



PSBUSINESSPARKS®

2019 ANNUAL REPORT

BUSINESS PARK LOCATIONS

(As of December 31, 2019)



California

Rentable Square Feet: 11,224,000

Buena Park
Carson
Cerritos
Concord
Culver City
Fremont
Hayward
Laguna Hills
Lake Forest
Milpitas
Monterey
Monterey Park
Oakland
San Diego
San Jose
San Leandro
San Mateo
San Ramon
Santa Clara
Santa Fe Springs
Signal Hill
South San Francisco
Studio City
Sunnyvale
Torrance

Texas

Rentable Square Feet: 4,850,000

Austin
Carrollton
Farmers Branch
Garland
Irving
Mesquite
Plano
Richardson

Virginia

Rentable Square Feet: 4,974,000

Alexandria
Chantilly
Fairfax
Herndon
Lorton
McLean
Merrifield
Springfield
Sterling
Vienna
Woodbridge

Florida

Rentable Square Feet: 3,866,000

Boca Raton
Miami
Wellington

Maryland

Rentable Square Feet: 1,258,000

Beltsville
Gaithersburg
Rockville

Washington

Rentable Square Feet: 1,390,000

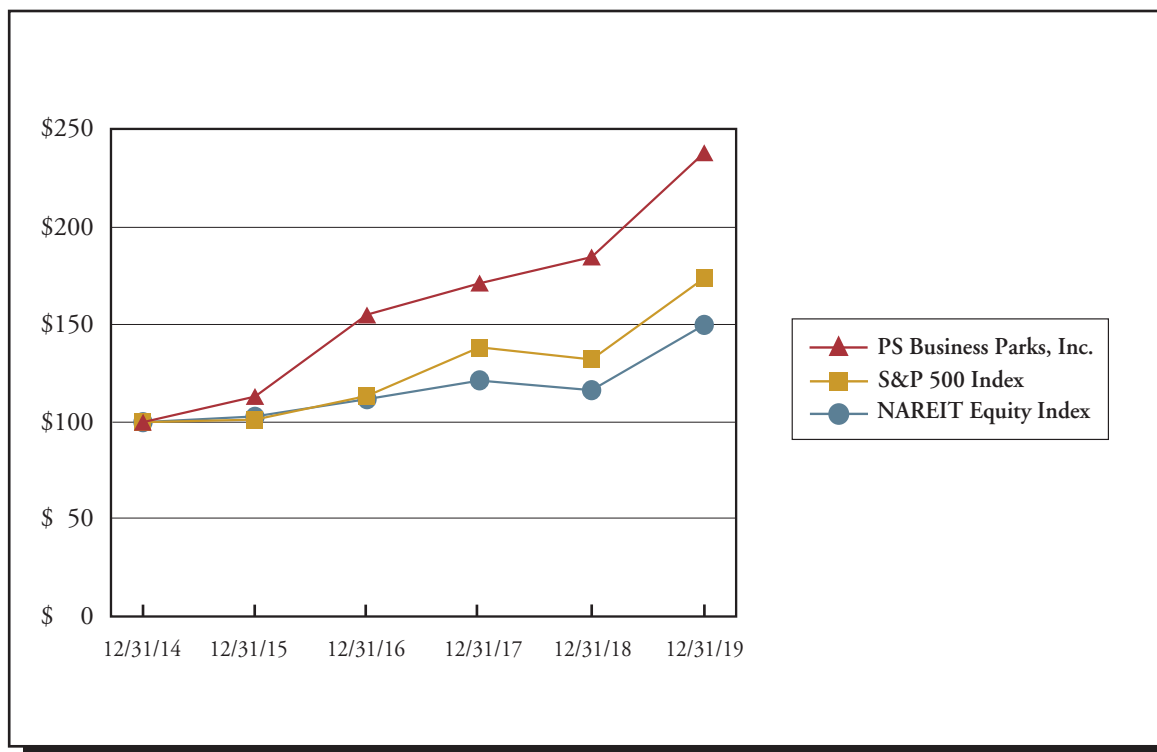
Kent
Redmond
Renton

Cover photos

Hayward Business Park, a 1.1 million square foot multi-tenant industrial park located in Hayward, California (*top left and bottom left*).
Miami International Commerce Center (MICC), a 3.5 million square foot multi-tenant industrial park located in Miami, Florida (*top right*).
La Mirada Commerce Center, a 73,000 square foot multi-tenant industrial park located in La Mirada, California (*bottom right*).

CUMULATIVE TOTAL RETURN

PS Business Parks, Inc., S&P 500 Index and NAREIT Equity Index December 31, 2014 - December 31, 2019



	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18	12/31/19
PS Business Parks, Inc.	\$ 100.00	\$113.07	\$155.02	\$170.99	\$184.50	\$238.17
S&P 500 Index	\$ 100.00	\$101.38	\$113.51	\$138.29	\$132.23	\$173.86
NAREIT Equity Index	\$ 100.00	\$102.83	\$111.70	\$121.39	\$116.48	\$149.86

The graph set forth above compares the yearly change in the cumulative total shareholder return on the Common Stock of the Company for the five-year period ended December 31, 2019 to the cumulative total return of the Standard & Poor's 500 Stock Index ("S&P 500 Index") and the National Association of Real Estate Investment Trusts Equity Index ("NAREIT Equity Index") for the same period (total shareholder return equals price appreciation plus dividends). The stock price performance graph assumes that the value of the investment in the Company's Common Stock and each Index was \$100 on December 31, 2014 and that all dividends were reinvested. The stock price performance shown in the graph is not necessarily indicative of future price performance.

Dear Fellow Shareholders:

Once again, I am pleased to open this letter by reporting another outstanding year for PS Business Parks (PSB). Yes, it remains a great time to be in the industrial real estate sector; and in 2019, we saw success in almost all of our operating metrics, including Funds From Operations (FFO), Funds Available for Distribution (FAD), Net Operating Income (NOI), and re-leasing spreads. We also executed on several strategic initiatives involving asset recycling and development, while our finance team further improved our fortress balance sheet. These accomplishments, combined with the continued market momentum we are experiencing in our exceptional infill locations, have positioned the Company for further value creation in 2020.

PS Business Parks' Strategy

PS Business Parks has a simple strategy that has defined us since we went public in 1998.

We are an industrial focused real estate investment trust (REIT) that specializes in owning and operating multi-tenant buildings located in multi-building parks. We own a total of 27.5 million square feet and have over 5,000 customers, with an average size of approximately 5,000 square feet. Our focus is on providing small- and medium-sized companies with a wide array of simple, easy to use and functional space. The concentration of ownership within our parks and markets allows us to meet the needs of our customers as their business needs change.

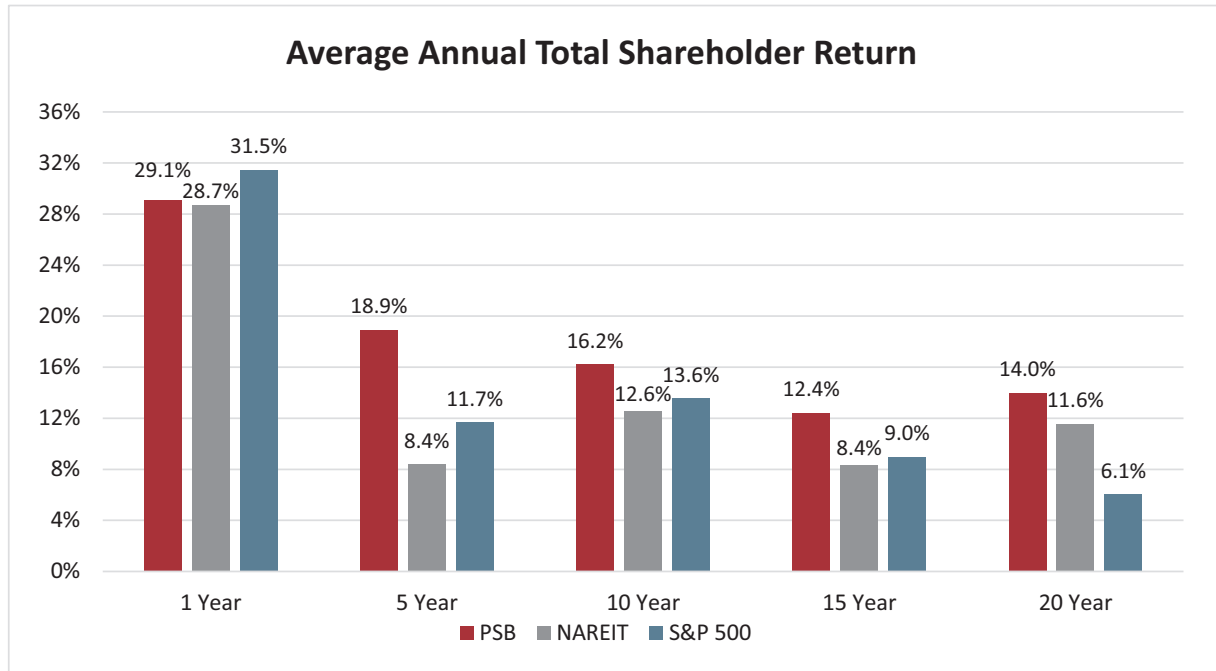
Through the years, we have refined the markets in which we operate. Today, we are concentrated in submarkets with high barriers to entry in some of the most desired and premier industrial markets in the United States. Currently, we operate 97 parks in six states and 12 markets. More than 80% of our square footage is in coastal markets, with over 60% located in strong industrial sub-markets of Los Angeles, Orange County, the Bay Area, Seattle, and Miami. Our properties and markets have proven to be those that are the “last to be hit and first to recover” through multiple real estate cycles.

In addition to investing in well-located, quality assets, we also focus on hiring and retaining top quality team members. Our property management and leasing functions are performed in-house through a decentralized platform with offices in each of our markets, which, among other benefits, allows our team to routinely interact with and respond to the needs of new and renewing customers.

Our operating strategy is wrapped around a strong, conservative capital structure, which prioritizes retained cash flow that we use to reinvest in our existing parks, acquire new parks, and fund developments. While we have traditionally favored permanent forms of capital to complement the long-term holding of our assets, we will strategically access the equity and debt capital markets as appropriate in order to fund large acquisition opportunities. As of December 31, 2019, we had a total enterprise value of \$6.7 billion and pristine credit ratings, including an A- corporate rating from Standard & Poor's. With the strength of our balance sheet and consistency of cash flow generation from our existing portfolio, the Company is in position for major growth.

Total Shareholder Returns

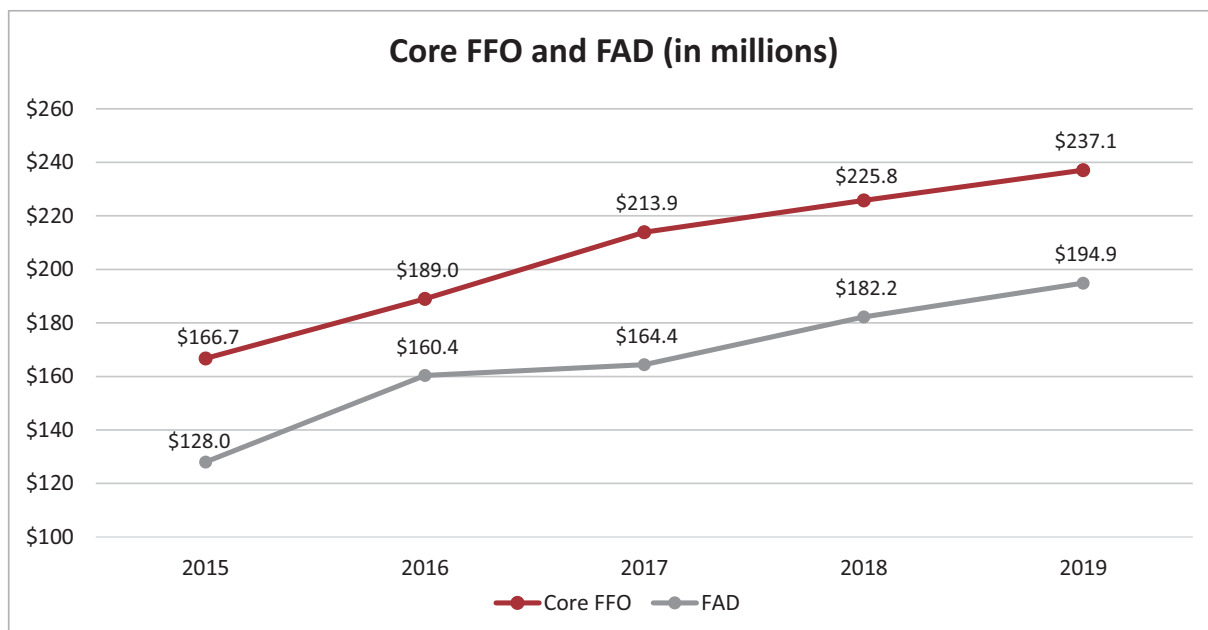
Successful execution and adherence to our disciplined strategy have resulted in long-term value creation for our shareholders, as shareholder returns have outpaced both the NAREIT Equity Index and S&P 500 Index on a consistent basis over our more than 20 years as a public REIT. The chart below shows our total shareholder return relative to the NAREIT Equity Index and S&P 500 Index for each of the one-year, five-year, 10-year, 15-year, and 20-year periods ending December 31, 2019.



Core Funds from Operations and Funds Available for Distribution

Core Funds From Operations (Core FFO) and FAD are two metrics that we pay particular attention to as these are key industry metrics that measure the operating performance of the Company. Core FFO generally represents net income plus depreciation and preferred redemption charges less gain on sale. FAD represents Core FFO less recurring capital expenditures. In 2019, we continued a long pattern of annual growth for both Core FFO and FAD, which increased 5.0% and 6.9%, respectively.

The graph below shows our trends in Core FFO and FAD over the last five years.



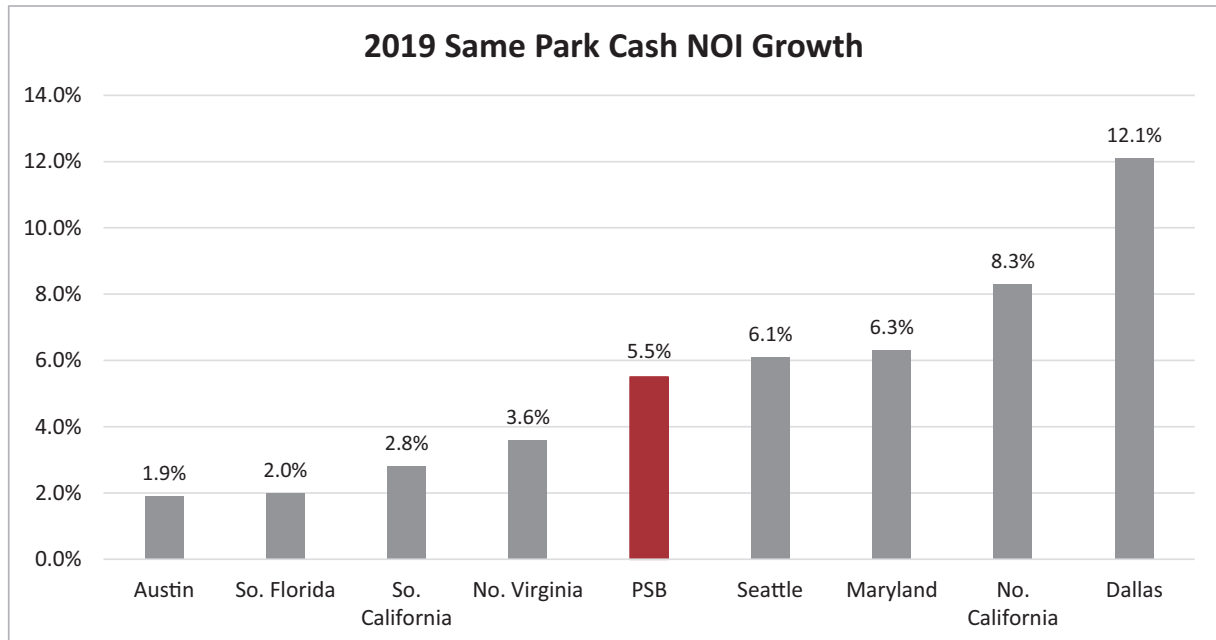
Retained Cash Flow

Our ability to retain significant cash flow is a key feature of our capitalization strategy as we utilize retained cash flow to invest in property acquisitions and to fund certain development and redevelopment initiatives. In 2019, we produced FAD of \$194.9 million and we only distributed \$146.9 million, enabling us to retain \$48.0 million in free cash. Our free cash flow has ranged between \$40 million and \$60 million over the last five years.

Key 2019 Highlights and Review

Last year marked the eighth consecutive year that we reported positive Same Park NOI growth, a result of being located in strong markets and executing the PSB strategy. In 2019, we reported Same Park Cash NOI growth of 5.5%, and our team was busy as they completed nearly 2,000 transactions during the year and achieved cash re-leasing growth of 8.3% on 7.4 million square feet of leases executed. We are at record rental rates in all of our industrial markets, and rents continue to climb. We remain encouraged that there have been no signs of deceleration in each of our markets. All of our markets are experiencing job growth and low unemployment, and confidence remains high among our customer base. We experienced positive NOI growth in each of our markets in 2019, with standout performances by Northern

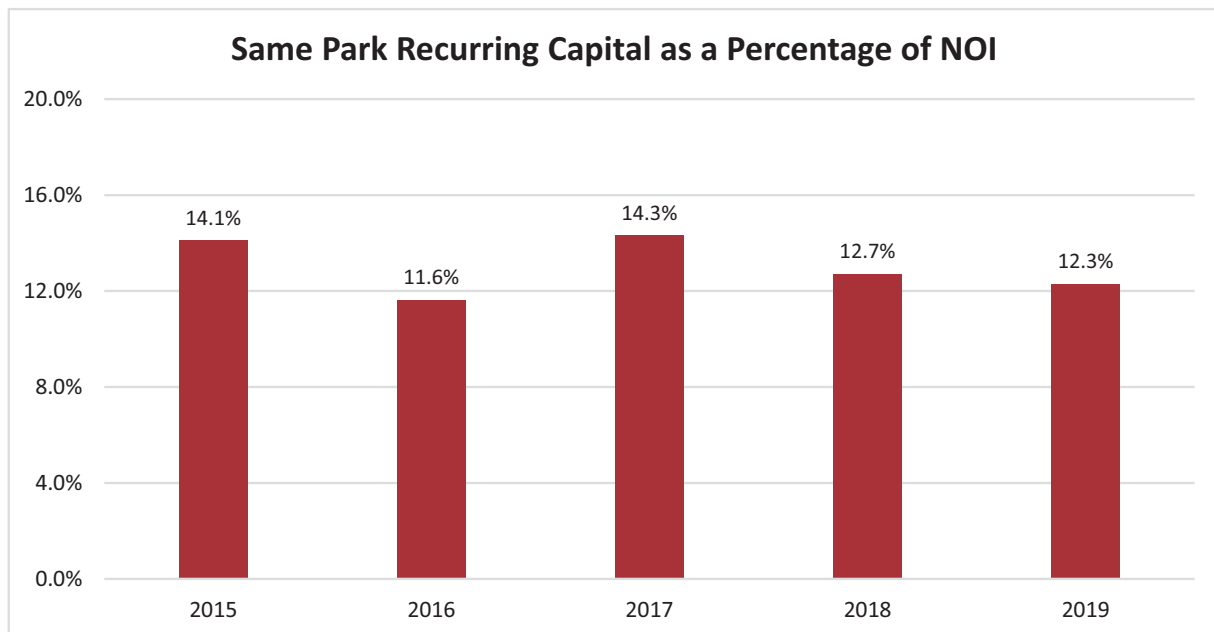
California, Seattle, Dallas, and Suburban Maryland. The chart below illustrates our Same Park Cash NOI growth in 2019 by market.



Recurring Capital Expenditures

As mentioned earlier, we strive to maximize cash flow, but we do this in a balanced manner while also maintaining our assets, desired occupancy levels, and providing for the needs of customers. We have been successful in minimizing capital expenditures by focusing on simple tenant improvements that can service a multitude of business types. Typically, we position our industrial units to have between 5-10% office buildout, and for flex users we typically aim to keep the office buildout to less than 40% of leaseable square feet. We have found that keeping tight control on the percentage of office buildout of our suites maximizes the pool of potential customers while also minimizing the level of ongoing capital required to achieve our leasing volume and NOI growth objectives. In 2019, transaction costs, including tenant improvement costs and lease commissions, totaled \$3.73 per square foot, consistent with the \$3.68 per square foot we reported in 2018. We also monitor recurring capital expenditures (transaction costs plus recurring capital improvements) as a percentage of NOI, which in 2019 was 12.3%.

The chart below illustrates our Same Park recurring capital as a percentage of NOI.



Investment and Development Activity

Over the last two years, we have continued to refine and strengthen our core portfolio both in terms of markets and product. We began to reduce our office holdings in 2014 when we exited the Portland, Oregon, market. In 2018, we sold three more office parks in Orange County, California, and exchanged the proceeds to increase our industrial presence in Northern Virginia with the purchase of a 1.1 million square foot Northern Virginia Industrial Park.

In 2019, we continued with our initiative of selling office parks that we do not intend to redevelop, and our team successfully completed the sale of the three office/flex parks in Montgomery County, Maryland, totaling 1.4 million square feet, for a combined gross sales price of \$178.8 million. This sale was completed in two separate transactions, with the second transaction closing just subsequent to year-end in January 2020. We were able to exchange most of the proceeds generated from these sales into the purchase of industrial parks in Los Angeles and a flex park in Santa Clara, California. These acquisitions totaled \$148.5 million, and all four of the acquired parks are adjacent to or near existing PSB properties with below market in-place rents and little capital required for repositioning.

As I mentioned earlier in this letter, we are at record rental rates in all of our industrial markets. Despite the growing supply of large tenant industrial, we still see almost no new competitive supply of shallow-bay, multi-tenant buildings. This lack of new supply has led in part to our decision to commence construction of an 83,000 square foot industrial building on vacant land at our Freeport Industrial Park, which is adjacent to Dallas/Fort Worth International airport in Dallas, Texas. The building will be class A industrial with LEED Silver certification and will include eight suites. Additionally, we are pursuing a similar development at our 212 Business Park in Seattle, Washington. Similar to our project in Dallas, this too will be constructed on excess land and will be LEED Silver certified. As of the date of this letter, we are finalizing plans and expect this development project to commence in late 2020.

In 2019, we were successful with re-zoning The Mile in Tysons, Virginia. The balance of the redevelopment at The Mile will transform this 1980's vintage office park of 751,000 square feet into a new neighborhood totaling nearly 3.1 million square feet of mixed-use product, of which 92% can be residential. We began this neighborhood redevelopment process with the construction of our only existing multifamily property, Highgate at The Mile. Highgate opened in 2017 and is a class A, 395-unit multifamily building sitting on approximately five acres. It is located across the street from the headquarters of Hilton Worldwide and Freddie Mac, in one of the highest income communities in the nation with an excellent school system. Throughout 2019, Highgate maintained occupancy around 95% while average effective rents grew 5.7% and NOI grew to \$5.9 million.

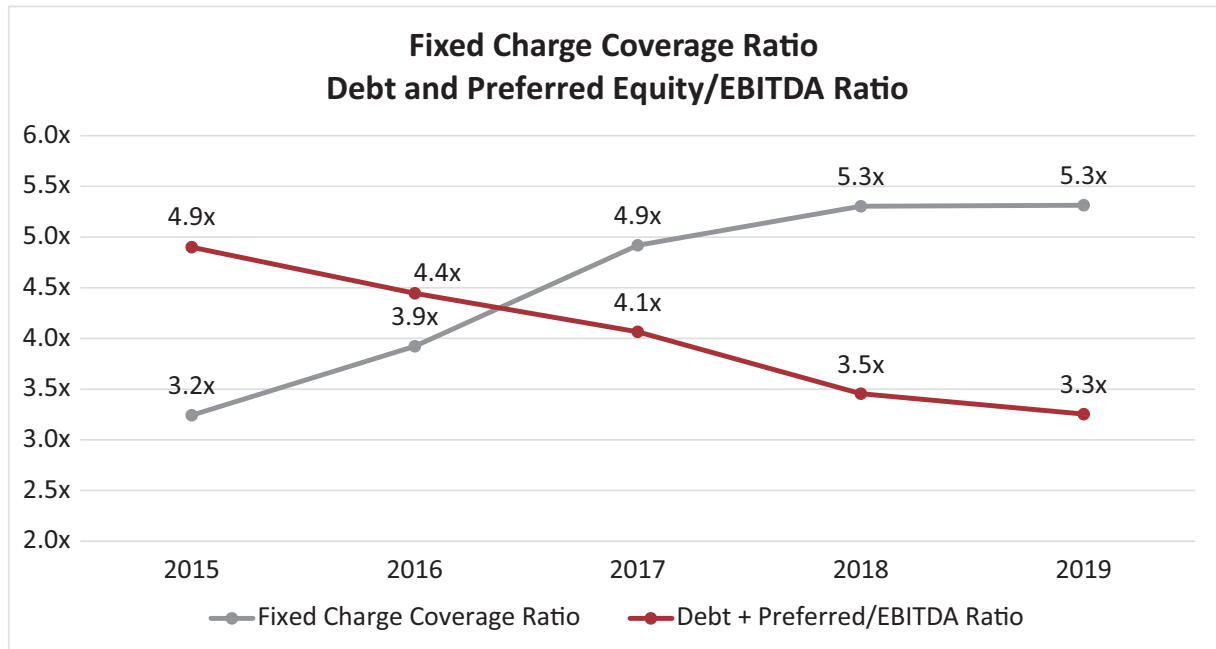
As a result of obtaining these new zoning rights and given Highgate's success, we are proceeding with the second phase of development, Brentford at The Mile, which will be a 411-unit, class A luxury apartment complex. Brentford will be built on land that is currently non-income producing, and construction will begin in the first half of 2020 with planned delivery of units beginning in the first quarter of 2022.

Tysons is one of the main economic engines of Fairfax County; and if it were its own employment center, it would be the twelfth largest in the United States with approximately 240,000 workers, most of whom are professionals. It is served by four Metro stations that opened in 2014; and from The Mile, there is direct access to the Beltway, the main freeway artery that circles Washington, D.C. The product we are developing fits an underserved part of the market, as we are offering a mid-rise building with modern and upscale amenities that will attract multiple generations of occupants. The Mile is an example of where it makes sense to redevelop low-density product located in a prime in-fill location into a higher and better use in order to drive long-term growth and create value for you, our shareholders. We have a few other properties where this may be possible.

Financial Strength

We ended 2019 with a capital structure that is the strongest in our history. During the year, we successfully refinanced our Series U and Series V preferred stock through the new issuance of our Series Z preferred stock, reducing our total outstanding preferred stock by a net \$15.0 million to \$944.8 million and also reducing our blended coupon rate from 5.4% to 5.1%. We utilized a portion of our \$250.0 million revolving credit facility for a period of time in 2019, but ended the year with zero debt outstanding and \$62.8 million of unrestricted cash on our balance sheet. As we have stated previously, we believe that our liquidity and the strength of our balance sheet in general provide us with a strategic advantage in that we can move swiftly when accretive acquisition opportunities are identified. Although we had no debt on our balance sheet as of December 31, 2019, we will strategically access both the equity and debt capital markets as appropriate in order to fund our future capital needs. The chart below

highlights two key debt metrics, fixed charge coverage ratio and debt and preferred equity to earnings before interest, taxes, depreciation, and amortization (EBITDA), over the past five years.



Between January 1, 2019 and December 31, 2019, we made dividend distributions of \$4.20 per common share, and our share price increased by \$33.87 per common share, resulting in a total shareholder return of 29.1%. Our Board of Directors continues to set our dividend policy based on the requirements to maintain our REIT status in an effort to maximize retained cash flow. At our current quarterly distribution rate of \$1.05 per common share, our expected dividend yield in 2020 is 2.5% based on the December 31, 2019 closing share price of \$164.87.

Leadership Team

PSB has a stable and seasoned management team with an average tenure of over 15 years. The team is adept at creating value. We have a culture that requires integrity and recognizes individual performance while emphasizing collaborative teamwork. Our team thrives in its high volume environment. We foster an owner’s mentality throughout our professional ranks by granting equity in the form of restricted stock units that typically vest over five years. As a result of this practice, 70% of our exempt employees are shareholders. As ever, I am proud and grateful to our entire team of 155 employees for their accomplishments in 2019. John Petersen, Jeff Hedges, Trenton Groves and I have formed a true partnership at the senior executive level and we look forward to continued success and growth.

Summary

Our management team produced excellent results for shareholders, and we strengthened our financial position in 2019. We will continue to maximize returns by optimizing our portfolio through operations, acquisitions, and development. We remain committed to each of our current markets. We will continue to look within these markets to identify accretive industrial park acquisition opportunities and small scale strategic asset recycling.

As I said at the opening of this letter, 2019 was another great year at PS Business Parks. Externally, the markets in which we operate remained strong. Our strategy of focusing on small- and medium-sized users in multi-tenant buildings in multi-building parks combined with our concentration of product within strong markets has enabled our teams to respond to the needs of our customers as they expand. The Company's financial structure has always been strong and gives us the opportunity to expand the enterprise and maximize long-term value creation. We enter 2020 with optimism as the economy and our customer base are robust. Our teams are poised and ready to execute on opportunities that lead to excellent shareholder returns. Most importantly, we remain committed to our strategy that has proven itself with our long pattern of success.

Thank you for your continued trust in our abilities and your investment in PSB.

Maria R. Hawthorne
President and Chief Executive Officer
March 1, 2020

Supplemental Non-GAAP Disclosures (unaudited)

Funds from Operations (FFO), Core FFO, and Funds Available for Distribution (FAD)

The table below reconciles from net income to FFO to Core FFO to FAD (in thousands).

	For The Years Ended December 31,				
	2015	2016	2017	2018	2019
Net income allocable to common shareholders	\$ 68,291	\$ 62,872	\$ 90,425	\$ 172,899	\$ 108,703
Adjustments					
Gain on sale of land, real estate facilities and development rights	(28,235)	—	(7,574)	(93,484)	(16,644)
Depreciation and amortization expense	105,394	99,486	94,270	99,242	104,249
Depreciation from unconsolidated joint venture	—	—	1,180	—	—
Net income allocated to noncontrolling interests	18,495	16,955	24,279	45,199	29,006
Net income allocated to restricted stock unit holders	299	569	761	1,923	910
FFO allocated to joint venture partner	—	—	—	(13)	(149)
FFO allocable to diluted common shares and units ⁽¹⁾	164,244	179,882	203,341	225,766	226,075
Adjustments					
Preferred redemption allocation	2,487	7,312	10,978	—	11,007
Other nonrecurring income or expense items	—	1,818	(414)	—	—
Core FFO allocable to diluted common shares and units ⁽¹⁾	166,731	189,012	213,905	225,766	237,082
Adjustments					
Recurring capital expenditures	(39,846)	(30,952)	(45,840)	(37,487)	(36,871)
Straight-line rent	(3,065)	(1,746)	(2,311)	(3,061)	(2,858)
Stock compensation expense	9,245	8,894	5,191	4,174	4,956
Cash paid for taxes in lieu of shares upon vesting of restricted stock units	(767)	(1,940)	(3,865)	(4,981)	(6,350)
In-place lease adjustment	(1,251)	(520)	(18)	57	(50)
Tenant improvement reimbursements, net of lease incentives	(1,861)	(1,667)	(2,182)	(2,226)	(1,028)
Capitalized interest	(1,159)	(885)	(506)	—	—
Acquisition transaction costs	—	(328)	—	—	—
Lease buyout payment	—	528	—	—	—
FAD allocable to diluted common shares and units ⁽¹⁾	\$ 128,027	\$ 160,396	\$ 164,374	\$ 182,242	\$ 194,881

⁽¹⁾ FFO, Core FFO, and FAD are non-GAAP financial measures that assist investors in analyzing and comparing the operating and financial performance of a company's real estate between periods. Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations under Funds from Operations, Core Funds from Operations, and Funds Available for Distribution included in our Annual Report on Form 10-K for the definition and reconciliation of FFO, Core FFO, and FAD.

Supplemental Non-GAAP Disclosures (unaudited) (continued)

Ratio of Debt and Preferred Equity to Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)

The table below reflects the ratio of debt and preferred equity to EBITDA and reconciles net income to EBITDA (in thousands).

	For The Years Ended December 31,				
	2015	2016	2017	2018	2019
Mortgage note payable	\$ 250,000	\$ —	\$ —	\$ —	\$ —
Preferred stock	920,000	1,109,750	1,089,750	959,750	944,750
Combined mortgage note payable and preferred stock	<u>\$ 1,170,000</u>	<u>\$ 1,109,750</u>	<u>\$ 1,089,750</u>	<u>\$ 959,750</u>	<u>\$ 944,750</u>
Net Income	\$ 148,970	\$ 144,984	\$ 179,316	\$ 271,901	\$ 203,972
Adjustments					
Depreciation and amortization	105,394	99,486	94,270	99,242	104,249
Depreciation from unconsolidated joint venture	—	—	1,180	—	—
Interest expense	13,270	5,568	1,179	555	611
Interest income	(631)	(463)	(356)	(489)	(1,885)
Gain on sale of land and real estate facilities	(28,235)	—	(1,209)	(93,484)	(16,644)
Gain on sale of development rights	—	—	(6,365)	—	—
EBITDA ⁽¹⁾	<u>\$ 238,768</u>	<u>\$ 249,575</u>	<u>\$ 268,015</u>	<u>\$ 277,725</u>	<u>\$ 290,303</u>
Ratio of debt and preferred equity to EBITDA	<u>4.9</u>	<u>4.4</u>	<u>4.1</u>	<u>3.5</u>	<u>3.3</u>

⁽¹⁾ EBITDA is a non-GAAP financial measure that represents net income before interest, depreciation and amortization and adjusted to exclude gains or losses from sales of depreciable real estate assets and impairment charges on real estate assets. Management believes that EBITDA is frequently used by analysts and investors in evaluating the operating performance of our business activities, including the impact of general and administrative expenses, and without the impact from gains or losses from sales of depreciable real estate assets.

