PS BUSINESS PARKS, INC.
1998 Third Quarter Report

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To Our Shareholders

PS Business Parks continued to achieve strong operating results during the third quarter while focusing on maintaining financial flexibility and a disciplined approach to acquisitions. Strong "Same Park" operations combined with better than expected results from our acquired properties resulted in substantial growth in funds from operations (FFO). This was partially offset by the dilutive effect of undeployed capital.

Financial Results

Third 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. This combination resulted in satisfactory financial results.

Funds from operations for the three months ended September 30, 1998 were $16,702,000, or $0.54 per common share/OP Unit (31,090,000 weighted average shares/units) on a diluted basis compared to $4,980,000, or $0.46 per common share/OP Unit (10,862,000 weighted average shares/units) on a diluted basis for the same period in 1997. Funds from operations for the nine months ended September 30, 1998 were $40,317,000, or $1.59 per common share/OP Unit (25,366,000 weighted average shares/units) on a diluted basis compared to $12,864,000, or $1.36 per common share/OP Unit (9,444,000 weighted average shares/units) on a diluted basis for the same period in 1997.

Net income for the three months ended September 30, 1998 was $9,748,000 ($0.41 per common share on a diluted basis) compared to $1,182,000 ($0.33 per common share on a diluted basis) for the same period in 1997, representing an increase of $8,566,000. Revenues for the three months ended September 30, 1998 increased to $26,277,000 compared to $8,660,000 for the same period in 1997, representing an increase of $17,617,000. The significant increase in revenues and net income for the three months ended September 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 nine months ended September 30, 1998 was $21,124,000 ($1.17 per common share on a diluted basis) compared to $2,659,000 ($1.00 per common share on a diluted basis) for the same period in 1997, representing an increase of $18,465,000. Revenues for the nine months ended September 30, 1998 increased to $62,976,000 compared to $22,057,000 for the same period in 1997 representing an increase of $40,919,000. The significant increase in revenues and net income for the nine months ended September 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 remains strong

On a "Same Park" basis, rental income advanced to $9,820,000 for the quarter ended September 30, 1998, compared to $9,275,000 for the same period in 1997, a 5.9 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 September 30, 1998, were owned by PSB. Net operating income (net income before depreciation and amortization) equaled $5,886,000 for the third quarter of 1998, versus $5,355,000 for the same period in 1997, a 9.9 percent increase. Improved "Same Park" operations for the third quarter of 1998 are due primarily to a combination of higher revenues (up 5.9 percent) without a corresponding increase in expenses. This expense control was a result of economies of scale achieved through the acquisition of properties in existing markets.

For the nine months ended September 30, 1998, Same Park rental income was $28,977,000, versus $27,451,000 for the same period in 1997, a 5.6 percent increase. Net operating income amounted to $17,822,000 for the nine months of 1998, versus $16,291,000 for the same period one year earlier, a 9.4 percent increase. "Same Park" operations for the first three quarters of 1998 reflect higher revenues (up 5.6 percent) without a corresponding increase in expenses due primarily to the economies of scale achieved as a result of property acquisitions in existing markets.

Disciplined Approach to Acquisitions

The Company was well-positioned during the third quarter to continue the growth in its real estate portfolio. PSB held $40 million in cash available for investment in addition to a $100 million unused line of credit. However, competitive bidding on properties increased prices above what the Company considered attractive. Management believes that the current volatile capital markets will reduce competition in the short term for acquistions that meet the Company's criteria.

During the third quarter, the Company added one property in the Washington D.C. market for approximately $8.5 million. The property contains approximately 125,000 square feet and is in a market in which the Company currently operates.

Commencement of Development

The Company plans to develop office and flex properties that are located within or adjacent to existing parks. The properties will be developed using the expertise of local development companies on a fee basis. The development program is designed to enhance the Company's existing portfolio. There are two projects currently under development.

One project is a 61,000 square foot office/flex building in the Las Colinas suburb of Dallas, Texas. The project will have dock loading capabilities and an above standard parking ratio of five cars per thousand square feet. The Company currently has approximately 725,000 square feet of rentable space in Las Colinas.

In addition, the Company began a 70,000 square foot office project in the Beaverton suburb of Portland, Oregon. The Company currently has approximately one million square feet in this market. The three story brick and glass structure is located in the Company's Woodside corporate park adjacent to Nike's world headquarters.

Both of these projects are expected to be completed in the second quarter of 1999.

Line of Credit

As previously reported, on August 6, 1998, the Company entered into an unsecured $100 million line of credit agreement with Wells Fargo Bank bearing interest at LIBOR plus 0.80%. The Company expects to use the line of credit for temporary financing of future acquisitions.

Conclusion

Your Company continued to achieve satisfactory operating results from its "Same Park" and acquired portfolios. In addition, the Company should benefit from management's decision to maintain a disciplined approach to acquisitions. This patience by our acquisitions team positions the Company to take advantage of more attractive opportunities in the future. Your Company's healthy cash position, unused line of credit and strong balance sheet has PSB positioned for opportunity.

Thank you for your continued support.

