PS BUSINESS PARKS, INC.
1999 Second Quarter Report

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To Our Shareholders

Your Company continued to achieve strong operating results during the second quarter. "Same Park" operations combined with better than expected results from our acquired properties resulted in reasonable growth in funds from operations ("FFO"). The Company was also active in the capital markets. From April 23, 1999 through September 7, 1999, the Company raised additional capital in the form of perpetual preferred stock and preferred units in its operating partnership. The Company issued $178 million of preferred stock and preferred operating partnership units in four separate transactions with a weighted average dividend yield of approximately 8.95%. The issuances provide a high level of financial flexibility in uncertain capital markets. The Company will continue its disciplined approach to acquisitions despite the short-term dilutive effect of its current cash position.

Financial Results

Second 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.

Net income allocable to common shareholders increased approximately $2.4 million from $7.0 million ($0.38 per share) to $9.4 million ($0.40 per share) for the three months ended June 30, 1999 compared to the same period in 1998. Revenues increased $9.3 million from $21.9 million to $31.2 million for the three months ended June 30, 1999 compared to the same period in 1998. Net income allocable to common shareholders increased approximately $7.4 million from $11.4 million ($0.76 per share) to $18.8 million ($0.79 per share) for the six months ended June 30, 1999 compared to the same period in 1998. Revenues increased $23.8 million from $36.7 million to $60.5 million for the six months ended June 30, 1999 compared to the same period in 1998.

FFO for the three months ended June 30, 1999 was $19.1 million or $0.61 per share/OP unit (based on 31.1 million weighted average shares/OP units) compared to $14.2 million or $0.54 per share/OP unit (based on 26.1 million weighted average shares/OP units) for the same period in 1998. FFO for the six months ended June 30, 1999 was $37.5 million or $1.20 per share/OP unit (based on 31.1 million weighted average shares/OP units) compared to $23.6 million or $1.05 per share/OP unit (based on 22.5 million weighted averaged shares/OP units) for the same period in 1998.

"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 62 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 income on a straight-line basis. The "Same Park" facilities represent approximately 62% of the square footage of our portfolio at June 30, 1999.

"Same Park" Facilities (62 Properties)

	Three months ended June 30,		
	1999	1998	Change
Rental income [1]	$17,839,000	$16,434,000	8.5%
Cost of operations	5,673,000	5,479,000	3.5%
Net operating income	$12,166,000	$10,955,000	11.1%
Gross margin [2]	68.2%	66.7%	1.5%
Weighted average for period:			
Occupancy	97.3%	94.1%	3.2%
Annualized realized rent per sq. ft.[3]	$10.19	$9.70	5.1%

	Six months ended June 30,		
	1999	1998 [4]	Change
Rental income [1]	$35,328,000	$32,608,000	8.3%
Cost of operations	11,048,000	10,714,000	3.1%
Net operating income	$24,280,000	$21,894,000	10.9%
Gross margin [2]	68.7%	67.1%	1.6%
Weighted average for period:			
Occupancy	96.7%	93.7%	3.0%
Annualized realized rent per sq. ft.[3]	$10.14	$9.66	5.0%

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

(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.

(4) Operations for the six months ended June 30, 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.

On a "Same Park" basis, rental income increased 8.5% from approximately $16.4 million to $17.8 million for the second quarter of 1999 compared to the same period in 1998. Net operating income increased 11.1% from approximately $11.0 million to $12.2 million for the second quarter of 1999 compared to the same period in 1998. Improved "Same Park" operations for the second quarter of 1999 are due primarily to a 3.2% increase in occupancy levels and a 5.1% increase in rental rates offset by a moderate increase in expenses.

Rental income increased 8.3% from approximately $32.6 million to $35.3 million for the six months ended June 30, 1999 compared to the same period in 1998. Net operating income increased 10.9% from approximately $21.9 million to $24.3 million for the six months ended June 30, 1999 compared to the same period in 1998. Improved "Same Park" operations for the six months ended June 30, 1999 are due primarily to a 3.0% increase in occupancy levels and a 5.0% increase in rental rates offset by a moderate increase in expenses.

Preferred Stock/Unit Offerings

The Company continued to pursue its financial strategy of injecting leverage into the balance sheet through the issuance of perpetual preferred stock and units and by maintaining the financial flexibility to take advantage of opportunities. From April 23, 1999 through September 7, 1999, the Company raised approximately $178 million of perpetual preferred stock and preferred operating partnership units in four separate transactions with a weighted average distribution rate of approximately 8.95%.