Supplemental Non-GAAP Disclosures (unaudited) (continued)

Ratio of FFO to Combined Fixed Charges and Preferred Distributions

The table below reflects the ratio of FFO to combined fixed charges and preferred distributions (in thousands).

	For The Years Ended December 31,				
	2015	2016	2017	2018	2019
FFO allocable to diluted common shares and units	\$ 164,244	\$ 179,882	\$ 203,341	\$ 225,766	\$ 226,075
Interest expense	13,270	5,568	1,179	555	611
Allocation to preferred shareholders based upon					
Distributions	59,398	57,276	52,873	51,880	54,346
Redemptions	2,487	7,312	10,978	—	11,007
FFO available to cover fixed charges	\$ 239,399	\$ 250,038	\$ 268,371	\$ 278,201	\$ 292,039
Fixed charges ⁽¹⁾	14,428	6,452	1,685	555	611
Distribution to preferred shareholders	59,398	57,276	52,873	51,880	54,346
Combined fixed charges and preferred distributions	\$ 73,826	\$ 63,728	\$ 54,558	\$ 52,435	\$ 54,957
Ratio of available FFO to combined fixed charges and preferred distributions paid	3.2	3.9	4.9	5.3	5.3

⁽¹⁾ Fixed charges include interest expense and capitalized interest.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2019.
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 1-10709

PS BUSINESS PARKS, INC.

(Exact name of registrant as specified in its charter)

California
(State or other jurisdiction of
incorporation or organization)

95-4300881
(I.R.S. Employer Identification No.)

701 Western Avenue, Glendale, California 91201-2349
(Address of principal executive offices) (Zip Code)

818-244-8080
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Ticker Symbol	Name of Each Exchange on Which Registered
Common Stock, \$0.01 par value per share	PSB	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 5.200% Cum Pref Stock, Series W, \$0.01 par value	PSBPrW	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 5.250% Cum Pref Stock, Series X, \$0.01 par value	PSBPrX	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 5.200% Cum Pref Stock, Series Y, \$0.01 par value	PSBPrY	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 4.875% Cum Pref Stock, Series Z, \$0.01 par value	PSBPrZ	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of June 30, 2019, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$3,365,181,255 based on the closing price as reported on that date.

Number of shares of the registrant's common stock, par value \$0.01 per share, outstanding as of February 17, 2020 (the latest practicable date): 27,441,071.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement to be filed in connection with the Annual Meeting of Shareholders to be held in 2020 are incorporated by reference into Part III of this Annual Report on Form 10-K.

PART I

ITEM 1. BUSINESS

Forward-Looking Statements

Forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, are made throughout this Annual Report on Form 10-K. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words “may,” “believes,” “anticipates,” “plans,” “expects,” “seeks,” “estimates,” “intends” and similar expressions are intended to identify forward-looking statements. There are a number of important factors that could cause the results of the Company to differ materially from those indicated by such forward-looking statements, including but not limited to (i) changes in general economic and business conditions; (ii) decreases in rental rates or increases in vacancy rates/failure to renew or replace expiring leases; (iii) tenant defaults; (iv) the effect of the recent credit and financial market conditions; (v) our failure to maintain our status as a real estate investment trust (a “REIT”) under the Internal Revenue Code of 1986, as amended (the “Code”); (vi) the economic health of our customers; (vii) increases in operating costs; (viii) casualties to our properties not covered by insurance; (ix) the availability and cost of capital; (x) increases in interest rates and its effect on our stock price; (xi) security breaches or a failure of our networks, systems or technology could adversely impact our business, customer and employee relationships; and (xii) other factors discussed under the heading Item 1A, “Risk Factors.” In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. Moreover, we assume no obligation to update these forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements, except as required by law.

The Company

PS Business Parks, Inc. (“PSB”) is a fully-integrated, self-advised and self-managed REIT that owns, operates, acquires and develops commercial properties, primarily multi-tenant industrial, flex and office space. Substantially all of PSB’s assets are held, and its business is conducted, through PS Business Parks, L.P. (the “OP”), a California limited partnership. PSB has full, exclusive, and complete control of the OP as the sole general partner and, as of December 31, 2019, owned 79.0% of the common partnership units, with Public Storage (“PS”) owning the remainder. PS also owns 7.2 million common shares and assuming issuance of PSB common stock upon redemption of the common partnership units held by PS, PS would own 41.6% (or 14.5 million shares) of the outstanding shares of the Company’s common stock.

Unless otherwise indicated or unless the context requires otherwise, all references to “the Company,” “we,” “us,” “our” and similar references mean PS Business Parks, Inc. and its subsidiaries, including the OP and our consolidated joint venture.

As of December 31, 2019, we owned and operated 27.6 million rentable square feet of commercial space, comprising 97 business parks, in California, Texas, Virginia, Florida, Maryland and Washington. The Company focuses on owning concentrated business parks which provide the Company with the greatest flexibility to meet the needs of its customers. Along with the commercial space, we also have a 95.0% interest in a 395-unit apartment complex. The Company also manages 438,000 rentable square feet on behalf of PS.

History of the Company: The Company was formed in 1990 as a California corporation. Through a series of transactions between January, 1997 and March, 1998, the Company was renamed “PS Business Parks, Inc.” and became a publicly held, fully integrated, self-advised and self-managed REIT having interests in commercial real estate held through our OP.

Principal Business Activities

We are in the commercial property business, with 97 business parks consisting of multi-tenant industrial, flex and office space. The Company owns 18.1 million square feet of industrial space that has characteristics similar to the warehouse component of the flex space as well as ample dock access. We own 6.2 million square feet of flex space, representing industrial buildings that are configured with a combination of warehouse and office space and can be designed to fit a wide variety of uses. The warehouse component of the flex space has a number of uses including light manufacturing and assembly, storage and warehousing, showroom, laboratory, distribution and research and development activities. The office component of flex space is complementary to the warehouse component by enabling businesses to accommodate management and production staff in the same facility. In addition, the Company

owns 3.2 million square feet of low-rise office space, generally either in business parks that combine office and flex space or in submarkets where the market demand is more office focused.

We generally seek to own and operate multi-tenant buildings in multi-building business parks which accommodate various businesses and uses. Our business parks average 14 buildings and 800,000 rentable square feet per park, located on parcels of various sizes, ranging from one to 49 buildings and 12,000 to 3.5 million square feet of rentable space. Parking is generally open but in some instances is covered. The ratio of parking spaces to rentable square feet generally ranges from two to six per thousand square feet depending upon the use of the property and its location. Office space generally requires a greater parking ratio than most industrial uses.

The customer base for our facilities is diverse. The portfolio can be bifurcated into those facilities that service small to medium-sized businesses and those that service larger businesses. Approximately 36.8% of in-place rents from the portfolio are derived from facilities that generally serve small to medium-sized businesses. A property in this facility type is typically divided into units under 5,000 square feet and leases generally range from one to three years. The remaining 63.2% of in-place rents from the portfolio are generally derived from facilities that serve larger businesses, with units 5,000 square feet and larger. The Company also has several customers that lease space in multiple buildings and locations. As of December 31, 2019, the U.S. Government is the largest customer with multiple leases encompassing approximately 521,000 square feet and 3.1% of the Company's annualized rental income.

We operate in six states and we may expand our operations to other states or reduce the number of states in which we operate. However, we have no current plans to expand into additional markets or exit existing markets. Properties are acquired for both income and capital appreciation potential; we place no limitation on the amount that can be invested in any specific property.

The Company owns approximately 14.0 acres and 6.4 acres of land in Dallas and Northern Virginia, respectively, which are reflected on our consolidated balance sheets as land and building held for development. The Company will seek to develop these parcels and possibly seek redevelopment of other assets in the future.

See "Objectives and Strategies" below for further information.

Our principal executive offices are located at 701 Western Avenue, Glendale, California 91201-2349, and our telephone number is (818) 244-8080. We maintain a website with the address www.psbusinessparks.com. The information contained on our website is not a part of, or incorporated by reference into, this Annual Report on Form 10-K. We make available free of charge through our website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file or furnish such material to the Securities and Exchange Commission (the "SEC").

Recent Company Developments

Acquisition of Real Estate Facilities: Subsequent to December 31, 2019, we acquired a multi-tenant industrial park comprised of approximately 73,000 rentable square feet in La Mirada, California, for a total purchase price of \$13.5 million, inclusive of capitalized transaction costs. The park consists of five buildings and was 100.0% occupied at acquisition with suites ranging from 1,200 to 3,000 square feet.

On December 20, 2019, we acquired a multi-tenant flex park comprised of approximately 79,000 rentable square feet in Santa Clara, California, for a total purchase price of \$16.8 million, inclusive of capitalized transaction costs. The park consists of nine buildings and was 95.6% occupied at acquisition with suites ranging from 200 to 3,500 square feet.

On September 5, 2019, we acquired a multi-tenant industrial park comprised of approximately 543,000 rentable square feet in Santa Fe Springs, California, for a total purchase price of \$104.3 million, inclusive of capitalized transaction costs. The park consists of ten buildings and was 100.0% occupied at acquisition with suites ranging from 5,000 to 288,000 square feet.

On April 18, 2019, we acquired a multi-tenant industrial park comprised of approximately 74,000 rentable square feet in Signal Hill, California, for a total purchase price of \$13.8 million, inclusive of capitalized transaction costs. The park consists of eight buildings and was 98.4% occupied at acquisition with suites ranging from 1,200 to 8,000 square feet. The eight buildings are located in the Signal Hill industrial submarket where we already own five industrial parks totaling 268,000 square feet.

Development of Multifamily Real Estate: In 2019, we successfully rezoned our 628,000 square foot office park known as The Mile in Tysons, Virginia. The rezoning will allow us to develop, at our election, up to 3,000 additional multifamily units and approximately 500,000 square feet of other commercial uses. We leveraged the expertise of a well-regarded local developer and operator of multifamily real estate to develop our first multifamily development at The Mile which completed in 2017, a 395-unit multifamily property known as Highgate. We are currently seeking to demolish a 123,000 square foot vacant office building in order to construct our second multifamily property, for which we will likely enter into a similar joint venture with the same well-regarded local developer. There could be several phases of the development at The Mile beyond that, but the scope, timing and construction of all future phases of development of The Mile are subject to a variety of contingencies, including site plan approvals and building permits. See “Objectives and Strategies” below for further information regarding our development and redevelopment activities.

Sales of Real Estate Facilities: On October 8, 2019, we sold three business parks located in Montgomery County, Maryland: Metro Park North, Meadow Business Park and WesTech Business Park. The parks, consisting of 28 buildings totaling approximately 1.3 million rentable square feet, sold for net sale proceeds of \$144.6 million, which resulted in a gain of \$16.6 million.

Also subsequent to December 31, 2019, the Company completed the sale of a single-tenant building totaling 113,000 square feet in Montgomery County, Maryland, for a gross sales price of \$30.0 million. The building had been marketed previously as part of a broader portfolio of suburban Maryland office properties sold in 2019, but was excluded from the 1.3 million square foot sale which closed October 8, 2019 and as such was the Company’s only remaining office asset at Metro Park North.

Tax and Corporate Structure

For all periods presented herein, we have elected REIT status under the Code. As a REIT, we generally do not incur federal income tax if we distribute substantially all of our “REIT taxable income” (generally, net rents and gains from real property, dividends, and interest) each year, and if we meet certain organizational and operational requirements. To the extent that we continue to qualify as a REIT, we will not be taxed, with certain limited exceptions, on the “REIT taxable income” that is distributed to our shareholders. We believe we have met these requirements in all periods presented herein, and we expect to continue to elect and qualify as a REIT.

PSB is structured as an umbrella partnership REIT (“UPREIT”), with substantially all of our activities conducted through the OP. We acquired interests in certain properties from PS during PSB’s initial formation in exchange for operating partnership units, which allowed PS to defer the recognition of a tax gain on the contributed properties. We have the ability to offer similar tax-efficient transactions to potential sellers of real estate in the future.

We are the sole general partner of the OP, which has equity in the form of common partnership units and preferred partnership units that are identical as to terms, coupon rates, and liquidation amounts as our preferred shares outstanding. As of December 31, 2019, we owned 79.0% of the common partnership units of the OP and 100% of the preferred partnership units. The remainder of the common partnership units are owned by PS. The common units owned by PS may be redeemed, subject to certain limitations, for shares of our common stock on a one-for-one basis or, at our option, an equivalent value in cash.

The Company’s interest in the OP entitles it to share in cash distributions from, and the profits and losses of, the OP in proportion to the Company’s economic interest in the OP (apart from tax allocations of profits and losses to take into account pre-contribution property appreciation or depreciation). The Company, since 1998, has paid per share dividends on its common and preferred stock that track, on a one-for-one basis, the amount of per unit cash distributions the Company receives from the OP in respect of the common and preferred partnership units in the OP that are owned by the Company.

As the general partner of the OP, the Company has the exclusive responsibility under the Operating Partnership Agreement to manage and conduct the business of the OP. The OP is responsible for, and pays when due, its share of all administrative and operating expenses of the properties it owns.

Common Officers and Directors with PS

Ronald L. Havner, Jr., Chairman of the Company, is also the Chairman of the Board of Trustees of PS. Joseph D. Russell, Jr. is a director of the Company and also President and Chief Executive Officer of PS. Gary E. Pruitt, an independent director of the Company, is also a trustee of PS. Other employees of PS render services to the Company pursuant to a cost sharing and administrative services agreement.

Services Provided to and by PS

We manage industrial, office, and retail facilities in the United States for PS under either the “Public Storage” or “PS Business Parks” names (the “PS Management Agreement”). Under PS’s supervision, we coordinate and assist in rental and marketing activities, property maintenance and other operational activities, including the selection of vendors, suppliers, employees and independent contractors. Management fee revenue derived from the PS Management Agreement totaled \$287,000, \$407,000 and \$506,000 for the years ended December 31, 2019, 2018 and 2017, respectively. These amounts are included in “interest and other income” on our consolidated statements of income

PS also provides property management services for the self-storage component of two assets owned by the Company. Management fee expenses under the contract were \$98,000, \$96,000 and \$92,000 for the years ended December 31, 2019, 2018 and 2017, respectively. These amounts are included under “cost of operations” on our consolidated statements of income.

Pursuant to a cost sharing agreement, we share certain administrative services, corporate office space, and certain other third party costs with PS which are allocated based upon fair and reasonable estimates of the cost of the services expected to be provided. We reimbursed PS \$1.2 million, \$1.2 million and \$1.3 million, respectively, in the years ended December 31, 2019, 2018 and 2017 for costs paid on our behalf, while PS reimbursed us \$39,000, \$38,000 and \$31,000 for costs we incurred on their behalf for the years ended December 31, 2019, 2018 and 2017, respectively.

Management

Maria R. Hawthorne, President and Chief Executive Officer of the Company, leads the Company’s senior management team. The Company’s senior management includes: John W. Petersen, Executive Vice President and Chief Operating Officer; Jeffrey D. Hedges, Executive Vice President and Chief Financial Officer; Trenton A. Groves, Senior Vice President and Chief Accounting Officer; Coby A. Holley, Vice President, Investments; Christopher M. Auth, Vice President (Washington Metro Division); Stuart H. Hutchison, Vice President (Southern California and Pacific Northwest Divisions); Richard E. Scott, Vice President (Northern California Division); David A. Vicars, Vice President (Texas Division); Rich Guertin, Vice President (Florida Division); and Eugene Uhlman, Vice President, Construction Management.

Competition

Our properties compete for tenants with similar properties located in our markets primarily on the basis of location, rent charged, services provided and the design and condition of improvements. Competition in the market areas we operate in is significant and has from time to time negatively impacted occupancy levels and rental rates of, and increased the operating expenses of, certain of our properties. Competition may be accelerated by any increase in availability of funds for investment in real estate, because barriers to entry can be relatively low for those with the necessary capital. The demand for space in our markets is impacted by general economic conditions, which can affect the local competition for tenants. Sublease space and unleased developments have from time to time created competition among operators in certain markets in which the Company operates. We also compete for property acquisitions with entities that have greater financial resources than the Company.

We believe we possess several distinguishing characteristics and strategies, some of which are described below under “Objectives and Strategies,” that enable us to compete effectively. In addition, we believe our personnel are among the most experienced in our real estate markets. The Company’s facilities are part of a comprehensive system encompassing standardized procedures and integrated reporting and information networks.

We believe that the significant operating and financial experience of our executive officers and directors combined with the Company’s capital structure, national investment scope, geographic diversity, financial stability, and economies of scale should enable us to compete effectively.

Objectives and Strategies

Our primary objective is to grow shareholder value in a risk appropriate and stable manner by maximizing the net cash flow generated by our existing properties, as well as prudently seeking growth through acquisitions and development that generate attractive returns on invested capital.

We seek to optimize the net cash flow of our existing properties by maximizing occupancy levels and rental rates, while minimizing capital expenditures and leasehold improvements. Below are the primary elements of our strategy:

Concentration in favorable markets: We believe that our properties generally are located in markets that have favorable characteristics such as above average population, job, and income growth, as well as high education levels. In addition, we believe our business parks are generally in higher barrier to entry markets that are close to critical infrastructure, middle to high income housing or universities and have easy access to major transportation arteries. We believe that these characteristics contribute to favorable cash flow stability and growth.

Standard build outs and finishes: We generally seek to configure our rentable space with standard buildouts and finishes that meet the needs of a wide variety of tenants, minimizing the need for specialized and costly tenant improvements and enabling space to be “move-in ready” quickly upon vacancy. We believe this makes our space more attractive to potential tenants, allows tenants to move in more quickly and seamlessly, and reduces the cost of capital improvements, relative to real estate operators that offer specialized finishes or build outs. Also, such flexibility facilitates our ability to offer diverse sizes and configurations to meet potential customer’s needs, as well as to change space sizes for existing customers when their needs change.

Large, Diverse Parks: Our business parks are generally concentrated in large complexes of diverse buildings, with a variety of available space sizes and configurations that we can offer to tenants. We believe that this allows us to attract a greater number of potential tenants to our parks and minimizes the loss of existing customers when their space requirements change.

Smaller tenants and diverse tenant base with shorter-term leases: By concentrating on smaller spaces, we seek to reach a large number of smaller tenants in the market. We believe this focus gives us a competitive edge as most institutional owners focus on large users. Small users perceive more incremental value from the level of customer service that we offer. We also believe having smaller tenants improves our diversity of tenants across industries, which improves the stability of our cash flows. In addition, our lease term tends to be shorter, generally an average of three and a half years, which we believe allows us to more quickly capture increases in market rents in our high-growth markets. At December 31, 2019, our average suite size was approximately 5,000 rentable square feet, and no individual customer, other than the U.S. Government, represents more than 1% of our annualized rental income.

Decentralized operating strategy: Our local market management is empowered, within a prescribed decision and metrics framework, to make many leasing rate, capital, and lease term decisions in a manner which we believe maximizes the return on investment on leasing transactions. We believe this decentralized approach allows us to be more nimble and efficient in our decision making, and more effectively price and market our space, relative to a more centralized approach.

Superior Service to Customers: We seek to provide a superior level of service to our customers in order to maintain occupancy and increase rental rates, as well as minimize customer turnover. The Company’s property management offices are located on-site, helping the Company maintain its properties and providing customers with convenient access to management, while conveying a sense of quality, order and security. We believe that our personnel are among the most experienced and effective in the real estate industry in our markets. The Company has significant experience in acquiring properties managed by others and thereafter improving customer satisfaction, occupancy levels, retention rates and rental income by implementing established customer service programs.

In addition, we seek to expand through acquisitions or development activities that generate attractive returns on invested capital, as follows:

Acquire facilities in targeted markets at prudent price levels: We have a disciplined capital allocation approach, seeking to purchase properties at prices that are not in excess of the cost to develop similar facilities, which we believe reduces our risk and maximizes long term returns. We seek generally to acquire in our existing markets, which we believe have favorable growth characteristics. We also believe acquiring in our existing markets leverages our operating efficiencies. We would consider expanding to additional markets with similar favorable characteristics of our existing markets, if we could acquire sufficient scale (generally at least 2 million rentable square feet); however, we have no current plans or immediate prospects to do so.

Redevelop existing real estate facilities: Certain of our existing business parks were developed in or near areas that have been undergoing gentrification and an influx of residential development, and, as a result, certain buildings in our business parks may have higher and better uses as residential space. While residential space is generally not a core asset class for us, we will seek to identify potential candidates for redevelopment in our portfolio, and plan to leverage the expertise and scale of existing operators and developers should we pursue redevelopment of any of our properties. For example, at The Mile in Tysons, Virginia, we demolished an existing building and developed Highgate, a 395-unit apartment building, with a joint venture partner. We also have successfully rezoned our 628,000 square foot office

park located within The Mile and are able to pursue the development of additional multifamily and mixed use projects. There can be no assurance as to the level of conversion opportunities throughout our portfolio in the future.

Financing Strategy

Overview of financing strategy and sources of capital: As a REIT, we generally distribute substantially all of our “REIT taxable income” to our shareholders which, relative to a taxable C corporation, limits the amount of cash flow from operations that we can retain for investment purposes. As a result, in order to expand our asset base, access to capital is important.

Our financial profile is characterized by strong credit metrics, including low leverage relative to our total capitalization and operating cash flows. Our credit profile and ratings enable us to effectively access both the public and private capital markets to raise capital. We will seek to maintain our credit profile and ratings.

Sources of capital available to us include retained cash flow, the issuance of preferred and common equity, the issuance of medium and long-term debt, joint venture financing, the sale of properties, and our revolving line of credit.

Historically, we have financed our cash investment activities primarily with retained operating cash flow and the issuance of preferred equity.

We select from the sources of capital available to us based upon relative cost, availability and the desire for leverage, nature of the investment opportunities for which the capital will be used, as well as intangible factors such as the impact of covenants in the case of debt.

Retained Operating Cash Flow: Although we are required to generally distribute substantially all of our “REIT taxable income” to our shareholders, we have nonetheless been able to retain operating cash flow to the extent that our tax depreciation exceeds our maintenance capital expenditures. In recent years, we have retained approximately \$40 to \$60 million in operating cash flow per year.

Preferred Equity: We view preferred equity as an important source of capital over the long term, because it reduces interest rate and refinancing risks as the dividend rate is fixed and there are no refinancing requirements. In addition, the consequences of defaulting on required preferred distributions are less severe than with debt. However, rates and market conditions for the issuance of preferred securities can be volatile or inefficient from time to time. The preferred shareholders may elect two additional directors if six quarterly distributions go unpaid, whether or not consecutive. As of December 31, 2019, we have \$944.8 million in preferred securities outstanding with an average coupon rate of 5.10%.

Medium or long-term debt: We have broad powers to borrow in furtherance of our objectives. We may consider the public issuance or private placement of senior unsecured debt in the future in an effort to diversify our sources of capital.

Common equity: We believe that the market for our common equity is liquid and, as a result, common equity is a viable potential source of capital.

Tax advantaged equity: As noted above, we have the ability to offer common or preferred operating partnership units with economic characteristics that are similar to our common and preferred stock, but provide the seller the opportunity to defer the recognition of a tax gain.

Credit Facility: We have a \$250.0 million unsecured revolving line of credit (the “Credit Facility”), which we use as necessary as temporary financing, along with short-term bank loans, until we are able to raise longer-term capital. As of December 31, 2019, there were no borrowings outstanding on our Credit Facility and we had no short-term bank loans.

Investments in Real Estate Facilities

As of December 31, 2019, the Company owned and operated 27.6 million rentable square feet comprised of 97 business parks in six states compared to 28.2 million rentable square feet comprised of 96 business parks in six states as of December 31, 2018. The Company also held a 95.0% interest in a 395-unit multifamily apartment complex as of December 31, 2019 and 2018.

Restrictions on Transactions with Affiliates

The Company's Restated Bylaws provide that the Company may engage in transactions with affiliates provided that a purchase or sale transaction with an affiliate is (i) approved by a majority of the Company's independent directors and (ii) fair to the Company based on an independent appraisal or fairness opinion.

Employees

As of December 31, 2019, the Company employed 155 individuals, comprised primarily of personnel engaged in property operations.

Insurance

The Company believes that its properties are adequately insured. Facilities operated by the Company have historically been covered by comprehensive insurance, including fire, earthquake, wind damage and liability coverage from nationally recognized carriers, subject to customary deductibles.

Environmental Matters

Compliance with laws and regulations relating to the protection of the environment, including those regarding the discharge of material into the environment, has not had any material effect upon the capital expenditures, earnings or competitive position of the Company.

Substantially all of the Company's properties have received Phase I environmental reviews. Such reviews have not revealed, and management is not aware of, any probable or reasonably possible environmental costs that management believes would have a material adverse effect on the Company's business, assets or results of operations, nor is the Company aware of any potentially material environmental liability. See Item 1A, "Risk Factors" for additional information.

ITEM 1A. RISK FACTORS

In addition to the other information in our Annual Report on Form 10-K, you should consider the risks described below that we believe may be material to investors in evaluating the Company. This section contains forward-looking statements, and in considering these statements, you should refer to the qualifications and limitations on our forward-looking statements that are described in Item 1, "Business — Forward-Looking Statements."

We have significant exposure to real estate risk.

Since our business consists primarily of acquiring and operating real estate, we are subject to risks related to the ownership and operation of real estate that can adversely impact our business and financial condition. Certain significant costs, such as mortgage payments, real estate taxes, insurance and maintenance, generally are not reduced even when a property's rental income is reduced. In addition, environmental and tax laws, interest rate levels, the availability of financing and other factors may affect real estate values and property income. Furthermore, the supply of commercial space fluctuates with market conditions.

Since we derive substantially all our income from real estate operations, we are subject to the following general risks of acquiring and owning real estate related assets that could result in reduced revenues, increased expenses, increased capital expenditures, or increased borrowings, which could negatively impact our operating results, cash flow available for distribution or reinvestment and our stock price:

- changes in the national, state and local economic climate and real estate conditions, such as oversupply of or reduced demand for commercial real estate space and changes in market rental rates;
- how prospective tenants perceive the attractiveness, convenience and safety of our properties;
- difficulties in consummating and financing acquisitions and developments on advantageous terms and the failure of acquisitions and developments to perform as expected;
- our ability to provide adequate management, maintenance and insurance;

- natural disasters, such as earthquakes, fires, hurricanes and floods, which could exceed the aggregate limits of our insurance coverage;
- the consequences of changes in climate, including severe weather events, and the steps taken to prevent climate change, could result in increased capital expenditures and expenses
- the expense of periodically renovating, repairing and re-letting spaces;
- the impact of environmental protection laws;
- compliance with federal, state and local laws and regulations;
- increasing operating and maintenance costs, including property taxes, insurance and utilities, if these increased costs cannot be passed through to customers;
- the result of a potential November 2020 California statewide ballot initiative (or similar legislative or regulatory actions) that could remove the property tax protections of Proposition 13 with respect to our California real estate and result in substantial increases in our California property tax bills;
- adverse changes in tax, real estate and zoning laws and regulations;
- increasing competition from other commercial properties in our market;
- tenant defaults and bankruptcies;
- tenants' right to sublease space; and
- concentration of properties leased to non-rated private companies with uncertain financial strength.

There is significant competition among commercial property operators: Other commercial properties compete with our properties for tenants. Some of the competing properties may be newer and better located than our properties. Competition in the market areas in which many of our properties are located is significant and has affected our occupancy levels, rental rates and operating expenses. We also expect that new properties will be built in our markets. In addition, we compete with other buyers, some of which are larger than us, for attractive commercial properties. Therefore, we may not be able to grow as rapidly as we would like.

We may encounter significant delays and expense in re-letting vacant space, or we may not be able to re-let space at existing rates, in each case resulting in losses of income: When leases expire, we may incur expenses in retrofitting space and we may not be able to re-lease the space on the same terms. Certain leases provide customers with the right to terminate early if they pay a fee. As of December 31, 2019, excluding the asset sold in January, 2020, 2,074 leases, representing 6.5 million, or 24.9%, of the leased square footage of our total portfolio, or 22.7% of annualized rental income, are scheduled to expire in 2020. While we have estimated our cost of renewing leases that expire in 2020, our estimates could be wrong. If we are unable to re-lease space promptly, if the terms are significantly less favorable than anticipated or if the costs are higher, our operating results, cash available for distribution or reinvestment and stock price could be negatively impacted.

Tenant defaults and bankruptcies may reduce our cash flow and distributions: We may have difficulty collecting from customers in default, particularly if they declare bankruptcy. Since many of our customers are non-rated private companies, this risk may be enhanced. There is inherent uncertainty in a customer's ability to continue paying rent if they are in bankruptcy. This could negatively affect our operating results, cash available for distribution or reinvestment and stock price.

Natural disasters or terrorist attacks could cause damage to our facilities that is not covered by insurance, and could increase costs, reduce revenues, and otherwise impair our operating results: While we maintain insurance coverage for the losses caused by earthquakes, fire or hurricanes, we could suffer uninsured losses or losses in excess of our insurance policy limits for such occurrences. Approximately 40.7% of our properties are located in California and are generally in areas that are subject to risks of earthquake-related damage. In the event of an earthquake, fire, hurricane or other natural disaster, we would remain liable on any mortgage debt or other unsatisfied obligations related to that property. In addition, we may not have sufficient insurance coverage for losses caused by a terrorist attack, or such insurance may not be available or cost-effective. Significant natural disasters, terrorist attacks, threats of future terrorist attacks, or resulting wider armed conflict could have negative impacts on the U.S. economy, reducing

demand for our rental space and impairing our operating results, even if our specific losses were covered. This could negatively affect our operating results, cash available for distribution or reinvestment and stock price.

Consequences of climate change, including severe weather events, and the steps taken to prevent climate change, could result in increased capital expenditures, expenses, and reduced revenues: Direct and indirect impacts of climate change, such as increased destructive weather events, fires, reduced lifespans and population reduction, reduced natural habitats, water, food, arable land, and other resources, as well as resulting armed conflicts, could increase our costs. Governmental, political, and societal pressure could (i) require costly changes to future newly developed facilities, or require retrofitting of our existing facilities, to reduce carbon emissions through multiple avenues including changes to insulation, space configuration, lighting, heating, and air conditioning, and (ii) increase energy costs as a result of switching to less carbon-intensive, but more expensive, sources of energy to operate our facilities.

The illiquidity of our real estate investments may prevent us from adjusting our portfolio to respond to market changes: There may be delays and difficulties in selling real estate. Therefore, we cannot easily change our portfolio when economic conditions change. In addition, when we sell properties at significant gains upon sale, it can increase our distribution requirements, thus making it difficult to retain and reinvest the sales proceeds. Also, REIT tax laws may impose negative consequences if we sell properties held for less than two years.

We may be adversely affected by changes in laws: Increases in income and service taxes may reduce our cash flow and ability to make expected distributions to our shareholders. Additionally, any changes in the tax law applicable to REITs may adversely affect taxation of us and/or our shareholders. Our properties are also subject to various federal, state and local regulatory requirements, such as state and local fire and safety codes. If we fail to comply with these requirements, governmental authorities could fine us or courts could award damages against us. We believe our properties comply with all significant legal requirements. However, these requirements could change in a way that could negatively affect our operating results, cash available for distribution or reinvestment and stock price.

We may incur significant environmental remediation costs: As an owner and operator of real properties, under various federal, state and local environmental laws, we are required to clean up spills or other releases of hazardous or toxic substances on or from our properties. Certain environmental laws impose liability whether or not the owner or buyer knew of, or was responsible for, the presence of the hazardous or toxic substances. In some cases, liability may not be limited to the value of the property. The presence of these substances, or the failure to properly remediate any resulting contamination, whether from environmental or microbial issues, also may adversely affect our ability to sell, lease, operate, or encumber our facilities.

We have conducted preliminary environmental assessments of most of our properties (and conduct these assessments in connection with property acquisitions) to evaluate the environmental condition of, and potential environmental liabilities associated with, our properties. These assessments generally consist of an investigation of environmental conditions at the property (including soil or groundwater sampling or analysis if appropriate), as well as a review of available information regarding the site and publicly available data regarding conditions at other sites in the vicinity. In connection with these property assessments, our operations and recent property acquisitions, we have become aware that prior operations or activities at some properties or from nearby locations have or may have resulted in contamination to the soil or groundwater at these properties. In circumstances where our environmental assessments disclose potential or actual contamination, we may attempt to obtain indemnifications and, in appropriate circumstances, we obtain limited environmental insurance in connection with the properties acquired, but we cannot assure you that such protections will be sufficient to cover actual future liabilities nor that our assessments have identified all such risks. Although we cannot provide any assurance, based on the preliminary environmental assessments, we are not aware of any environmental contamination of our facilities material to our overall business, financial condition or results of operations.

There has been an increasing number of claims and litigation against owners and managers of rental properties relating to moisture infiltration, which can result in mold or other property damage. When we receive a complaint concerning moisture infiltration, condensation or mold problems and/or become aware that an air quality concern exists, we implement corrective measures in accordance with guidelines and protocols we have developed with the assistance of outside experts. We seek to work proactively with our customers to resolve moisture infiltration and mold-related issues, subject to our contractual limitations on liability for such claims. However, we can give no assurance that material legal claims relating to moisture infiltration and the presence of, or exposure to, mold will not arise in the future.

