



**PSBUSINESSPARKS**

**Analysis of Operating Results  
and Financial Condition**

**For the Periods Ended December 31, 2002**

**ANALYSIS OF OPERATING RESULTS AND FINANCIAL CONDITION  
FOR THE PERIODS ENDED December 31, 2002**

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**PS BUSINESS PARKS, INC.**  
**FOURTH QUARTER FACT SHEET**

**OPERATING DATA**

	Three Months Ended			Years Ended		
	12/31/02	12/31/01	Difference	12/31/02	12/31/01	Difference
Total revenues	\$ 50,918,000	\$ 44,941,000	13.3%	\$ 201,265,000	\$ 166,170,000	21.1%
Net income allocable to common shareholders	\$ 9,483,000	\$ 9,886,000	(4.1%)	\$ 42,018,000	\$ 41,016,000	2.4%
Net income per common share:						
Basic	\$ 0.44	\$ 0.46	(4.3%)	\$ 1.95	\$ 1.84	6.0%
Diluted	\$ 0.44	\$ 0.46	(4.3%)	\$ 1.93	\$ 1.83	5.5%
Weighted average common shares outstanding:						
Basic	21,565,000	21,576,000	(0.1%)	21,552,000	22,350,000	(3.6%)
Diluted	21,733,000	21,692,000	0.2%	21,743,000	22,435,000	(3.1%)

**FUNDS FROM OPERATIONS**

	Three Months Ended			Years Ended		
	12/31/02	12/31/01	Difference	12/31/02	12/31/01	Difference
FFO allocable to common shareholders	\$ 19,125,000	\$ 17,571,000	8.8%	\$ 77,188,000	\$ 70,670,000	9.2%
Weighted average common shares outstanding - diluted	21,733,000	21,692,000	0.2%	21,743,000	22,435,000	(3.1%)
FFO per common share - diluted	\$ 0.88	\$ 0.81	8.6%	\$ 3.55	\$ 3.15	12.7%

**PROPERTY INFORMATION**

	Three Months Ended			Years Ended		
	12/31/02	12/31/01	Difference	12/31/02	12/31/01	Difference
Net rentable square footage at period end (wholly-owned)	14,426,000	14,817,000	(2.6%)	14,426,000	14,817,000	(2.6%)
Same Park Facilities						
Weighted average occupancy	93.5%	95.2%	(1.7%)	94.3%	95.8%	(1.5%)
Annualized realized rent per sq. ft. (1)	\$ 13.72	\$ 13.29	3.2%	\$ 13.45	\$ 13.04	3.1%

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

**BALANCE SHEET DATA**

	12/31/02	12/31/01	Difference
Total assets	\$ 1,156,802,000	\$ 1,169,955,000	(1.1%)
Minority interest - preferred	\$ 217,750,000	\$ 197,750,000	10.1%
Minority interest - common	\$ 167,469,000	\$ 162,141,000	3.3%
Perpetual preferred stock	\$ 170,813,000	\$ 121,000,000	41.2%
Common shareholders' equity	\$ 493,589,000	\$ 478,731,000	3.1%
Total common shares outstanding at period end	21,531,000	21,540,000	(0.0%)
Book value per common share	\$ 22.92	\$ 22.23	3.1%

**MARKET VALUE INFORMATION**

	12/31/02	12/31/01	Difference
Market value of common stock and OP units	\$ 917,009,000	\$ 908,622,000	0.9%
Total debt	70,279,000	165,145,000	(57.4%)
Total preferred stock and OP units	388,563,000	318,750,000	21.9%
Total market capitalization	\$ 1,375,851,000	\$ 1,392,517,000	(1.2%)
Stock price	\$ 31.80	\$ 31.50	1.0%

**PS BUSINESS PARKS, INC.**

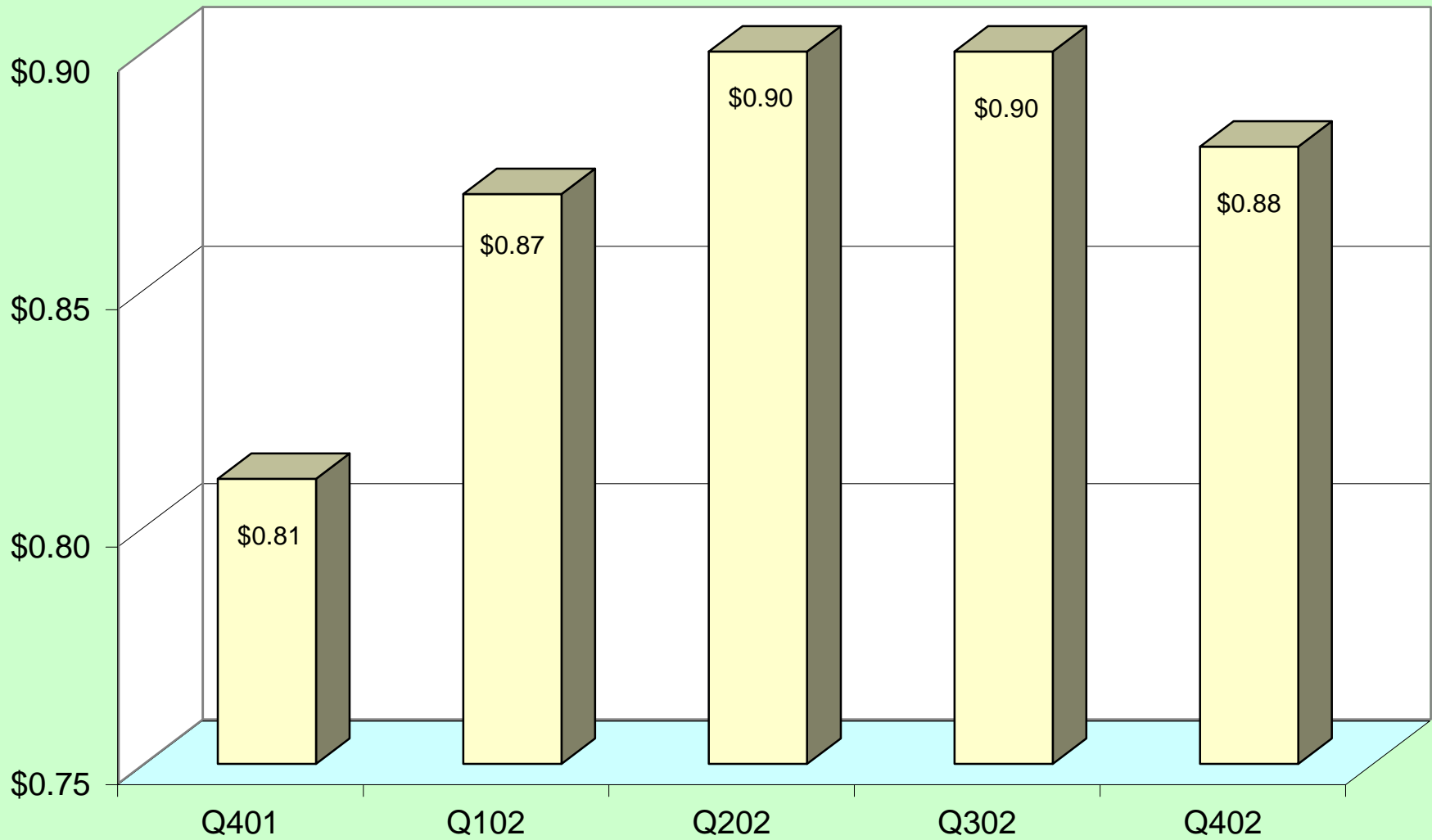
Sources and Uses of Funds  
For the Year Ended December 31, 2002