These issuances included the two transactions in April totaling approximately $68 million which were previously announced. In addition, the Company completed two separate private placements of preferred operating partnership units totaling $110 million in September 1999. These financings position the Company for continued growth in a period of uncertainty in the capital markets. Subsequent to the September placements, the Company had $115 million of cash available for investment and nothing drawn on its $100 million line of credit. This financial flexibility allows the Company to take advantage of future opportunities. Proceeds from the issuances were used to pay off borrowings from an affiliate of approximately $28 million and a mortgage note payable of approximately $11 million. The remainder will be used for investment in real estate.

Line of Credit Extended

The Company's line of credit with Wells Fargo Bank, which was scheduled to expire in August 2000 has been extended through August 2002. Borrowings under the line of credit bear interest at LIBOR plus 1.00%. The Company expects to use the line of credit for temporary financing of future acquisitions.

Rating Agencies Announce Credit Ratings

As previously announced, during April 1999, Moody's Investor Services, Standard & Poor's and Duff & Phelps Credit Rating Co. announced implied 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.

Facility Acquisitions

The Company continued to focus on acquiring properties in its existing markets. Management believes the Company's primary markets have characteristics for long-term growth, including better than average population and income growth and higher than average education levels. In addition, these markets have excellent transportation and proximity to universities. Management believes that these factors lead to business formation and expansion, which create demand for the Company's office/flex properties.

The Company acquired 372,000 square feet of commercial space for approximately $38 million during the second quarter of 1999. These acquisitions were comprised of 75,000 square feet in Austin, Texas, 297,000 square feet in Northern Virginia and a 6.4 acre parcel of land adjacent to the Northern Virginia acquisition.

In July 1999, the Company acquired a 211,000 square foot office/flex building in Sacramento, California for approximately $17 million.

During the first eight months of 1999, the Company added 922,000 square feet to its portfolio at a cost of approximately $79 million. The Company acquired 306,000 square feet in Texas for approximately $22 million, 405,000 square feet in the Northern Virginia/Maryland market for approximately $40 million and 211,000 square feet in Northern California for approximately $17 million.

Development

The Company continued to develop office and flex properties that are located within or adjacent to its existing business parks. The properties are being developed using the expertise of local development companies on a fee basis. The Company began development of a 136,000 square foot flex building in Northern Virginia. This building is expected to be completed at a cost of approximately $8 million during the second quarter of 2000.

In June 1999, the Company completed a 61,000 square foot flex facility in its Las Colinas park, located in the Dallas area. In July 1999, the Company completed a 70,000 square foot office building in its Woodside park located in the Portland area. There was no pre-leasing on either development. In August 1999, the Dallas facility was 100% leased to facilitate the expansion of an existing tenant. There is substantial activity at the Portland facility and management expects mature occupancy levels by the end of the first quarter in 2000.

Additional information about PS Business Parks, Inc. including the financial analysis of the second quarter's operating results is available on the Internet. The Company's web site is www.psbusinessparks.com.

Thank you for your continued support.

Ronald L. Havner, Jr.
Chairman of the Board

September 30, 1999

PS BUSINESS PARKS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 1999	December 31, 1998
	(unaudited)	
ASSETS		
Cash and cash equivalents	$ 13,697,000	$ 6,068,000
Real estate facilities, at cost:		
Land	186,980,000	176,241,000
Buildings and equipment	596,447,000	536,697,000
	783,427,000	712,938,000
Accumulated depreciation	(36,413,000)	(22,517,000)
	747,014,000	690,421,000
Construction in progress	17,113,000	7,716,000
	764,127,000	698,137,000
Receivables	602,000	242,000
Deferred rent receivables	3,693,000	2,086,000
Intangible assets, net	1,432,000	1,583,000
Other assets	1,071,000	1,298,000
Total assets	$ 784,622,000	$ 709,414,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accrued and other liabilities	$ 19,392,000	$ 15,953,000
Line of credit	-	12,500,000
Mortgage notes payable	46,072,000	38,041,000
Total liabilities	65,464,000	66,494,000
Minority interests:		
Preferred units	12,750,000	-
Common units	155,686,000	153,015,000
Shareholders' equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, 2,200 shares issued and outstanding at June 30, 1999 (none issued and outstanding at December 31, 1998)	55,000,000	-
Common stock, $0.01 par value, 100,000,000 shares authorized, 23,640,606 shares issued and outstanding at June 30, 1999 (23,635,650 shares issued and outstanding at December 31, 1998)	236,000	236,000
Paid-in capital	481,272,000	482,471,000
Cumulative net income	52,251,000	32,554,000
Cumulative distributions	(38,037,000)	(25,356,000)
Total shareholders' equity	550,722,000	489,905,000
Total liabilities and shareholders' equity	$ 784,622,000	$ 709,414,000