Ronald L. Havner, Jr.
Chairman of the Board

December 31, 1998

PS BUSINESS PARKS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 1998 (unaudited)	December 31, 1997
ASSETS		
Cash and cash equivalents	$ 32,747,000	$ 3,884,000
Real estate facilities, at cost:		
Land	175,326,000	91,754,000
Buildings and equipment	484,472,000	226,466,000
	659,798,000	318,220,000
Accumulated depreciation	(15,104,000)	(3,982,000)
	644,694,000	314,238,000
Intangible assets, net	1,658,000	3,272,000
Other assets	4,332,000	2,060,000
Total assets	$ 683,431,000	$ 323,454,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accrued and other liabilities	$ 13,794,000	$ 8,331,000
Mortgage notes payable	29,632,000	-
Note payable to affiliate	-	3,500,000
Total liabilities	43,426,000	11,831,000
Minority interest	152,611,000	168,665,000
Shareholders' equity:		
Preferred Stock, $0.01 par value, 50,000,000 shares authorized, none outstanding at September 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 September 30, 1998 (7,728,309 shares issued and outstanding at December 31, 1997)	236,000	77,000
Paid-in capital	482,327,000	143,277,000
Cumulative net income	24,278,000	3,154,000
Cumulative distributions	(19,447,000)	(3,550,000)
Total shareholders' equity	487,394,000	142,958,000
Total liabilities and shareholders' equity	$ 683,431,000	$ 323,454,000

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

	For the three months ended September 30,		For the nine months ended September 30,	
	1998	1997	1998	1997
Revenues:				
Rental income	$ 25,635,000	$ 8,256,000	$ 61,459,000	$ 21,039,000
Facility management fees primarily from affiliates	109,000	221,000	440,000	696,000
Interest and other income	533,000	183,000	1,077,000	322,000
	26,277,000	8,660,000	62,976,000	22,057,000
Expenses:				
Cost of operations	7,379,000	3,250,000	18,361,000	8,269,000
Cost of facility management	12,000	48,000	49,000	157,000
Depreciation and amortization	4,865,000	1,395,000	11,421,000	3,410,000
General and administrative	593,000	382,000	1,589,000	767,000
Interest expense	667,000	-	1,736,000	-
	13,516,000	5,075,000	33,156,000	12,603,000
Income before minority interest	12,761,000	3,585,000	29,820,000	9,454,000
Minority interest in income	(3,013,000)	(2,403,000)	(8,696,000)	(6,795,000)
Net income	$ 9,748,000	$ 1,182,000	$ 21,124,000	$ 2,659,000
Net income per share:				
Basic	$ 0.41	$ 0.33	$ 1.18	$ 1.00
Diluted	$ 0.41	$ 0.33	$ 1.17	$ 1.00
Weighted average shares outstanding:				
Basic	23,635,650	3,555,777	17,920,028	2,652,109
Diluted	23,695,747	3,555,777	17,989,772	2,652,109

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

	For the nine months ended September 30,	
	1998	1997
Cash flows from operating activities:		
Net income	$ 21,124,000	$ 2,659,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	11,421,000	3,410,000
Minority interest in income	8,696,000	6,795,000
(Increase) decrease in other assets	(2,620,000)	289,000
Increase in accrued and other liabilities	3,221,000	1,170,000
Total adjustments	20,718,000	11,664,000
Net cash provided by operating activities	41,842,000	14,323,000
Cash flows from investing activities:		
Acquisition of real estate facilities	(252,649,000)	(43,360,000)
Acquisition cost of business combination	(424,000)	-
Capital improvements to real estate facilities	(6,030,000)	(2,321,000)
Payment received from PSI and affiliates for net property operating liabilities assumed	-	2,233,000
Net cash used in investing activities	(259,103,000)	(43,448,000)
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	(343,000)	-
Decrease in receivable from affiliate	-	781,000
Proceeds from the issuance of common stock, net	272,112,000	33,880,000
Distributions paid to shareholders	(15,897,000)	-
Distributions to minority interests	(6,248,000)	-
Net cash provided by financing activities	246,124,000	34,661,000
Net increase in cash and cash equivalents	28,863,000	5,536,000
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	$ 32,747,000	$ 6,455,000

Same Park Facilities (51 Facilities):
(historical property operations**)**

	Three months ended September 30, 1998 (1)	Three months ended September 30, 1997 (1)	Change
	(dollar amounts in thousands)		
Rental income (2)	$9,820	$9,275	5.9%
Cost of operations	3,934	3,920	0.4%
Net operating income	$5,886	$5,355	9.9%
Gross margin (3)	59.9%	57.7%	2.2%
Weighted Average for period:			
Occupancy	95.7%	95.8%	(0.1)%
Annualized realized rent per sq. ft. (4)	$9.85	$9.26	6.4%

Same Park Facilities (51 Facilities):
(historical property operations**)**

	Nine months ended September 30, 1998 (1)	Nine months ended September 30, 1997 (1)	Change
	(dollar amounts in thousands)		
Rental income (2)	$28,977	$27,451	5.6%
Cost of operations	11,155	11,160	-%
Net operating income	$17,822	$16,291	9.4%
Gross margin (3)	61.5%	59.3%	2.2%
Weighted Average for period:			
Occupancy	95.4%	95.8%	(0.4)%
Annualized realized rent per sq. ft. (4)	$9.67	$9.12	6.0%

(1) Operations for the three and nine months ended September 30, 1998 and 1997 represent the historical operations of the 51 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) Gross margin is computed by dividing property net operating income by rental income.
(4) Realized rent per square foot represents the actual revenue earned per occupied square foot.

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Total Portfolio Statistics

	Three Months Ended September 30, 1998	Three Months Ended September 30, 1997
	(dollar amount in thousands)	
Rental income [1]	$24,711	$8,256
Cost of operations	7,379	3,250
Net operating income	$17,332	$5,006
Gross margin [2]	70.1%	60.6%
Weighted Average for period:		
Square footage (in thousands)	10,208	3,763
Annualized realized rent per sq. ft. [3]	$9.68	$8.78
Occupancy	95.8%	95.8%

Period-end statistics	At September 30, 1998	At September 30, 1997
Square footage	10,333	4,069
Occupancy	95.8%	96.1%

(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 revenue earned per occupied square foot.