	FY02 <u>(YTD Actual)</u>
<b><u>Sources of Funds:</u></b>	
Funds from operations	\$ 103,045,000
Proceeds from term loan	50,000,000
Issuance of preferred stock, net	48,263,000
Issuance of preferred units, net	19,453,000
Exercise of stock options	723,000
Proceeds from property sales	23,313,000
Proceeds from liquidation of investments	4,823,000
Proceeds from note receivable	7,450,000
Disposition proceeds from joint venture	1,840,000
	<hr/>
Total Sources of Funds	<u>258,910,000</u>
<b><u>Uses of Funds:</u></b>	
Developed projects	(3,712,000)
Property renovations	(3,753,000)
Recurring capital expenditures	(22,101,000)
Acquisition costs	(838,000)
Land acquisition and development	(1,156,000)
Repurchase of preferred stock	(192,000)
Investment in marketable securities	(255,000)
Common dividends and OP distributions	(33,475,000)
Repurchase of common stock	(1,206,000)
Repayments of borrowings from affiliate	(35,000,000)
Repayments of Line of Credit	(100,000,000)
Principal payments on mortgage notes payable	(9,866,000)
Special dividends	(4,327,000)
Change in working capital	(1,293,000)
	<hr/>
Total Uses of Funds	<u>(217,174,000)</u>
Net increase in cash balance	<hr/> 41,736,000
Beginning cash balance	3,076,000
Ending cash balance	<hr/> <u>\$ 44,812,000</u>