Any such environmental remediation costs or issues, including any potential ongoing impacts on rent or operating expenses, could negatively impact our operating results, cash flow available for distribution or reinvestment and our stock price.

Operating costs, including property taxes, could increase: We could be subject to increases in insurance premiums, property and other taxes, repair and maintenance costs, payroll, utility costs, workers compensation, and other operating expenses due to various factors such as inflation, labor shortages, commodity and energy price increases, weather, changes to governmental safety and real estate use limitations, as well as other governmental actions. Our property tax expense, which totaled \$45.9 million during the year ended December 31, 2019, generally depends upon the assessed value of our real estate facilities as determined by assessors and government agencies, and accordingly could be subject to substantial increases if such agencies changed their valuation approaches or opinions or if new laws are enacted, especially if new approaches are adopted or laws are enacted that result in increased property tax assessments in states or municipalities where we have a high concentration of facilities.

We have exposure to increased property tax in California: Approximately \$126.3 million of our 2019 net operating income is from our properties in California, and we incurred approximately \$15.1 million in related property tax expense. Due to the impact of Proposition 13, which generally limits increases in assessed values to 2% per year, the assessed value and resulting property tax we pay is significantly less than it would be if the properties were assessed at current values. From time to time proposals have been made to reduce the beneficial impact of Proposition 13, particularly with respect to commercial and industrial (non-residential) real estate. In late 2018, an initiative qualified for California's November 2020 statewide ballot that would create a "split roll," generally making Proposition 13's protections only applicable to residential real estate. We cannot predict whether the initiative will actually be on the ballot in 2020, or what the prospects for passage might be, or whether other changes to Proposition 13 may be proposed or adopted. If the initiative or a similar proposal were to be adopted, it would end the beneficial effect of Proposition 13 for our properties, and our property tax expense could increase substantially, adversely affecting our cash flow from operations and net income.

We must comply with the Americans with Disabilities Act, fire and safety regulations and zoning requirements, which can require significant expenditures: All of our properties must comply with the Americans with Disabilities Act and with related regulations (the "ADA"). The ADA has separate compliance requirements for "public accommodations" and "commercial facilities," but generally requires that buildings be made accessible to persons with disabilities. Various state laws impose similar requirements. A failure to comply with the ADA or similar state laws could lead to government imposed fines on us and/or litigation, which could also involve an award of damages to individuals affected by the non-compliance. In addition, we must operate our properties in compliance with numerous local fire and safety regulations, building codes, zoning requirements and other land use regulations, all of which are subject to change and could become more costly to comply with in the future. The cost of compliance with these requirements can be substantial, and could reduce cash otherwise available for distribution to shareholders. Failure to comply with these requirements could also affect the marketability and rentability of our real estate facilities.

We incur liability from customer and employment-related claims: From time to time we have to make monetary settlements or defend actions or arbitration to resolve customer or employment-related claims and disputes. Settling any such liabilities could negatively impact our earnings and cash available for distribution to shareholders, and could also adversely affect our ability to sell, lease, operate, or encumber affected facilities.

Our development of real estate can subject us to certain risks: As of December 31, 2019, we have a 95% interest in a 395-unit multifamily apartment complex with an aggregate cost of \$115.4 million, including the fair value of the land. We also have successfully rezoned our 628,000 square foot office park within The Mile and are able to pursue the development of additional multifamily and mixed use projects. We are also considering the potential redevelopment of other facilities in our portfolio. Development or redevelopment of facilities are subject to a number of risks, including construction delays, complications in obtaining necessary zoning, occupancy and other governmental permits, cost overruns, failures of our development partners, financing risks, and the possible inability to meet expected occupancy and rent levels. In addition, we do not have experience in multifamily development and are relying to some degree on the experience of our joint venture partner. As a result of these risks, our development projects may be worth less or may generate less revenue than we believed at the time of development. Any of the foregoing risks could negatively impact our operating results, cash flow available for distribution or reinvestment and our stock price. In addition, we may be unable to successfully integrate and effectively manage the properties we develop, which could adversely affect our results of operations.

Global economic conditions can adversely affect our business, financial condition, growth and access to capital.

Economic conditions in the areas we operate, capital markets, global economic conditions, and other events or factors could adversely affect rental demand for our real estate, our ability to grow our business and acquire new facilities, to access capital, as well as the value of our real estate. Such conditions, which could negatively impact our operating results, cash flow available for distribution or reinvestment and our stock price, include the following:

Commercial credit markets: Our results of operations and share price are sensitive to volatility in the credit markets. From time to time, the commercial real estate debt markets experience volatility as a result of various factors, including changing underwriting standards by lenders and credit rating agencies. This may result in lenders increasing the cost for debt financing, which could affect the economic viability of any acquisition or development activities we may undertake or otherwise increase our costs of borrowing. Conversely, to the extent that debt becomes cheaper or underwriting terms become more favorable, it could increase the overall amount of capital being invested in real estate, allowing more competitors to bid for facilities that we may wish to acquire, reducing the potential yield from acquisitions or preventing us from acquiring assets we might otherwise wish to acquire.

Capital markets: The issuance of perpetual preferred securities historically has been a significant source of capital to grow our business, and we have considered issuing unsecured debt publicly or in private transactions. We also consider issuance of our common equity a potential source of capital. Our ability to access these sources of capital can be adversely affected by challenging market conditions, which can increase the cost of issuance of preferred equity and debt, and reduce the value of our common shares, making such sources of capital less attractive or not feasible. We believe that we have sufficient working capital and capacity under our credit facilities and our retained cash flow from operations to continue to operate our business as usual and meet our current obligations. However, if we were unable to issue public equity or borrow at reasonable rates, that could limit the earnings growth that might otherwise result from the acquisition and development of real estate facilities.

Asset valuations: Market volatility makes the valuation of our properties difficult. There may be significant uncertainty in the valuation, or in the stability of the value, of our properties, which could result in a substantial decrease in the value of our properties. As a result, we may not be able to recover the carrying amount of our properties, which may require us to recognize an impairment charge in earnings. Reductions in the value of our assets could result in a reduction in the value of our common shares.

Potential negative impacts upon demand for our space and customers' ability to pay: We believe that our current and prospective customers are susceptible to global and local economic conditions as well as the impact of capital markets, asset valuations, and commercial credit markets, which could result in an impairment of our customers' existing business operations or curtail plans for growth. Such impairment could reduce demand for our rental space, or make it difficult for customers to fulfill their obligations to us under their leases.

The acquisition of existing properties is a significant component of our long-term growth strategy, and acquisitions of existing properties are subject to risks that may adversely affect our growth and financial results.

We acquire existing properties, either in individual transactions or portfolios offered by other commercial real estate owners. In addition to the general risks related to real estate described above, we are also subject to the following risks associated with the acquisition of real estate facilities which could negatively impact our operating results, cash flow available for distribution or reinvestment and our stock price:

Due diligence could be insufficient: Failure to identify all significant circumstances or conditions that affect the value, rentability, or costs of operation of an acquired facility, such as unidentified structural, environmental, zoning, or marketability issues, could jeopardize realization of anticipated earnings from an acquisition and negatively impact our operating results.

We could fail to successfully integrate acquired properties into our platform: Failures to integrate acquired properties into our operating platform, such as a failure to maintain existing relationships with customers due to changes in processes, standards, customer service, could temporarily or permanently impair our operating results.

We compete with other real estate operators for facilities: We face significant competition for suitable acquisition properties from other real estate investors, including other publicly traded real estate investment trusts and private institutional investors. As a result, we may be unable to acquire additional properties we desire or the purchase price for desirable properties may be significantly increased, reducing potential yields from acquisitions.

Acquired properties are subject to property tax reappraisals, which occur following the acquisition and can be difficult to estimate: Facilities that we acquire are subject to property tax reappraisal, which can substantially increase ongoing property taxes. The reappraisal process is subject to a significant degree of uncertainty, because it involves the judgment of governmental agencies regarding real estate values and other factors. In connection with underwriting future or recent acquisitions of properties, if our estimates of property taxes following reappraisal are too low, we may not realize anticipated earnings from an acquisition.

We would incur adverse tax consequences if we fail to qualify as a REIT.

We believe that we have qualified as a REIT and intend to continue to maintain our REIT status. However, there can be no assurance that we qualify or will continue to qualify as a REIT, because of the highly technical nature of the REIT rules, the ongoing importance of factual determinations, the possibility of unidentified issues in prior periods or changes in our circumstances, as well as share ownership limits in our articles of incorporation that do not necessarily ensure that our shareholder base is sufficiently diverse for us to qualify as a REIT. For any year we fail to qualify as a REIT, unless certain relief provisions apply, we would not be allowed a deduction for dividends paid, we would be subject to corporate tax on our taxable income, and generally we would not be allowed to elect REIT status until the fifth year after such a disqualification. Any taxes, interest, and penalties incurred would reduce our cash available for distributions to shareholders and could negatively affect our stock price. However, for years in which we failed to qualify as a REIT, we would not be subject to REIT rules which require us to distribute substantially all of our taxable income to our shareholders.

We may need to borrow funds to meet our REIT distribution requirements.

As a REIT, we must distribute substantially all of our “REIT taxable income” to our shareholders. Our income consists primarily of our share of our OP’s income. We intend to make sufficient distributions to qualify as a REIT and otherwise avoid corporate tax. However, differences in timing between income and expenses and the need to make nondeductible expenditures such as capital improvements and principal payments on debt could force us to borrow funds to make necessary shareholder distributions. Future dividend levels are not determinable at this time.

Changes in tax laws could negatively impact us.

The United States Treasury Department and Congress frequently review U.S. federal income tax legislation, regulations and other guidance. We cannot predict whether, when or to what extent new U.S. federal tax laws, regulations, interpretations or rulings will be adopted. Any legislative action may prospectively modify our tax treatment and, therefore, may adversely affect taxation of us or our shareholders.

PS has significant influence over us.

As of December 31, 2019, PS owned 7.2 million shares of the Company’s common stock and 7.3 million common units of the OP (100.0% of the common units not owned by the Company). Assuming issuance of the Company’s common stock upon redemption of its partnership units, PS would own 41.6% (or 14.5 million shares) of the outstanding shares of the Company’s common stock at December 31, 2019. In addition, the PS Business Parks name and logo are owned by PS and licensed to the Company under a non-exclusive, royalty-free license agreement. The license can be terminated by either party for any reason with six months written notice. Ronald L. Havner, Jr., the Company’s chairman, is also Chairman of Trustees of PS. Joseph D. Russell, Jr. is a director and former Chief Executive Officer of the Company and also President and Chief Executive Officer of PS. Gary E. Pruitt, an independent director of the Company, is also a trustee of PS. Consequently, PS has the ability to significantly influence all matters submitted to a vote of our shareholders, including electing directors, changing our articles of incorporation, dissolving and approving other extraordinary transactions such as mergers, and all matters requiring the consent of the limited partners of the OP. PS’s interest in such matters may differ from other shareholders. In addition, PS’s ownership may make it more difficult for another party to take over or acquire our Company without PS’s approval, even if favorable to our public shareholders.

Provisions in our organizational documents may prevent changes in control.

Our articles generally prohibit any person from owning more than 7% of our shares: Our articles of incorporation restrict the number of shares that may be owned by any “person,” and the partnership agreement of our OP contains an anti-takeover provision. No shareholder (other than PS and certain other specified shareholders) may own more than 7% of the outstanding shares of our common stock, unless our Board of Directors of the Company (the “Board”) waives this limitation. We imposed this limitation to avoid, to the extent possible, a concentration of ownership that might jeopardize our ability to qualify as a REIT. This limitation, however, also makes a change of control much more difficult (if not impossible). These provisions will prevent future takeover attempts not supported by PS even if a majority of our public shareholders consider it to be in their best interests, such as to receive a premium for their shares over market value or for other reasons.

Our Board can set the terms of certain securities without shareholder approval: Our Board is authorized, without shareholder approval, to issue up to 50.0 million shares of preferred stock and up to 100.0 million shares of equity stock, in each case in one or more series. Our Board has the right to set the terms of each of these series of stock.

Consequently, the Board could set the terms of a series of stock that could make it difficult (if not impossible) for another party to take over our Company even if it might be favorable to our public shareholders. Our articles of incorporation also contain other provisions that could have the same effect. We can also cause our OP to issue additional interests for cash or in exchange for property.

The partnership agreement of our OP restricts our ability to enter into mergers: The partnership agreement of our OP generally provides that we may not merge or engage in a similar transaction unless either the limited partners of our OP are entitled to receive the same proportionate consideration as our shareholders, or 60% of the OP's limited partners approve the merger. In addition, we may not consummate a merger unless the matter is approved by a vote of the OP's partners, with our interests in the OP voted in proportion to the manner in which our shareholders voted to approve the merger. These provisions have the effect of increasing PS's influence over us due to PS's ownership of operating partnership units. These provisions may make it more difficult for us to merge with another entity.

The interests of limited partners of our OP may conflict with the interests of our common stockholders.

Limited partners of our OP, including PS, have the right to vote on certain changes to the partnership agreement. They may vote in a way that is against the interests of our shareholders. Also, as general partner of our OP, we are required to protect the interests of the limited partners of the OP. The interests of the limited partners and of our shareholders may differ.

We depend on external sources of capital to grow our Company.

We are generally required under the Code to annually distribute at least 90% of our "REIT taxable income." Because of this distribution requirement, we may not be able to fund future capital needs, including any necessary building and tenant improvements, from operating cash flow. Consequently, we may need to rely on third-party sources of capital to fund our capital needs. We may not be able to obtain the financing on favorable terms or at all. Access to third-party sources of capital depends, in part, on general market conditions, the market's perception of our growth potential, our current and expected future earnings, our cash flow, and the market price per share of our common stock. If we cannot obtain capital from third-party sources, we may not be able to acquire properties when strategic opportunities exist, satisfy any debt service obligations, or make cash distributions to shareholders.

We are subject to laws and governmental regulations and actions that affect our operating results and financial condition.

Our business is subject to regulation under a wide variety of U.S. federal, state and local laws, regulations and policies including those applicable to our status as a REIT, and those imposed by the SEC, the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act and the New York Stock Exchange (the "NYSE"), as well as applicable local, state and national labor laws. Although we have policies and procedures designed to comply with applicable laws and regulations, failure to comply with the various laws and regulations may result in civil and criminal liability, fines and penalties, increased costs of compliance and restatement of our financial statements and could also affect the marketability of our real estate facilities.

In response to current economic conditions or the current political environment or otherwise, laws and regulations could be implemented or changed in ways that adversely affect our operating results and financial condition, such as legislation that could otherwise increase operating costs. Such changes could also adversely affect the operations of our customers, which could affect the price and demand for our space as well as our customer's ability to pay their rent.

The California Consumer Privacy Act (the "CCPA") went into effect on January 1, 2020. The CCPA requires, among other things, companies that collect personal information about California residents to make new disclosures to those residents about their data collection, use and sharing practices, allows residents to opt out of certain data sharing with third parties, and provides a new cause of action for data breaches. However, regulations from the California Attorney General have not been finalized, and it is expected that additional amendments to the CCPA will be introduced in 2020. It therefore remains unclear what, if any, modifications will be made to the CCPA or how it will be interpreted. While we believe we have developed processes to comply with CCPA requirements, a regulatory agency may not agree with certain of our implementation decisions, which could subject us to litigation, regulatory actions or changes to our business practices that could increase costs or reduce revenues. Other states have also considered or are considering privacy laws similar to the CCPA. Similar laws may be implemented in other jurisdictions that we do business in and in ways that may be more restrictive than the CCPA, increasing the cost of compliance, as well as the risk of noncompliance, on our business.

Holders of depositary shares, each representing 1/1,000 of a share of our outstanding preferred stock, have dividend, liquidation and other rights that are senior to the rights of the holders of shares of our common stock.

Holders of our shares of preferred stock are entitled to cumulative dividends before any dividends may be declared or set aside on our common stock. Upon liquidation, before any payment is made to holders of our common stock, shares of our preferred stock are entitled to receive a liquidation preference of \$25,000 per share (or \$25.00 per depositary share) plus any accrued and unpaid distributions before any payment is made to the common shareholders. These preferences may limit the amount received by our common shareholders for ongoing distributions or upon liquidation. In addition, our preferred stockholders have the right to elect two additional directors to our Board whenever dividends are in arrears in an aggregate amount equivalent to six or more quarterly dividends, whether or not consecutive.

Preferred Shareholders are subject to certain risks.

Holders of our preferred shares have preference rights over our common shareholders with respect to liquidation and distributions, which gives them some assurance of continued payment of their stated dividend rate, and receipt of their principal upon liquidation of the Company or redemption of their securities. However, holders of our preferred shares should consider the following risks:

- The Company has in the past, and could in the future, issue or assume additional debt. Preferred shareholders would be subordinated to the interest and principal payments of such debt, which would increase the risk that there would not be sufficient funds to pay distributions or liquidation amounts to the preferred shareholders.
- The Company has in the past, and could in the future, issue additional preferred shares that, while pari passu to the existing preferred shares, increases the risk that there would not be sufficient funds to pay distributions to the preferred shareholders.
- While the Company has no plans to do so, if the Company were to lose its REIT status or no longer elect REIT status, it would no longer be required to distribute its taxable income to maintain REIT status. If, in such a circumstance, the Company ceased paying dividends, unpaid distributions to the preferred shareholders would continue to accumulate. While the preferred shareholders would have the ability to elect two additional members to serve on our Board until the arrearage was cured. The preferred shareholders would not receive any compensation (such as interest) for the delay in the receipt of distributions, and it is possible that the arrearage could accumulate indefinitely.

We rely on technology in our operations and failures, inadequacies or interruptions to our service could harm our business.

The execution of our business strategy is heavily dependent on the use of technologies and systems, including the Internet, to access, store, transmit, deliver and manage information and processes. We rely extensively on third-party vendors to retain data, process transactions and provide other systems services. The failure, damage or interruption of these systems, including as a result of power outages, computer and telecommunications failures, hackers, computer worms, viruses and other destructive or disruptive security breaches, natural disasters, terrorist attacks, and other catastrophic events could significantly and have a material adverse effect on our business.

If our confidential information is compromised or corrupted, including as a result of a cybersecurity breach, our reputation and business relationships could be damaged, which could adversely affect our financial condition and operating results.

In the ordinary course of our business we acquire and store sensitive data, including personally identifiable information of our prospective and current customers and our employees. The secure processing and maintenance of this information is critical to our operations and business strategy. Although we believe we have taken commercially reasonable steps to protect the security of our confidential information, information security risks have generally increased in recent years due to the rise in new technologies and the increased sophistication and activities of perpetrators of cyberattacks. Despite our security measures, we have experienced security breaches due to cyberattacks and additional breaches could occur in the future. When we experience security breaches our information technology and infrastructure is vulnerable and our or our customers' or employees' confidential information could be compromised or misappropriated. Any such breach could result in serious and harmful consequences for us.

Our confidential information may also be compromised due to programming or human error or malfeasance. We must continually evaluate and adapt our systems and processes to address the evolving threat landscape, and therefore

there is no guarantee that they will be adequate to safeguard against all data security breaches or misuses of data. In addition, as the regulatory environment related to information security, data collection and use, and privacy becomes increasingly rigorous, with new and changing requirements applicable to our business from multiple regulatory agencies at the local, state, federal, or international level, compliance with those requirements could also result in additional costs, or we could fail to comply with those requirements due to various reasons such as not being aware of them.

Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, disruption to our operations and the services we provide to customers or damage our reputation, any of which could adversely affect our results of operations, reputation and competitive position. In addition, our customers could lose confidence in our ability to protect their personal information, which could cause them to discontinue leasing our facilities. Such events could lead to lost future revenues and adversely affect our results of operations and could result in remedial and other costs, fines or lawsuits, which could be in excess of any available insurance that we have procured.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of December 31, 2019, we owned 97 business parks comprising of a geographically diverse portfolio of 27.6 million rentable square feet of commercial real estate which consists of 18.1 million square feet of industrial space, 6.2 million square feet of flex space and 3.2 million square feet of office space. The weighted average occupancy rate for these assets throughout 2019 was 94.2% and the realized rent per square foot was \$15.71.

The following table reflects the geographical diversification of the 97 business parks owned by the Company as of December 31, 2019, the type of the rentable square footage and the weighted average occupancy rates throughout 2019 (except as set forth below, all of the properties are held in fee simple interest) (*in thousands, except number of business parks*):

Region	Number of Business Parks	Rentable Square Footage				Weighted Average Occupancy Rate
		Industrial	Flex	Office	Total	
Northern California	30	6,391	593	340	7,324	96.1%
Southern California	16	2,916	953	31	3,900	95.3%
Dallas ⁽¹⁾	12	1,300	1,587	—	2,887	92.4%
Austin	9	755	1,208	—	1,963	91.8%
Northern Virginia	19	1,564	1,440	1,970	4,974	92.1%
South Florida	3	3,728	126	12	3,866	95.4%
Suburban Maryland	4	394	—	751	1,145	89.3%
Seattle	3	1,092	270	28	1,390	96.2%
Total	96	18,140	6,177	3,132	27,449	94.2%
Asset held for sale	1	—	—	113	113	100.0%
Total	97	18,140	6,177	3,245	27,562	94.2%

⁽¹⁾ The Company owns two properties comprised of 231,000 square feet that are subject to ground leases in Irving, Texas. These leases expire in 2029 and 2030.

Along with the 27.6 million rentable square feet of commercial space, we also have a 95.0% interest in a 395-unit apartment complex.

We currently anticipate that each of our properties will continue to be used for its current purpose, other than the one property held for development. However, we will from time to time evaluate our properties from a highest and best use perspective, and may identify higher and better uses for our real estate. We renovate our properties in connection with the re-leasing of space to customers and expect to fund the costs of such renovations generally from rental income.

Competition exists in each of the market areas in which these properties are located, and we have risks that customers could default on leases and declare bankruptcy. We believe these risks are mitigated in part through the Company's geographic diversity and our diverse customer base.

Please refer to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" for portfolio information with respect to lease expirations and operating results in 2019, 2018 and 2017 by region and by type of rentable space.

ITEM 3. LEGAL PROCEEDINGS

We are not presently subject to material litigation nor, to our knowledge, is any material litigation threatened against us, other than routine actions, claims and administrative proceedings arising in the ordinary course of business, some of which are expected to be covered by liability insurance or third party indemnifications and all of which collectively are not expected to have a materially adverse effect on our financial condition, results of operations, or liquidity.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market for the Registrant's Common Equity:

The common stock of the Company trades on the NYSE under the symbol PSB.

Holder:

As of February 14, 2020, there were 277 holders of record of the common stock.

Dividends:

Holders of common stock are entitled to receive distributions when and if declared by our Board out of any funds legally available for that purpose. As a REIT, we do not incur federal income tax if we distribute substantially all of our "REIT taxable income" each year, and if we meet certain organizational and operational requirements. We believe we have met these REIT requirements in all periods presented herein, and we expect to continue to elect and qualify as a REIT.

The Board has established a distribution policy intended to maximize the retention of operating cash flow and distribute the amount required for the Company to maintain its tax status as a REIT.

Issuer Repurchases of Equity Securities:

The Board has authorized the repurchase, from time to time, of up to 6.5 million shares of the Company's common stock on the open market or in privately negotiated transactions. During the three months ended December 31, 2019, there were no shares of the Company's common stock repurchased. As of December 31, 2019, the Company has 1,614,721 shares available for repurchase under the program. The program does not expire. Purchases will be made subject to market conditions and other investment opportunities available to the Company.

Securities Authorized for Issuance Under Equity Compensation Plans:

Information related to the Company's equity compensation plan is provided in Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth selected consolidated financial and operating information of the Company. The following information should be read in conjunction with the consolidated financial statements and notes thereto of the Company included in this Form 10-K.

	For The Years Ended December 31,				
	2019	2018	2017	2016	2015
	(In thousands, except per share data)				
Rental income	\$ 429,846	\$ 413,516	\$ 402,179	\$ 386,871	\$ 373,135
Expenses					
Cost of operations	128,343	124,630	122,348	120,518	118,469
Depreciation and amortization	104,249	99,242	94,270	99,486	105,394
General and administrative	13,761	12,072	12,671	17,452	16,337
Total operating expenses	<u>246,353</u>	<u>235,944</u>	<u>229,289</u>	<u>237,456</u>	<u>240,200</u>
Interest and other income	4,492	1,510	942	1,233	1,130
Interest and other expense	(657)	(665)	(1,285)	(5,664)	(13,330)
Equity in loss of unconsolidated joint venture	—	—	(805)	—	—
Gain on sale of real estate facilities	16,644	93,484	1,209	—	28,235
Gain on sale of development rights	—	—	6,365	—	—
Net income	<u>203,972</u>	<u>271,901</u>	<u>179,316</u>	<u>144,984</u>	<u>148,970</u>
Allocation to noncontrolling interests	(29,006)	(45,199)	(24,279)	(16,955)	(18,495)
Net income allocable to PS Business Parks, Inc.	<u>174,966</u>	<u>226,702</u>	<u>155,037</u>	<u>128,029</u>	<u>130,475</u>
Allocation to preferred shareholders based upon					
Distributions	(54,346)	(51,880)	(52,873)	(57,276)	(59,398)
Redemptions	(11,007)	—	(10,978)	(7,312)	(2,487)
Allocation to restricted stock unit holders	(910)	(1,923)	(761)	(569)	(299)
Net income allocable to common shareholders	<u>\$ 108,703</u>	<u>\$ 172,899</u>	<u>\$ 90,425</u>	<u>\$ 62,872</u>	<u>\$ 68,291</u>
Per Common Share:					
Cash Distributions	\$ 4.20	\$ 3.80	\$ 3.40	\$ 3.00	\$ 2.20
Net income — basic	\$ 3.96	\$ 6.33	\$ 3.32	\$ 2.32	\$ 2.53
Net income — diluted	\$ 3.95	\$ 6.31	\$ 3.30	\$ 2.31	\$ 2.52
Weighted average common shares — basic	27,418	27,321	27,207	27,089	26,973
Weighted average common shares — diluted	27,526	27,422	27,412	27,179	27,051

As Of And For The Years Ended December 31,

	2019	2018	2017	2016	2015
	(In thousands, except per square foot data)				
Balance Sheet Data					
Total assets	\$ 2,046,443	\$ 2,068,594	\$ 2,100,159	\$ 2,119,371	\$ 2,186,658
Total debt	\$ —	\$ —	\$ —	\$ —	\$ 250,000
Preferred stock called for redemption	\$ —	\$ —	\$ 130,000	\$ 230,000	\$ —
Equity					
PS Business Parks, Inc.'s shareholders'					
Preferred stock	\$ 944,750	\$ 959,750	\$ 959,750	\$ 879,750	\$ 920,000
Common stock	\$ 800,926	\$ 805,612	\$ 733,561	\$ 733,509	\$ 740,496
Noncontrolling interests	\$ 216,135	\$ 218,091	\$ 196,625	\$ 197,455	\$ 200,103
Other Data					
Net cash provided by operating activities	\$ 290,595	\$ 276,153	\$ 271,614	\$ 250,507	\$ 238,839
Net cash (used in) provided by					
investing activities	\$ (34,322)	\$ (36,066)	\$ (79,237)	\$ (85,008)	\$ 3,131
Net cash used in financing activities	\$ (230,866)	\$ (317,590)	\$ (205,036)	\$ (225,782)	\$ (205,525)
Square footage owned at the end of period	27,562	28,186	28,028	28,072	27,969
Weighted average occupancy rate	94.2%	94.2%	93.8%	94.0%	92.8%
Revenue per occupied square foot	\$ 15.71	\$ 15.34	\$ 15.30	\$ 14.61	\$ 14.27

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the results of operations and financial condition should be read in conjunction with the selected financial data and the Company's consolidated financial statements and notes thereto included in this Form 10-K.

Critical Accounting Policies and Estimates:

Our accounting policies are described in Note 2 to the consolidated financial statements included in this Form 10-K. We believe our critical accounting policies relate to income tax expense, accounting for acquired real estate facilities, accounting for customer receivable balances, including deferred rent receivable balances, impairment of long-lived assets, and accrual for uncertain and contingent liabilities, each of which are more fully discussed below.

Income Tax Expense: We have elected to be treated as a REIT, as defined in the Code. As a REIT, we do not incur federal income tax on our "REIT taxable income" that is fully distributed each year (for this purpose, certain distributions paid in a subsequent year may be considered), and if we meet certain organizational and operational requirements. We believe we have met these REIT requirements for all periods presented herein. Accordingly, we have recorded no federal income tax expense related to our "REIT taxable income."

Our evaluation that we have met the REIT requirements could be incorrect, because compliance with the tax rules requires factual determinations, and circumstances we have not identified could result in noncompliance with the tax requirements in current or prior years. For any taxable year that we fail to qualify as a REIT and for which applicable statutory relief provisions did not apply, we would be taxed at the regular corporate rates on all of our taxable income for at least that year and the ensuing four years, we could be subject to penalties and interest, and our net income would be materially different from the amounts shown in our consolidated financial statements.

Accounting for Acquired Real Estate Facilities: We estimate the fair value of land, buildings, intangible assets and intangible liabilities for purposes of allocating purchase price. Such estimates, which are determined with the assistance of third-party valuation specialists where appropriate, are based upon many assumptions and judgments, including, but not limited to, (i) market rates of return and capitalization rates on real estate and intangible assets, (ii) building and material cost levels, (iii) estimated market rent levels, (iv) future revenue growth rates, (v) future cash flows from the real estate and the existing customer base and (vi) comparisons of the acquired underlying land parcels to recent land transactions. Others could come to materially different conclusions as to the estimated fair values, which could result in different depreciation and amortization expense, rental income, gains and losses on sale of real estate assets, and real estate and intangible assets.

Accounting for Customer Receivable Balances, including Deferred Rent Receivable Balances: Customer receivables consist primarily of amounts due for contractual lease payments, reimbursements of common area maintenance expenses, property taxes and other expenses recoverable from customers. Deferred rent receivables represent the amount that the cumulative straight-line rental income recorded to date exceeds cash rents billed to date under the lease agreement. The Company writes off uncollectible customer receivable balances, including deferred rent receivable balances, in the period such receivable balances are deemed uncollectible. Significant bad debt losses could materially impact our net income.

Impairment of Long-Lived Assets: The analysis of impairment of our long-lived assets involves identification of indicators of impairment, projections of future operating cash flows and estimates of fair values or selling prices, all of which require significant judgment and subjectivity. Others could come to materially different conclusions. In addition, we may not have identified all current facts and circumstances that may affect impairment. Any unidentified impairment loss, or change in conclusions, could have a material adverse impact on our net income.

Accrual for Uncertain and Contingent Liabilities: We accrue for certain contingent and other liabilities that have significant uncertain elements, such as property taxes, performance bonuses and other operating expenses, as well as other legal claims and disputes involving customers, employees, governmental agencies and other third parties. We estimate such liabilities based upon many factors such as past trends and our evaluation of likely outcomes. However, the estimates of known liabilities could be incorrect or we may not be aware of all such liabilities, in which case our accrued liabilities and net income could be materially different.

Business Overview

Our overall operating results are impacted primarily by the performance of our existing real estate facilities, which at December 31, 2019 were comprised of 27.6 million rentable square feet of primarily multi-tenant industrial, flex and office properties concentrated in six states and a 95.0% interest in a 395-unit multifamily apartment complex. Our portfolio of multi-tenant commercial properties are located in markets that have experienced long-term economic growth with a particular concentration on small- and medium-size customers. Accordingly, a significant degree of management attention is paid to maximizing the cash flow from our existing real estate portfolio. Also, our strong and conservative capital structure allows us the flexibility to use debt and equity capital prudently to fund our growth, which allows us to acquire properties we believe will create long-term value. From time to time we sell properties which no longer fit the Company's strategic objectives.

Existing Real Estate Facilities: The operating results of our existing real estate facilities are substantially influenced by demand for rental space within our properties and our markets, which impacts occupancy, rental rates and capital expenditure requirements. We strive to maintain high occupancy levels while increasing rental rates and minimizing capital expenditures when market conditions allow, although the Company may decrease rental rates in markets where conditions require. Management's initiatives and strategies with respect to our existing real estate facilities include incentivizing our personnel to maximize the return on investment for each lease transaction and providing a superior level of service to our customers.

Acquisitions of Real Estate Facilities: We seek to grow our portfolio through acquisitions of facilities generally consistent with the Company's focus on owning concentrated business parks with easily configurable space and in markets and product types with favorable long-term return potential.

Subsequent to December 31, 2019, we acquired a multi-tenant industrial park comprised of approximately 73,000 rentable square feet in La Mirada, California, for a total purchase price of \$13.5 million, inclusive of capitalized transaction costs. The park consists of five buildings and was 100.0% occupied at acquisition with suites ranging from 1,200 to 3,000 square feet.

On December 20, 2019, we acquired a multi-tenant flex park comprised of approximately 79,000 rentable square feet in Santa Clara, California, for a total purchase price of \$16.8 million, inclusive of capitalized transaction costs. The park consists of nine buildings and was 95.6% occupied at acquisition with suites ranging from 200 to 3,500 square feet.

On September 5, 2019, we acquired a multi-tenant industrial park comprised of approximately 543,000 rentable square feet in Santa Fe Springs, California, for a total purchase price of \$104.3 million, inclusive of capitalized transaction costs. The park consists of ten buildings and was 100.0% occupied at acquisition with suites ranging from 5,000 to 288,000 square feet.

On April 18, 2019, we acquired a multi-tenant industrial park comprised of approximately 74,000 rentable square feet in Signal Hill, California, for a total purchase price of \$13.8 million, inclusive of capitalized transaction costs. The park consists of eight buildings and was 98.4% occupied at acquisition with suites ranging from 1,200 to 8,000 square feet. The eight buildings are located in the Signal Hill industrial submarket where we already own five industrial parks totaling 268,000 square feet.

