result of the acquisition of additional real estate facilities during 1997 and 1998 and improved Same Park operations.

Net income for the six months ended June 30, 1998 was $11,376,000 ($0.76 per common share on a diluted basis) compared to $1,477,000 for the same period in 1997, representing an increase of $9,899,000. Revenues for the six months ended June 30, 1998 increased to $36,699,000 compared to $13,397,000 for the same period in 1997 representing an increase of $23,302,000. The significant increase in revenues and net income for the six months ended June 30, 1998 compared to the same period in 1997 was primarily the result of the acquisition of additional real estate facilities during 1997 and 1998 and improved Same Park Operations.

Same Park performance maintains strong pace.

On a Same Park basis, rental income advanced to $9,767,000 for the quarter ended June 30, 1998, compared to $9,300,000 for the same period in 1997, a 5.0 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 June 30, 1998, were owned by PSB. Net operating income (net income before depreciation and amortization) equaled $6,238,000 for the second quarter of 1998, versus $5,732,000 for the same period one year earlier, an 8.8 percent increase. Improved Same Park operations for the second quarter of 1998 are due primarily to a combination of higher revenues (up 5.0 percent) and declining cost of operations (down 1.1 percent).

For the six months ended June 30, 1998, Same Park rental income was $19,157,000, versus $18,176,000 for the same period in 1997, a 5.4 percent increase. Net operating income amounted to $11,936,000 for the first half of 1998, versus $10,936,000 for the same period one year earlier, a 9.1 percent increase. Same Park operations for the first half of 1998 reflect higher revenues (up 5.4 percent) and lower expenses (down 0.3 percent).

Equity Offerings.

As discussed in prior reports to investors, in May 1998, PSB completed two equity capital offerings totaling approximately $118.9 million. A portion of the proceeds was used to retire debt incurred in a $190 million portfolio acquisition. Through these well timed equity offerings, PSB was able to continue its external growth program while continuing to maintain a substantially unleveraged balance sheet. This financial flexibility leaves PSB positioned for future opportunistic growth. PSB’s strategy of maintaining financial flexibility is particularly important during these periods of uncertain capital markets.

Real estate acquisitions reflect PSB’s financial strength.

In May 1998, PSB purchased 28 commercial properties and 15 acres of undeveloped land for approximately $190 million from a large insurance company, the Principal Financial Group (Principal). The acquisition consisted primarily of three business parks, two in Beaverton, Oregon and one in Dallas, Texas.

The two parks in Oregon, Creekside and Woodside, were originally developed by Principal in joint venture with Koll Development between 1983 and 1995. The Creekside, Oregon park is located across from the East Washington Square Mall in the "I-217" Corridor in Beaverton, Oregon. It consists of 595,000 square feet of rentable area which is 99% leased and includes two low-rise office buildings. The Woodside, Oregon park is located in the "Sunset" Corridor of Beaverton. It is contiguous to the world headquarters of Sequent Computer Systems, Inc. (Sequent) and Nike, Inc. The park consists of 409,000 square feet and is 98% occupied. Sequent became the Company's largest tenant with approximately 338,000 square feet. We have moved quickly to establish a strong relationship with Sequent and will begin development of the adjacent 12 acres acquired in the transaction.

The third main park is called Royal Tech and is located in the prestigious Las Colinas area of Dallas next to the Dallas/Ft. Worth Airport. Principal developed this park in joint venture with the Trammell Crow organization between 1983 and 1998. This park is 100% leased and includes high quality tenants, including Ford Consumer Credit and American Airlines. We are in the process of establishing a joint venture with Trammell Crow to further develop this park.

Your Company completed the acquisition of three additional properties during the second quarter of 1998 that met its investment objectives. PSB's primary acquisition strategy is to acquire, own, and manage business parks containing office "flex" space in major metropolitan markets in which it already has a presence. PSB acquired the three properties (approximately 343,000 net rentable square feet) for an aggregate cost of approximately $29.1 million.

Additions to Management Team.

During the second quarter, the Company expanded its senior management team with the addition of Jack Corrigan as Vice President and Chief Financial Officer and Michael Lynch as Vice President and Director of Acquisitions and Development. Jack Corrigan was Vice President and Controller of Storage Equities, Inc. (the predecessor of Public Storage, Inc.) through February 1991 and has 16 years of public and private market experience. Michael Lynch has been Vice President of Acquisitions and Development for a regional developer since 1995 and has 16 years of real estate acquisition and development experience.

PSB obtains $100 million unsecured line of credit.

PSB further enhanced its financial flexibility in August 1998 by entering into an unsecured $100 million line of credit agreement with Wells Fargo Bank. The interest rate is LIBOR (London Interbank Offered Rate) plus 0.80 percent, which compares favorably to rates paid by companies of comparable size. PSB expects to use the line of credit for temporary financing of future acquisitions.

Conclusion.

Your Company continued to make substantial progress during the second quarter of 1998. The second quarter included strong operating results, increasing “Same Park” performance, completion of several real estate acquisitions and improvement of its financial strength and flexibility through well-timed equity offerings. In addition, we increased the depth of our management team with two key additions. We look forward to continued strong operational performance, and opportunistic growth while maintaining the flexibility to take advantage of attractive investment opportunities.

Thank you for your continued support.