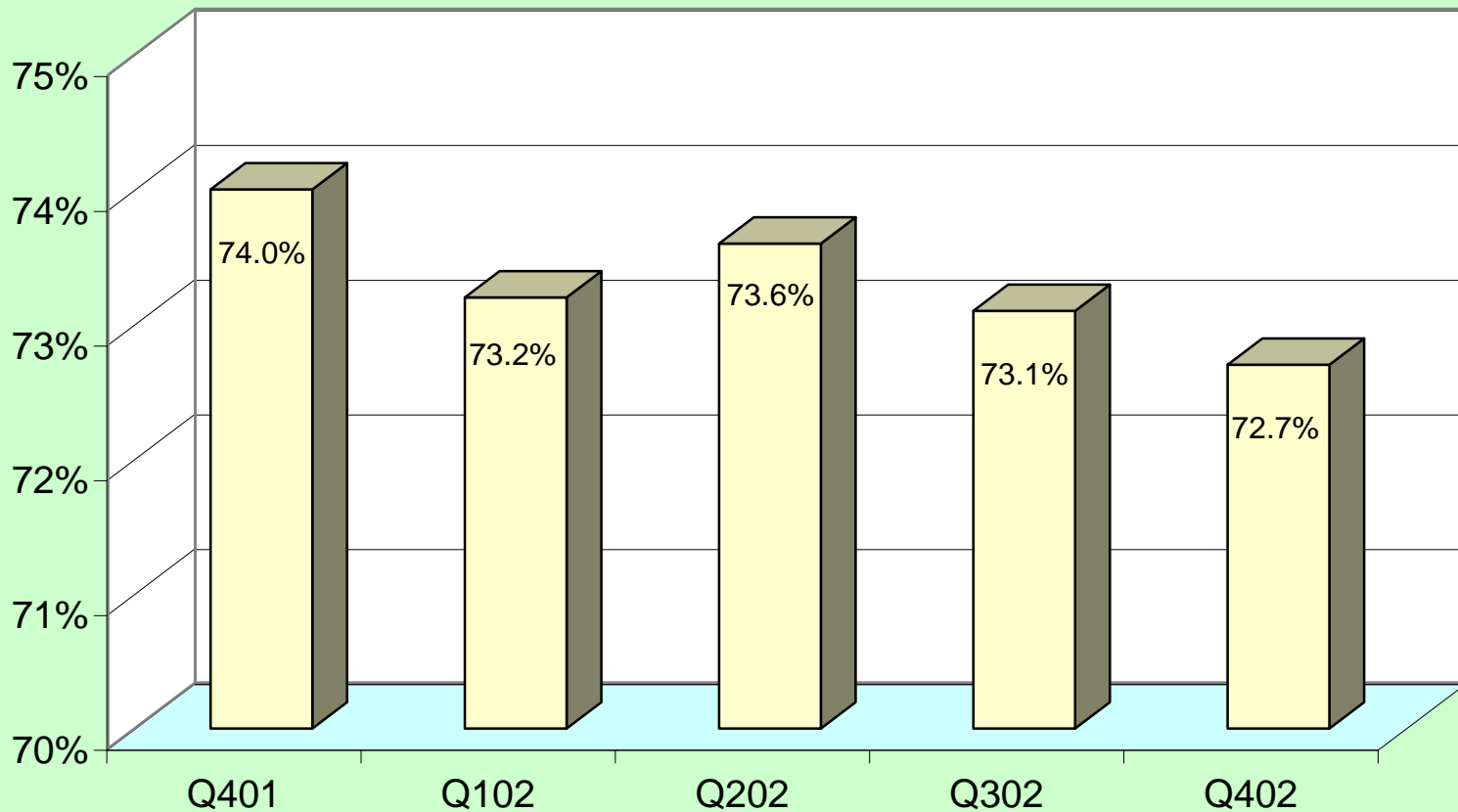
**PS BUSINESS PARKS, INC.**  
**ANALYSIS OF FUNDS FROM OPERATIONS**

	Three Months Ended		Increase (Decrease)	% Change	Year Ended		Increase (Decrease)	% Change
	12/31/02	12/31/01			12/31/02	12/31/01		
<b><u>Funds from operations (FFO):</u></b>								
Net income allocable to common shareholders	\$ 9,483,000	\$ 9,886,000	\$ (403,000)	(4.1%)	\$ 42,018,000	\$ 41,016,000	\$ 1,002,000	2.4%
Less: gain on investment in marketable securities	-	7,000	(7,000)	100.0%	(41,000)	(8,000)	(33,000)	412.5%
Less: gain on disposition of properties	(1,616,000)	-	(1,616,000)	(100.0%)	(8,123,000)	-	(8,123,000)	(100.0%)
Less: equity income from sale of joint venture properties	(596,000)	-	(596,000)	(100.0%)	(861,000)	-	(861,000)	(100.0%)
Less: effects of straight line rents	(120,000)	(733,000)	613,000	(83.6%)	(2,398,000)	(1,904,000)	(494,000)	25.9%
Add: Depreciation and amortization	15,259,000	11,009,000	4,250,000	38.6%	58,144,000	41,067,000	17,077,000	41.6%
Add: Depreciation from unconsolidated joint venture	6,000	15,000	(9,000)	100.0%	63,000	15,000	48,000	100.0%
Add: Minority interest in income	3,224,000	3,335,000	(111,000)	(3.3%)	14,243,000	13,382,000	861,000	6.4%
FFO allocable to common shareholders/unitholders	<u>\$ 25,640,000</u>	<u>\$ 23,519,000</u>	<u>\$ 2,121,000</u>	<u>9.0%</u>	<u>\$ 103,045,000</u>	<u>\$ 93,568,000</u>	<u>\$ 9,477,000</u>	<u>10.1%</u>
Weighted average common shares outstanding	21,565,000	21,576,000	(11,000)	(0.1%)	21,552,000	22,350,000	(798,000)	(3.6%)
Weighted average common OP units outstanding	7,305,000	7,305,000	-	0.0%	7,305,000	7,306,000	(1,000)	(0.0%)
Weighted average dilutive stock options	168,000	116,000	52,000	44.8%	191,000	85,000	106,000	124.7%
Total pro forma fully-converted shares	<u>29,038,000</u>	<u>28,997,000</u>	<u>41,000</u>	<u>0.1%</u>	<u>29,048,000</u>	<u>29,741,000</u>	<u>(693,000)</u>	<u>(2.3%)</u>
FFO per common share/OP unit	<u>\$ 0.88</u>	<u>\$ 0.81</u>	<u>\$ 0.07</u>	<u>8.6%</u>	<u>\$ 3.55</u>	<u>\$ 3.15</u>	<u>\$ 0.40</u>	<u>12.7%</u>
<b><u>Funds available for distribution (FAD):</u></b>								
Total funds from operations	\$ 25,640,000	\$ 23,519,000	\$ 2,121,000	9.0%	\$ 103,045,000	\$ 93,568,000	\$ 9,477,000	10.1%
Less capitalized expenditures:								
Maintenance capital expenditures	2,549,000	1,613,000	936,000	58.0%	6,057,000	4,202,000	1,855,000	44.1%
Tenant improvements	3,409,000	1,835,000	1,574,000	85.8%	10,722,000	4,926,000	5,796,000	117.7%
Capitalized lease commissions	2,461,000	847,000	1,614,000	190.6%	5,322,000	2,513,000	2,809,000	111.8%
Total capitalized expenditures	<u>8,419,000</u>	<u>4,295,000</u>	<u>4,124,000</u>	<u>96.0%</u>	<u>22,101,000</u>	<u>11,641,000</u>	<u>10,460,000</u>	<u>89.9%</u>
FAD	<u>\$ 17,221,000</u>	<u>\$ 19,224,000</u>	<u>\$ (2,003,000)</u>	<u>(10.4%)</u>	<u>\$ 80,944,000</u>	<u>\$ 81,927,000</u>	<u>\$ (983,000)</u>	<u>(1.2%)</u>
FAD per common share/OP unit	<u>\$ 0.59</u>	<u>\$ 0.66</u>	<u>\$ (0.07)</u>	<u>(10.6%)</u>	<u>\$ 2.79</u>	<u>\$ 2.75</u>	<u>\$ 0.04</u>	<u>1.5%</u>
<b><u>Cash available for debt repayments and reinvestments:</u></b>								
FAD	\$ 17,221,000	\$ 19,224,000	\$ (2,003,000)	(10.4%)	\$ 80,944,000	\$ 81,927,000	\$ (983,000)	(1.2%)
Distributions to common shareholders	(6,255,000)	(9,477,000)	3,222,000	(34.0%)	(25,003,000)	(29,027,000)	4,024,000	(13.9%)
Distributions to common OP unitholders	(2,118,000)	(3,215,000)	1,097,000	(34.1%)	(8,472,000)	(9,571,000)	1,099,000	(11.5%)
Cash available for debt repayments and reinvestments	<u>\$ 8,848,000</u>	<u>\$ 6,532,000</u>	<u>\$ 2,316,000</u>	<u>35.5%</u>	<u>\$ 47,469,000</u>	<u>\$ 43,329,000</u>	<u>\$ 4,140,000</u>	<u>9.6%</u>

## Diluted FFO Per Common Share/OP Unit



## Gross Operating Margin Percentage\* (Same Park)



\* Gross margin is computed by dividing property net operating income by rental income (excluding straight-line rent adjustment).

**PS BUSINESS PARKS, INC.**  
**CAPITAL STRUCTURE**

*Debt at December 31, 2002 consists of the following:*

7.050% mortgage note, secured by one commercial property, due May 2006  
 8.190% mortgage note, secured by one commercial property, due March 2007  
 7.290% mortgage note, secured by one commercial property, due February 2009  
 Total mortgage notes payable (1) (4)

\$100 million unsecured line of credit  
 Term Facility Loan (4.46% @ 12/31/02)

Total debt (3) (4)

*Equity at December 31, 2002 consists of the following:*

9.250% Series A preferred stock (2,198,500 depository shares outstanding) callable 4/30/04  
 8.875% Series B preferred operating partnership units (510,000 units outstanding) callable 4/23/04  
 8.750% Series C preferred operating partnership units (3,200,000 units outstanding) callable 9/3/04  
 9.500% Series D preferred stock (2,634,000 depository shares outstanding) callable 5/10/06  
 9.250% Series E preferred operating partnership units (2,120,000 units outstanding) callable 9/21/06  
 8.750% Series F preferred stock (2,000,000 units outstanding) callable 1/28/07  
 7.95% Series G preferred operating partnership units (800,000 units outstanding) callable 10/30/07  
 8.875% Series X preferred operating partnership units (1,600,000 units outstanding) callable 9/23/04  
 8.875% Series Y preferred operating partnership units (480,000 units outstanding) callable 7/12/05  
 Total preferred equity (2) (4)

Common stock (21,531,419 shares outstanding)  
 Common operating partnership units (7,305,355 units outstanding)  
 Total common equity (6)

Total market capitalization

- (1) The weighted average interest rate and maturity was 7.46% and 4.5 years, respectively.
- (2) The weighted average distribution rate on preferred equity is 9.05%.
- (3) The weighted average interest rate on debt was 4.46%.
- (4) The total weighted average interest/distribution rate on all debt/preferred equity was 8.43%.
- (5) Value based on December 31, 2002 closing stock price of \$31.80.
- (6) Does not include 168,000 shares related to stock options for the year ending December 31, 2002 computed using the Treasury Stock method. These stock options are treated as common stock equivalents for purposes of calculating weighted average common shares outstanding used in computing net income and FFO per common share.