On June 8, 2018, we acquired two multi-tenant industrial parks aggregating 1.1 million rentable square feet in Springfield, Virginia, for a total purchase price of \$143.8 million, inclusive of capitalized transaction costs. The portfolio consists of 19 buildings and was 76.1% occupied at acquisition with suites ranging from 100 to 32,000 square feet. The 19 buildings are located in the Springfield/Newington industrial submarket where we already own three industrial parks totaling 606,000 square feet.

We continue to seek to acquire additional facilities in our existing markets and generally in close proximity to our existing facilities; however, there can be no assurance that we will acquire additional facilities that meet our risk-adjusted return and underwriting requirements.

Development or Redevelopment of Real Estate Facilities: We may seek to redevelop our existing real estate. We own a large contiguous block of real estate (628,000 rentable square feet on 44.5 acres of land) located within an area known as The Mile in Tysons, Virginia. In 2015, we demolished one of our existing office buildings at The Mile and built Highgate, a 395-unit apartment complex, at a cost, including the estimated fair value of existing land, of \$115.4 million.

While multifamily real estate was not a core asset class for us, we determined that multifamily real estate represented a unique opportunity and the highest and best use of that parcel. We have partnered through a joint venture with a local developer and operator of multifamily properties in order to leverage their development and operational experience. See “Analysis of Net Income – Multifamily”, “Analysis of Net Income – Equity in loss of unconsolidated joint venture” below and Notes 3 and 4 to our consolidated financial statements for more information on Highgate.

On January 1, 2018, we began to consolidate the joint venture due to changes to the joint venture agreement that gave us control of the joint venture. Prior to January 1, 2018, we accounted for our investment in the joint venture using the equity method and accordingly, reflected our share of net loss under “equity in loss of unconsolidated joint venture.”

In 2019, we successfully rezoned our 628,000 square foot office park located at The Mile in Tysons, Virginia. The rezoning will allow us to develop, at our election, up to 3,000 additional multifamily units and approximately 500,000 square feet of other commercial uses. In 2017, we completed Highgate at The Mile, a 395-unit multifamily property which is owned by a joint venture that we consolidate. We are currently seeking to demolish a 123,000 square foot vacant office building in order to construct another multifamily property on the parcel. This parcel is reflected on our consolidated balance sheets as land and building held for development. The scope and timing of the future phases of development of The Mile are subject to a variety of contingencies, including site plan approvals and building permits. We expect that commencement of the next phase of redevelopment will commence in mid-2020.

Sales of Real Estate Facilities: We may from time to time sell individual real estate facilities based on market conditions, fit with our existing portfolio, evaluation of long-term potential returns of markets or product types, or other reasons.

Subsequent to December 31, 2019, the Company completed the sale of a single-tenant building totaling 113,000 square feet in Montgomery County, Maryland, for a gross sales price of \$30.0 million. The building had been marketed previously as part of a broader portfolio of suburban Maryland office properties in 2019, but was excluded from the 1.3 million square feet of flex and office business parks sale which closed October 8, 2019 and as such was the Company’s only remaining office asset at Metro Park North. The asset sold has been classified as held for sale for the year ended December 31, 2019 and all comparable periods.

On October 8, 2019, we sold three business parks located in Montgomery County, Maryland: Metro Park North, Meadow Business Park and WesTech Business Park. The parks, consisting of 28 buildings totaling approximately 1.3 million rentable square feet sold for net sale proceeds of \$144.6 million, which resulted in a gain of \$16.6 million.

On March 5, 2018, we sold Corporate Pointe Business Park, a park consisting of five multi-tenant office buildings totaling 161,000 square feet located in Orange County, California, for net sale proceeds of \$41.7 million, which resulted in a gain of \$26.8 million. On April 18, 2018, we sold Orange County Business Center, a park consisting of five multi-tenant office buildings totaling 437,000 square feet located in Orange County, California, for net sale proceeds of \$73.3 million, which resulted in a gain of \$50.6 million. On April 30, 2018, we sold Northgate Business Park, a park consisting of seven multi-tenant flex buildings totaling 194,000 square feet located in Dallas, Texas, for net sale proceeds of \$11.8 million, which resulted in a gain of \$7.9 million. On October 31, 2018, we sold Orangewood Office Park, a park consisting of two multi-tenant office buildings totaling 107,000 square feet located in Orange County, California, for net sale proceeds of \$18.3 million, which resulted in a gain of \$8.2 million.

On May 1, 2017, we sold Empire Commerce, a two-building single-story office park comprising 44,000 square feet, located in Dallas, Texas, for net sale proceeds of \$2.1 million, which resulted in a net gain of \$1.2 million.

The operations of these facilities are presented below under “assets sold or held for sale.”

Certain Factors that May Impact Future Results

Impact of Inflation: Although inflation has not been significant in recent years, an increase in inflation could impact our future results, and the Company continues to seek ways to mitigate its potential impact. A substantial portion of the Company’s leases require customers to pay operating expenses, including real estate taxes, utilities and insurance, as well as increases in common area expenses, partially reducing the Company’s exposure to inflation during each lease’s respective lease period.

Regional Concentration: Our portfolio is concentrated in eight regions, in six states. We have chosen to concentrate in these regions because we believe they have characteristics which enable them to be competitive

economically, such as above average population growth, job growth, higher education levels and personal income. Changes in economic conditions in these regions in the future could impact our future results.

Industry and Customer Concentrations: We seek to minimize the risk of industry or customer concentrations. As of December 31, 2019, excluding the asset held for sale, industry concentration that represented more than 10% of our annualized rental income comes from business services, warehouse, distribution, transportation and logistics and computer hardware software and related services. No other industry group represents more than 10% of our annualized rental income as depicted in the following table.

<u>Industry</u>	<u>Percent of Annualized Rental Income</u>
Business services	19.0%
Warehouse, distribution, transportation and logistics	12.5%
Computer hardware, software and related services	10.8%
Retail, food, and automotive	7.9%
Health services	7.8%
Engineering and construction	7.7%
Government	6.1%
Insurance and financial services	3.2%
Electronics	2.9%
Home furnishings	2.6%
Communications	1.9%
Aerospace/defense products and services	1.8%
Educational services	1.0%
Other	14.8%
Total	<u>100.0%</u>

As of December 31, 2019, excluding the asset held for sale, leases from our top 10 customers comprised 8.6% of our annualized rental income, with only one customer, the U.S. Government (3.1%), representing more than 1% as depicted in the following table (*in thousands*).

<u>Customers</u>	<u>Square Footage</u>	<u>Annualized Rental Income</u> ⁽¹⁾	<u>Percent of Annualized Rental Income</u>
U.S. Government	521,000	\$ 12,806	3.1%
Luminex Corporation	199,000	4,348	1.0%
Amazon Inc.	213,000	2,718	0.7%
KZ Kitchen Cabinet & Stone	191,000	2,599	0.6%
Lockheed Martin Corporation	124,000	2,554	0.6%
CentralColo, LLC	96,000	2,313	0.6%
Applied Materials, Inc.	162,000	2,313	0.6%
Carbel, LLC	207,000	2,143	0.5%
Quanta Computer Inc.	179,000	1,874	0.5%
ECS Federal, LLC	81,000	1,840	0.4%
Total	<u>1,973,000</u>	<u>\$ 35,508</u>	<u>8.6%</u>

⁽¹⁾ For leases expiring prior to December 31, 2020, annualized rental income represents income to be received under existing leases from January 1, 2020 through the date of expiration.

Customer credit risk: We have historically experienced a low level of write-offs of uncollectible rents, with less than 0.5% of rental income written off in any year over the last eight years. However, there can be no assurance that write-offs may not increase because there is inherent uncertainty in a customer's ability to continue paying rent and meet its full lease obligation. As of February 17, 2020, we did not have any customers that are protected by Chapter 11 of the U.S. Bankruptcy Code. From time to time, customers contact us, requesting early termination of their lease, reductions in space leased, or rent deferment or abatement, which we are not obligated to grant but will consider under certain circumstances.

Net Operating Income

We utilize net operating income (“NOI”), a measure that is not defined in accordance with U.S. generally accepted accounting principles (“GAAP”), to evaluate the operating performance of our real estate. We define NOI as rental income less adjusted cost of operations. Adjusted cost of operations represents cost of operations, excluding stock compensation, which can vary significantly period to period based upon the performance of the company.

We believe NOI assists investors in analyzing the performance of our real estate by excluding (i) corporate overhead (i.e., general and administrative expense) because it does not relate to the direct operating performance of our real estate, (ii) depreciation and amortization expense because it does not accurately reflect changes in the fair value of our real estate and (iii) stock compensation expense because this expense item can vary significantly from period to period and thus impact comparability across periods. The Company’s calculation of NOI may not be comparable to those of other companies and should not be used as an alternative to performance measures calculated in accordance with GAAP.

Beginning January 1, 2019, the Company has recorded our divisional vice presidents’ compensation costs within general and administrative expense, as we determined that the nature of these individuals’ responsibilities is more consistent with corporate oversight as opposed to direct property operations. As a result of this change, we have reclassified our divisional vice presidents’ compensation costs totaling \$1.9 million for the year ended December 31, 2018, consisting of \$1.3 million of compensation costs and \$617,000 of stock compensation expense, and compensation costs totaling \$3.0 million for the year ended December 31, 2017, consisting of \$1.6 million of compensation costs and \$1.4 million of stock compensation expense, from cost of operations into general and administrative expense on our consolidated statements of income in the years ended December 31, 2018 and 2017 in order to conform to the current periods’ presentation.

See “Analysis of net income” below for reconciliations of each of these measures to their closest analogous GAAP measure from our consolidated statements of income.

Results of Operations

Operating Results for 2019 and 2018

For the year ended December 31, 2019, net income allocable to common shareholders was \$108.7 million or \$3.95 per diluted share, compared to \$172.9 million or \$6.31 per diluted share for the year ended December 31, 2018. The decrease was mainly due to higher gain on sale of real estate facilities sold in 2018 than 2019, and the charge related to the redemption of preferred stock incurred during 2019 that did not occur in 2018, partially offset by an increase in NOI with respect to the Company’s real estate facilities. The increase in NOI includes a \$12.7 million, or 4.9%, increase attributable to Same Park facilities (defined below) driven by an increase in rental rates, combined with increased NOI from Non-Same Park and multifamily assets, partially offset by reduced NOI from facilities sold in 2018 and 2019.

Operating Results for 2018 and 2017

For the year ended December 31, 2018, net income allocable to common shareholders was \$172.9 million or \$6.31 per diluted share, compared to \$90.4 million or \$3.30 per diluted share for the year ended December 31, 2017. The increase was mainly due to the gain on the sale of three office parks in Orange County, California, and an industrial park in Dallas, Texas, during 2018, charges related to the redemption of preferred stock incurred in 2017 that did not recur in 2018 and an increase in NOI with respect to the Company’s real estate facilities. The increase in NOI includes a \$9.1 million increase from our Same-Park facilities due primarily to increases in occupancy and rental rates combined with increased NOI from our Non-Same Park and multifamily assets, partially offset by reduced NOI from facilities we sold in 2018.

Analysis of Net Income

Our net income is comprised primarily of our real estate operations, depreciation and amortization expense, general and administrative expense, interest and other income, interest and other expenses and gain on sale of real estate facilities and development rights.

We segregate our real estate activities into (i) same park operations, representing all operating properties acquired prior to January 1, 2017, comprising 25.7 million rentable square feet of our 27.6 million in rentable square feet at

December 31, 2019 (the “Same Park” facilities), (ii) non-same park operations, representing those facilities we own that were acquired after January 1, 2017 (the “Non-Same Park” facilities), (iii) multifamily operations and (iv) assets sold or held for sale, representing a 113,000 square foot asset held for sale as of December 31, 2019, operating results related to 1.3 million square feet of assets sold in 2019, 899,000 square feet of assets sold in 2018, and 44,000 square feet of assets sold during 2017.

The table below sets forth the various components of our net income (*in thousands*):

	For the Years			For the Years		
	Ended December 31,		Variance	Ended December 31,		Variance
	2019	2018		2018	2017	
Rental income						
Same Park ⁽¹⁾	\$ 382,823	\$ 364,811	\$ 18,012	\$ 364,811	\$ 354,393	\$ 10,418
Non-Same Park	14,276	5,532	8,744	5,532	—	5,532
Multifamily	10,075	7,353	2,722	7,353	—	7,353
Assets sold or held for sale ⁽²⁾	22,672	35,820	(13,148)	35,820	47,786	(11,966)
Total rental income	<u>429,846</u>	<u>413,516</u>	<u>16,330</u>	<u>413,516</u>	<u>402,179</u>	<u>11,337</u>
Cost of operations ⁽³⁾						
Adjusted cost of operations ⁽⁴⁾						
Same Park	109,708	104,380	5,328	104,380	103,038	1,342
Non-Same Park	4,899	1,884	3,015	1,884	—	1,884
Multifamily	4,137	4,054	83	4,054	—	4,054
Assets sold or held for sale ⁽²⁾	8,465	12,866	(4,401)	12,866	17,679	(4,813)
Stock compensation expense ⁽⁵⁾	1,134	1,446	(312)	1,446	1,631	(185)
Total cost of operations	<u>128,343</u>	<u>124,630</u>	<u>3,713</u>	<u>124,630</u>	<u>122,348</u>	<u>2,282</u>
NOI ⁽⁶⁾						
Same Park	273,115	260,431	12,684	260,431	251,355	9,076
Non-Same Park	9,377	3,648	5,729	3,648	—	3,648
Multifamily	5,938	3,299	2,639	3,299	—	3,299
Assets sold or held for sale ⁽²⁾⁽⁷⁾	14,207	22,954	(8,747)	22,954	30,107	(7,153)
Stock compensation expense ⁽⁵⁾	(1,134)	(1,446)	312	(1,446)	(1,631)	185
Depreciation and amortization expense	(104,249)	(99,242)	(5,007)	(99,242)	(94,270)	(4,972)
General and administrative expense ⁽³⁾	(13,761)	(12,072)	(1,689)	(12,072)	(12,671)	599
Interest and other income	4,492	1,510	2,982	1,510	942	568
Interest and other expense	(657)	(665)	8	(665)	(1,285)	620
Equity in loss of unconsolidated joint venture	—	—	—	—	(805)	805
Gain on sale of real estate facilities	16,644	93,484	(76,840)	93,484	1,209	92,275
Gain on sale of development rights	—	—	—	—	6,365	(6,365)
Net income	<u>\$ 203,972</u>	<u>\$ 271,901</u>	<u>\$ (67,929)</u>	<u>\$ 271,901</u>	<u>\$ 179,316</u>	<u>\$ 92,585</u>

(1) Same Park rental income includes lease buyout income of \$1.4 million, \$583,000 and \$939,000 for the years ended December 31, 2019, 2018 and 2017, respectively.

(2) Amounts for the year ended December 31, 2019 reflect the operating results related to 1.3 million square feet of assets sold in 2019 and a 113,000 square foot building held for sale as of December 31, 2019; amounts shown for the year ended December 31, 2018 reflect the operating results related to 1.3 million square feet of assets sold in 2019, a 113,000 square foot building held for sale as of December 31, 2019, and 899,000 square feet of assets sold in 2018; amounts shown for the year ended December 31, 2017 reflect the operating results related to 1.3 million square feet of assets sold in 2019, a 113,000 square foot building held for sale as of December 31, 2019, 899,000 square feet of assets sold in 2018, and 44,000 square feet of assets sold in 2017.

(3) We have reclassified our divisional vice presidents’ compensation costs totaling \$1.9 million and \$3.0 million for the years ended December 30, 2018 and 2017, respectively, from cost of operations into general and administrative expense on our consolidated statements of income in the years ended December 31, 2018 and 2017 in order to conform to the current periods’ presentation. Of this amount, \$617,000 and \$1.4 million of stock compensation expense for the years ended December 31, 2018 and 2017, respectively, had previously been excluded from NOI.

(4) Adjusted cost of operations excludes the impact of stock compensation expense.

(5) Stock compensation expense, as shown here, represents stock compensation expense for employees whose compensation expense is recorded in cost of operations. Note that stock compensation expense attributable to our executive management team (including divisional vice presidents) and other corporate employees is recorded within general and administrative expense.

(6) NOI represents rental income less adjusted cost of operations.

- (7) NOI from assets sold and held for sale in 2019 was \$14.2 million, \$19.9 million and \$20.5 million for the years ended December 31, 2019, 2018 and 2017, respectively. The remaining amounts in 2018 and 2017 relate to assets sold during 2018 and 2017.

Rental income increased \$16.3 million in 2019 compared to 2018 and by \$11.3 million in 2018 compared to 2017 due primarily to increases in rental income at our Same Park and Non-Same Park facilities and an increase in rental income from our multifamily asset, offset partially by rental income from assets sold. The increase in rental income at our Same Park facilities in 2019 was due primarily to higher revenue per occupied square foot, while the 2018 increase was due primarily to higher revenue per occupied square foot and increased occupancy.

Cost of operations increased \$3.7 million in 2019 compared to 2018 and by \$2.3 million in 2018 compared to 2017 due primarily to increases in adjusted cost of operations for our Same Park and Non-Same Park facilities, offset partially by adjusted costs of operations from assets sold. The 2018 increase was also attributable to an increase in cost of operations from our multifamily asset. The 2019 and 2018 increases in adjusted cost of operations were partially offset by lower stock compensation expense.

Net income decreased \$67.9 million in 2019 compared to 2018 and increased by \$92.6 million in 2018 compared to 2017. The 2019 decrease was mainly due to higher gain on sale of real estate facilities sold in 2018 than 2019 combined with higher depreciation and amortization expense and higher general and administrative expense partially offset by higher NOI. The 2018 increase in net income was primarily due to the gain on the sale of three office parks in Orange County, California, and an industrial park in Dallas, Texas, during 2018 combined with higher NOI partially offset by higher depreciation and amortization expense.

Same Park Facilities

We believe that evaluation of the Same Park facilities provide an informative view of how the Company's portfolio has performed over comparable periods. We believe that investors and analysts use Same Park information in a similar manner.

The following table summarizes the historical operating results of these facilities and certain statistical information related to leasing activity in 2019, 2018 and 2017 (*in thousands, except per square foot data*):

	For the Years Ended December 31,			For the Years Ended December 31,		
	2019	2018	Variance	2018	2017	Variance
Rental income ⁽¹⁾	\$ 382,823	\$ 364,811	4.9%	\$ 364,811	\$ 354,393	2.9%
Adjusted cost of operations ⁽²⁾						
Property taxes	40,061	38,076	5.2%	38,076	36,969	3.0%
Utilities	19,521	19,535	(0.1%)	19,535	19,043	2.6%
Repairs and maintenance	23,521	21,693	8.4%	21,693	22,470	(3.5%)
Snow removal	1,046	713	46.7%	713	400	78.3%
Other expenses	25,559	24,363	4.9%	24,363	24,156	0.9%
Total	109,708	104,380	5.1%	104,380	103,038	1.3%
NOI	\$ 273,115	\$ 260,431	4.9%	\$ 260,431	\$ 251,355	3.6%
Selected Statistical Data						
NOI margin ⁽³⁾	71.3%	71.4%	(0.1%)	71.4%	70.9%	0.7%
Weighted average square foot occupancy	94.5%	94.9%	(0.4%)	94.9%	94.0%	1.0%
Revenue per occupied square foot ⁽⁴⁾	\$ 15.76	\$ 14.96	5.3%	\$ 14.96	\$ 14.67	2.0%
Revenue per available foot (RevPAF) ⁽⁵⁾	\$ 14.90	\$ 14.20	4.9%	\$ 14.20	\$ 13.79	3.0%

- (1) Same Park rental income includes lease buyout income of \$1.4 million, \$583,000 and \$939,000 for the years ended December 31, 2019, 2018 and 2017, respectively.

- (2) We have reclassified divisional vice presidents' compensation costs totaling \$1.2 million and \$1.5 million for the years ended December 31, 2018 and 2017, respectively, from adjusted cost of operations into general and administrative expense in order to conform to the current periods' presentation. Stock compensation expense for our divisional vice presidents, which totaled \$585,000 and \$1.3 million for the years ended December 31, 2018 and 2017, respectively, had previously been excluded from adjusted cost of operations.

- (3) NOI margin is computed by dividing NOI by rental income.

- (4) Revenue per occupied square foot is computed by dividing rental income during the period by weighted average occupied square feet during the same period.
- (5) Revenue per available square foot is computed by dividing rental income during the period by weighted average available square feet.

Analysis of Same Park Rental Income

Rental income generated by our Same Park facilities increased 4.9% in 2019 compared to 2018 and by 2.9% in 2018 compared to 2017. The 2019 increase was due primarily to higher rental rates, as revenue per occupied square foot increased 5.3%, partially offset by a 0.4% decrease in weighted average occupancy in 2019 compared to the year prior. The 2018 increase was due primarily to higher rental rates combined with higher occupancy. Revenue per occupied square foot and weighted average occupancy increased 2.0% and 1.0%, respectively, in 2018 compared to the year prior.

We believe that high occupancy levels help maximize our rental income. Accordingly, we seek to maintain a weighted average occupancy over 90%.

During 2019 and 2018, most markets continued to reflect conditions favorable to landlords allowing for stable occupancy as well as increasing cash rental rates. With the exception of Northern Virginia and Suburban Maryland markets, new cash rental rates for the Company improved over expiring cash rental rates on executed leases as economic conditions and tenant demand remained robust.

Our future revenue growth will come primarily from contractual rental increases as well as from potential increases in market rents allowing us to increase rent levels when leases are either renewed with existing customers or re-leased to new customers. The following table sets forth the expirations of existing leases in our Same Park portfolio over the next 10 years based on lease data at December 31, 2019 (*dollars and square feet in thousands*):

<u>Year of Lease Expiration</u>	<u>Number of Customers</u>	<u>Rentable Square Footage Subject to Expiring Leases</u>	<u>Percent of Total Leased Square Footage</u>	<u>Annualized Rental Income Under Expiring Leases</u>	<u>Percent of Annualized Rental Income Represented by Expiring Leases</u>
2020	1,916	5,787	23.8%	\$ 92,159	22.0%
2021	1,356	4,916	20.2%	84,293	20.1%
2022	699	4,567	18.7%	82,052	19.5%
2023	346	3,004	12.3%	51,254	12.2%
2024	290	2,467	10.1%	43,628	10.4%
2025	54	1,802	7.3%	31,854	7.5%
2026	23	677	2.8%	11,539	2.8%
2027	14	134	0.6%	3,311	0.8%
2028	7	388	1.6%	6,703	1.6%
2029	10	287	1.2%	6,953	1.7%
Thereafter	6	334	1.4%	5,833	1.4%
Total	4,721	24,363	100.0%	\$ 419,579	100.0%

During the year ended December 31, 2019, we leased approximately 7.1 million in rentable square feet to new and existing customers at an average 8.3% increase in cash rental rates over the previous rates. Renewals of leases with existing customers represented 64.3% of our leasing activity for the year ended December 31, 2019. See “Analysis of Same Park Market Trends” below for further analysis of such data on a by-market basis.

Our ability to re-lease space as leases expire in a way that minimizes vacancy periods and maximizes market rental rates will depend upon market conditions in the specific submarkets in which each of our properties are located.

Analysis of Same Park Adjusted Cost of Operations

Adjusted cost of operations for our Same Park facilities increased 5.1% in 2019 compared to 2018 due to higher property tax expense, higher repairs and maintenance costs, higher other expenses and an increase in snow removal costs. Adjusted costs of operations increased by 1.3% in 2018 compared to 2017 due primarily to increased property taxes, higher utility costs and snow removal costs, partially offset by lower repairs and maintenance expense.

Property taxes increased 5.2% in 2019 compared to 2018 and by 3.0% in 2018 compared to 2017 due to higher assessed values. We expect property tax growth in the future due primarily to higher assessed values.

Utilities are dependent upon energy prices and usage levels. Changes in usage levels are driven primarily by weather and temperature. Utilities decreased 0.1% in 2019 compared to 2018 and increased 2.6% in 2018 compared to 2017. It is difficult to estimate future utility costs, because weather, temperature and energy prices are volatile and not predictable. However, based upon current trends and expectations regarding commercial electricity rates, we expect inflationary increases in rates in the future.

Repairs and maintenance increased 8.4% in 2019 resulting from higher roof and landscaping repairs compared to 2018 and decreased by 3.5% in 2018 compared to 2017 due to incremental costs in 2017 relating to Hurricane Irma. Repairs and maintenance costs are dependent upon many factors including weather conditions, which can impact repair and maintenance needs, inflation in material and labor costs and random events, and as a result are not readily predictable.

Snow removal increased 46.7% in 2019 compared to 2018 and increased by 78.3% in 2018 compared to 2017. Snow removal costs are weather dependent and therefore not predictable.

Other expenses increased 4.9% in 2019 compared to 2018 and 0.9% in 2018 compared to 2017. Other expenses are comprised of on-site and supervisory personnel, property insurance and other expenses incurred in the operation of our properties. The increase in 2019 was primarily due to an increase in our property insurance premium for the policy period, June 2019 to May 2020, and higher than average professional fees related to ordinary course tenant related matters. We expect increases in other expenses to be similar to the increases in prior years.

Same Park Quarterly Trends

The following table sets forth historical quarterly data related to the operations of our Same Park facilities for rental income, adjusted cost of operations, occupancies, annualized revenue per occupied square foot, and RevPaf (*in thousands, except per square foot data*):

	For the Three Months Ended				Full Year
	March 31	June 30	September 30	December 31	
Rental income					
2019	\$ 94,813	\$ 95,016	\$ 95,358	\$ 97,636	\$ 382,823
2018	\$ 90,821	\$ 90,980	\$ 91,446	\$ 91,564	\$ 364,811
2017	\$ 88,178	\$ 87,707	\$ 88,628	\$ 89,880	\$ 354,393
Adjusted cost of operations ⁽¹⁾					
2019	\$ 28,177	\$ 26,727	\$ 27,494	\$ 27,310	\$ 109,708
2018	\$ 26,954	\$ 26,140	\$ 26,033	\$ 25,253	\$ 104,380
2017	\$ 25,471	\$ 25,045	\$ 25,796	\$ 26,726	\$ 103,038
NOI ⁽¹⁾					
2019	\$ 66,636	\$ 68,289	\$ 67,864	\$ 70,326	\$ 273,115
2018	\$ 63,867	\$ 64,840	\$ 65,413	\$ 66,311	\$ 260,431
2017	\$ 62,707	\$ 62,662	\$ 62,832	\$ 63,154	\$ 251,355
Weighted average square foot occupancy					
2019	94.7%	94.2%	94.7%	94.4%	94.5%
2018	94.5%	94.5%	95.1%	95.4%	94.9%
2017	94.2%	93.2%	93.7%	94.8%	94.0%
Annualized revenue per occupied square foot					
2019	\$ 15.58	\$ 15.69	\$ 15.67	\$ 16.10	\$ 15.76
2018	\$ 14.97	\$ 14.99	\$ 14.97	\$ 14.94	\$ 14.96
2017	\$ 14.56	\$ 14.64	\$ 14.73	\$ 14.76	\$ 14.67
RevPAF					
2019	\$ 14.76	\$ 14.79	\$ 14.84	\$ 15.20	\$ 14.90
2018	\$ 14.14	\$ 14.16	\$ 14.24	\$ 14.25	\$ 14.20
2017	\$ 13.73	\$ 13.65	\$ 13.80	\$ 13.99	\$ 13.79

⁽¹⁾ To conform to current period presentation, we have reclassified divisional vice presidents' compensation costs totaling \$364,000, \$288,000, \$280,000 and \$280,000 for each of the three months ended March 31, 2018, June 30, 2018, September 30, 2018 and December 31, 2018, respectively, and \$386,000 for each of the three months ended March 31, 2017, June 30, 2017, September 30, 2017 and December 31, 2017 from adjusted cost of operations into general and administrative expense. Stock compensation expense for our divisional vice presidents had previously been excluded from adjusted cost of operations.

Analysis of Same Park Market Trends

The following tables set forth rental income, adjusted cost of operations, weighted average occupancy, revenue per occupied square foot, and RevPaf data in our Same Park facilities (*in thousands, except per square foot data*):

<u>Region</u>	<u>For the Years</u> <u>Ended December 31,</u>			<u>For the Years</u> <u>Ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>Variance</u>	<u>2018</u>	<u>2017</u>	<u>Variance</u>
Geographic Data on Same Park						
Rental income						
Northern California (7.2 million feet)	\$ 108,046	\$ 99,610	8.5%	\$ 99,610	\$ 93,032	7.1%
Southern California (3.3 million feet)	55,080	52,873	4.2%	52,873	50,269	5.2%
Dallas (2.9 million feet)	33,789	30,899	9.4%	30,899	31,398	(1.6%)
Austin (2.0 million feet)	30,679	29,608	3.6%	29,608	29,240	1.3%
Northern Virginia (3.9 million feet)	73,734	73,818	(0.1%)	73,818	75,590	(2.3%)
South Florida (3.9 million feet)	43,601	41,824	4.2%	41,824	41,082	1.8%
Suburban Maryland (1.1 million feet)	19,876	18,975	4.7%	18,975	17,631	7.6%
Seattle (1.4 million feet)	18,018	17,204	4.7%	17,204	16,151	6.5%
Total Same Park (25.7 million feet)	<u>382,823</u>	<u>364,811</u>	4.9%	<u>364,811</u>	<u>354,393</u>	2.9%
Adjusted cost of operations						
Northern California	24,313	22,653	7.3%	22,653	22,988	(1.5%)
Southern California	14,215	13,349	6.5%	13,349	13,025	2.5%
Dallas	11,488	10,896	5.4%	10,896	10,435	4.4%
Austin	10,843	10,352	4.7%	10,352	9,734	6.3%
Northern Virginia	25,488	25,128	1.4%	25,128	24,672	1.8%
South Florida	11,977	10,733	11.6%	10,733	11,043	(2.8%)
Suburban Maryland	7,126	6,989	2.0%	6,989	7,178	(2.6%)
Seattle	4,258	4,280	(0.5%)	4,280	3,963	8.0%
Total Same Park	<u>109,708</u>	<u>104,380</u>	5.1%	<u>104,380</u>	<u>103,038</u>	1.3%
Net operating income						
Northern California	83,733	76,957	8.8%	76,957	70,044	9.9%
Southern California	40,865	39,524	3.4%	39,524	37,244	6.1%
Dallas	22,301	20,003	11.5%	20,003	20,963	(4.6%)
Austin	19,836	19,256	3.0%	19,256	19,506	(1.3%)
Northern Virginia	48,246	48,690	(0.9%)	48,690	50,918	(4.4%)
South Florida	31,624	31,091	1.7%	31,091	30,039	3.5%
Suburban Maryland	12,750	11,986	6.4%	11,986	10,453	14.7%
Seattle	13,760	12,924	6.5%	12,924	12,188	6.0%
Total Same Park	<u>\$ 273,115</u>	<u>\$ 260,431</u>	4.9%	<u>\$ 260,431</u>	<u>\$ 251,355</u>	3.6%
Weighted average square foot occupancy						
Northern California	96.1%	97.8%	(1.7%)	97.8%	95.9%	2.0%
Southern California	95.0%	97.6%	(2.7%)	97.6%	96.4%	1.2%
Dallas	92.4%	89.7%	3.0%	89.7%	90.3%	(0.7%)
Austin	91.8%	92.5%	(0.8%)	92.5%	94.9%	(2.5%)
Northern Virginia	94.1%	92.8%	1.4%	92.8%	91.4%	1.5%
South Florida	95.4%	96.4%	(1.0%)	96.4%	97.5%	(1.1%)
Suburban Maryland	89.3%	83.1%	7.5%	83.1%	74.5%	11.6%
Seattle	96.2%	98.2%	(2.0%)	98.2%	98.1%	0.1%
Total Same Park	94.5%	94.9%	(0.4%)	94.9%	94.0%	1.0%
Revenue per occupied square foot						
Northern California	\$ 15.52	\$ 14.06	10.4%	\$ 14.06	\$ 13.39	5.0%
Southern California	\$ 17.67	\$ 16.50	7.1%	\$ 16.50	\$ 15.90	3.8%
Dallas	\$ 12.66	\$ 11.92	6.2%	\$ 11.92	\$ 12.03	(0.9%)
Austin	\$ 17.02	\$ 16.29	4.5%	\$ 16.29	\$ 15.69	3.8%
Northern Virginia	\$ 20.01	\$ 20.31	(1.5%)	\$ 20.31	\$ 21.10	(3.7%)
South Florida	\$ 11.82	\$ 11.23	5.3%	\$ 11.23	\$ 10.90	3.0%
Suburban Maryland	\$ 19.39	\$ 19.89	(2.5%)	\$ 19.89	\$ 20.62	(3.5%)
Seattle	\$ 13.49	\$ 12.60	7.1%	\$ 12.60	\$ 11.84	6.4%
Total Same Park	\$ 15.76	\$ 14.96	5.3%	\$ 14.96	\$ 14.67	2.0%
RevPAF						
Northern California	\$ 14.91	\$ 13.75	8.4%	\$ 13.75	\$ 12.84	7.1%
Southern California	\$ 16.78	\$ 16.11	4.2%	\$ 16.11	\$ 15.31	5.2%
Dallas	\$ 11.70	\$ 10.70	9.3%	\$ 10.70	\$ 10.88	(1.7%)
Austin	\$ 15.63	\$ 15.08	3.6%	\$ 15.08	\$ 14.90	1.2%
Northern Virginia	\$ 18.82	\$ 18.85	(0.2%)	\$ 18.85	\$ 19.30	(2.3%)
South Florida	\$ 11.28	\$ 10.82	4.3%	\$ 10.82	\$ 10.63	1.8%
Suburban Maryland	\$ 17.36	\$ 16.57	4.8%	\$ 16.57	\$ 15.40	7.6%
Seattle	\$ 12.96	\$ 12.38	4.7%	\$ 12.38	\$ 11.62	6.5%
Total Same Park	\$ 14.90	\$ 14.20	4.9%	\$ 14.20	\$ 13.79	3.0%

Supplemental Same Park Data by Product Type

The following supplemental tables provide further detail of our Same Park rental income, adjusted cost of operations and net operating income by region, further segregated by industrial, flex and office for each of the three years ended December 31, 2019, 2018 and 2017.