Ronald L. Havner, Jr.
Chairman of the Board

September 30, 1998

	June 30, 1998	December 31, 1997
	(unaudited)	
ASSETS		
Cash and cash equivalents	$ 36,355,000	$ 3,884,000
Real estate facilities, at cost:		
Land	191,929,000	91,754,000
Buildings and equipment	453,883,000	226,466,000
	645,812,000	318,220,000
Accumulated depreciation	(10,314,000)	(3,982,000)
	635,498,000	314,238,000
Intangible assets, net	1,733,000	3,272,000
Other assets	2,180,000	2,060,000
Total assets	$ 675,766,000	$ 323,454,000

LIABILITIES AND SHAREHOLDERS' EQUITY

	June 30, 1998	December 31, 1997
Accrued and other liabilities	$ 11,256,000	$ 8,331,000
Mortgage notes payable	29,890,000	-
Note payable to affiliate	-	3,500,000
Total liabilities	41,146,000	11,831,000
Minority interest	151,225,000	168,665,000
Shareholders' equity:		
Preferred Stock, $0.01 par value, 50,000,000 shares authorized, none outstanding at June 30, 1998 and December 31, 1997	-	-
Common stock, $0.01 par value, 100,000,000 shares authorized 23,635,650 shares issued and outstanding at June 30, 1998 (7,728,309 shares issued and outstanding at December 31, 1997)	236,000	773,000
Paid-in capital	482,167,000	142,581,000
Cumulative net income	14,530,000	3,154,000
Cumulative distributions	(13,538,000)	(3,550,000)
Total shareholders' equity	483,395,000	142,958,000
Total liabilities and shareholders' equity	$ 675,766,000	$ 323,454,000

	For the three months ended June 30,		For the six months ended June 30,	
	1998	1997	1998	1997
Revenues:				
Rental income	$ 21,471,000	$ 6,978,000	$ 35,824,000	$ 12,783,000
Facility management fees primarily from affiliates	129,000	228,000	331,000	475,000
Interest and other income	311,000	110,000	544,000	139,000
	21,911,000	7,316,000	36,699,000	13,397,000
Expenses:				
Cost of operations	6,355,000	2,526,000	10,982,000	5,019,000
Cost of facility management	12,000	49,000	37,000	109,000
Depreciation and amortization	4,256,000	1,195,000	6,556,000	2,015,000
General and administrative	551,000	172,000	996,000	385,000
Interest expense	822,000	-	1,069,000	-
	11,996,000	3,942,000	19,640,000	7,528,000
Income before minority interest	9,915,000	3,374,000	17,059,000	5,869,000
Minority interest in income	(2,869,000)	(2,579,000)	(5,683,000)	(4,392,000)
Net income	$ 7,046,000	$ 795,000	$ 11,376,000	$ 1,477,000
Net income per share:				
Basic	$ 0.38	$ 0.36	$ 0.76	$ 0.68
Diluted	$ 0.38	$ 0.36	$ 0.76	$ 0.68
Weighted average shares outstanding:				
Basic	18,649,693	2,197,779	14,926,093	2,185,569
Diluted	18,710,576	2,197,779	14,977,776	2,185,569

	For the six months ended June 30,	
	1998	1997
Cash flows from operating activities:		
Net income	$ 11,376,000	$ 1,477,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	6,556,000	2,015,000
Minority interest in income	5,683,000	4,392,000
(Increase) decrease in other assets	(468,000)	276,000
Increase (decrease) in accrued and other liabilities	462,000	(98,000)
Total adjustments	12,233,000	6,585,000
Net cash provided by operating activities	23,609,000	8,062,000
Cash flows from investing activities:		
Acquisition of real estate facilities	(241,674,000)	-
Acquisition cost of business combination	(424,000)	-
Capital improvements to real estate facilities	(3,175,000)	(1,366,000)
Payment received from PSI and affiliates for net property operating liabilities assumed	-	2,233,000
Net cash (used in) provided by investing activities	(245,273,000)	867,000
Cash flows from financing activities:		
Borrowings from an affiliate	179,000,000	-
Repayment of borrowings from an affiliate	(182,500,000)	-
Principal payments on mortgage notes payable	(85,000)	-
Decrease in receivable from affiliate	-	641,000
Proceeds from the issuance of common stock, net	272,112,000	80,000
Distributions paid to shareholders	(9,988,000)	-
Distributions to minority interests	(4,404,000)	-
Net cash provided by financing activities	254,135,000	721,000
Net increase in cash and cash equivalents	32,471,000	9,650,000
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	$ 36,355,000	$ 10,569,000

	For the six months ended June 30, 1998	1997
Supplemental schedule of noncash investing and financial activities:		
Acquisitions of real estate facilities and associated assets and liabilities in exchange for preferred stock, minority interests, and mortgage notes payable:		
Real estate facilities	$ (33,428,000)	$ (141,480,000)
Other assets (deposits on real estate acquisitions)	800,000	-
Accrued and other liabilities	1,245,000	-
Minority interest	1,408,000	120,750,000
Preferred stock	-	100,000
Paid in capital	-	19,900,000
Mortgage notes payable	29,975,000	-
Intangible assets	-	730,000
Business combination:		
Real estate facilities	(48,000,000)	-
Other assets	(452,000)	-
Accrued and other liabilities	1,218,000	-
Common stock	23,000	-
Paid in capital	46,787,000	-
Recapitalization in connection with business combination:		
Common stock	(1,511,000)	-
Paid in capital	1,511,000	-
Conversion of OP Units into shares of common stock:		
Minority interest	(33,023,000)	-
Common stock	179,000	-
Paid in capital	32,844,000	-
Adjustment to reflect minority interest to underlying ownership interest:		
Minority interest	12,896,000	-
Paid in capital	(12,896,000)	-
Exchange of preferred stock for common stock:		
Preferred stock	-	(175,000)
Common stock	-	175,000
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