Principal Maturity Dates

Total	2003	2004	2005	2006	2007	Thereafter
\$ 8,164,000	\$ 226,000	\$ 243,000	\$ 260,000	\$ 7,435,000	\$ -	\$ -
6,067,000	235,000	254,000	276,000	300,000	5,002,000	-
6,048,000	125,000	134,000	144,000	155,000	167,000	5,323,000
<b>\$ 20,279,000</b>	<b>\$ 586,000</b>	<b>\$ 631,000</b>	<b>\$ 680,000</b>	<b>\$ 7,890,000</b>	<b>\$ 5,169,000</b>	<b>\$ 5,323,000</b>
\$ -	50,000,000					
<b>\$ 70,279,000</b>	<b>5%</b>					
\$ 54,962,500						
12,750,000						
80,000,000						
65,850,000						
53,000,000						
50,000,000						
20,000,000						
40,000,000						
12,000,000						
<b>\$ 388,562,500</b>	<b>28%</b>					
\$ 684,699,000	(5)					
232,310,000	(5)					
<b>\$ 917,009,000</b>	<b>67%</b>					
<b>\$ 1,375,850,500</b>	<b>100%</b>					

**PS BUSINESS PARKS, INC.**  
**CONSOLIDATED BALANCE SHEETS**

	12/31/02	12/31/01	Increase (Decrease)	% Change
<b>ASSETS</b>				
Cash and cash equivalents	\$ 44,812,000	\$ 3,076,000	\$ 41,736,000 (a)	1356.8%
Marketable securities	5,278,000	9,134,000	(3,856,000) (b)	-42.2%
Real estate facilities, at cost:				
Land	286,301,000	288,792,000	(2,491,000)	-0.9%
Buildings and equipment	968,473,000	948,899,000	19,574,000	2.1%
	1,254,774,000	1,237,691,000	17,083,000 (c)	1.4%
Accumulated depreciation	(177,229,000)	(121,609,000)	(55,620,000)	45.7%
	1,077,545,000	1,116,082,000	(38,537,000)	-3.5%
Properties held for disposition, net	-	9,498,000	(9,498,000) (d)	-100.0%
Land held for development	11,989,000	10,629,000	1,360,000 (e)	12.8%
	1,089,534,000	1,136,209,000	(46,675,000)	-4.1%
Investment in unconsolidated joint venture	1,057,000	974,000	83,000	8.5%
Rent receivable	1,814,000	745,000	1,069,000	143.5%
Interest receivable	-	137,000	(137,000)	-100.0%
Note receivable	-	7,450,000	(7,450,000) (f)	-100.0%
Deferred rent receivables	11,507,000	9,601,000	1,906,000	19.9%
Intangible assets, net	378,000	679,000	(301,000)	-44.3%
Other assets	2,422,000	1,950,000	472,000	24.2%
Total assets	<u>\$ 1,156,802,000</u>	<u>\$ 1,169,955,000</u>	<u>\$ (13,153,000)</u>	<u>-1.1%</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Accrued and other liabilities	\$ 36,902,000 (g)	\$ 45,188,000	\$ (8,286,000)	-18.3%
Line of credit	-	100,000,000	(100,000,000) (i)	-100.0%
Note payable to affiliate	-	35,000,000	(35,000,000) (j)	-100.0%
Term Loan	50,000,000 (h)	-	50,000,000	100.0%
Mortgage notes payable	20,279,000	30,145,000	(9,866,000)	-32.7%
Total liabilities	107,181,000	210,333,000	(103,152,000)	-49.0%
Minority interest:				
Preferred units	217,750,000	197,750,000	20,000,000	10.1%
Common units	167,469,000	162,141,000	5,328,000	3.3%
Shareholders' equity:				
Preferred stock	170,813,000	121,000,000	49,813,000 (l)	41.2%
Common stock	215,000	215,000	-	0.0%
Paid-in capital	420,372,000	422,161,000	(1,789,000) (m)	-0.4%
Cumulative net income	232,290,000	174,860,000	57,430,000	32.8%
Comprehensive gain (loss)	(260,000) (k)	108,000	(368,000)	-340.7%
Cumulative distributions	(159,028,000)	(118,613,000)	(40,415,000) (n)	34.1%
Total shareholders' equity	664,402,000	599,731,000	64,671,000	10.8%
Total liabilities and shareholders' equity	<u>\$ 1,156,802,000</u>	<u>\$ 1,169,955,000</u>	<u>\$ (13,153,000)</u>	<u>-1.1%</u>

(a)	See sources and uses of funds on page 2	
(b)	Decrease is due to maturity of a \$3 million bond, a \$1.5 million bond that was called in Q4 and liquidation of other investments offset by an unrealized gain on marketable securities of \$834,000.	
(c)	Property dispositions	(13,321,000)
	Developed projects	3,712,000
	Property renovations	3,753,000
	Additional acquisition costs	838,000
	Maintenance capital expenditures	6,057,000
	Tenant improvements	10,722,000
	Lease commissions	5,322,000
		<u>\$ 17,083,000</u>
(d)	San Antonio properties held for disposition were sold in Q4 2002.	
(e)	Purchased land to develop in Maryland for approximately \$1.1 million.	
(f)	Balance represents the note receivable balance from the buyer of the San Diego property which was collected in full in 2002.	
(g)	Accrued and other liabilities at December 31, 2002 consists of:	
	Deferred rental revenue	\$ 8,798,000
	Accounts payable	2,881,000
	Property taxes	3,814,000
	Security deposits	11,048,000
	Accrued interest	212,000
	Reserves for acquisition costs	4,744,000
	Unrealized loss on interest rate swap	1,094,000
	Other	4,311,000
		<u>\$ 36,902,000</u>
(h)	Entered into a \$50 million term loan agreement with Fleet National Bank.	
(i)	Paid down Wells Fargo Line of credit facility.	
(j)	Paid-off the affiliate loan due to PSI of \$35 million.	
(k)	Unrealized loss on interest rate swap agreement of \$1.1 million offset by unrealized gain on marketable securities of \$834,000.	
(l)	Completed a public offering of 2,000,000 depository shares of the Company's Cumulative Preferred Stock, Series F, at \$25 per share, offset by a repurchase of 6,000 shares of PSB Series D Preferred Stock and a repurchase of 1,500 shares of PSB Series A Preferred Stock.	
(m)	Paid-in capital decreased due to the following:	
	Exercise of stock options	\$ 723,000
	Repurchase of common stock	(1,206,000)
	Preferred stock issuance costs	(1,737,000)
	Stock option expense	525,000
	Stock bonus	15,000
	Repurchase preferred stock	(5,000)
	Minority interest adjustment	(104,000)
		<u>\$ (1,789,000)</u>
(n)	Distributions to preferred shareholders	\$ (15,412,000)
	Distributions to common shareholders	(25,003,000)
		<u>\$ (40,415,000)</u>