	For the Year Ended December 31, 2019			For the Year Ended December 31, 2018			For the Year Ended December 31, 2017					
	Industrial	Flex	Office	Industrial	Flex	Office	Industrial	Flex	Office			
										Total	Total	Total
				In thousands								
Rental Income:												
Northern California	\$ 86,088	\$ 9,801	\$ 12,157	\$ 108,046	\$ 78,721	\$ 9,442	\$ 11,447	\$ 99,610	\$ 72,878	\$ 9,364	\$ 10,790	\$ 93,032
Southern California	35,387	18,932	761	55,080	34,272	17,954	647	52,873	32,516	17,083	670	50,269
Dallas	12,412	21,377	—	33,789	11,566	19,333	—	30,899	11,406	19,992	—	31,398
Austin	8,317	22,362	—	30,679	7,863	21,745	—	29,608	7,316	21,924	—	29,240
Northern Virginia	7,468	24,620	41,646	73,734	7,350	24,755	41,713	73,818	6,978	25,715	42,897	75,590
South Florida	41,543	1,916	142	43,601	39,810	1,931	83	41,824	38,963	1,911	208	41,082
Suburban Maryland	4,396	—	15,480	19,876	4,464	—	14,511	18,975	4,528	—	13,103	17,631
Seattle	10,950	6,342	726	18,018	10,474	6,003	727	17,204	9,901	5,675	575	16,151
Total	206,561	105,350	70,912	382,823	194,520	101,163	69,128	364,811	184,486	101,664	68,243	354,393
Adjusted Cost of Operations:												
Northern California	18,526	2,602	3,185	24,313	17,207	2,512	2,934	22,653	17,680	2,440	2,868	22,988
Southern California	8,869	5,063	283	14,215	8,397	4,685	267	13,349	8,132	4,627	266	13,025
Dallas	3,702	7,786	—	11,488	3,666	7,230	—	10,896	3,446	6,989	—	10,435
Austin	2,778	8,065	—	10,843	2,637	7,715	—	10,352	2,485	7,249	—	9,734
Northern Virginia	2,104	7,557	15,827	25,488	1,998	7,314	15,816	25,128	1,936	7,148	15,588	24,672
South Florida	11,262	602	113	11,977	10,162	509	62	10,733	10,401	576	66	11,043
Suburban Maryland	1,427	—	5,699	7,126	1,349	—	5,640	6,989	1,446	—	5,732	7,178
Seattle	2,566	1,492	200	4,258	2,612	1,446	222	4,280	2,308	1,468	187	3,963
Total	51,234	33,167	25,307	109,708	48,028	31,411	24,941	104,380	47,834	30,497	24,707	103,038
NOI:												
Northern California	67,562	7,199	8,972	83,733	61,514	6,930	8,513	76,957	55,198	6,924	7,922	70,044
Southern California	26,518	13,869	478	40,865	25,875	13,269	380	39,524	24,384	12,456	404	37,244
Dallas	8,710	13,591	—	22,301	7,900	12,103	—	20,003	7,960	13,003	—	20,963
Austin	5,539	14,297	—	19,836	5,226	14,030	—	19,256	4,831	14,675	—	19,506
Northern Virginia	5,364	17,063	25,819	48,246	5,352	17,441	25,897	48,690	5,042	18,567	27,309	50,918
South Florida	30,281	1,314	29	31,624	29,648	1,422	21	31,091	28,562	1,335	142	30,039
Suburban Maryland	2,969	—	9,781	12,750	3,115	—	8,871	11,986	3,082	—	7,371	10,453
Seattle	8,384	4,850	526	13,760	7,862	4,557	505	12,924	7,593	4,207	388	12,188
Total	155,327	72,183	45,605	273,115	146,492	69,752	44,187	260,431	136,652	71,167	43,536	251,355

As noted above, our past revenue growth has come from contractual annual rent increases, as well as re-leasing of space at rates above outgoing rental rates. We believe the percentage difference between outgoing cash rent inclusive of estimated expense recoveries and incoming cash rent inclusive of estimated expense recoveries for leases executed (the “Cash Rental Rate Change”) is useful in understanding trends in current market rates relative to our existing lease rates. The following table summarizes the Cash Rental Rate Change and other key statistical information with respect to the Company’s leasing production for its Same Park facilities, on a regional basis, for the year ended December 31, 2019 (*square feet in thousands*):

Regions	For the Year Ended December 31, 2019			
	Square	Customer	Transaction	Rental
	Footage	Retention	Costs per	Rate Change ⁽¹⁾
Leased		Executed Foot		
Northern California	1,777	64.6%	\$ 2.43	18.3%
Southern California	1,214	69.2%	\$ 1.83	8.1%
Dallas	838	60.9%	\$ 4.97	5.7%
Austin	529	77.5%	\$ 5.49	5.6%
Northern Virginia	1,154	75.0%	\$ 8.04	(2.8%)
South Florida	941	49.7%	\$ 1.67	12.7%
Suburban Maryland	216	73.9%	\$ 6.40	(3.5%)
Seattle	382	64.9%	\$ 1.22	15.8%
Total	<u>7,051</u>	65.8%	\$ 3.73	8.3%

⁽¹⁾ Cash Rental Rate Change is computed by taking the percentage difference between the incoming initial billed monthly cash rental rates inclusive of estimated expense recoveries (excluding the impact of certain items such as concessions or future escalators) on new leases or extensions executed in the period, and the outgoing monthly cash rental rates inclusive of estimated expense recoveries last billed on the previous lease for that space. Leases executed on spaces vacant for more than the preceding twelve months have been excluded from this measure.

During 2019 and 2018, most markets, with the exception of Northern Virginia and Suburban Maryland, continued to reflect favorable conditions allowing for stable occupancy as well as increasing cash rental rates. In Northern Virginia and Suburban Maryland, cash rental rates on executed leases declined 2.8% and 3.5%, respectively, for the year ended December 31, 2019, reflecting continued soft market conditions that have persisted for several years due to, among other factors, federal government downsizing. To the extent that such trends continue in these markets, which comprised 24.5% of our Same Park rental income for the year ended December 31, 2019 and 19.2% of square feet expiring through December 31, 2020, we may continue to face reduced rental income in these markets.

Non-Same Park facilities: The table below reflects the assets comprising our Non-Same Park facilities (*in thousands*):

Property	Date Acquired	Location	Purchase Price	Square Feet	Occupancy at Acquisition	Occupancy at December 31, 2019
San Tomas Business Center	December, 2019	Santa Clara, CA	\$ 16,787	79	95.6%	95.6%
Hathaway Industrial Park	September, 2019	Santa Fe Springs, CA	104,330	543	100.0%	100.0%
Walnut Avenue Business Park	April, 2019	Signal Hill, CA	13,824	74	98.4%	96.7%
Northern Virginia and Fullerton Road Industrial Parks	June, 2018	Lorton and Springfield, VA	143,766	1,057	76.1%	91.3%
Total			<u>\$ 278,707</u>	<u>1,753</u>	85.4%	94.4%

NOI from the Non-Same Park facilities included \$1.7 million of NOI from the 2019 acquisitions for the year ended December 31, 2019. Excluding the results from the 2019 acquisitions, the NOI increase from prior year was tied to an increase in occupancy at our 2018 acquisition.

We believe that our management and operating infrastructure typically allows us to generate higher NOI from newly acquired real estate facilities than was achieved by the previous owners. However, it can take 24 or more months for us to fully achieve higher NOI, and the ultimate levels of NOI to be achieved can be affected by changes in general economic conditions. As a result, there can be no assurance that we will achieve our expectations with respect to newly acquired real estate facilities.

Multifamily: As of December 31, 2019, we have a 95.0% interest in Highgate, a 395-unit apartment complex. On January 1, 2018, we began to consolidate the joint venture due to changes to our joint venture agreement that gave the

Company control of the joint venture. Prior to January 1, 2018, we accounted for our investment in the joint venture using the equity method and accordingly, reflected our share of net loss under “equity in loss of unconsolidated joint venture.”

Highgate began leasing activities during the second quarter of 2017. During the year ended December 31, 2019, Highgate generated \$5.9 million of NOI, consisting of \$10.1 million in rental income and \$4.1 million in cost of operations compared to \$3.3 million of NOI, consisting of \$7.4 million in rental income and \$4.1 million in cost of operations for the same period in 2018.

The following table summarizes certain statistics for Highgate as of December 31, 2019:

Apartment Units	Total Costs ⁽¹⁾ (in thousands)	As of December 31, 2019		Weighted Average Occupancy For the years ended December 31,	
		Physical Occupancy	Average Rent per Unit ⁽²⁾	2019	2018
		395	\$ 115,426	94.7%	\$ 2,133

(1) The project cost for Highgate includes the underlying land at its assigned contribution value upon formation of the joint venture of \$27.0 million, which includes unrealized land appreciation of \$6.0 million that is not recorded on our balance sheet.

(2) Average rent per unit is defined as the total potential monthly rental revenue (actual rent for occupied apartment units plus market rent for vacant apartment units) divided by the total number of rentable apartment units.

Assets sold or held for sale: These amounts include historical operating results with respect to properties that we sold or intend to sell. Amounts for the year ended December 31, 2019 reflect the operating results related to 1.3 million square feet of assets sold in 2019 and a 113,000 square foot building held for sale as of December 31, 2019; amounts for the year ended December 31, 2018 reflect the operating results related to 1.3 million square feet of assets sold during 2019, a 113,000 square foot building held for sale as of December 31, 2019 and 899,000 square feet of assets sold in 2018; amounts shown for the year ended December 31, 2017 reflect the operating results related to 1.3 million square feet of assets sold in 2019, a 113,000 square foot building held for sale as of December 31, 2019, 899,000 square feet of assets sold in 2018 and 44,000 square feet of assets sold in 2017.

Depreciation and Amortization Expense: Depreciation and amortization expense increased 5.0% in 2019 compared to 2018 and increased by 5.3% in 2018 compared to 2017. The increase in 2019 over 2018 was primarily due to depreciation and amortization expense from the Non-Same Park facilities combined with depreciation expense related to the building held for development. The increase in 2018 over 2017 was primarily due to depreciation and amortization expense of our multifamily asset as we consolidated its operations effective January 1, 2018 in addition to depreciation and amortization expense from the 2018 acquisition.

General and Administrative Expense: General and administrative expense primarily represents executive and other compensation, audit and tax fees, legal expenses and other costs associated with being a public company. General and administrative expense increased \$1.7 million, or 14.0%, in 2019 compared to 2018 and decreased \$599,000, or 4.7%, in 2018 compared to 2017. The increase in 2019 over 2018 was primarily due to an increase in stock compensation expense tied to a modification of the Director Retirement Plan during 2019 as well as an increase in compensation costs relating to the chief financial officer who started during the latter half of 2018. The decrease in 2018 over 2017 was primarily due to a decrease in compensation costs relating to the chief financial officer position being filled during the latter half of 2018.

Equity loss from investment in and advances to unconsolidated joint venture: Prior to January 1, 2018, we accounted for our joint venture investment using the equity method and recorded our pro-rata share of the net loss in the joint venture. The Company recorded an equity loss in the unconsolidated joint venture of \$805,000, comprised of our proportionate share of \$1.8 million in revenue, \$1.5 million in cost of operations, and \$1.2 million in depreciation expense for the year ended December 31, 2017.

Gain on sale of real estate facilities and gain on sale of development rights: Subsequent to December 31, 2019, we sold a 113,000 square foot building located in Rockville, Maryland for a gross sales price of \$30.0 million. We expect to record a gain on the sale of real estate in connection with the sale during the first quarter of 2020.

On October 8, 2019, we sold 1.3 million rentable square feet located in Rockville and Silver Spring, Maryland, for net sale proceeds of \$144.6 million, which resulted in a gain of \$16.6 million.

On March 5, 2018, we sold Corporate Pointe Business Park, a park consisting of five multi-tenant office buildings totaling 161,000 square feet located in Orange County, California, for net sale proceeds of \$41.7 million, which resulted in a gain of \$26.8 million. On April 18, 2018, we sold Orange County Business Center, a park consisting of

five multi-tenant office buildings totaling 437,000 square feet located in Orange County, California, for net sale proceeds of \$73.3 million, which resulted in a gain of \$50.6 million. On April 30, 2018, we sold Northgate Business Park, a park consisting of seven multi-tenant flex buildings totaling 194,000 square feet located in Dallas, Texas, for net sale proceeds of \$11.8 million, which resulted in a gain of \$7.9 million. On October 31, 2018, we sold Orangewood Office Park, a park consisting of two multi-tenant office buildings totaling 107,000 square feet located in Orange County, California, for net sale proceeds of \$18.3 million, which resulted in a gain of \$8.2 million.

On May 1, 2017, we sold Empire Commerce, a two-building single-story office park comprising 44,000 square feet, located in Dallas, Texas, for net sale proceeds of \$2.1 million, which resulted in a net gain of \$1.2 million.

On March 31, 2017, we sold development rights we held to build medical office buildings on land adjacent to our Westech Business Park in Silver Spring, Maryland for \$6.5 million. We received net sale proceeds of \$6.4 million, of which \$4.9 million was received in 2017 and \$1.5 million was received in prior years. We recorded a net gain of \$6.4 million for the year ended December 31, 2017.

Liquidity and Capital Resources

This section should be read in conjunction with our consolidated statements of cash flows for the years ended December 31, 2019, 2018 and 2017 and the notes to our consolidated financial statements, which set forth the major components of our historical liquidity and capital resources. The discussion below sets forth the factors which we expect will affect our future liquidity and capital resources or which may vary substantially from historical levels.

Capital Raising Strategy: As a REIT, we generally distribute substantially all of our “REIT taxable income” to our shareholders, which relative to a taxable C corporation, limits the amount of cash flow from operations that we can retain for investment purposes. As a result, in order to grow our asset base, access to capital is important.

Our financial profile is characterized by strong credit metrics, including low leverage relative to our total capitalization and operating cash flows. We are a highly rated REIT, as determined by Moody’s and Standard & Poor’s. Our corporate credit rating by Standard and Poor’s is A-, while our preferred shares are rated BBB by Standard and Poor’s and Baa2 by Moody’s. We believe our credit profile and ratings will enable us to efficiently access both the public and private capital markets to raise capital, as necessary.

In order to maintain access to the capital markets, we target a minimum ratio of FFO (as defined below) to combined fixed charges and preferred distributions of 3.0 to 1.0. Fixed charges include interest expense, capitalized interest and preferred distributions paid to preferred shareholders. For the year ended December 31, 2019, the ratio to FFO to combined fixed charges and preferred distributions paid was 5.3 to 1.0.

We have a \$250.0 million revolving Credit Facility that can be expanded to \$400.0 million which expires in January, 2022. We can use the Credit Facility as necessary as temporary financing until we are able to raise longer term capital. Historically we have funded our long-term capital requirements with retained operating cash flow and proceeds from the issuance of common and preferred securities. We will select among these sources of capital based upon availability, relative cost, the impact of constraints on our operations (such as covenants), as well as the desire for leverage.

Short-term Liquidity and Capital Resource Analysis: We believe that our net cash provided by our operating activities will continue to be sufficient to enable us to meet our ongoing requirements for debt service, capital expenditures and distributions to our shareholders for the foreseeable future.

As of December 31, 2019, we had \$62.8 million in unrestricted cash. In the last five years, we have retained approximately \$40 to \$60 million in operating cash flow per year. Retained operating cash flow represents cash flow provided by operating activities, less shareholder and unit holder distributions and capital expenditures.

Required Debt Repayment: As of December 31, 2019, we have no debt outstanding on our Credit Facility. We are in compliance with all of the covenants and other requirements of our Credit Facility.

Capital Expenditures: We define recurring capital expenditures as those necessary to maintain and operate our real estate at its current economic value. Nonrecurring capital improvements generally are related to property renovations and expenditures related to repositioning asset acquisitions. The following table sets forth our commercial capital expenditures paid for in the years ended December 31, 2019, 2018 and 2017 on an aggregate and per square foot basis:

	For the Years Ended December 31,					
	2019	2018	2017	2019	2018	2017
	(in thousands)			(per total weighted average square foot)		
Commercial Real Estate						
Recurring capital expenditures						
Capital improvements ⁽¹⁾	\$ 11,224	\$ 10,738	\$ 10,069	\$ 0.40	\$ 0.38	\$ 0.36
Tenant improvements	17,360	18,688	28,294	0.62	0.67	1.01
Lease commissions	8,267	8,048	7,477	0.29	0.29	0.27
Total commercial recurring capital expenditures ⁽¹⁾	36,851	37,474	45,840	1.31	1.34	1.64
Nonrecurring capital improvements	2,494	1,176	4,379	0.09	0.05	0.16
Total commercial capital expenditures ⁽¹⁾	\$ 39,345	\$ 38,650	\$ 50,219	\$ 1.40	\$ 1.39	\$ 1.80

⁽¹⁾ Excludes \$20,000 and \$13,000 of recurring capital improvements on our multifamily asset in 2019 and 2018, respectively.

The following table summarizes Same Park, Non-Same Park, multifamily and assets sold or held for sale recurring capital expenditures paid and the related percentage of NOI by region for the years ended December 31, 2019, 2018 and 2017 (*in thousands*):

Region	For the Years Ended December 31,						Recurring Capital Expenditures as a Percentage of NOI		
	Recurring Capital Expenditures			Change			2019	2018	2017
	2019	2018	Change	2018	2017	Change	2019	2018	2017
Same Park									
Northern California	\$ 4,411	\$ 3,602	22.5%	\$ 3,602	\$ 3,642	(1.1%)	5.3%	4.7%	5.2%
Southern California	4,514	3,167	42.5%	3,167	3,025	4.7%	11.0%	8.0%	8.1%
Dallas	4,623	5,027	(8.0%)	5,027	3,813	31.8%	20.7%	25.1%	18.2%
Austin	4,539	2,362	92.2%	2,362	1,726	36.8%	22.9%	12.3%	8.8%
Northern Virginia	10,366	10,810	(4.1%)	10,810	13,379	(19.2%)	21.5%	22.2%	26.3%
South Florida	2,191	3,149	(30.4%)	3,149	2,055	53.2%	6.9%	10.1%	6.8%
Suburban Maryland	2,051	2,714	(24.4%)	2,714	8,474	(68.0%)	16.1%	22.6%	81.1%
Seattle	927	968	(4.2%)	968	763	26.9%	6.7%	7.5%	6.3%
Total Same Park	33,622	31,799	5.7%	31,799	36,877	(13.8%)	12.3%	12.2%	14.7%
Non-Same Park									
Southern California	54	—	100.0%	—	—	—	—	—	—
Northern Virginia	2,154	615	250.2%	615	—	100.0%	—	—	—
Total Non-Same Park	2,208	615	259.0%	615	—	100.0%	—	—	—
Assets sold or held for sale	1,021	5,060	(79.8%)	5,060	8,963	(43.5%)	7.2%	22.0%	29.8%
Total commercial recurring capital expenditures	36,851	37,474	(1.7%)	37,474	45,840	(18.3%)	—	—	—
Multifamily	20	13	53.8%	13	—	100.0%	—	—	—
Total	\$ 36,871	\$ 37,487	(1.6%)	\$ 37,487	\$ 45,840	(18.2%)	12.2%	12.9%	16.3%

In the last five years, our recurring capital expenditures have averaged generally between \$1.10 and \$1.64 per square foot, and 11.5% and 16.3% as a percentage of NOI.

Redemption of Preferred Stock: Historically, we have reduced our cost of capital by refinancing higher coupon preferred securities with lower coupon preferred securities. On December 30, 2019, we completed the redemption of our 5.75% Cumulative Preferred Stock, Series U, at par of \$230.0 million as well as our 5.70% Cumulative Preferred Stock, Series V, at par of \$110.0 million using funds received from our 4.875% Series Z preferred stock issued during November, 2019, which effectively lowered the Company's weighted average coupon rate from 5.40% to 5.10%.

Acquisitions of real estate facilities: Subsequent to December 31, 2019, we acquired a multi-tenant industrial park comprised of approximately 73,000 rentable square feet in La Mirada, California, for a total purchase price of \$13.5 million, inclusive of capitalized transaction costs. On December 20, 2019, we acquired a multi-tenant flex park comprised of approximately 79,000 rentable square feet in Santa Clara, California, for a total purchase price of \$16.8 million, inclusive of capitalized transaction costs. On September 5, 2019, we acquired a multi-tenant industrial park comprised of approximately 543,000 rentable square feet in Santa Fe Springs, California, for a total purchase price of

\$104.3 million, inclusive of capitalized transaction costs. On April 18, 2019, we acquired a multi-tenant industrial park comprised of approximately 74,000 rentable square feet in Signal Hill, California, for a total purchase price of \$13.8 million, inclusive of capitalized transaction costs. On June 8, 2018, we acquired two multi-tenant industrial parks aggregating 1.1 million rentable square feet in Springfield, Virginia, for a total purchase price of \$143.8 million, inclusive of capitalized transaction costs. We continue to seek to acquire additional real estate facilities; however, there is significant competition to acquire existing facilities and there can be no assurance as to the volume of future acquisition activity.

Sale of real estate: Subsequent to December 31, 2019, we sold a 113,000 square foot building located at Metro Park North in Rockville, Maryland, that was held for sale as of December 31, 2019, for a gross sales price of \$30.0 million. During the year ended December 31, 2019, we sold 1.3 million rentable square feet of flex and office business parks located in Rockville and Silver Spring, Maryland, for net sale proceeds of \$144.6 million, which resulted in a gain of \$16.6 million. During the year ended December 31, 2018, we sold 899,000 rentable square feet of real estate facilities located in Orange County, California, and Dallas, Texas, for net sale proceeds of \$145.1 million, which resulted in a gain of \$93.5 million. On May 1, 2017, we sold a two-building single-story office park comprising 44,000 square feet, located in Dallas, Texas, for net sale proceeds of \$2.1 million, which resulted in a net gain of \$1.2 million.

Development of real estate facilities: As noted above, we have a 123,000 square foot vacant building located within The Mile that we are seeking to redevelop into a multifamily property. There can be no assurance as to the timing or amount of any investment that may occur; however, we expect to incur any significant development costs on this potential project any earlier than mid-2020.

Repurchase of Common Stock: No shares of common stock were repurchased under the board-approved common stock repurchase program during the years ended December 31, 2019, 2018 and 2017. As of December 31, 2019, management has the authorization to repurchase an additional 1,614,721 shares.

Requirement to Pay Distributions: Our election to be taxed as a REIT, as defined by the Code, applies to all periods presented herein. As a REIT, we do not incur federal income tax on our “REIT taxable income” that is distributed each year (for this purpose, certain distributions paid in a subsequent year may be considered), and we continue to meet certain organizational and operational requirements. We believe we have met these requirements in all periods presented herein, and we expect we will continue to qualify as a REIT in future periods.

We paid REIT qualifying distributions of \$169.5 million (\$54.3 million to preferred shareholders and \$115.2 million to common shareholders) during the year ended December 31, 2019.

We estimate the annual distribution requirements with respect to our preferred shares outstanding at December 31, 2019 to be \$48.2 million per year.

Our consistent, long-term dividend policy has been to set dividend distribution amounts based on our taxable income. Future quarterly distributions with respect to common shares will continue to be determined based upon our REIT distribution requirements and, after taking into consideration distributions to the preferred shareholders, we expect will be funded with cash provided by operating activities.

Funds from Operations, Core Funds from Operations and Funds Available for Distribution

Funds from Operations (“FFO”) is a non-GAAP measure defined by the National Association of Real Estate Investment Trusts (“NAREIT”) and is considered a helpful measure of REIT performance by REITs and many REIT analysts. FFO represents GAAP net income before real estate depreciation and amortization expense, gains or losses on sales of operating properties and land and impairment charges on real estate assets.

We also present Core FFO and Funds Available for Distribution (“FAD”). Core FFO, which the Company defines as FFO excluding the net impact of (i) income allocated to preferred shareholders to the extent redemption value exceeds the related carrying value (a “Preferred Redemption Allocation”) and (ii) other nonrecurring income or expense items as appropriate. FAD, a non-GAAP measure, represents Core FFO adjusted to (i) deduct recurring capital improvements and capitalized tenant improvements and lease commissions and (ii) remove certain non-cash income or expenses such as straight-line rent and stock compensation expense.

The following table reconciles net income allocable to common shareholders to FFO, Core FFO and FAD as well as net income per share to FFO per share and Core FFO per share (*amounts in thousands, except per share data*):

	For The Years Ended December 31,				
	2019	2018	2017	2016	2015
Net income allocable to common shareholders	\$ 108,703	\$ 172,899	\$ 90,425	\$ 62,872	\$ 68,291
Adjustments					
Gain on sale of land, real estate facilities and development rights	(16,644)	(93,484)	(7,574)	—	(28,235)
Depreciation and amortization expense	104,249	99,242	94,270	99,486	105,394
Depreciation from unconsolidated joint venture	—	—	1,180	—	—
Net income allocated to noncontrolling interests	29,006	45,199	24,279	16,955	18,495
Net income allocated to restricted stock unit holders	910	1,923	761	569	299
FFO allocated to joint venture partner	(149)	(13)	—	—	—
FFO allocable to diluted common shares and units	226,075	225,766	203,341	179,882	164,244
Preferred Redemption Allocation	11,007	—	10,978	7,312	2,487
Other nonrecurring income or expense items	—	—	(414)	1,818	—
Core FFO allocable to diluted common shares and units	<u>\$ 237,082</u>	<u>\$ 225,766</u>	<u>\$ 213,905</u>	<u>\$ 189,012</u>	<u>\$ 166,731</u>
Recurring capital expenditures	(36,871)	(37,487)	(45,840)	(30,952)	(39,846)
Cash paid for taxes in lieu of shares upon vesting of restricted stock units	(6,350)	(4,981)	(3,865)	(1,940)	(767)
Non-cash items	1,020	(1,056)	174	4,276	1,909
FAD allocable to diluted common shares and units	<u>\$ 194,881</u>	<u>\$ 182,242</u>	<u>\$ 164,374</u>	<u>\$ 160,396</u>	<u>\$ 128,027</u>
Weighted average outstanding					
Common shares	27,418	27,321	27,207	27,089	26,973
Common operating partnership units	7,305	7,305	7,305	7,305	7,305
Restricted stock units	124	182	187	290	130
Common share equivalents	108	101	205	90	78
Total diluted common shares and units	<u>34,955</u>	<u>34,909</u>	<u>34,904</u>	<u>34,774</u>	<u>34,486</u>
Net income per common share — diluted	\$ 3.95	\$ 6.31	\$ 3.30	\$ 2.31	\$ 2.52
Gain on sale of land, real estate facilities and development rights	(0.47)	(2.68)	(0.21)	—	(0.82)
Depreciation and amortization expense, including amounts from investments in unconsolidated joint venture	2.99	2.84	2.74	2.86	3.06
FFO per share	<u>6.47</u>	<u>6.47</u>	<u>5.83</u>	<u>5.17</u>	<u>4.76</u>
Preferred Redemption Allocation	0.31	—	0.31	0.21	0.07
Other nonrecurring income or expense items	—	—	(0.01)	0.06	—
Core FFO per share	<u>\$ 6.78</u>	<u>\$ 6.47</u>	<u>\$ 6.13</u>	<u>\$ 5.44</u>	<u>\$ 4.83</u>

We believe FFO, Core FFO and FAD assist investors in analyzing and comparing the operating and financial performance of a company's real estate between periods. FFO, Core FFO and FAD are not substitutes for GAAP net income. In addition, other REITs may compute FFO, Core FFO, and FAD differently, which could inhibit comparability.

Off-Balance Sheet Arrangements: The Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a material effect on the Company's financial condition, results of operations, liquidity, capital expenditures or capital resources.

Contractual Obligations: As of December 31, 2019, we expect to pay quarterly distributions of \$12.0 million to our preferred shareholders for the foreseeable future or until such time as there is a change in the amount or composition of our series of preferred equity outstanding. Dividends on preferred equity are paid when and if declared by the Company's Board and accumulate if not paid. Shares of preferred equity are redeemable by the Company in order to preserve its status as a REIT and are also redeemable five years after issuance, but are not redeemable at the option of the holder.

Our significant contractual obligations as of December 31, 2019 and their impact on our cash flow and liquidity are summarized below (*in thousands*):

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1 - 3 years	4 - 5 years	More than 5 years
Transaction costs ⁽¹⁾	\$ 9,604	\$ 9,604	\$ —	\$ —	\$ —
Ground lease obligations ⁽²⁾	1,965	196	596	397	776
Total	\$ 11,569	\$ 9,800	\$ 596	\$ 397	\$ 776

(1) Represents transaction costs, including tenant improvements and lease commissions, which we are committed to under the terms of executed leases.

(2) Represents future contractual payments on land under various operating leases.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

To limit the Company's exposure to market risk, the Company principally finances its operations and growth with permanent equity capital consisting of either common or preferred stock. The Company had no debt outstanding as of as of December 31, 2019.

Our exposure to market risk for changes in interest rates relates primarily to the Credit Facility, which is subject to variable interest rates. See Notes 2 and 6 to the consolidated financial statements included in this Form 10-K for additional information regarding the terms, valuations and approximate principal maturities of the Company's indebtedness, including the Credit Facility. Based on borrowing rates currently available to the Company, the difference between the carrying amount of debt and its fair value is insignificant.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements of the Company at December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017 and the report of Ernst & Young LLP, independent registered public accounting firm, thereon and the related financial statement schedule, are included elsewhere herein. Reference is made to the Index to Consolidated Financial Statements and Schedules in Item 15.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of December 31, 2019. These controls and procedures have been designed to ensure that information required for disclosure is recorded, processed, summarized and reported within the requisite time periods and that such information is accumulated and communicated to management. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of the Company's disclosure controls and procedures as of December 31, 2019, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of such date, the Company's disclosure controls and procedures were effective at the reasonable assurance level.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control-Integrated Framework* issued by the Committee on Sponsoring Organizations of the Treadway Commission (2013 Framework). Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2019.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2019 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their attestation report which is included herein.

Changes in Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth quarter of 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
PS Business Parks, Inc.

Opinion on Internal Control over Financial Reporting

We have audited PS Business Parks, Inc.'s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, PS Business Parks, Inc. (the Company) maintained, in all material aspects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of PS Business Parks, Inc. as of December 31, 2019 and 2018, the related consolidated statements of income, equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and financial statement schedule listed in the Index at Item 15(a) and our report dated February 19, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Security and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Los Angeles, California
February 19, 2020

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item with respect to directors is hereby incorporated by reference to the material appearing in the Company's definitive proxy statement to be filed in connection with the annual shareholders' meeting to be held in 2020 (the "Proxy Statement") under the caption "Election of Directors."

The following is a biographical summary of the executive officers of the Company:

Maria R. Hawthorne, age 60, has served as Chief Executive Officer and President of the Company since July 2016 and August 2015, respectively. In addition, Ms. Hawthorne also served as the Company's acting Chief Financial Officer (CFO) from September 2017 to September 2018. Ms. Hawthorne was also elected as a member of our Board in July 2016. Ms. Hawthorne previously served as Executive Vice President, Chief Administrative Officer of the Company from July 2013 to August 2015. Prior to that, Ms. Hawthorne served as the Company's Executive Vice President, East Coast, from February 2011 to July 2013. Ms. Hawthorne served as the Company's Senior Vice President from March 2004 to February 2011, with responsibility for property operations on the East Coast, including Northern Virginia, Maryland, and South Florida. From June 2001 through March 2004, Ms. Hawthorne was a Vice President of the Company, responsible for property operations in Virginia. From July 1994 to June 2001, Ms. Hawthorne was a Regional Manager of the Company in Virginia. From August, 1988 to July, 1994, Ms. Hawthorne was a General Manager, Leasing Director, and Property Manager for American Office Park Properties. Ms. Hawthorne also serves as director on the Executive Board of NAREIT. Ms. Hawthorne earned a Bachelor of Arts Degree in International Relations from Pomona College.

John W. Petersen, age 56, has been Executive Vice President and Chief Operating Officer since he joined the Company in December, 2004. Prior to joining the Company, Mr. Petersen was Senior Vice President, San Jose Region, for Equity Office Properties ("EOP") from July, 2001 to December, 2004, responsible for 11.3 million square feet of multi-tenant office, industrial and R&D space in Silicon Valley. Prior to EOP, Mr. Petersen was Senior Vice President with Spieker Properties, from 1995 to 2001 overseeing the growth of that company's portfolio in San Jose, through acquisition and development of nearly three million square feet. Mr. Petersen is a graduate of The Colorado College in Colorado Springs, Colorado, and was formerly the President of National Association of Industrial and Office Parks, Silicon Valley Chapter.