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

	For the three months ended June 30,		For the six months ended June 30,	
	1999	1998	1999	1998
Revenues:				
Rental income	$ 30,859,000	$ 21,471,000	$ 59,976,000	$ 35,824,000
Facility management fees from affiliates	116,000	129,000	230,000	331,000
Interest and other income	273,000	311,000	293,000	544,000
	31,248,000	21,911,000	60,499,000	36,699,000
Expenses:				
Cost of operations	8,655,000	6,355,000	17,031,000	10,982,000
Cost of facility management	23,000	12,000	46,000	37,000
Depreciation and amortization	7,314,000	4,256,000	14,047,000	6,556,000
General and administrative	795,000	551,000	1,597,000	996,000
Interest expense	772,000	822,000	1,681,000	1,069,000
	17,559,000	11,996,000	34,402,000	19,640,000
Income before minority interest	13,689,000	9,915,000	26,097,000	17,059,000
Minority interest in income – preferred units	(214,000)	-	(214,000)	-
Minority interest in income – common units	(3,220,000)	(2,869,000)	(6,186,000)	(5,683,000)
Net income	$ 10,255,000	$ 7,046,000	$ 19,697,000	$ 11,376,000
Net income allocation:				
Allocable to preferred shareholders	$ 862,000	$ -	$ 862,000	$ -
Allocable to common shareholders	9,393,000	7,046,000	18,835,000	11,376,000
	$ 10,255,000	$ 7,046,000	$ 19,697,000	$ 11,376,000
Net income per common share:				
Basic	$ 0.40	$ 0.38	$ 0.80	$ 0.76
Diluted	$ 0.40	$ 0.38	$ 0.79	$ 0.76
Weighted average common shares outstanding:				
Basic	23,639,000	18,650,000	23,638,000	14,926,000
Diluted	23,716,000	18,711,000	23,709,000	14,978,000

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

	For the six months ended June 30,	
	1999	1998
Cash flows from operating activities:		
Net income	$ 19,697,000	$ 11,376,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	14,047,000	6,556,000
Minority interest in income	6,400,000	5,683,000
Increase in receivables and other assets	(1,740,000)	(468,000)
Increase in accrued and other liabilities	3,442,000	462,000
Total adjustments	22,149,000	12,233,000
Net cash provided by operating activities	41,846,000	23,609,000
Cash flows from investing activities:		
Acquisition of real estate facilities	(42,530,000)	(241,674,000)
Acquisition cost of business combination	-	(424,000)
Capital improvements to real estate facilities	(7,207,000)	(3,175,000)
Construction in progress	(9,397,000)	-
Net cash used in investing activities	(59,134,000)	(245,273,000)
Cash flows from financing activities:		
Borrowings from an affiliate	41,400,000	179,000,000
Repayment of borrowings from an affiliate	(41,400,000)	(182,500,000)
Borrowings from line of credit	14,000,000	-
Repayment of borrowings from line of credit	(26,500,000)	-
Principal payments on mortgage notes payable	(11,688,000)	(85,000)
Net proceeds from the issuance of common stock	93,000	272,112,000
Net proceeds from the issuance of preferred stock	53,119,000	-
Net proceeds from the issuance of preferred operating partnership units	12,495,000	-
Distributions paid to preferred shareholders	(862,000)	-
Distributions paid to common shareholders	(11,819,000)	(9,988,000)
Distributions paid to minority interests – preferred	(214,000)	-
Distributions paid to minority interests – common	(3,707,000)	(4,404,000)
Net cash provided by financing activities	24,917,000	254,135,000
Net increase in cash and cash equivalents	7,629,000	32,471,000
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	$ 13,697,000	$ 36,355,000