**PS BUSINESS PARKS, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE THREE MONTHS ENDED**

	12/31/02	12/31/01	Increase (Decrease)	% Change
<b>Revenues:</b>				
Rental income	\$ 48,922,000	\$ 44,090,000	\$ 4,832,000 (a)	11.0%
Facility management fees primarily from affiliates	186,000	184,000	2,000	1.1%
Business services	43,000	45,000	(2,000)	(4.4%)
Equity income in unconsolidated joint venture	1,591,000 (c)	25,000	1,566,000	100.0%
Interest income	176,000	592,000	(416,000) (b)	(70.3%)
Dividend income	-	5,000	(5,000)	(100.0%)
	<u>50,918,000</u>	<u>44,941,000</u>	<u>5,977,000</u>	<u>13.3%</u>
<b>Expenses:</b>				
Cost of operations	13,447,000	11,760,000	1,687,000 (d)	14.3%
Cost of facility management	42,000	41,000	1,000	2.4%
Cost of business services	86,000	112,000	(26,000)	(23.2%)
Depreciation and amortization	15,259,000	10,683,000	4,576,000 (e)	42.8%
General and administrative	1,265,000 (f)	1,163,000	102,000	8.8%
Interest expense	1,226,000 (g)	783,000	443,000	56.6%
	<u>31,325,000</u>	<u>24,542,000</u>	<u>6,783,000</u>	<u>27.6%</u>
Income from continuing operations	19,593,000	20,399,000	(806,000)	(4.0%)
Income from discontinued operations	117,000	80,000	37,000	46.3%
Income before gain (loss) on investments and minority interest	19,710,000	20,479,000	(769,000)	(3.8%)
Gain on investment in marketable securities	-	(7,000)	7,000	100.0%
Gain on disposition of properties	1,616,000 (h)	-	1,616,000	100.0%
Income before minority interest	21,326,000	20,472,000	854,000	4.2%
Minority interest in income - preferred units	(4,690,000)	(4,411,000)	(279,000)	6.3%
Minority interest in income - common units	(3,224,000)	(3,335,000)	111,000	(3.3%)
Net income	<u>\$ 13,412,000</u>	<u>\$ 12,726,000</u>	<u>\$ 686,000</u>	<u>5.4%</u>
<b>Net income allocation:</b>				
Allocable to preferred shareholders	\$ 3,929,000	\$ 2,840,000	\$ 1,089,000	38.3%
Allocable to common shareholders	9,483,000	9,886,000	(403,000)	(4.1%)
	<u>\$ 13,412,000</u>	<u>\$ 12,726,000</u>	<u>\$ 686,000</u>	<u>5.4%</u>
<b>Net income per common share:</b>				
Basic	\$ 0.44	\$ 0.46	\$ (0.02)	(4.3%)
Diluted	<u>\$ 0.44</u>	<u>\$ 0.46</u>	<u>\$ (0.02)</u>	<u>(4.3%)</u>
<b>Weighted average common shares outstanding:</b>				
Basic	21,565,000	21,576,000	(11,000) (i)	(0.1%)
Diluted	<u>21,733,000</u>	<u>21,692,000</u>	<u>41,000</u>	<u>0.2%</u>

(a)	Rental income has increased due to the following:	
	"Same Park" facilities	\$ 349,000
	Other facilities	5,096,000
	Straight line rent adjustment	(613,000)
		<u>\$ 4,832,000</u>
(b)	Interest income decreased as a result of lower weighted average interest rates (1.5% in 2002 vs. 3.3% in 2001). Decrease is also due to lower average cash balances (\$33M in 2002 vs. \$71M in 2001) and payoff of mortgage note receivable.	
(c)	Represents equity income from the Company's 25% interest in the City of Industry JV and gains on the sale of JV properties of approximately \$596,000 and incentive fee of \$1,008,000.	
(d)	Cost of operations have increased due to the following:	
	"Same Park" facilities	\$ 555,000
	Other facilities	1,132,000
		<u>\$ 1,687,000</u>
(e)	Depreciation expense increased due primarily to 2001 acquisitions.	
(f)	General and administrative expenses for the three months ended December 31, 2002 consists of:	
	Professional fees	\$ 228,000
	Salaries	406,000
	Stock option expense	182,000
	Investor services	86,000
	Internal acquisition costs	223,000
	Bank charges & other	140,000
		<u>\$ 1,265,000</u>
(g)	Interest expense for the three months ended December 31, 2002 consists of:	
	Mortgage notes payable	\$ 611,000
	Term loan interest (Fleet)	392,000
	Facilities fees & other charges	223,000
		<u>\$ 1,226,000</u>
(h)	Represents net gains/losses from property dispositions.	
(i)	Decrease relates to the repurchase of common shares.	

**PS BUSINESS PARKS, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED**

	12/31/02	12/31/01	Increase (Decrease)	% Change
<b>Revenues:</b>				
Rental income	\$ 197,565,000	\$ 162,841,000	\$ 34,724,000 (a)	21.3%
Facility management fees primarily from affiliates	763,000	683,000	80,000	11.7%
Business services	136,000	353,000	(217,000)	(61.5%)
Equity income in unconsolidated joint venture	1,978,000 (c)	25,000	1,953,000	100.0%
Interest income	819,000	2,251,000	(1,432,000) (b)	(63.6%)
Dividend income	4,000	17,000	(13,000)	(76.5%)
	<u>201,265,000</u>	<u>166,170,000</u>	<u>35,095,000</u>	<u>21.1%</u>
<b>Expenses:</b>				
Cost of operations	52,842,000	43,109,000	9,733,000 (d)	22.6%
Cost of facility management	176,000	152,000	24,000	15.8%
Cost of business services	462,000	572,000	(110,000)	(19.2%)
Depreciation and amortization	57,658,000	39,764,000	17,894,000 (e)	45.0%
General and administrative	4,663,000 (f)	4,320,000	343,000	7.9%
Interest expense	5,324,000 (g)	1,715,000	3,609,000	210.4%
	<u>121,125,000</u>	<u>89,632,000</u>	<u>31,493,000</u>	<u>35.1%</u>
Income from continuing operations	80,140,000	76,538,000	3,602,000	4.7%
Income from discontinued operations	1,296,000	813,000	483,000	59.4%
Income before gain on investments and minority interest	81,436,000	77,351,000	4,085,000	5.3%
Gain on investment in marketable securities	41,000	8,000	33,000	412.5%
Gain on disposition of properties	8,123,000 (h)	0	8,123,000	100.0%
Income before minority interest	89,600,000	77,359,000	12,241,000	15.8%
Minority interest in income - preferred units	(17,927,000)	(14,107,000)	(3,820,000)	27.1%
Minority interest in income - common units	(14,243,000)	(13,382,000)	(861,000)	6.4%
Net income	<u>\$ 57,430,000</u>	<u>\$ 49,870,000</u>	<u>\$ 7,560,000</u>	<u>15.2%</u>
<b>Net income allocation:</b>				
Allocable to preferred shareholders	\$ 15,412,000	\$ 8,854,000	\$ 6,558,000	74.1%
Allocable to common shareholders	42,018,000	41,016,000	1,002,000	2.4%
	<u>\$ 57,430,000</u>	<u>\$ 49,870,000</u>	<u>\$ 7,560,000</u>	<u>15.2%</u>
<b>Net income per common share:</b>				
Basic	\$ 1.95	\$ 1.84	\$ 0.11	6.0%
Diluted	\$ 1.93	\$ 1.83	\$ 0.10	5.5%
<b>Weighted average common shares outstanding:</b>				
Basic	21,552,000	22,350,000	(798,000) (i)	(3.6%)
Diluted	21,743,000	22,435,000	(692,000) (i)	(3.1%)