Jeffrey D. Hedges, age 37, joined the Company as Executive Vice President, Chief Financial Officer, Secretary, and principal financial officer on September 17, 2018. Prior to joining the Company, Mr. Hedges served as Senior Vice President, Accounting and Reporting from 2015 at Invitation Homes (NYSE:INVH) (formerly known as Starwood Waypoint Homes and prior to that Colony Starwood Homes), a publicly traded single-family REIT that owns and operates single-family rental homes in the United States. Prior to that, Mr. Hedges was a Senior Manager in the Transaction Advisory Services and Assurance (Audit) groups at Ernst & Young from 2006 to 2015. Mr. Hedges is a certified public accountant and holds a Bachelor of Science from the W.P. Carey School of Business, Arizona State University, and a Master of Business Administration from the Wharton School, University of Pennsylvania.

Trenton Groves, age 47, has served as the Company's Senior Vice President, Chief Accounting Officer, Assistant Secretary, and principal accounting officer since September 2018. Mr. Groves joined the Company as Corporate Controller in 2004 and has served as Vice President, Finance, and Corporate Controller since 2007. Prior to joining the Company, Mr. Groves was in public accounting, serving as a Manager in the Assurance (Audit) group at Ernst & Young from 2002 to 2004 and as Manager at Arthur Anderson from 1998 to 2002. Mr. Groves is a certified public accountant and holds a Bachelor of Science in accounting from California State University, Northridge.

Information required by this item with respect to the nominating process, the audit committee and the audit committee financial expert is hereby incorporated by reference to the material appearing in the Proxy Statement under the caption "Corporate Governance and Board Matters."

Information required by this item with respect to a code of ethics is hereby incorporated by reference to the material appearing in the Proxy Statement under the caption “Corporate Governance and Board Matters.” We have adopted a code of ethics that applies to our principal executive officer, principal financial officer and principal accounting officer, which is available on our website at www.psbusinessparks.com. The information contained on the Company’s website is not a part of, or incorporated by reference into, this Annual Report on Form 10-K. Any amendments to or waivers of the code of ethics granted to the Company’s executive officers or the controller will be published promptly on our website or by other appropriate means in accordance with SEC rules.

Information required by this item with respect to the compliance with Section 16(a) of the Exchange Act is hereby incorporated by reference to the material appearing in the Proxy Statement under the caption “Section 16(a) Beneficial Ownership Reporting Compliance.”

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is hereby incorporated by reference to the material appearing in the Proxy Statement under the captions “Compensation Committee Interlocks and Insider Participation,” “Compensation of Directors,” “Compensation Discussion and Analysis (CD&A),” “Executive Compensation Tables,” “Compensation Committee Report,” and “Pay Ratio Disclosure.”

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item with respect to security ownership of certain beneficial owners and management is hereby incorporated by reference to the material appearing in the Proxy Statement under the caption “Stock Ownership of Certain Beneficial Owners and Management.”

The following table sets forth information as of December 31, 2019 on the Company’s equity compensation plans:

<u>Plan Category</u>	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders	308,678	\$ 103.62	813,400
Equity compensation plans not approved by security holders	—	—	—
Total	<u>308,678 *</u>	<u>\$ 103.62 *</u>	<u>813,400 *</u>

* Amounts include restricted stock units.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is hereby incorporated by reference to the material appearing in the Proxy Statement under the captions “Corporate Governance and Board Matters” and “Certain Relationships and Related Transactions.”

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is hereby incorporated by reference to the material appearing in the Proxy Statement under the caption “Ratification of Independent Registered Public Accountants.”

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

a. 1. Financial Statements

The financial statements listed in the accompanying Index to Consolidated Financial Statements and Schedules are filed as part of this report.

2. Financial Statements Schedule

The financial statements schedule listed in the accompanying Index to Consolidated Financial Statements and Schedules are filed as part of this report.

3. Exhibits

The exhibits listed in the Exhibit Index immediately preceding such exhibits are filed with or incorporated by reference in this report.

b. Exhibits

The exhibits listed in the Exhibit Index immediately preceding such exhibits are filed with or incorporated by reference in this report.

c. Financial Statement Schedules

Not applicable.

ITEM 16. FORM 10-K SUMMARY

None.

PS BUSINESS PARKS, INC.

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES
(Item 15(a)(1) and Item 15(a)(2))**

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All other schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
PS Business Parks, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of PS Business Parks, Inc. (the Company) as of December 31, 2019 and 2018, and the related consolidated statements of income, equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 19, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Security and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Purchase price accounting

Description of the Matter As described in Note 3 to the consolidated financial statements, the Company completed three acquisitions during 2019 for consideration of \$134.9 million. As explained in Note 3 to the consolidated financial statements, the transactions were accounted for as asset acquisitions, and as such, are recorded at the price to acquire the real estate property, including acquisition costs. The purchase price is allocated to land, building, and acquired lease intangible assets and/or liabilities based upon the relative fair value of the acquired tangible and intangible lease assets and liabilities. The relative fair value of the acquired tangible and intangible lease assets and

liabilities were determined by the Company and its valuation specialist utilizing available market information.

Auditing the Company's accounting for its acquisitions was complex due to the significant estimation required by management in determining the fair values of the acquired land, building, and intangible lease assets and liabilities. The significant estimation was primarily due to the judgmental nature of the inputs to the valuation models used to measure the fair value of the tangible and intangible lease assets and liabilities as well as the sensitivity of the respective fair values to the significant underlying assumptions. The Company utilized the sales comparison approach to measure the fair value of the acquired land and the discounted cash flow method to measure the fair value of the remaining acquired tangible and intangible assets and liabilities. The more significant assumptions utilized included revenue growth rates, discount rates, market rental rates, and capitalization rates. These significant assumptions are forward-looking and could be affected by future economic and market conditions.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls over management's accounting for acquired real estate properties, including controls over the Company's review of the assumptions underlying the purchase price allocation, the cash flow projections, and the accuracy of the underlying data used. For example, we tested controls over the determination of the fair value of the land, building and intangible lease assets and liabilities, including the controls over the review of the valuation models and the underlying assumptions used to develop such estimates.

For each of the Company's real estate property acquisitions, we read the purchase and sale agreements, and evaluated whether the Company had appropriately determined whether the transaction was a business combination or asset acquisition. We also evaluated the significant assumptions and methods used in developing the fair value estimates of the tangible assets and intangible lease assets acquired and liabilities assumed. To test the estimated fair value of the land, building and intangible lease assets and liabilities, we performed audit procedures that included, among other procedures, evaluating the Company's use of the income approach and testing the significant assumptions used in the discounted cash flow model, and testing the completeness and accuracy of the underlying data supporting the significant assumptions and estimates. For example, we agreed the contractual rents used in the determination of the in-place and above/below market lease intangible assets and liabilities to tenant leases and compared certain property operating expenses, such as real estate property taxes, used in the income approach to historical operating results adjusted for the transaction. We also involved our valuation specialists to assist in the assessment of the methodology utilized by the Company, performed procedures to corroborate the reasonableness of the significant assumptions utilized in the developing the fair value estimates, and performed corroborative calculations to assess the reasonableness of the acquired building asset. For example, our valuation specialists (i) used independently identified data sources to evaluate the appropriateness of management's selected comparable land sales, (ii) calculated the building value using the replacement cost approach and reconciled it to the recorded value, and (iii) obtained market specific information for the revenue growth rates, discount rates, market rental rates, and capitalization rates to corroborate the market information utilized by the Company.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1997.

Los Angeles, California
February 19, 2020

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES (Item 15(a)(1) and Item 15(a)(2))

**PS BUSINESS PARKS, INC.
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share data)**

	December 31,	
	2019	2018
ASSETS		
Cash and cash equivalents	\$ 62,786	\$ 37,379
Real estate facilities, at cost		
Land	846,635	758,542
Buildings and improvements	2,206,134	2,138,659
	3,052,769	2,897,201
Accumulated depreciation	(1,159,769)	(1,087,102)
	1,893,000	1,810,099
Properties held for sale, net	11,502	140,384
Land and building held for development, net	28,110	30,848
	1,932,612	1,981,331
Rent receivable	1,392	1,403
Deferred rent receivable	32,993	33,308
Other assets	16,660	15,173
Total assets	\$ 2,046,443	\$ 2,068,594
LIABILITIES AND EQUITY		
Accrued and other liabilities	\$ 84,632	\$ 85,141
Total liabilities	84,632	85,141
Commitments and contingencies		
Equity		
PS Business Parks, Inc.'s shareholders' equity		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized, 37,790 and 38,390 shares issued and outstanding at December 31, 2019 and 2018, respectively, at liquidation preference	944,750	959,750
Common stock, \$0.01 par value, 100,000,000 shares authorized, 27,440,953 and 27,362,101 shares issued and outstanding at December 31, 2019 and 2018, respectively	274	274
Paid-in capital	736,986	736,131
Accumulated earnings (deficit)	63,666	69,207
Total PS Business Parks, Inc.'s shareholders' equity	1,745,676	1,765,362
Noncontrolling interests	216,135	218,091
Total equity	1,961,811	1,983,453
Total liabilities and equity	\$ 2,046,443	\$ 2,068,594

See accompanying notes.

PS BUSINESS PARKS, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Amounts in thousands, except per share data)

	For The Years Ended December 31,		
	2019	2018	2017
Rental income	\$ 429,846	\$ 413,516	\$ 402,179
Expenses			
Cost of operations	128,343	124,630	122,348
Depreciation and amortization	104,249	99,242	94,270
General and administrative	13,761	12,072	12,671
Total operating expenses	<u>246,353</u>	<u>235,944</u>	<u>229,289</u>
Interest and other income	4,492	1,510	942
Interest and other expense	(657)	(665)	(1,285)
Equity in loss of unconsolidated joint venture	—	—	(805)
Gain on sale of real estate facilities	16,644	93,484	1,209
Gain on sale of development rights	—	—	6,365
Net income	<u>203,972</u>	<u>271,901</u>	<u>179,316</u>
Allocation to noncontrolling interests	(29,006)	(45,199)	(24,279)
Net income allocable to PS Business Parks, Inc.	<u>174,966</u>	<u>226,702</u>	<u>155,037</u>
Allocation to preferred shareholders based upon			
Distributions	(54,346)	(51,880)	(52,873)
Redemptions (Note 9)	(11,007)	—	(10,978)
Allocation to restricted stock unit holders	(910)	(1,923)	(761)
Net income allocable to common shareholders	<u>\$ 108,703</u>	<u>\$ 172,899</u>	<u>\$ 90,425</u>
Net income per common share			
Basic	\$ 3.96	\$ 6.33	\$ 3.32
Diluted	\$ 3.95	\$ 6.31	\$ 3.30
Weighted average common shares outstanding			
Basic	<u>27,418</u>	<u>27,321</u>	<u>27,207</u>
Diluted	<u>27,526</u>	<u>27,422</u>	<u>27,412</u>

See accompanying notes.

PS BUSINESS PARKS, INC.
CONSOLIDATED STATEMENTS OF EQUITY
(Amounts in thousands, except share data)

	Preferred Stock	Common Stock	Paid-in	Accumulated	Business Parks, Inc.'s Shareholders' Equity	Noncontrolling Interests	Total PS Equity
	Shares	Shares	Capital	Earnings (Deficit)	Equity	Interests	Equity
	Amount	Amount	Amount	Amount	Amount	Amount	Amount
Balances at December 31, 2016	35,190	27,138,138	733,671	(433)	1,613,259	197,455	1,810,714
Issuance of preferred stock, net of issuance costs	17,200	—	(14,221)	—	415,779	—	415,779
Redemption of preferred stock, net of issuance costs	(14,000)	—	10,978	(10,978)	(350,000)	—	(350,000)
Issuance of common stock in connection with stock-based compensation	—	116,469	4,217	—	4,218	—	4,218
Stock compensation, net	—	—	4,016	—	4,016	—	4,016
Cash paid for taxes in lieu of shares upon vesting of restricted stock units	—	—	(3,865)	—	(3,865)	—	(3,865)
Net income	—	—	—	155,037	155,037	24,279	179,316
Distributions	—	—	—	—	—	—	—
Preferred stock (Note 9)	—	—	—	(52,873)	(52,873)	—	(52,873)
Common stock (\$3.40)	—	—	—	(92,531)	(92,531)	—	(92,531)
Noncontrolling interests—common units	—	—	—	—	—	(24,838)	(24,838)
Adjustment to noncontrolling interests— common units in the OP	—	—	271	—	271	(271)	—
Balances at December 31, 2017	38,390	27,254,607	735,067	(1,778)	1,693,311	196,625	1,889,936
Issuance of common stock in connection with stock-based compensation	—	107,494	3,008	—	3,010	—	3,010
Stock compensation, net	—	—	3,032	—	3,032	—	3,032
Cash paid for taxes in lieu of shares upon vesting of restricted stock units	—	—	(4,981)	—	(4,981)	—	(4,981)
Consolidation of joint venture (see Note 3)	—	—	—	—	—	4,032	4,032
Net income	—	—	—	226,702	226,702	45,199	271,901
Distributions	—	—	—	—	—	—	—
Preferred stock (Note 9)	—	—	—	(51,880)	(51,880)	—	(51,880)
Common stock (\$3.80)	—	—	—	(103,837)	(103,837)	—	(103,837)
Noncontrolling interests—common units	—	—	—	—	—	(27,760)	(27,760)
Adjustment to noncontrolling interests— common units in the OP	—	—	5	—	5	(5)	—
Balances at December 31, 2018	38,390	27,362,101	736,131	69,207	1,765,362	218,091	1,983,453
Issuance of preferred stock, net of issuance costs	13,000	—	(8,962)	—	316,038	—	316,038
Redemption of preferred stock, net of issuance costs	(13,600)	—	11,007	(11,007)	(340,000)	—	(340,000)
Issuance of common stock in connection with stock-based compensation	—	78,852	969	—	969	—	969
Stock compensation, net	—	—	4,046	—	4,046	—	4,046
Cash paid for taxes in lieu of shares upon vesting of restricted stock units	—	—	(6,350)	—	(6,350)	—	(6,350)
Net income	—	—	—	174,966	174,966	29,006	203,972
Distributions	—	—	—	—	—	—	—
Preferred stock (Note 9)	—	—	—	(54,346)	(54,346)	—	(54,346)
Common stock (\$4.20)	—	—	—	(115,154)	(115,154)	—	(115,154)
Noncontrolling interests— Common units	—	—	—	—	—	(30,683)	(30,683)
Joint Venture	—	—	—	—	—	(134)	(134)
Adjustment to noncontrolling interests— common units in the OP	—	—	145	—	145	(145)	—
Balances at December 31, 2019	37,790	27,440,953	736,986	63,666	1,745,676	216,135	1,961,811

See accompanying notes.

PS BUSINESS PARKS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	For The Years Ended December 31,		
	2019	2018	2017
Cash flows from operating activities			
Net income	\$ 203,972	\$ 271,901	\$ 179,316
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization expense	104,249	99,242	94,270
Tenant improvement reimbursement amortization, net of lease incentive amortization	(1,028)	(2,226)	(2,183)
Equity in loss of unconsolidated joint venture	—	—	805
Gain on sale of real estate facilities and development rights	(16,644)	(93,484)	(7,574)
Stock compensation expense	4,956	4,174	4,777
Amortization of financing costs	544	537	475
Other, net	(5,454)	(3,991)	1,728
Total adjustments	<u>86,623</u>	<u>4,252</u>	<u>92,298</u>
Net cash provided by operating activities	<u>290,595</u>	<u>276,153</u>	<u>271,614</u>
Cash flows from investing activities			
Capital expenditures to real estate facilities	(39,365)	(38,663)	(50,219)
Capital expenditures to land and building held for development	(5,278)	(1,183)	(1,549)
Investment in and advances to unconsolidated joint venture	—	—	(34,513)
Acquisition of real estate facilities	(134,278)	(142,399)	—
Proceeds from sale of real estate facilities	144,599	145,097	2,144
Proceeds from sale of development rights	—	—	4,900
Consolidation of joint venture	—	1,082	—
Net cash used in investing activities	<u>(34,322)</u>	<u>(36,066)</u>	<u>(79,237)</u>
Cash flows from financing activities			
Borrowings on credit facility	70,000	50,000	250,000
Repayment of borrowings on credit facility	(70,000)	(50,000)	(250,000)
Payment of financing costs	(296)	(307)	(858)
Proceeds from the exercise of stock options	969	3,010	4,218
Cash paid for taxes in lieu of shares upon vesting of restricted stock units	(6,350)	(4,981)	(3,865)
Redemption of preferred stock	(340,000)	(130,000)	(450,000)
Net proceeds from the issuance of preferred stock	316,038	—	415,779
Cash paid to restricted stock unit holders	(910)	(1,142)	(761)
Distributions paid to preferred shareholders	(54,346)	(52,573)	(52,180)
Distributions paid to common shareholders	(115,154)	(103,837)	(92,531)
Distributions paid to noncontrolling interests—common units	(30,683)	(27,760)	(24,838)
Distributions paid to noncontrolling interests—joint venture	(134)	—	—
Net cash used in financing activities	<u>(230,866)</u>	<u>(317,590)</u>	<u>(205,036)</u>
Net increase (decrease) in cash and cash equivalents	25,407	(77,503)	(12,659)
Cash, cash equivalents and restricted cash at the beginning of the period	38,467	115,970	128,629
Cash, cash equivalents and restricted cash at the end of the period	<u>\$ 63,874</u>	<u>\$ 38,467</u>	<u>\$ 115,970</u>
Supplemental disclosures			
Interest paid	\$ 67	\$ 40	\$ 1,188

See accompanying notes.

PS BUSINESS PARKS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	For The Years Ended December 31,		
	2019	2018	2017
Supplemental schedule of non-cash investing and financing activities			
Adjustment to noncontrolling interests—common units in the OP			
Noncontrolling interests—common units	\$ (145)	\$ (5)	\$ (271)
Paid-in capital	\$ 145	\$ 5	\$ 271
Preferred redemption allocation			
Paid-in capital	\$ 11,007	\$ —	\$ 10,978
Accumulated earnings (deficit)	\$ (11,007)	\$ —	\$ (10,978)
Preferred stock called for redemption			
Preferred stock called for redemption and reclassified to liabilities	\$ —	\$ —	\$ 130,000
Preferred stock called for redemption and reclassified from equity	\$ —	\$ —	\$ (130,000)
Consolidation of joint venture			
Land	\$ —	\$ 21,814	\$ —
Buildings and improvements	\$ —	\$ 84,903	\$ —
Other, net	\$ —	\$ (1,787)	\$ —
Investment in and advances to unconsolidated joint venture	\$ —	\$ (100,898)	\$ —
Noncontrolling interests—joint venture	\$ —	\$ (4,032)	\$ —
Accrued preferred stock distributions			
Accrued and other liabilities	\$ —	\$ —	\$ 693
Accumulated earnings (deficit)	\$ —	\$ —	\$ (693)

See accompanying notes.

PS BUSINESS PARKS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

1. Organization and description of business

Organization

PS Business Parks, Inc. (“PSB”) was incorporated in the state of California in 1990. As of December 31, 2019, PSB owned 79.0% of the common partnership units of PS Business Parks, L.P. (the “OP”). The remaining common partnership units are owned by Public Storage (“PS”). PS’s interest in the OP is referred to as the “PS OP Interests.” PSB, as the sole general partner of the OP, has full, exclusive and complete responsibility and discretion in managing and controlling the OP. PSB and its subsidiaries, including the OP and our consolidated joint venture that owns a 395-unit multifamily apartment complex in Tysons, Virginia, are collectively referred to as the “Company,” “we,” “us,” or “our.” PS also owns 7.2 million common shares and would own 41.6% (or 14.5 million shares) of the outstanding shares of the Company’s common stock if it redeemed its common partnership units for common shares.

Description of business

The Company is a fully-integrated, self-advised and self-managed real estate investment trust (“REIT”) that owns, operates, acquires and develops commercial properties, primarily multi-tenant industrial, flex and office space. As of December 31, 2019, the Company owned and operated 27.6 million rentable square feet of commercial space in six states and held a 95.0% interest in a 395-unit multifamily apartment complex in Tysons, Virginia. The Company also manages for a fee approximately 438,000 rentable square feet on behalf of PS.

References herein to the number of properties, apartment units or square footage are unaudited and outside the scope of the Company’s independent registered public accounting firm’s audit of the Company’s consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States).

2. Summary of significant accounting policies

Basis of presentation

The accompanying consolidated financial statements include the accounts of PSB and its subsidiaries, including the OP and our consolidated joint venture. All significant inter-company balances and transactions have been eliminated in the consolidated financial statements. The financial statements are presented on an accrual basis in accordance with U.S. generally accepted accounting principles (“GAAP”).

Consolidation and equity method of accounting

We consider entities to be Variable Interest Entities (“VIEs”) when they have insufficient equity to finance their activities without additional subordinated financial support provided by other parties, or the equity holders as a group do not have a controlling financial interest. A limited partnership is also generally considered a VIE if the limited partners do not participate in operating decisions. We consolidate VIEs when we are the primary beneficiary, generally defined as having (i) the power to direct the activities most significantly impacting economic performance and (ii) either the obligation to absorb losses or the right to receive benefits from the VIE.

We account for investments in entities that are not VIEs that we have significant influence over, but do not control, using the equity method of accounting and for investment in entities that we control, we consolidate. On January 1, 2018, we began to consolidate our joint venture due to changes to the joint venture agreement that gave the Company control of the joint venture. See Note 4 for more information on this entity.

PS, the sole limited partner in the OP, has no power to direct the activities of the OP. We are the primary beneficiary of the OP. Accordingly, we consider the OP a VIE and consolidate it. Substantially all of our assets and liabilities are held by the OP.

Noncontrolling interests

Noncontrolling interests represent (i) PS's noncontrolling interest in the OP through its ownership of 7,305,355 common partnership units and (ii) a third-party 5.0% interest in our consolidated joint venture owning a 395-unit multifamily apartment complex. See Note 7 for further information on noncontrolling interests.

Use of estimates

The preparation of the consolidated financial statements in conformity with GAAP 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 these estimates.

Financial instruments

The methods and assumptions used to estimate the fair value of financial instruments are described below. The Company has estimated the fair value of financial instruments using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop estimates of market value. Accordingly, estimated fair values are not necessarily indicative of the amounts that could be realized in current market exchanges. The Company determines the estimated fair value of financial assets and liabilities utilizing a hierarchy of valuation techniques based on whether the inputs to a fair value measurement are considered to be observable or unobservable in a marketplace. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. This hierarchy requires the use of observable market data when available. The following is the fair value hierarchy:

- *Level 1*—quoted prices for identical instruments in active markets;
- *Level 2*—quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and
- *Level 3*—fair value measurements derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Financial assets that are exposed to credit risk consist primarily of cash equivalents and receivables. The Company considers all highly liquid investments with a remaining maturity of three months or less at the date of purchase to be cash equivalents. Cash and cash equivalents, which consist primarily of money market investments, are only invested in entities with an investment grade rating. Receivables are comprised of balances due from various customers. Balances that the Company expects to become uncollectible are written off. Due to the short period to maturity of the Company's cash and cash equivalents, accounts receivable, other assets and accrued and other liabilities, the carrying values as presented on the consolidated balance sheets are reasonable estimates of fair value.

The following table provides a reconciliation of cash, cash equivalents and restricted cash per the consolidated statements of cash flow to the corresponding financial statement line items in the consolidated balance sheets as of December 31, 2019, 2018 and 2017 (*in thousands*):

	For The Years Ended December 31,		
	2019	2018	2017
Consolidated balance sheets			
Cash and cash equivalents	\$ 62,786	\$ 37,379	\$ 114,882
Restricted cash included in			
Land and building held for development, net	1,088	1,088	1,088
Cash, cash equivalents and restricted cash			
at the end of the period	<u>\$ 63,874</u>	<u>\$ 38,467</u>	<u>\$ 115,970</u>

During 2017, in conjunction with seeking entitlements to develop our multifamily projects in Tysons, Virginia, we contributed \$1.1 million into an escrow account for the future development of an athletic field. This amount is reflected in the table above as restricted cash included in land and building held for development, net.

Carrying values of the Company's Credit Facility (as defined in Note 6) approximate fair value. The characteristics of these financial instruments, market data and other comparative metrics utilized in determining these fair values are "Level 2" inputs.

Real estate facilities

Real estate facilities are recorded at cost. Property taxes, insurance, interest and costs essential to the development of property for its intended use are capitalized during the period of development. Direct costs related to the renovation or improvement of the properties are capitalized. Expenditures for repairs and maintenance are expensed as incurred. Expenditures that are expected to benefit a period greater than two years are capitalized and depreciated over their estimated useful life. Buildings and improvements are depreciated using the straight-line method over their estimated useful lives, which generally range from five to 30 years. Transaction costs, which include tenant improvements and lease commissions, for leases with terms greater than one year are capitalized and depreciated over their estimated useful lives.

Property held for sale or development

Real estate is classified as held for sale when the asset is being marketed for sale and we expect that a sale is likely to occur in the next 12 months. Real estate is classified as held for development when it is no longer used in its original form and likely that it will be developed to an alternate use. Property held for sale are not depreciated.

Intangible assets/liabilities

When we acquire real estate facilities, an intangible asset is recorded as other assets for leases where the in-place rent is higher than market rents, and an intangible liability is recorded as other liabilities where the market rents are higher than the in-place rents. The amounts recorded are based upon the present value (using a discount rate which reflects the risks associated with the leases acquired) of such differences over the lease term and such amounts are amortized to rental income over the respective remaining lease term. As of December 31, 2019, the value of above-market in-place rents resulted in net intangible assets of \$1.2 million, net of \$10.6 million of accumulated amortization and the value of below-market in-place rents resulted in net intangible liabilities of \$2.4 million, net of \$11.4 million of accumulated amortization. As of December 31, 2018, the value of above-market in-place rents resulted in net intangible assets of \$1.8 million, net of \$10.0 million of accumulated amortization and the value of below-market in-place rents resulted in net intangible liabilities of \$1.8 million, net of \$10.8 million of accumulated amortization.

Additionally, when we acquire real estate facilities, the value of in-place leases (i.e., customer lease-up costs) is recorded as other assets and is amortized to depreciation and amortization expense over the respective remaining lease term. As of December 31, 2019, the value of acquired in-place leases resulted in net intangible assets of \$5.7 million, net of \$4.1 million of accumulated amortization. As of December 31, 2018, the value of acquired in-place leases resulted in net intangible assets of \$4.7 million, net of \$1.3 million of accumulated amortization.

Evaluation of asset impairment

We evaluate our real estate and finite-lived intangible assets for impairment each quarter. If there are indicators of impairment and we determine that the carrying value of the asset is not recoverable from estimated future undiscounted cash flows to be received through the asset's remaining life (or, if earlier, the expected disposal date), we record an impairment charge to the extent the carrying amount exceeds the asset's estimated fair value or net proceeds from expected disposal.

No impairment charges were recorded in any period presented herein.

Asset impairment due to casualty loss

It is our policy to record losses due to physical damages during the accounting period in which they occur, while the amount of monetary assets to be received from the insurance policy is recognized when receipt of insurance recoveries is probable. Losses, which are reduced by the related probable insurance recoveries, are recorded as costs of operations on the consolidated statements of income. Anticipated proceeds in excess of recognized losses would be considered a gain contingency and recognized when the contingency related to the insurance claim has been resolved. Anticipated recoveries for lost rental income due to property damages are also considered to be a gain contingency and recognized when the contingency related to the insurance claim has been resolved.

No material casualty losses were incurred in any period presented herein.

Stock compensation

Share-based payments to employees, including grants of employee stock options, are recognized as stock compensation expense in the Company's consolidated statements of income based on their grant date fair values, except for performance-based grants, which are accounted for based on their fair values at the beginning of the service period. See Note 10.

Accrued and other liabilities

Accrued and other liabilities consist primarily of rents prepaid by our customers, trade payables, property tax accruals, accrued payroll and contingent loss accruals when probable and estimable, as well as the intangible liabilities discussed above. We disclose the nature of significant unaccrued losses that are reasonably possible of occurring and, if estimable, a range of exposure. The fair value of accrued and other liabilities approximate book value due to the short period until settlement.

Other assets

Other assets are comprised primarily of prepaid expenses, as well as the intangible assets discussed above. The fair value of other assets approximate book value due to the short period until settlement.

Revenue recognition

We recognize the aggregate rent to be collected (including the impact of escalators and concessions) under leases ratably throughout the non-cancellable lease term on a "straight-line" basis, commencing when the customer takes control of the leased space. Cumulative straight-line rent recognized in excess of amounts billed per the lease term is presented as "deferred rent receivable" on our consolidated balance sheets. The Company presents reimbursements from customers for real estate taxes and other recoverable operating expenses under a single lease component presentation as the timing and pattern of transfer of such reimbursements are the same as base rent, and the combined single component of such leases are classified as operating leases. Accordingly, the Company recognizes such variable lease payments resulting from the reimbursements from customers for real estate taxes and other recoverable operating expenses as rental income in the period the applicable costs are incurred.

The Company monitors the collectability of its receivable balances, including deferred rent receivable balances, on an ongoing basis. The Company writes off uncollectible customer receivable balances, including deferred rent receivable balances, in the period such receivable balances are deemed uncollectible. Therefore, recognition of rental income is limited to the lesser of the amount of cash collected or rental income reflected on a "straight-line" basis, plus any accruable variable lease payments for those customer receivable balances deemed uncollectible.

Property management fees are recognized in the period earned as other income.

Sales of real estate facilities

Sales of real estate facilities are not part of our ordinary activities, and as a result, we consider such sales as contracts with non-customers. We recognize sales of real estate when we have collected payment and the attributes of ownership such as possession and control of the asset have been transferred to the buyer. If a contract for sale includes obligations to provide

goods or services to the buyer, an allocated portion of the contract price is recognized as revenue as the related goods or services are transferred to the buyer.

General and administrative expense

General and administrative expense includes executive and other compensation, corporate office expenses, professional fees, state income taxes and other such costs that are not directly related to the operation of our real estate facilities.

Income taxes

We have elected to be treated as a REIT, as defined in the Internal Revenue Code of 1986, as amended (the “Code”). As a REIT, we do not incur federal income tax if we distribute substantially all of our “REIT taxable income” each year, and if we meet certain organizational and operational requirements. We believe we have met these REIT requirements for all periods presented herein. Accordingly, we have recorded no federal income tax expense related to our “REIT taxable income.”

We recognize tax benefits of uncertain income tax positions that are subject to audit only if we believe it is more likely than not that the position would ultimately be sustained assuming the relevant taxing authorities had full knowledge of the relevant facts and circumstances of our positions. As of December 31, 2019 and 2018, we did not recognize any tax benefit for uncertain tax positions.

Accounting for preferred equity issuance costs

We record issuance costs as a reduction to paid-in capital on our consolidated balance sheets at the time the preferred securities are issued and reflect the carrying value of the preferred equity at its redemption value. An additional allocation of income is made from the common shareholders to the preferred shareholders in the amount of the original issuance costs, and we reclassify the redemption value from equity to liabilities when we call preferred shares for redemption. Such liability is relieved once the preferred shares are redeemed.

Net income per common share

Notwithstanding the presentation of income allocations on our consolidated statements of income, net income is allocated to (a) preferred shareholders, for distributions paid or payable, (b) preferred shareholders, to the extent redemption value exceeds the related carrying value (a “Preferred Redemption Allocation”), (c) our joint venture partner in proportion to their percentage interest in the joint venture, to the extent the consolidated joint venture produces net income or loss during the period and (d) restricted stock unit (“RSU”) holders, for non-forfeitable dividends paid adjusted for participation rights in undistributed earnings. The remaining net income is allocated to the common partnership units and our common shareholders, respectively, based upon the pro-rata aggregate number of units and shares outstanding.

Basic and diluted net income per common share are each calculated based upon net income allocable to common shareholders, divided by (i) in the case of basic net income per common share, weighted average common shares and (ii) in the case of diluted income per share, weighted average common shares adjusted for the impact of stock compensation awards outstanding (Note 10) using the treasury stock method.

The following tables set forth the calculation of the components of our basic and diluted income per share that are not reflected on the face of our consolidated statements of income, including the allocation of income to common shareholders and common partnership units, the percentage of weighted average shares and common partnership units, as well as basic and diluted weighted average shares for the years ended December 31, (*in thousands*):

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Calculation of net income allocable to common shareholders			
Net income	\$ 203,972	\$ 271,901	\$ 179,316
Net (income) loss allocated to			
Preferred shareholders based upon distributions	(54,346)	(51,880)	(52,873)
Preferred shareholders based upon redemptions	(11,007)	—	(10,978)
Noncontrolling interests—joint venture	(44)	1,030	—
Restricted stock unit holders	(910)	(1,923)	(761)
Net income allocable to common shareholders and noncontrolling interests—common units	137,665	219,128	114,704
Net income allocation to noncontrolling interests—common units	(28,962)	(46,229)	(24,279)
Net income allocable to common shareholders	<u>\$ 108,703</u>	<u>\$ 172,899</u>	<u>\$ 90,425</u>
Calculation of common partnership units as a percentage of common share equivalents			
Weighted average common shares outstanding	27,418	27,321	27,207
Weighted average common partnership units outstanding	7,305	7,305	7,305
Total common share equivalents	<u>34,723</u>	<u>34,626</u>	<u>34,512</u>
Common partnership units as a percentage of common share equivalents	21.0%	21.1%	21.2%
Weighted average common shares outstanding			
Basic weighted average common shares outstanding	27,418	27,321	27,207
Net effect of dilutive stock compensation—based on treasury stock method using average market price	108	101	205
Diluted weighted average common shares outstanding	<u>27,526</u>	<u>27,422</u>	<u>27,412</u>

Segment reporting

The Company has two operating segments: (i) the acquisition, development, ownership and management of commercial real estate and (ii) the acquisition, development, ownership and management of multifamily real estate, but has only one reportable segment as the multifamily segment does not meet the quantitative thresholds necessary to require reporting as a separate segment.