<b>(a)</b> Rental income has increased due to the following:		
"Same Park" facilities	\$ 2,076,000	
Other facilities	32,154,000	
Straight line rent adjustment	494,000	
	<u>\$ 34,724,000</u>	
<b>(b)</b> Interest income decreased primarily as a result of lower weighted average interest rates (approximately 1.9% in 2002 vs. 4.2% in 2001). Decrease is also due to lower average cash balances (\$24M in 2002 vs. \$53M in 2001) and payoff of mortgage note receivable.		
<b>(c)</b> Represents equity income from the Company's 25% interest in the City of Industry JV and gains on the sale of eight JV properties of approximately \$861,000 and incentive fee of \$1,008,000.		
<b>(d)</b> Cost of operations have increased due to the following:		
"Same Park" facilities	\$ 1,525,000	
Other facilities	8,208,000	
	<u>\$ 9,733,000</u>	
<b>(e)</b> Depreciation expense increased due primarily to 2001 acquisitions.		
<b>(f)</b> General and administrative expenses for the year ended December 31, 2002 consists of:		
	2002	2001
Salaries	\$ 2,042,000	\$ 1,587,000
Professional fees	480,000	939,000
Stock option expense	525,000	-
Investor services	347,000	324,000
Internal acquisition costs	639,000	587,000
Other	630,000	883,000
	<u>\$ 4,663,000</u>	<u>\$ 4,320,000</u>
<b>(g)</b> Interest expense for the year ended December 31, 2002 consists of:		
Mortgage notes payable	\$ 2,139,000	
Regular line of credit interest	1,399,000	
Interest rate swap charges	270,000	
Facilities fees	428,000	
Term loan interest (Fleet)	1,298,000	
Affiliate loan (PSI)	78,000	
Capitalized interest	(288,000)	
	<u>\$ 5,324,000</u>	
<b>(h)</b> Gains/Losses on disposal of properties for the year ended December 31, 2002 consists of:		
Deferred gain on sale of San Diego property in 01 recognized in 02	\$ 5,366,000	
Overland Park, Kansas	2,136,000	
Landover, Maryland	1,730,000	
San Antonio, Texas	(1,119,000)	
Other	10,000	
	<u>\$ 8,123,000</u>	
<b>(i)</b> Decrease primarily relates to the repurchase of common shares.		

**PS BUSINESS PARKS, INC.**  
**Development Analysis**  
**Fourth Quarter, 2002**

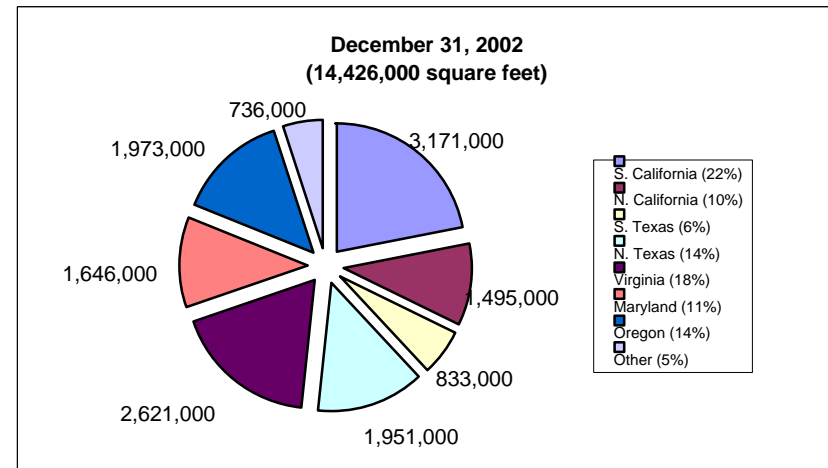
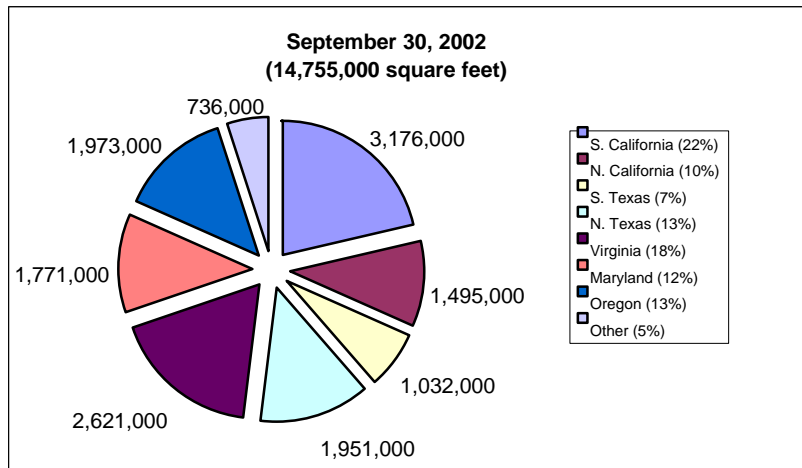
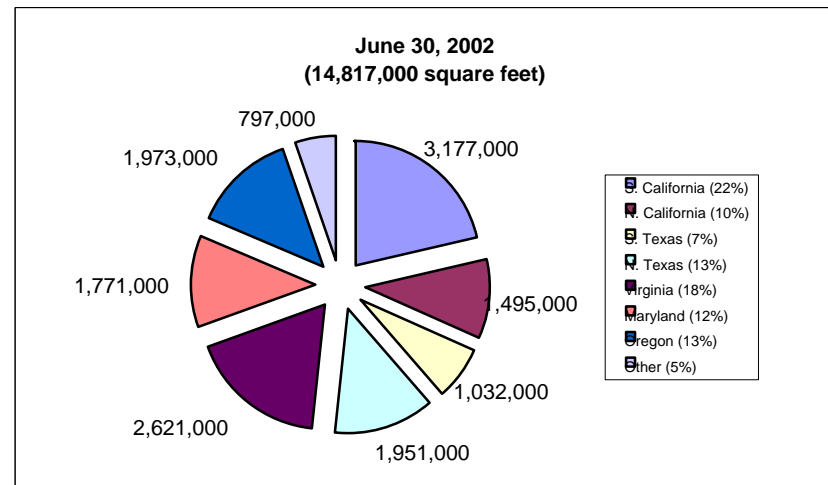
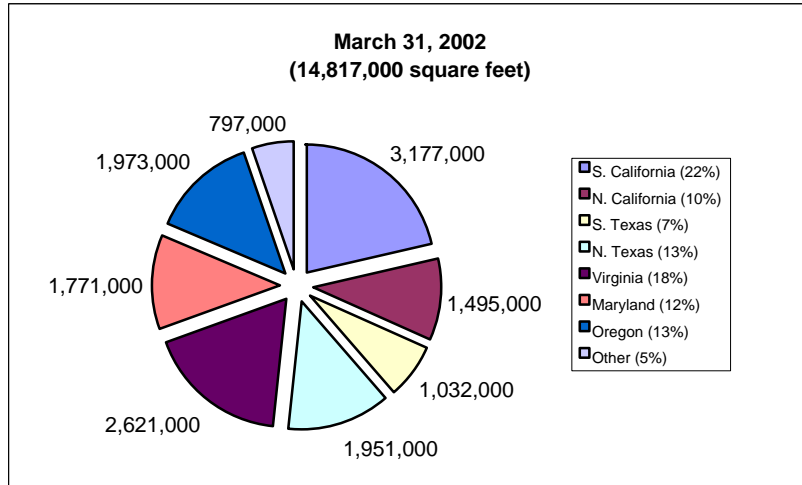
<u>Development</u>	<u>Market</u>	<u>Square Footage</u>	<u>Shell Complete</u>	<u>Percentage Leased</u>	<u>Q402 Occupancy</u>	<u>Q402 Capitalized Interest</u>	<u>Q402 NOI</u>	<u>Costs Incurred to Date</u>	<u>Estimated Costs to Complete</u>	<u>Estimated Total Costs</u>
Greystone II & III	Beaverton, Oregon	97,000	June 2001	26%	25%	None	\$32,000	\$10,869,000	\$2,976,000	\$13,845,000
Lafayette II	Chantilly, Virginia	141,000	November 2002	88%	67%	None	\$185,000	\$11,355,000	\$812,000	\$12,167,000
Royal Tech 17	Dallas, Texas	100,000	October 2000	100%	100%	None	\$290,000	\$10,842,000	\$1,197,000	\$12,039,000
Totals		338,000				\$0	\$507,000	\$33,066,000	\$4,985,000	\$38,051,000

**PS BUSINESS PARKS, INC.**  
**Analysis of Capital Expenditures (2002)**

<u>Recurring capital expenditures (1)</u>	<u>2002 costs</u>	<u>Cost per Weighted Average Square Foot</u>
Maintenance capital expenditures (2)	\$6,057,000	\$0.42
Tenant improvements (3)	\$10,722,000	\$0.74
Leasing commissions (4)	\$5,322,000	\$0.37
Total recurring capital expenditures	<u>\$22,101,000</u>	<u>\$1.53</u>
<u>Non-recurring capital expenditures</u>		
Development costs	\$3,712,000	
Property renovations	\$3,753,000	
Acquisition costs	\$3,780,000	
Total non-recurring capital expenditures	<u>\$11,245,000</u>	

- (1) The company defines "recurring capital expenditures" as those capitalized costs necessary to continue to operate the property at its current economic value. Costs in excess of \$1,000 for tenant improvements and \$5,000 for maintenance capital expenditures with a useful life greater than 24 months for tenant improvements and 30 months for maintenance capital expenditures are capitalized. It excludes deferred maintenance and leasing costs committed to by previous owners for acquired properties, renovations that substantially enhance the value of a property and first generation leasing costs on development properties. Lease-up costs on acquired properties are included in recurring capital expenditures. Repairs and maintenance were \$4.2 million or approximately \$0.29 per weighted average square foot for the year ended December 31, 2002 compared to \$3.6 million or \$0.29 per square foot during the same period in 2001.
- (2) Maintenance capital expenditures generally range from \$0.30 to \$0.50 per weighted average square foot annually. Major costs include roofing, HVAC replacement, parking lot replacement and other major repairs that extend the life of the respective component of the building.
- (3) Tenant improvement costs generally range from \$0.40 to \$0.80 per weighted average square foot annually. Tenant improvements less than \$1,000 or for leases of two years or less are expensed and included in cost of operations (\$791,000 for the year ended December 31, 2002 as compared to \$783,000 for the year ended December 31, 2001).
- (4) Lease commissions generally range from \$0.15 to \$0.40 per weighted average square foot annually.

## Rentable Square Footage by Region



**PS BUSINESS PARKS, INC.**  
**PORTFOLIO OVERVIEW**

**Rentable Square Footage of Properties as of December 31, 2002**

Primary Markets	Industrial	Office	Flex	Total	%
Northern Virginia	-	355,000	2,266,000	2,621,000	18.2%
Portland	-	346,000	1,626,000	1,972,000	13.7%
Maryland	-	720,000	926,000	1,646,000	11.4%
Dallas	-	-	1,576,000	1,576,000	10.9%
Los Angeles County	712,000	84,000	770,000	1,566,000	10.9%
Northern California	407,000	430,000	660,000	1,497,000	10.4%
Orange County	-	160,000	911,000	1,071,000	7.4%
Austin	-	-	833,000	833,000	5.8%
Phoenix	-	-	569,000	569,000	3.9%
San Diego County	-	-	535,000	535,000	3.7%
Other	-	131,000	409,000	540,000	3.7%
	1,119,000	2,226,000	11,081,000	14,426,000	100.0%

**Average Occupancy Rates by Product Type for the Quarter Ending December 31, 2002**

Primary Markets	Industrial	Office	Flex	Total
Northern Virginia	-	94.9%	93.8%	94.0%
Portland	-	87.7%	91.2%	90.7%
Maryland	-	92.5%	90.2%	91.2%
Dallas	-	-	89.8%	89.8%
Los Angeles County	100.0%	96.1%	96.7%	98.1%
Northern California	100.0%	97.2%	95.3%	97.1%
Orange County	-	91.5%	98.7%	97.6%
Austin	-	-	92.9%	92.9%
Phoenix	-	-	93.9%	93.9%
San Diego County	-	-	92.5%	92.5%
Other	-	64.8%	91.9%	82.7%
	100.0%	90.7%	93.0%	93.2%