Reclassifications

The divisional vice presidents' compensation costs totaling \$1.9 million and \$3.0 million for the years ended December 31, 2018 and 2017, respectively, have been reclassified from cost of operations into general and administrative expense on the consolidated statements of income in the years ended December 31, 2018 and 2017 in order to conform to the current period's presentation. Certain other reclassifications have been made to the consolidated financial statements for 2018 in order to conform to the 2019 presentation, including reclassifying assets sold in 2019 as well as reclassifying a 113,000 square foot asset held for sale as of December 31, 2019 from "real estate facilities, at costs" totaling \$140.4 million as of December 31, 2018 into "properties held for sale, net" on our consolidated balance sheets.

Recently issued accounting standards

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Updates ("ASU")s 2016-02, *Leases* (the "Lease Standard"). The standard applies to substantially all of our revenue generating activities.

Lessor accounting

The Lease Standard directs how we account for payments from the elements of our leases that are generally fixed and determinable at the inception of the lease ("Fixed Lease Payments") while ASU 2014-09, *Revenue from Contracts with*

Customers (“Revenue Standard”), directs how we account for the non-lease components of our lease contracts, primarily expense reimbursements (“Non-Lease Payments”).

The Lease Standard requires us to identify Fixed Lease Payments and Non-Lease Payments of a lease agreement and governs the recognition of revenue for the Fixed Lease Payments. Revenue related to Non-Lease Payments under our lease arrangements is subject to the Revenue Standard effective upon adoption of the Lease Standard. See further discussion below on Fixed Lease Payments and Non-Lease Payments.

Under the Lease Standard, a set of practical expedients for implementation, which required election as a package and for all leases, was elected as part of our adoption of the Lease Standard. These practical expedients include (i) relief from re-assessing whether an expired or existing contract meets the definition of a lease, (ii) relief from re-assessing the classification of expired or existing leases at the adoption date and (iii) allowing previously capitalized initial direct leasing costs to continue to be amortized.

We adopted the Lease Standard on its effective date of January 1, 2019. In addition to the package of practical expedients noted above, we also elected the practical expedient not to allocate the total consideration to Fixed Lease Payments and Non-Lease Payments based on their relative standalone selling prices. This practical expedient allows lessors to elect a combined single component presentation if (i) the timing and pattern of the revenue recognition for the Fixed Lease Payments and Non-Lease Payments are the same, and (ii) the combined single component of the lease would continue to be classified as an operating lease. We have assessed and believe the two conditions have been met for Non-Lease Payments as (i) the timing and pattern of transfer of the Fixed Lease Payments and Non-Lease Payments are the same, and (ii) the combined single component of the lease would be classified as an operating lease. The adoption of the Leasing Standard did not result in a material impact to our consolidated financial statements.

We recognized revenue from our lease arrangements aggregating to \$429.8 million, \$413.5 million and \$402.2 million for the years ended December 31, 2019, 2018 and 2017, respectively. This revenue consisted primarily of rental income from operating leases and the related variable lease payments resulting from reimbursements of property operating expenses. Rental income was \$333.3 million, \$322.3 million and \$311.4 million for the years ended December 31, 2019, 2018 and 2017, respectively. Variable lease payments were \$96.5 million, \$91.2 million and \$90.8 million for the years ended December 31, 2019, 2018 and 2017, respectively.

The Lease Standard provides two approaches to account for uncollectible customer receivable balances and deferred rent receivables balances: (i) an impairment model approach or (ii) a reserve approach in accordance to ASU 450-20, Contingencies - Loss Contingencies (“Contingencies - Loss Contingencies Standard”). Under the impairment model, recognition of rental income is limited to the lesser of the amount of cash collected or rental income reflected on a “straight-line” basis, plus any accruable variable lease payments for those customer receivable balances deemed uncollectible. After completing the impairment model approach, a lessor may also choose to apply the reserve approach. Under the reserve approach, a lessor records a reserve for a portion of the receivable balances, based on historical data, for uncollectible amounts. A lessor that chooses the reserve approach will have to apply the guidance from both the Lease Standard and Contingencies - Loss Contingencies Standard. The Company has elected the impairment model approach to account for its uncollectible customer receivable balances and deferred rent receivable balances. The Company’s uncollectible receivable balances policy is consistent with the impairment model approach as the Company writes off uncollectible receivable balances in the period the amounts are deemed uncollectible. Therefore, our rental income is limited to the lesser of the amount of cash collected or rental income reflected on a “straight-line” basis, plus any accruable variable lease payments for those customer receivable balances deemed uncollectible.

Costs to execute leases

The Lease Standard also provides updated guidance on the requirements for the capitalization of the incremental costs incurred in executing leases, such as legal fees and commissions. Under the Lease Standard, any costs that would have been incurred regardless of successful lease execution, such as allocated costs of internal personnel, are to be expensed and may not be capitalized. As we have historically not capitalized any such costs, the adoption of the Lease Standard did not result in a material impact to our consolidated financial statements.

Lessee accounting

Under the Lease Standard, lessees are required to apply a dual approach by classifying leases as either finance or operating leases based on whether the lease is effectively a finance purchase of the leased asset by the lessee. This classification determines whether the lease expense is recognized based on an effective interest method or a straight-line basis over the term of the lease. For most leases with a term of greater than 12 months, in which we are the lessee, the present value of future lease payments is recognized on our balance sheet as a right-of-use (“ROU”) asset and a related liability is also recorded. On January 1, 2019, the Company recorded a ROU asset of \$1.7 million, included in “other assets” on our consolidated balance sheets and a corresponding liability of \$1.7 million under “accrued and other liabilities”, relating to our existing ground lease arrangements. These operating leases were recognized based on the present value of the future minimum lease payments over the lease term. As these leases do not provide an implicit rate, the Company used its incremental borrowing rate based on the information available in determining the present value of future payments. The discount rate used to determine the present value of these operating leases’ future payments was 4.20%. These ground leases expire in 2029 and 2030 and do not have an option to extend. As of December 31, 2019, the remaining lease terms were 9.8 years and 10.1 years. Lease expense for minimum lease payments is recognized in the period the applicable costs are incurred as monthly rent for these operating leases are constant and without contractual increases throughout the remaining terms of these leases. Other than the ground leases discussed above the adoption of the Lease Standard did not result in a material impact to our consolidated financial statements from the initial recognition of each lease liability or from the pattern of recognition subsequent to adoption.

3. Real estate facilities

The activity in real estate facilities for the years ended December 31, 2019, 2018 and 2017 is as follows (*in thousands*):

	Land	Buildings and Improvements	Accumulated Depreciation	Total
Balances at December 31, 2016	\$ 710,922	\$ 1,893,520	\$ (943,156)	\$ 1,661,286
Capital expenditures	—	51,909	—	51,909
Disposals ⁽¹⁾	—	(13,919)	13,919	—
Depreciation and amortization expense	—	—	(94,270)	(94,270)
Transfer to properties held for sale	—	(7,351)	9,650	2,299
Balances at December 31, 2017	710,922	1,924,159	(1,013,857)	1,621,224
Acquisition of real estate facilities	25,806	112,230	—	138,036
Consolidation of joint venture	21,814	84,903	—	106,717
Capital expenditures	—	38,904	—	38,904
Disposals ⁽¹⁾	—	(17,345)	17,345	—
Depreciation and amortization expense	—	—	(96,732)	(96,732)
Transfer to properties held for sale	—	(4,192)	6,142	1,950
Balances at December 31, 2018	758,542	2,138,659	(1,087,102)	1,810,099
Acquisition of real estate facilities	88,093	44,313	—	132,406
Capital expenditures	—	40,092	—	40,092
Disposals ⁽¹⁾	—	(15,796)	15,796	—
Depreciation and amortization expense	—	—	(93,416)	(93,416)
Transfer to properties held for sale	—	(1,134)	4,953	3,819
Balances at December 31, 2019 ⁽²⁾	<u>\$ 846,635</u>	<u>\$ 2,206,134</u>	<u>\$ (1,159,769)</u>	<u>\$ 1,893,000</u>

⁽¹⁾ Disposals primarily represent the book value of tenant improvements that have been removed upon the customer vacating their space.

⁽²⁾ Land, building and improvements, and accumulated depreciation, respectively, totaling \$58.1 million, \$236.3 million and \$154.0 million were reclassified as of December 31, 2018 to “properties held for sale, net” representing 1.3 million rentable square feet sold in 2019 and a 113,000 square foot building held for sale as of December 31, 2019.

The unaudited December 31, 2019 net federal tax basis of real estate facilities was approximately \$1.8 billion.

As of December 31, 2019, we have commitments, pursuant to executed leases throughout our portfolio, to spend \$9.6 million on transaction costs, which include tenant improvements and lease commissions.

The purchase price of acquired properties is allocated to land, buildings and improvements (including tenant improvements, unamortized lease commissions, acquired in-place lease values and customer relationships, if any), intangible assets and intangible liabilities (see Note 2), based upon the relative fair value of each component, which are evaluated independently.

The Company must make significant assumptions in determining the fair value of assets acquired and liabilities assumed, which can affect the recognition and timing of revenue and depreciation and amortization expense. The fair value of land is estimated based upon, among other considerations, comparable sales of land within the same region. The fair value of buildings and improvements is determined using a combination of the income and replacement cost approaches which both utilize available market information relevant to the acquired property. The fair value of other acquired assets including tenant improvements and unamortized lease commissions are determined using the replacement cost approach. The amount recorded to acquired in-place leases is also determined utilizing the income approach using market assumptions which are based on management's assessment of current market conditions and the estimated lease-up periods for the respective spaces. Transaction costs related to asset acquisitions are capitalized.

Subsequent to December 31, 2019, we acquired a multi-tenant industrial park comprised of approximately 73,000 rentable square feet in La Mirada, California, for a total purchase price of \$13.5 million, inclusive of capitalized transaction costs.

On December 20, 2019, we acquired a multi-tenant flex park comprised of approximately 79,000 rentable square feet in Santa Clara, California, for a total purchase price of \$16.8 million, inclusive of capitalized transaction costs.

On September 5, 2019, we acquired a multi-tenant industrial park comprised of approximately 543,000 rentable square feet in Santa Fe Springs, California, for a total purchase price of \$104.3 million, inclusive of capitalized transaction costs.

On April 18, 2019, we acquired a multi-tenant industrial park comprised of approximately 74,000 rentable square feet in Signal Hill, California, for a total purchase price of \$13.8 million, inclusive of capitalized transaction costs.

On June 8, 2018, we acquired two multi-tenant industrial parks aggregating 1.1 million rentable square feet in Springfield, Virginia, for a purchase price of \$143.8 million, inclusive of capitalized transaction costs.

We did not acquire any properties during the year ended December 31, 2017.

The following table summarizes the assets acquired and liabilities assumed for the years ended December 31, (*in thousands*):

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Land	\$ 88,093	\$ 25,806	\$ —
Buildings and improvements	44,313	112,230	—
Other assets (above-market in-place rents)	—	1,487	—
Accrued and other liabilities (below-market in-place rents)	(1,241)	(1,790)	—
Other assets (in-place lease value)	3,777	6,033	—
Total purchase price	134,942	143,766	—
Net operating assets acquired and liabilities assumed	(664)	(1,367)	—
Total cash paid	<u>\$ 134,278</u>	<u>\$ 142,399</u>	<u>\$ —</u>

The following table summarizes the assets acquired and liabilities assumed related to the consolidation of the joint venture, which was accounted for as an asset acquisition, as of January 1, 2018 (see Note 4) (*in thousands*):

Land	\$ 21,814
Buildings and improvements	84,903
Other assets (in-place lease value)	1,199
Total consolidated joint venture	107,916
Noncontrolling interest in consolidated joint venture	(4,032)
Net book value of joint venture at consolidation	<u>\$ 103,884</u>

On March 31, 2017, we sold development rights we held to build medical office buildings on land adjacent to our Westech Business Park in Silver Spring, Maryland for \$6.5 million. We received net sale proceeds of \$6.4 million, of which \$4.9 million was received in 2017 and \$1.5 million was received in prior years. We recorded a net gain of \$6.4 million for the year ended December 31, 2017.

Properties Sold

Subsequent to December 31, 2019, we sold a 113,000 square foot office building located at Metro Park North in Rockville, Maryland, that was held for sale as of December 31, 2019, for a gross sales price of \$30.0 million. On October 8, 2019, the Company also sold 1.3 million rentable square feet of flex and office business parks located in Rockville and Silver Spring, Maryland, for net sale proceeds of \$144.6 million, which resulted in a gain of \$16.6 million. We determined that these sales did not meet the criteria for discontinued operations presentation, as the sales of such assets did not represent a strategic shift that will have a major effect on our operations and financial results. As a result of this determination, the assets are separately presented as held for sale in the consolidated balance sheets as of December 31, 2019 and 2018.

On March 5, 2018, we sold Corporate Pointe Business Park, a park consisting of five multi-tenant office buildings totaling 161,000 square feet located in Orange County, California, for net sale proceeds of \$41.7 million, which resulted in a gain of \$26.8 million. On April 18, 2018, we sold Orange County Business Center, a park consisting of five multi-tenant office buildings totaling 437,000 square feet located in Orange County, California, for net sale proceeds of \$73.3 million, which resulted in a gain of \$50.6 million. On April 30, 2018, we sold Northgate Business Park, a park consisting of seven multi-tenant flex buildings totaling 194,000 square feet located in Dallas, Texas, for net sale proceeds of \$11.8 million, which resulted in a gain of \$7.9 million. On October 31, 2018, we sold Orangewood Office Park, a park consisting of two multi-tenant office buildings totaling 107,000 square feet located in Orange County, California, for net sale proceeds of \$18.3 million, which resulted in a gain of \$8.2 million. We determined that these sales also did not meet the criteria for discontinued operations presentation.

On May 1, 2017, we sold Empire Commerce, a two-building single-story office park comprising 44,000 square feet, located in Dallas, Texas, for net sale proceeds of \$2.1 million, which resulted in a net gain of \$1.2 million.

4. Investment in and advances to unconsolidated joint venture

The Company has a 95.0% interest in a 395-unit multifamily apartment complex on a five-acre site within the Company's 628,000 square foot office park located in Tysons, Virginia. An unrelated real estate development company (the "JV Partner") holds the remaining 5.0%. On January 1, 2018, the Company began to consolidate the joint venture due to changes to the joint venture agreement that gave the Company control of the joint venture.

Prior to January 1, 2018, the Company accounted its investment in the joint venture using the equity method. The Company reflected the aggregate cost of the contributed site and improvements, its equity contributions and loan advances, as well as capitalized third party interest incurred as investment in and advances to unconsolidated joint venture. For the year ended December 31, 2017, the Company made loan advances of \$34.1 million and capitalized \$506,000 of interest.

During the year ended December 31, 2017, the Company recorded an equity loss in the unconsolidated joint venture of \$805,000, comprised of net operating income of \$375,000 and depreciation expense of \$1.2 million.

5. Leasing activity

The Company leases space in its commercial real estate facilities to customers primarily under non-cancelable leases generally ranging from one to 10 years. Future minimum rental income, excluding recovery of operating expenses that may be collectable under these leases, is as follows as of December 31, 2019 (*in thousands*):

2020	\$	285,207
2021		228,542
2022		162,259
2023		111,511
2024		76,000
Thereafter		109,991
Total ⁽¹⁾	<u>\$</u>	<u>973,510</u>

⁽¹⁾ Excludes future minimum rental income from an asset held for sale.

In addition to minimum rental payments, certain customers reimburse the Company for their pro rata share of specified property operating expenses. Such reimbursements amounted to \$96.5 million, \$91.2 million and \$90.8 million for the years ended December 31, 2019, 2018 and 2017, respectively. These variable lease payment amounts are included as rental income in the accompanying consolidated statements of income.

Leases accounting for 3.2% of total leased square footage are subject to termination options, of which 1.9% of total leased square footage have termination options exercisable through December 31, 2020 (unaudited). In general, these leases provide for termination payments to us should the termination options be exercised. Certain leases also have an option to extend the terms of the lease. The future minimum rental income in the above table assumes termination options and lease extension options are not exercised.

6. Bank loans

We have an unsecured revolving line of credit (the “Credit Facility”) with Wells Fargo Bank, National Association (“Wells Fargo”). The Credit Facility has a borrowing limit of \$250.0 million and expires January 10, 2022. The rate of interest charged on borrowings is based on LIBOR plus 0.80% to LIBOR plus 1.55% depending on the Company’s credit ratings. Currently, the Company’s rate under the Credit Facility is LIBOR plus 0.825%. In addition, the Company is required to pay an annual facility fee ranging from 0.10% to 0.30% of the borrowing limit depending on the Company’s credit ratings (currently 0.125%). We had no balance outstanding on our Credit Facility at December 31, 2019 and 2018. The Company had \$461,000 and \$691,000 of total unamortized loan origination costs as of December 31, 2019 and 2018, respectively, which is included in other assets in the accompanying consolidated balance sheets. The Credit Facility requires us to meet certain covenants, all of which we were in compliance with at December 31, 2019. Interest on outstanding borrowings is payable monthly.

7. Noncontrolling interests

Noncontrolling interests represent (i) PS’s noncontrolling interest in the OP through its ownership of 7,305,355 common partnership units, totaling \$213.2 million and \$215.1 million at December 31, 2019 and 2018, respectively, and (ii) the JV Partner’s 5.0% interest in a joint venture owning a 395-unit multifamily apartment complex, totaling \$2.9 million and \$3.0 million at December 31, 2019 and 2018, respectively.

PS OP Interests

Each common partnership unit receives a cash distribution equal to the dividend paid on our common shares and is redeemable at PS’s option.

If PS exercises its right of redemption, at PSB’s option (a) PS will receive one common share from us for each common partnership unit redeemed, or (b) PS will receive cash from us for each common partnership unit redeemed generally equal to the market value of a common share (as defined in the Operating Partnership Agreement). We can prevent redemptions that we believe would violate either our articles of incorporation or securities laws, cause PSB to no longer qualify as a REIT, or could result in the OP no longer being treated as a partnership for federal tax purposes.

In allocating net income and presenting equity, we treat the common partnership units as if converted to common shares. Accordingly, they receive the same net income allocation per unit as a common share and are adjusted each period to have the same equity per unit as a common share, totaling \$29.0 million, \$46.2 million and \$24.3 million for the years ended December 31, 2019, 2018 and 2017, respectively.

JV Partner

In conjunction with consolidating the joint venture on January 1, 2018, we recorded noncontrolling interest of \$4.0 million related to the JV Partner's 5.0% interest in a joint venture owning a 395-unit multifamily apartment complex. A total of \$44,000 in income and \$1.0 million in loss was allocated to the JV Partner during the years ended December 31, 2019 and 2018, respectively. Distributions of \$134,000 were paid to the JV during the year ended December 31, 2019 and none were paid during 2018.

8. Related party transactions

We manage certain industrial, office and retail facilities in the United States for PS under either the "Public Storage" or "PS Business Parks" names (the "PS Management Agreement"). Under PS's supervision, we coordinate and assist in rental and marketing activities, property maintenance and other operational activities, including the selection of vendors, suppliers, employees and independent contractors. We receive a management fee based upon a percentage of revenues, which is included in "interest and other income" on our consolidated statements of income. Management fee revenues were \$287,000, \$407,000 and \$506,000 for the years ended December 31, 2019, 2018 and 2017, respectively. We allocate certain operating expenses to PS related to the management of these properties, including payroll and other business expenses, totaling \$373,000, \$472,000 and \$537,000 for the years ended December 31, 2019, 2018 and 2017, respectively.

The PS Business Parks name and logo are owned by PS and licensed to us under a non-exclusive, royalty-free license agreement. The license can be terminated by either party for any reason with six months written notice.

PS provides us property management services for the self-storage component of two assets we own and operates them under the "Public Storage" name. Either the Company or PS can cancel the property management contract upon 60 days' notice. Under our supervision, PS coordinates and assists in rental and marketing activities, and property maintenance and other operational activities, including the selection of vendors, suppliers, employees and independent contractors. Management fee expenses were \$98,000, \$96,000 and \$92,000 for the years ended December 31, 2019, 2018 and 2017, respectively. Additionally, PS allocated certain operating expenses to us related to the management of these properties totaling \$75,000, \$65,000 and \$61,000 for the three years ended December 31, 2019, 2018 and 2017, respectively. These amounts are included under "cost of operations" on our consolidated statements of income.

Pursuant to a cost sharing agreement, we share certain administrative services, corporate office space, and certain other third party costs with PS which are allocated based upon fair and reasonable estimates of the cost of the services expected to be provided. We reimbursed PS \$1.2 million, \$1.2 million and \$1.3 million, respectively, for costs PS incurred on our behalf for the years ended December 31, 2019, 2018 and 2017. PS reimbursed us \$39,000, \$38,000 and \$31,000 costs we incurred on their behalf for the years ended December 31, 2019, 2018 and 2017, respectively.

The Company had net amounts due to PS of \$106,000 at December 31, 2019 and due from PS of \$43,000 at December 31, 2018 for these contracts, as well as certain operating expenses paid by the Company on behalf of PS.

9. Shareholders' equity

Preferred stock

As of December 31, 2019 and 2018, the Company had the following series of preferred stock outstanding:

Series	Issuance Date	Earliest Potential Redemption Date	Dividend Rate	December 31, 2019		December 31, 2018	
				Shares Outstanding	Amount (in thousands)	Shares Outstanding	Amount (in thousands)
Series W	October, 2016	October, 2021	5.200%	7,590	\$ 189,750	7,590	\$ 189,750
Series X	September, 2017	September, 2022	5.250%	9,200	230,000	9,200	230,000
Series Y	December, 2017	December, 2022	5.200%	8,000	200,000	8,000	200,000
Series Z	November, 2019	November, 2024	4.875%	13,000	325,000	—	—
Series U	September, 2012	September, 2017	5.750%	—	—	9,200	230,000
Series V	March, 2013	March, 2018	5.700%	—	—	4,400	110,000
Total				37,790	\$ 944,750	38,390	\$ 959,750

On December 30, 2019, the Company completed the redemption of its 5.75% Cumulative Preferred Stock, Series U, at par of \$230.0 million as well as its 5.70% Cumulative Preferred Stock, Series V, at par of \$110.0 million. The Company recorded a Preferred Redemption Allocation of \$11.0 million for the year ended December 31, 2019.

On November 4, 2019, we issued \$325.0 million or 13,000,000 depositary shares representing interests in our 4.875% Cumulative Preferred Stock, Series Z, at \$25.00 per depositary share. The 4.875% Series Z Cumulative Redeemable Preferred Units are non-callable for five years and have no mandatory redemption. We received \$316.0 million in net issuance proceeds.

On January 3, 2018, we completed the redemption of our remaining 6.00% Cumulative Preferred Stock, Series T, at par of \$130.0 million. We recorded a Preferred Redemption Allocation of \$4.1 million in the year ended December 31, 2017 and reclassified the shares from equity to "preferred stock called for redemption" on our consolidated balance sheets at December 31, 2017.

On December 7, 2017, we issued \$200.0 million or 8,000,000 depositary shares representing interests in our 5.20% Cumulative Preferred Stock, Series Y, at \$25.00 per depositary share. The 5.20% Series Y Cumulative Redeemable Preferred Units are non-callable for five years and have no mandatory redemption. We received \$193.6 million in net issuance proceeds.

On October 30, 2017, we completed a partial redemption of 8,800,000 of our outstanding 14,000,000 depositary shares representing interests in our 6.0% Cumulative Preferred Stock, Series T, at par of \$220.0 million. We recorded a Preferred Redemption Allocation of \$6.9 million for the year ended December 31, 2017.

On September 21, 2017, we issued \$230.0 million or 9,200,000 depositary shares representing interests in our 5.25% Cumulative Preferred Stock, Series X, at \$25.00 per depositary share. The 5.25% Series X Cumulative Redeemable Preferred Units are non-callable for five years and have no mandatory redemption. We received \$222.2 million in net issuance proceeds.

We paid \$54.3 million, \$52.6 million and \$52.2 million in distributions to our preferred shareholders for the years ended December 31, 2019, 2018 and 2017, respectively.

The holders of our preferred stock have general preference rights with respect to liquidation, quarterly distributions and any accumulated unpaid distributions. Holders of our preferred stock will not be entitled to vote on most matters, except under certain conditions. In the event of a cumulative arrearage equal to six quarterly dividends, the holders of the preferred stock will have the right to elect two additional members to serve on the Company's Board of Directors (the "Board") until all events of default have been cured. At December 31, 2019, there were no dividends in arrears.

Except under certain conditions relating to the Company's qualification as a REIT, the preferred stock is not redeemable prior to the redemption dates noted above. On or after the respective redemption dates, the respective series of preferred

stock will be redeemable, at the option of the Company, in whole or in part, at \$25.00 per depositary share, plus any accrued and unpaid dividends.

Common stock and units

We paid \$115.2 million (\$4.20 per common share), \$103.8 million (\$3.80 per common share) and \$92.5 million (\$3.40 per common share) in distributions to our common shareholders for the years ended December 31, 2019, 2018 and 2017, respectively. We paid \$30.7 million (\$4.20 per common unit), \$27.8 million (\$3.80 per common unit), and \$24.8 million (\$3.40 per common unit) in distributions to our common unit holders for the years ended December 31, 2019, 2018 and 2017, respectively.

The portion of the distributions classified as ordinary income was 100.0%, 99.3% and 95.9% for the years ended December 31, 2019, 2018 and 2017, respectively. The portion of the distributions classified as long-term capital gain income was 0.0%, 0.7% and 4.1% for the years ended December 31, 2019, 2018 and 2017, respectively. The percentages in the two preceding sentences are unaudited.

During the three months ended June 30, 2018, the Board increased our quarterly dividend from \$0.85 per common share to \$1.05 per common share. During the three months ended March 31, 2017, the Board increased our quarterly dividend from \$0.75 per common share to \$0.85 per common share.

Equity stock

The Company is authorized to issue 100.0 million shares of Equity Stock. The Articles of Incorporation provide that Equity Stock may be issued from time to time in one or more series and give the Board broad authority to fix the dividend and distribution rights, conversion and voting rights, redemption provisions and liquidation rights of each series of Equity Stock. As of December 31, 2019 and 2018, no equity stock had been issued.

10. Stock compensation

Under various share-based compensation plans, PSB grants non-qualified options to purchase the Company's common shares at a price not less than fair value on the date of grant, as well as RSUs, to certain directors, officers and key employees.

The service period for stock options and RSUs begins when (i) the Company and the recipient reach a mutual understanding of the key terms of the award, (ii) the award has been authorized, (iii) the recipient is affected by changes in the market price of our stock and (iv) it is probable that any performance conditions will be met, and ends when the stock options or RSUs vest.

We amortize the fair value of awards starting at the beginning of the service period as compensation expense. For awards that are earned solely upon the passage of time and continued service, the entire cost of the award is amortized on a straight-line basis over the service period. For awards with performance conditions, the individual cost of each vesting is amortized separately over each individual service period (the "accelerated attribution" method).

We account for forfeitures of share-based payments as they occur by reversing previously amortized share-based compensation expense with respect to grants that are forfeited in the period the employee terminates employment.

Stock Options

Stock options expire 10 years after the grant date and the exercise price is equal to the closing trading price of our common shares on the grant date. Employees cannot require the Company to settle their award in cash. We use the Black-Scholes option valuation model to estimate the fair value of our stock options on the date of grant.

	2019	2018	2017
Stock option expense for the year (in 000's)	\$ 299	\$ 236	\$ 209
Aggregate exercise date intrinsic value of options exercised during the year (in 000's)	\$ 1,567	\$ 2,752	\$ 5,177
Average assumptions used in valuing options with the Black-Scholes method:			
Expected life of options in years, based upon historical experience	5	5	5
Risk-free interest rate	2.0%	2.8%	1.9%
Expected volatility, based upon historical volatility	22.2%	20.8%	17.5%
Expected dividend yield	2.6%	2.9%	2.8%
Average estimated value of options granted during the year	\$ 26.85	\$ 18.11	\$ 14.42

As of December 31, 2019, there was \$1.2 million of unamortized compensation expense related to stock options expected to be recognized over a weighted average period of 3.9 years.

Cash received from 15,585 stock options exercised during the year ended December 31, 2019 was \$969,000. Cash received from 44,994 stock options exercised during the year ended December 31, 2018 was \$3.0 million. Cash received from 73,246 stock options exercised during the year ended December 31, 2017 was \$4.2 million.

Information with respect to stock options during 2019, 2018 and 2017 is as follows:

Options:	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contract Life	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2016	229,655	\$ 68.93		
Granted	16,000	\$ 121.57		
Exercised	(73,246)	\$ 57.59		
Forfeited	—	\$ —		
Outstanding at December 31, 2017	172,409	\$ 78.63		
Granted	16,000	\$ 115.45		
Exercised	(44,994)	\$ 66.88		
Forfeited	—	\$ —		
Outstanding at December 31, 2018	143,415	\$ 86.42		
Granted	34,000	\$ 163.95		
Exercised	(15,585)	\$ 62.15		
Forfeited	(4,000)	\$ 110.04		
Outstanding at December 31, 2019	157,830	\$ 104.92	5.90 Years	\$ 9,652
Exercisable at December 31, 2019	87,030	\$ 79.93	3.98 Years	\$ 7,392

RSUs

RSUs granted prior to 2016 are subject to a six-year vesting, with 20% vesting after year two, and 20% vesting after each of the next four years. RSUs granted during and subsequent to 2016 are subject to a five-year vesting at the rate of 20% per year. The grantee receives dividends for each outstanding RSU equal to the per share dividend received by common shareholders. We expense any dividends previously paid upon forfeiture of the related RSU. Upon vesting, the grantee receives common shares equal to the number of vested RSUs, less common shares withheld in exchange for tax withholdings made by the Company to satisfy the grantee's statutory tax liabilities arising from the vesting. The fair value of our RSUs is determined based upon the applicable closing trading price of our common shares on the date of grant.

Effective March, 2014, the Company entered into a performance-based RSU program, the Senior Management Long-Term Equity Incentive Program for 2014-2017 ("LTEIP"), with certain employees of the Company. Under the LTEIP, the Company established three levels of targeted RSU awards, which would be earned only if the Company achieved one of three defined targets during 2014 to 2017. Under the LTEIP there was an annual award following the end of each of the four years in the program, with the award subject to and based on the achievement of total return targets during the previous year, as well as an award based on achieving total return targets during the cumulative four-year period 2014-2017. In the

event the minimum defined target was not achieved for an annual award, the RSUs allocated to be awarded for such year were added to the RSUs that may be received if the four-year target was achieved. All RSU awards under the LTEIP vest in four equal annual installments beginning from the date of award. Compensation expense is recognized based on the RSUs expected to be awarded based on the target level that is expected to be achieved. The compensation expense and RSU counts with respect to the LTEIP are included in the aggregate RSU amounts disclosed above. Senior management earned 145,350 shares of RSUs granted in March, 2018 as the maximum targets were achieved for both the year ended December 31, 2017 and for the cumulative four-year period.

Subsequent to December 31, 2019, the Company entered into an annual performance-based RSU program (“2020 Incentive Program”) with certain employees of the Company. Under the Program, certain employees will be eligible to receive RSUs subject to achievement of a pre-established performance target based on growth in the Company’s net asset value per share, as computed by the Company pursuant to the terms of the 2020 Incentive Program. In the event the pre-established target is achieved, the employees will receive the target award, except that the Company may adjust the actual award to 75%-125% of the target award based on the Company’s assessment of whether certain strategic and operational goals were accomplished in the performance period. The implementation of the 2020 Incentive Program does not have an impact on our consolidated financial statements for all periods presented herein.

RSUs related to the 2020 Incentive Program will be awarded on or around March 1 of the subsequent year. RSUs awarded under the 2020 Incentive Program will vest in five equal installments, with the first installment vesting on the award date. RSU holders will earn dividend equivalent rights during the vesting period.

Information with respect to RSUs during 2019, 2018 and 2017 is as follows (dollar amounts in thousands):

Restricted Stock Units:	Number of Units	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2016	144,693	\$ 12,346
Granted	113,750	10,748
Vested	(76,994)	(6,597)
Forfeited	(16,366)	(1,381)
Nonvested at December 31, 2017	165,083	15,116
Granted	194,450	18,431
Vested	(106,103)	(9,256)
Forfeited	(10,140)	(905)
Nonvested at December 31, 2018	243,290	23,386
Granted	6,400	1,137
Vested	(95,500)	(8,753)
Forfeited	(3,342)	(345)
Nonvested at December 31, 2019	150,848	\$ 15,425

As of December 31, 2019, there was \$6.9 million of unamortized compensation expense related to RSUs expected to be recognized over a weighted average period of 3.1 years.

(In thousands, except number of shares)	2019	2018	2017
Restricted share unit expense	\$ 3,196	\$ 3,727	\$ 4,279
Common shares issued upon vesting	55,267	62,500	43,223
Fair value of vested shares on vesting date	\$ 15,078	\$ 12,127	\$ 8,816
Cash paid for taxes in lieu of shares upon vesting of RSUs	\$ 6,350	\$ 4,981	\$ 3,865

In July, 2019, the Company amended the Retirement Plan for Non-Employee Directors (the “Director Retirement Plan”), to increase the maximum shares issued upon retirement for each year served as a director from 8,000 shares to 10,000 shares of common stock. The Company recognizes compensation expense with regard to grants to be issued in the future under the Director Retirement Plan over the requisite service period. For the year ended December 31, 2019, the Company

recorded \$1.5 million in compensation expense related to these shares compared to \$212,000 and \$290,000 for the same periods in 2018 and 2017, respectively.

In April, 2019, we issued 8,000 shares to a director upon retirement with an aggregate fair value of \$1.2 million. No shares were issued during the years ended December 31, 2018 and 2017.

11. Supplementary quarterly financial data (unaudited, in thousands, except per share data):

	Three Months Ended			
	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019
Rental income	\$ 107,825	\$ 107,782	\$ 108,064	\$ 106,175
Cost of operations	\$ 33,593	\$ 31,460	\$ 32,468	\$ 30,822
Net income allocable to common shareholders	\$ 26,321	\$ 28,579	\$ 26,312	\$ 27,491
Net income per share				
Basic	\$ 0.96	\$ 1.04	\$ 0.96	\$ 1.00
Diluted	\$ 0.96	\$ 1.04	\$ 0.96	\$ 1.00

	Three Months Ended			
	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018
Rental income	\$ 103,759	\$ 101,824	\$ 103,808	\$ 104,125
Cost of operations	\$ 32,456	\$ 30,796	\$ 31,197	\$ 30,181
Net income allocable to common shareholders	\$ 46,048	\$ 70,221	\$ 25,131	\$ 31,499
Net income per share				
Basic	\$ 1.69	\$ 2.57	\$ 0.92	\$ 1.15
Diluted	\$ 1.69	\$ 2.56	\$ 0.92	\$ 1.15

12. Commitments and contingencies

The Company currently is neither subject to any material litigation nor, to management's knowledge, is any material litigation currently threatened against the Company other than routine litigation and administrative proceedings arising in the ordinary course of business.

PS BUSINESS PARKS, INC.

SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2019
(IN THOUSANDS)

Description	Location	Square Feet	Initial Cost to Company		Cost Capitalized Subsequent to Acquisition		Gross Carrying Amount at December 31, 2019			Accumulated Depreciation	Year(s) Acquired	Depreciable Lives (Years)
			Buildings and Improvements		Buildings and Improvements		Land	Improvements	Buildings and Improvements			
			Land	Improvements	Land	Improvements						
Buena Park Industrial Center	Buena Park, CA	317	\$ 3,245	\$ 7,703	\$ 3,327	\$ 11,030	\$ 3,245	\$ 11,030	\$ 14,275	1997	5 - 30	
Canson	Carson, CA	77	990	2,496	1,628	4,124	990	4,124	5,114	1997	5 - 30	
Cerritos Business Center	Cerritos, CA	395	4,218	10,273	4,604	14,877	4,218	14,877	19,095	1997	5 - 30	
Cerritos/Edwards	Cerritos, CA	31	450	1,217	1,615	2,832	450	2,832	3,282	1997	5 - 30	
Concord Business Park	Concord, CA	246	12,454	20,491	1,134	21,625	12,454	21,625	34,079	2011	5 - 30	
Culver City	Culver City, CA	147	3,252	8,157	6,293	14,450	3,252	14,450	17,702	1997	5 - 30	
Bayview Business Park	Fremont, CA	104	4,990	4,831	373	5,204	4,990	5,204	10,194	2011	5 - 30	
Christy Business Park	Fremont, CA	334	11,451	16,254	1,457	17,711	11,451	17,711	29,162	2011	5 - 30	
Industrial Drive Distribution Center	Fremont, CA	199	7,482	6,812	1,202	8,014	7,482	8,014	15,496	2011	5 - 30	
Bay Center Business Park	Hayward, CA	463	19,052	50,501	3,754	54,255	19,052	54,255	73,307	2011	5 - 30	
Cabot Distribution Center	Hayward, CA	249	5,859	10,811	532	11,343	5,859	11,343	17,202	2011	5 - 30	
Diablo Business Park	Hayward, CA	271	9,102	15,721	1,008	16,729	9,102	16,729	25,831	2011	5 - 30	
Eden Landing	Hayward, CA	83	3,275	6,174	168	3,275	6,342	9,617	2,196	2011	5 - 30	
Hayward Business Park	Hayward, CA	1,091	28,256	54,418	3,365	57,783	28,256	57,783	86,039	2011	5 - 30	
Huntwood Business Park	Hayward, CA	176	7,391	11,819	776	12,595	7,391	12,595	19,986	2011	5 - 30	
Parkway Commerce	Hayward, CA	407	4,398	10,433	4,682	15,115	4,398	15,115	19,513	1997	5 - 30	
Laguna Hills Commerce Center	Laguna Hills, CA	513	16,261	39,559	8,312	47,871	16,261	47,871	64,132	1997	5 - 30	
Plaza Del Lago	Lake Forest, CA	101	2,037	5,051	4,181	9,232	2,037	9,232	11,269	1997	5 - 30	
Canada Business Center	Lake Forest, CA	297	5,508	13,785	6,680	20,465	5,508	20,465	25,973	1997	5 - 30	
Dixon Landing Business Park	Milpitas, CA	505	26,301	21,121	3,907	25,028	26,301	25,028	51,329	2011	5 - 30	
Monterey/Calle	Monterey, CA	12	288	706	396	1,102	288	1,390	845	1997	5 - 30	
Monterey Park	Monterey Park, CA	199	3,078	7,862	1,810	9,672	3,078	9,672	12,750	1997	5 - 30	
Port of Oakland	Oakland, CA	200	5,638	11,066	817	11,883	5,638	11,883	17,521	2011	5 - 30	
Keamey/Mesa	San Diego, CA	164	2,894	7,089	3,373	10,462	2,894	10,462	13,356	1997	5 - 30	
Lusk	San Diego, CA	371	5,711	14,049	6,330	20,379	5,711	20,379	26,090	1997	5 - 30	
Rose Canyon Business Park	San Diego, CA	233	15,129	20,054	2,716	22,770	15,129	22,770	37,899	2005	5 - 30	
Charcot Business Park	San Jose, CA	283	18,654	17,580	1,956	19,536	18,654	19,536	38,190	2011/2014	5 - 30	
Las Plumas	San Jose, CA	214	4,379	12,889	6,898	19,787	4,379	19,787	24,166	1998	5 - 30	
Little Orchard Distribution Center	San Jose, CA	213	7,725	3,846	288	4,134	7,725	4,134	11,859	2011	5 - 30	
Montague Industrial Park	San Jose, CA	316	14,476	12,807	635	13,442	14,476	27,918	5,555	2011	5 - 30	
Oakland Road	San Jose, CA	177	3,458	8,765	3,358	12,123	3,458	12,123	15,581	1997	5 - 30	
Rogers Ave	San Jose, CA	67	3,540	4,896	573	5,469	3,540	5,469	9,009	2006	5 - 30	
Doolittle Business Park	San Leandro, CA	113	3,929	6,231	304	6,535	3,929	6,535	10,464	2011	5 - 30	
Bayshore Corporate Center	San Mateo, CA	340	25,108	36,891	7,166	44,057	25,108	44,057	69,165	2013	5 - 30	
San Ramon/Norris Canyon	San Ramon, CA	52	1,486	3,642	1,335	4,977	1,486	4,977	6,463	1997	5 - 30	
Commerce Park	Santa Clara, CA	251	17,218	21,914	4,105	26,017	17,218	26,017	43,237	2007	5 - 30	

Description	Location	Square Feet	Initial Cost to Company		Buildings and Improvements		Gross Carrying Amount at December 31, 2019		Buildings and Improvements		Total	Accumulated Depreciation	Years(s) Acquired	Depreciable Lives (Years)
			Land	Buildings and Improvements	Land	Buildings and Improvements	Land	Buildings and Improvements	Land	Buildings and Improvements				
			7,673	15,645	4,638	7,673	20,283	27,956	15,504	2000				
Santa Clara Tech Park	Santa Clara, CA	178	7,673	15,645	4,638	7,673	20,283	27,956	15,504	2000	5 - 30	5 - 30		
San Tomas Business Center	Santa Clara, CA	79	12,932	3,549	—	12,932	3,549	16,481	—	2019	5 - 30	5 - 30		
Walsh at Lafayette	Santa Clara, CA	321	13,439	17,890	966	13,439	18,856	32,295	7,316	2011	5 - 30	5 - 30		
Hathaway Industrial Park	Santa Fe Springs, CA	543	65,494	36,786	20	65,494	36,806	102,300	541	2019	5 - 30	5 - 30		
Signal Hill	Signal Hill, CA	343	16,360	16,678	3,363	16,360	20,041	36,401	10,962	1997/2006/2019	5 - 30	5 - 30		
Airport Boulevard	So San Francisco, CA	52	899	2,887	809	899	3,196	4,095	2,488	1997	5 - 30	5 - 30		
South San Francisco/Produce	So San Francisco, CA	41	776	1,886	527	776	2,413	3,189	1,863	1997	5 - 30	5 - 30		
Studio City/Ventura	Studio City, CA	22	1,530	1,530	552	621	2,082	2,703	1,650	1997	5 - 30	5 - 30		
Kifer Industrial Park	Sunnyvale, CA	287	13,227	37,874	1,618	13,227	39,492	52,719	13,038	2011	5 - 30	5 - 30		
Torrance	Torrance, CA	147	2,318	6,069	3,584	2,318	9,653	11,971	7,520	1997	5 - 30	5 - 30		
Boca Raton	Boca Raton, FL	135	7,795	9,258	3,198	7,795	12,456	20,251	6,814	2006	5 - 30	5 - 30		
MICC	Miami, FL	3,468	95,115	112,583	42,757	95,115	155,340	250,455	100,845	2003/2011/2014	5 - 30	5 - 30		
Wellington	Wellington, FL	263	10,845	18,560	2,567	10,845	21,127	31,972	10,789	2006	5 - 30	5 - 30		
Ammendale	Bellsville, MD	308	4,278	18,380	11,208	4,278	29,588	33,866	24,289	1998	5 - 30	5 - 30		
Gaithersburg/Christopher	Gaithersburg, MD	29	475	1,203	890	475	2,093	2,568	1,550	1997	5 - 30	5 - 30		
Guide Drive (Land)	Rockville, MD	—	1,142	—	328	1,142	328	1,470	210	2001	5 - 30	5 - 30		
Parklawn Business Park	Rockville, MD	231	3,387	19,628	5,469	3,387	25,097	28,484	11,671	2010	5 - 30	5 - 30		
The Grove 270	Rockville, MD	577	11,010	58,364	21,912	11,010	80,276	91,286	31,888	2010/2016	5 - 30	5 - 30		
Ben White	Austin, TX	108	1,550	7,015	3,154	1,550	10,169	11,719	6,390	1998	5 - 30	5 - 30		
Lamar Business Park	Austin, TX	198	1,945	6,596	7,575	1,945	15,741	17,686	9,036	1998/2012	5 - 30	5 - 30		
McKalla	Austin, TX	236	1,945	13,212	2,529	1,945	14,717	16,699	10,732	1997	5 - 30	5 - 30		
McNeil	Austin, TX	525	5,477	24,495	5,896	5,477	30,391	35,868	14,055	1999/2010/2012/2014	5 - 30	5 - 30		
Rutland	Austin, TX	235	2,022	9,397	2,094	2,022	11,491	13,513	8,819	1998/1999	5 - 30	5 - 30		
Waterford	Austin, TX	106	2,108	9,649	4,031	2,108	13,680	15,788	10,553	1999	5 - 30	5 - 30		
Braker Business Park	Austin, TX	257	1,874	13,990	2,899	1,874	16,889	18,763	8,118	2010	5 - 30	5 - 30		
Mopac Business Park	Austin, TX	117	719	3,579	627	719	4,206	4,925	2,002	2010	5 - 30	5 - 30		
Southpark Business Park	Austin, TX	181	1,266	9,882	2,658	1,266	12,540	13,806	6,209	2010	5 - 30	5 - 30		
Valwood Business Center	Carrollton, TX	356	2,510	13,859	3,127	2,510	16,986	19,496	6,377	2013	5 - 30	5 - 30		
Northway Plaza	Farmers Branch, TX	131	1,742	4,503	1,313	1,742	5,816	7,558	2,075	2013	5 - 30	5 - 30		
Springlake Business Center	Farmers Branch, TX	206	2,607	5,715	2,083	2,607	7,798	10,405	3,382	2013/2014	5 - 30	5 - 30		
Westwood Business Park	Farmers Branch, TX	112	941	6,884	2,509	941	9,393	10,334	6,287	2003	5 - 30	5 - 30		
Eastgate	Garland, TX	36	480	1,203	467	480	1,670	2,150	1,339	1997	5 - 30	5 - 30		
Freepoint Business Park	Irving, TX	256	4,564	9,506	3,014	4,564	12,520	17,084	5,158	2013	5 - 30	5 - 30		
NFTZ (1)	Irving, TX	231	1,517	6,499	3,741	1,517	10,240	11,757	8,309	1998	5 - 30	5 - 30		
Royal Tech	Irving, TX	794	13,989	54,113	27,362	13,989	81,475	95,464	58,427	1998-2000/2011	5 - 30	5 - 30		
La Prada	Mesquite, TX	56	495	1,235	752	495	1,987	2,482	1,540	1997	5 - 30	5 - 30		
The Summit	Plano, TX	184	1,536	6,654	4,523	1,536	11,177	12,713	8,859	1998	5 - 30	5 - 30		
Arnapaho Business Park	Richardson, TX	408	5,226	10,661	4,716	5,226	15,377	20,603	6,805	2013/2014	5 - 30	5 - 30		
Richardson Business Park	Richardson, TX	117	799	3,568	3,101	799	6,669	7,468	5,485	1998	5 - 30	5 - 30		
Bren Mar	Alexandria, VA	113	2,197	5,380	4,106	2,197	9,486	11,683	7,522	1997	5 - 30	5 - 30		
Eisenhower	Alexandria, VA	95	1,440	3,635	2,745	1,440	6,380	7,820	5,203	1997	5 - 30	5 - 30		
Beumont	Chantilly, VA	107	4,736	11,051	2,066	4,736	13,117	17,853	8,498	2006	5 - 30	5 - 30		
Dulles South	Chantilly, VA	99	1,373	6,810	3,498	1,373	10,308	11,681	7,850	1999	5 - 30	5 - 30		
Lafayette	Chantilly, VA	197	1,680	13,398	6,593	1,680	19,991	21,671	14,658	1999/2000	5 - 30	5 - 30		

Description	Location	Square Feet	Initial Cost to Company				Cost Capitalized Subsequent to Acquisition				Gross Carrying Amount at December 31, 2019				Year(s) Acquired	Depreciable Lives (Years)
			Buildings and Improvements		Land	Buildings and Improvements		Land	Buildings and Improvements		Total	Accumulated Depreciation				
			Land	Improvements		Improvements	Land		Improvements							
Park East	Chantilly, VA	198	3,851	18,029	10,826	3,851	28,855	32,706	22,490	1999	5 - 30					
Fair Oaks Business Park	Fairfax, VA	290	13,598	36,232	10,081	46,313	59,911	29,269	2004/2007	5 - 30						
Monroe	Hemdon, VA	244	6,737	18,911	11,856	6,737	30,767	37,504	1997/1999	5 - 30						
Gunston	Lorton, VA	247	4,146	17,872	12,248	4,146	30,120	34,266	21,080	1998	5 - 30					
The Mile	McLean, VA	628	38,279	83,596	26,716	38,279	110,312	148,591	52,389	2010/2011	5 - 30					
Prosperity at Merrifield	Merrifield, VA	659	23,147	67,575	37,585	23,147	105,160	128,307	71,749	2001	5 - 30					
Alban Road	Springfield, VA	150	1,935	4,736	5,177	1,935	9,913	11,848	8,083	1997	5 - 30					
I-95	Springfield, VA	210	3,535	15,672	14,466	3,535	30,138	33,673	23,247	2000	5 - 30					
Fullerton Road Industrial Park	Springfield, VA	243	7,438	24,971	702	7,438	25,673	33,111	1,764	2018	5 - 30					
Northern Virginia Industrial Park	Springfield, VA	814	18,369	87,258	5,253	18,369	92,511	110,880	5,696	2018	5 - 30					
Northpointe	Sterling, VA	147	2,767	8,778	4,900	2,767	13,678	16,445	11,174	1997/1998	5 - 30					
Shaw Road	Sterling, VA	149	2,969	10,008	4,863	2,969	14,871	17,840	12,164	1998	5 - 30					
Tysons Corporate Center	Vienna, VA	270	9,885	25,302	10,423	9,885	35,725	45,610	16,573	2010	5 - 30					
Woodbridge	Woodbridge, VA	114	1,350	3,398	2,195	1,350	5,593	6,943	4,446	1997	5 - 30					
212th Business Park	Kent, WA	951	19,573	17,695	12,090	19,573	29,785	49,358	12,914	2012	5 - 30					
Overlake	Redmond, WA	411	23,122	41,106	7,760	23,122	48,866	71,988	31,722	2007	5 - 30					
Renton	Renton, WA	28	330	889	713	330	1,602	1,932	1,208	1997	5 - 30					
Total before properties held for sale		27,449	824,821	1,630,701	490,497	824,821	2,121,198	2,946,019	1,154,482	2001	5 - 30					
Metro Park North	Rockville, MD	113	4,188	12,035	6,822	4,188	18,857	23,045	11,543							
Total commercial real estate		27,562	829,009	1,642,736	497,319	829,009	2,140,055	2,969,064	1,166,025							
Highgate at the Mile	McLean, VA	395 units	21,814	84,903	33	21,814	84,936	106,750	5,287	2018	5 - 40					
Total multifamily			21,814	84,903	33	21,814	84,936	106,750	5,287							
Total		27,562	\$ 850,823	\$ 1,727,639	\$ 497,332	\$ 850,823	\$ 2,224,991	\$ 3,075,814	\$ 1,171,312							

(1) The Company owns two properties that are subject to ground leases in Irving, Texas. These leases expire in 2029 and 2030.

PS BUSINESS PARKS, INC.

EXHIBIT INDEX (Items 15(a)(3) and 15(b))

- 3.1 Restated Articles of Incorporation. Filed as exhibit 3.1 to the Registrant's Registration Statement on Form S- 3 (SEC File No. 333-78627) and incorporated herein by reference.
- 3.2 Restated Bylaws, as amended. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 (SEC File No. 001-10709) and incorporated herein by reference.
- 3.3 Certificate of Determination of Preferences of 5.20% Series W Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8- K dated October 11, 2016 (SEC File No. 001-10709) and incorporated herein by reference.
- 3.4 Certificate of Determination of Preferences of 5.25% Series X Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8- K dated September 12, 2017 (SEC File No. 001-10709) and incorporated herein by reference.
- 3.5 Certificate of Determination of Preferences of 5.20% Series Y Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8- K dated November 30, 2017 (SEC File No. 001-10709) and incorporated herein by reference.
- 3.6 Certificate of Determination of Preferences of 4.875% Series Z Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8- K dated October 24, 2019 (SEC File No. 001-10709) and incorporated herein by reference.
- 4.1 Deposit Agreement Relating to 5.20% Cumulative Preferred Stock, Series W of PS Business Parks, Inc. dated as of October 11, 2016. Filed with Registrant's Current Report on Form 8-K dated October 11, 2016 (SEC File No. 001-10709) and incorporated herein by reference.
- 4.2 Deposit Agreement Relating to 5.25% Cumulative Preferred Stock, Series X of PS Business Parks, Inc. dated as of September 12, 2017. Filed with Registrant's Current Report on Form 8-K dated September 12, 2017 (SEC File No. 001-10709) and incorporated herein by reference.
- 4.3 Deposit Agreement Relating to 5.20% Cumulative Preferred Stock, Series Y of PS Business Parks, Inc. dated as of November 30, 2017. Filed with Registrant's Current Report on Form 8-K dated November 30, 2017 (SEC File No. 001-10709) and incorporated herein by reference.
- 4.4 Deposit Agreement Relating to 4.875% Cumulative Preferred Stock, Series Z of PS Business Parks, Inc. dated as of October 24, 2019. Filed with Registrant's Current Report on Form 8-K dated October 25, 2019 (SEC File No. 001-10709) and incorporated herein by reference.
- 4.5 † Description of Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934. Filed herewith.
- 10.1 Amended Management Agreement between Storage Equities, Inc. and Public Storage Commercial Properties Group, Inc. dated as of February 21, 1995. Filed as exhibit 10.8 to PS's Annual Report on Form 10-K for the year ended December 31, 1994 (SEC File No. 001-08389) and incorporated herein by reference.
- 10.2 Agreement of Limited Partnership of PS Business Parks, L.P. Filed as exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 (SEC File No. 001-10709) and incorporated herein by reference.

- 10.3 * Form of Indemnity Agreement. Filed as exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.4 * Form of Indemnification Agreement for Executive Officers. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2004 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.5 Cost Sharing and Administrative Services Agreement dated as of November 16, 1995 by and among PSCC, Inc. and the owners listed therein. Filed as exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.6 Amendment to Cost Sharing and Administrative Services Agreement dated as of January 2, 1997 by and among PSCC, Inc. and the owners listed therein. Filed as exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.7 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. relating to 5.20% Series W Cumulative Preferred Units, dated as of October 20, 2016. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 (SEC File No. 001- 10709) and incorporated herein by reference.
- 10.8 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. relating to 5.25% Series X Cumulative Preferred Units, dated as of September 21, 2017. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 (SEC File No. 001- 10709) and incorporated herein by reference.
- 10.9 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. relating to 5.20% Series Y Cumulative Preferred Units, dated as of December 7, 2017. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2017 (SEC File No. 001- 10709) and incorporated herein by reference.
- 10.10 † Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. relating to 4.875% Series Z Cumulative Preferred Units, dated as of November 4, 2019. Filed herewith.
- 10.11 Third Amended and Restated Revolving Credit Agreement dated as of January 10, 2017 by and among PS Business Parks, L.P., a California limited partnership, as borrower, and Wells Fargo Bank, National Association, as Administrative Agent for the Lenders. Filed with the Registrant's Current Report on Form 8-K dated January 10, 2017 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.12 Third Amended and Restated Repayment Guaranty dated as of January 10, 2017. Filed with Registrant's Current Report on Form 8-K dated January 10, 2017 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.13 Amendment to Amended Agreement of Limited Partnership of PS Business Parks, L.P. to Authorize Special Allocations, dated as of January 1, 2017. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.14 * Registrant's 2003 Stock Option and Incentive Plan. Filed with Registrant's Registration Statement on Form S-8 (SEC File No. 333-104604) and incorporated herein by reference.
- 10.15 * Form of PS Business Parks, Inc. Restricted Stock Unit Agreement. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (SEC File No. 001- 10709) and incorporated herein by reference.
- 10.16 * Form of PS Business Parks, Inc. 2003 Stock Option and Incentive Plan Non-Qualified Stock Option Agreement. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (SEC File No. 001-10709) and incorporated herein by reference.

10.17	*	Form of PS Business Parks, Inc. 2003 Stock Option and Incentive Plan Stock Option Agreement. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (SEC File No. 001-10709) and incorporated herein by reference.
10.18	*	Revised Form of Director Stock Option Agreement. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2010 (SEC File No. 001-10709) and incorporated herein by reference.
10.19	*	Amendment to Form of Director Stock Option Agreement. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2010 (SEC File No. 001-10709) and incorporated herein by reference.
10.20	*	Registrant's 2012 Equity and Performance-Based Incentive Compensation Plan (2012 Plan). Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 (SEC File No. 001-10709) and incorporated herein by reference.
10.21	*	Form of Registrant's 2012 Plan Non-Qualified Stock Option Agreement. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 (SEC File No. 001-10709) and incorporated herein by reference.
10.22	*	Form of Registrant's 2012 Plan Restricted Stock Unit Agreement. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 (SEC File No. 001-10709) and incorporated herein by reference.
10.23	*†	Amended and Restated Retirement Plan For Non-Employee Directors, as amended. Filed herewith.
10.24	*	Form of 2012 Plan Restricted Share Unit Agreement. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 (SEC File No. 001-10709) and incorporated herein by reference.
10.25	*†	Form of Registrant's 2012 Plan Stock Unit Agreement. Filed herewith.
21	†	List of Subsidiaries. Filed herewith.
23	†	Consent of Independent Registered Public Accounting Firm. Filed herewith.
31.1	†	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
31.2	†	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
32.1	†	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith.
101	.INS	XBRL Instance Document. Filed herewith.
101	.SCH	XBRL Taxonomy Extension Schema. Filed herewith.
101	.CAL	XBRL Taxonomy Extension Calculation Linkbase. Filed herewith.
101	.DEF	XBRL Taxonomy Extension Definition Linkbase. Filed herewith.
101	.LAB	XBRL Taxonomy Extension Label Linkbase. Filed herewith.
101	.PRE	XBRL Taxonomy Extension Presentation Linkbase. Filed herewith.
104		Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Denotes management contract or compensatory plan agreement or arrangement.

† Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 19, 2020

PS BUSINESS PARKS, INC.

By: /s/ Maria R. Hawthorne
Maria R. Hawthorne
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Ronald L. Havner, Jr.</u> Ronald L. Havner, Jr.	Chairman of the Board	February 19, 2020
<u>/s/ Maria R. Hawthorne</u> Maria R. Hawthorne	Director and Chief Executive Officer (principal executive officer)	February 19, 2020
<u>/s/ Jeffrey D. Hedges</u> Jeffrey D. Hedges	Chief Financial Officer (principal financial and accounting officer)	February 19, 2020
<u>/s/ Jennifer Holden Dunbar</u> Jennifer Holden Dunbar	Director	February 19, 2020
<u>/s/ James H. Kropp</u> James H. Kropp	Director	February 19, 2020
<u>/s/ Kristy M. Pipes</u> Kristy M. Pipes	Director	February 19, 2020
<u>/s/ Gary E. Pruitt</u> Gary E. Pruitt	Director	February 19, 2020
<u>/s/ Robert S. Rollo</u> Robert S. Rollo	Director	February 19, 2020
<u>/s/ Joseph D. Russell, Jr.</u> Joseph D. Russell, Jr.	Director	February 19, 2020
<u>/s/ Peter Schultz</u> Peter Schultz	Director	February 19, 2020
<u>/s/ Stephen W. Wilson</u> Stephen W. Wilson	Director	February 19, 2020

List of Subsidiaries

The following sets forth the subsidiaries of the Registrant and their respective states of incorporation or organization:

Name	State
Amherst JV LLC	Delaware
Amherst Property, LLC	Delaware
American Office Park Properties, TPGP, Inc.	California
AOPP Acquisition Corp. Two	California
Arapaho Investors, LLC	Delaware
Brentford JV, LLC	Delaware
Brentford Property, LLC	Delaware
Charlton JV, LLC	Delaware
Charlton Property, LLC	Delaware
GB, LLC	Maryland
Hernmore Corporation	Maryland
KF Amherst LLC	Virginia
Metro Park I, LLC	Delaware
Metro Park II, LLC	Delaware
Metro Park III, LLC	Delaware
Metro Park IV, LLC	Delaware
Metro Park V, LLC	Delaware
Miami International Commerce Center Association, Inc.	Florida
PS Business Parks, L.P.	California
PS Metro Park, LLC	Maryland
PSB Amherst Investors, L.L.C.	Delaware
PSB Amherst L.L.C.	Delaware
PSB Amherst Finance LLC	Delaware
PSB Boca Commerce Park, LLC	Delaware
PSB Brentford, LLC	Delaware
PSB Charlton, LLC	Delaware
PSB Hathaway I & II LLC	Delaware
PSB Meadows LLC	Delaware
PSB Meadows Member LLC	Delaware
PSB MICC 2323 LLC	Delaware
PSB Northern California Industrial Portfolio, LLC	Delaware
PSB San Tomas BC, LLC	California
PSB Shady Grove LLC	Maryland
PSB Walnut BP, LLC	California
PSB Wellington Commerce Park I, LLC	Delaware
PSB Wellington Commerce Park II, LLC	Delaware
PSB Wellington Commerce Park III, LLC	Delaware
PSBP Industrial, LLC	Delaware
PSBP Northpointe D LLC	Virginia
PSBP QRS, Inc.	California
PSBP Springing Member LLC	Delaware
PSBP Westwood GP, LLC	Delaware
REVX-098, LLC	Delaware
Tenant Advantage, Inc.	California
The Mile, LLC	Delaware

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-8 No. 333-48313) of PS Business Parks, Inc. pertaining to the PS Business Parks, Inc. 1997 Stock Option and Incentive Plan,
- (2) Registration Statement (Form S-8 No. 333-50274) of PS Business Parks, Inc. pertaining to the PS 401(k)/Profit Sharing Plan,
- (3) Registration Statement (Form S-8 No. 333-104604) of PS Business Parks, Inc. pertaining to the PS Business Parks, Inc. 2003 Stock Option and Incentive Plan,
- (4) Registration Statement (Form S-8 No. 333-129463) of PS Business Parks, Inc. pertaining to the PS Business Parks, Inc. Retirement Plan for Non-Employee Directors,
- (5) Registration Statement (Form S-8 No. 333-184316) of PS Business Parks, Inc. pertaining to the PS Business Parks, Inc. 2012 Equity and Performance-Based Incentive Compensation Plan,
- (6) Registration Statement (Form S-8 No. 333-203771) of PS Business Parks, Inc. pertaining to the PS Business Parks, Inc. Retirement Plan for Non-Employee Directors, and
- (7) Registration Statement (Form S-3ASR No. 333-223450) and related Prospectus of PS Business Parks, Inc.;

of our reports dated February 19, 2020 with respect to the consolidated financial statements and schedule of PS Business Parks, Inc., and the effectiveness of internal control over financial reporting of PS Business Parks, Inc., included in this Annual Report (Form 10-K) of PS Business Parks, Inc. for the year ended December 31, 2019.

/s/ Ernst & Young, LLP

Los Angeles, California
February 19, 2020

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Maria R. Hawthorne, certify that:

1. I have reviewed this annual report on Form 10-K of PS Business Parks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Maria R. Hawthorne

Name: Maria R. Hawthorne

Title: Chief Executive Officer

Date: February 19, 2020

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jeffrey D. Hedges, certify that:

1. I have reviewed this annual report on Form 10-K of PS Business Parks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Jeffrey D. Hedges

Name: Jeffrey D. Hedges

Title: Chief Financial Officer

Date: February 19, 2020

**Certification of CEO and CFO Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of PS Business Parks, Inc. (the “Company”) for the period ending December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Maria R. Hawthorne, as Chief Executive Officer of the Company, and Jeffrey D. Hedges, as Chief Financial Officer of the Company, each hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to their knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Maria R. Hawthorne

Name: Maria R. Hawthorne
Title: Chief Executive Officer
Date: February 19, 2020

/s/ Jeffrey D. Hedges

Name: Jeffrey D. Hedges
Title: Chief Financial Officer
Date: February 19, 2020

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CORPORATE DATA

Corporate Headquarters

701 Western Avenue
Glendale, California 91201-2349
(818) 244-8080 Telephone
(818) 242-0566 Facsimile

Website

psbusinessparks.com

Board of Directors

RONALD L. HAVNER, JR. (1998)
Chairman of the Board
Chairman of the Board and Retired
Chief Executive Officer
Public Storage

MARIA R. HAWTHORNE (2016)
President and Chief Executive Officer

JENNIFER HOLDEN DUNBAR (2009)
Co-Founder and Managing Director
Dunbar Partners, LLC

JAMES H. KROPP (1998)
Chief Investment Officer
SLKW Investments LLC and
Retired Chief Financial Officer
Microproperties LLC

KRISTY M. PIPES (2019)
Retired Managing Director and
Chief Financial Officer
Deloitte Consulting

GARY E. PRUITT (2012)
Retired Chairman and Chief Executive Officer
Univar N.V.

ROBERT S. ROLLO (2013)
Retired Senior Partner
Heidrick and Struggles

JOSEPH D. RUSSELL, JR. (2003)
President and Chief Executive Officer
Public Storage

PETER SCHULTZ (2012)
Retired President, Chief Executive Officer
and Director
The Beacon Group, Inc.

STEPHEN W. WILSON (2019)
Retired Executive Vice President–Development
AvalonBay Communities, Inc.

() = Year director was elected to the Board

Stock Listing

PS Business Parks, Inc. is traded on the New York Stock Exchange under the symbol “PSB.”



Executive Officers

MARIA R. HAWTHORNE
President and Chief Executive Officer

JOHN W. PETERSEN
Executive Vice President and Chief
Operating Officer

JEFFREY D. HEDGES
Executive Vice President and Chief
Financial Officer

TRENTON A. GROVES
Senior Vice President and Chief
Accounting Officer

Divisional Vice Presidents

CHRISTOPHER M. AUTH
Divisional Vice President, Northern
Virginia and Maryland

COBY A. HOLLEY
Vice President, Real Estate

STUART H. HUTCHISON
Divisional Vice President, Southern
California and Seattle

RICHARD E. SCOTT
Divisional Vice President, Northern
California

EUGENE UHLMAN
Vice President, Construction
Management

DAVID A. VICARS
Divisional Vice President, Texas

Independent Registered Public Accounting Firm

Ernst & Young LLP
Los Angeles, CA

Certifications

The most recent certifications by our Chief Executive Officer and Chief Financial Officer pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 are filed as exhibits to our Form 10-K. Our Chief Executive Officer's most recent annual certification to the New York Stock Exchange was submitted on May 22, 2019.

Regional Vice Presidents

MARK D. ANTROBIUS
Regional Vice President, Southern
California and Seattle

RALPH D. ASHWORTH
Vice President, Property Operations
Controller

THOMAS M. DRISCOLL
Regional Vice President, Northern
Virginia and Maryland

RICHARD GUERTIN
Senior Regional Vice President,
Florida

AMY L. HERITAGE
Regional Vice President, Austin,
Texas

CRAIG B. MORROW
Regional Vice President, Southern
California and Seattle

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Additional Information Sources

The Company's website, psbusinessparks.com, contains financial information of interest to shareholders, brokers and others.



PS Business Parks, Inc. is a member and active supporter of the National Association of Real Estate Investment Trusts.



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