**Weighted Average Occupancy Rates by Portfolio Type for the Quarter Ending December 31, 2002**

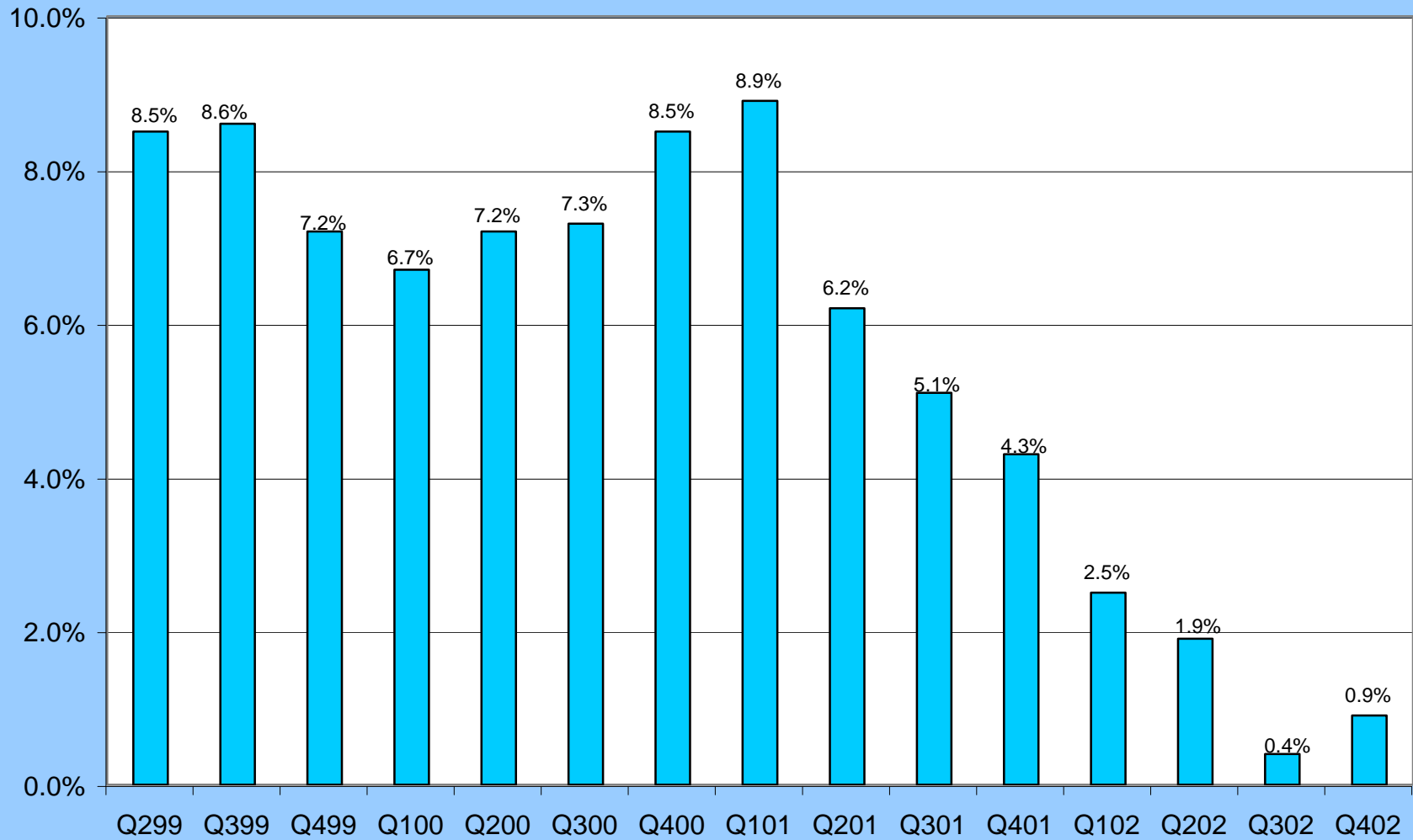
Primary Markets	Large Tenant	Small Tenant	Total
Northern Virginia	93.6%	95.8%	94.0%
Portland	91.1%	84.1%	90.7%
Maryland	91.1%	100.0%	91.2%
Dallas	90.5%	86.2%	89.8%
Los Angeles County	100.0%	96.6%	98.1%
Northern California	98.1%	95.2%	97.1%
Orange County	97.4%	98.1%	97.6%
Austin	92.7%	93.5%	92.9%
Phoenix	99.4%	93.0%	93.9%
San Diego County	-	92.5%	92.5%
Other	93.5%	92.7%	93.2%
	93.5%	92.7%	93.2%

**Note:**

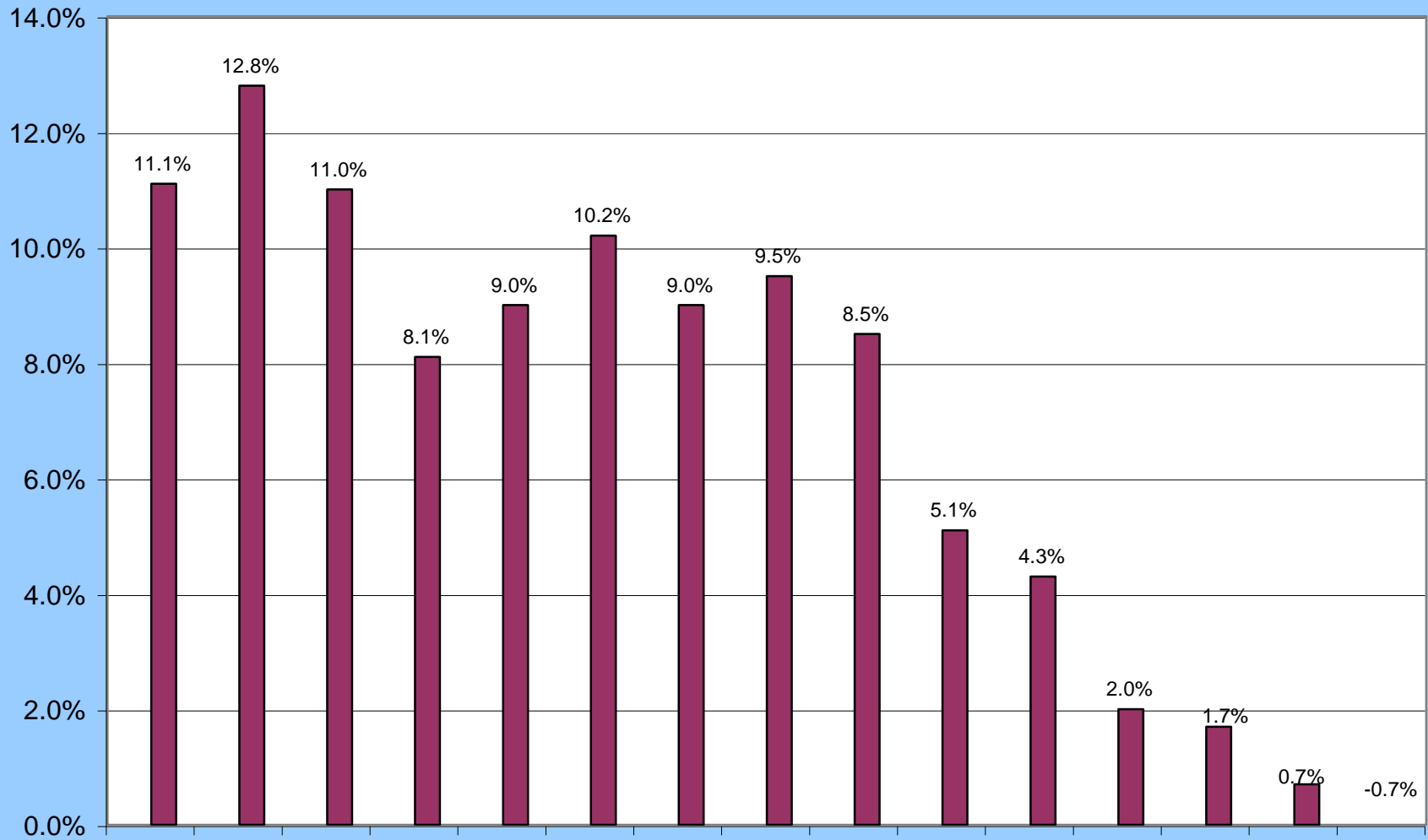
The Company's "large tenant" portfolio consists of properties with average leases greater than or equal to 5,000 square feet.

The Company's "small tenant" portfolio consists of properties with average leases less than 5,000 square feet.

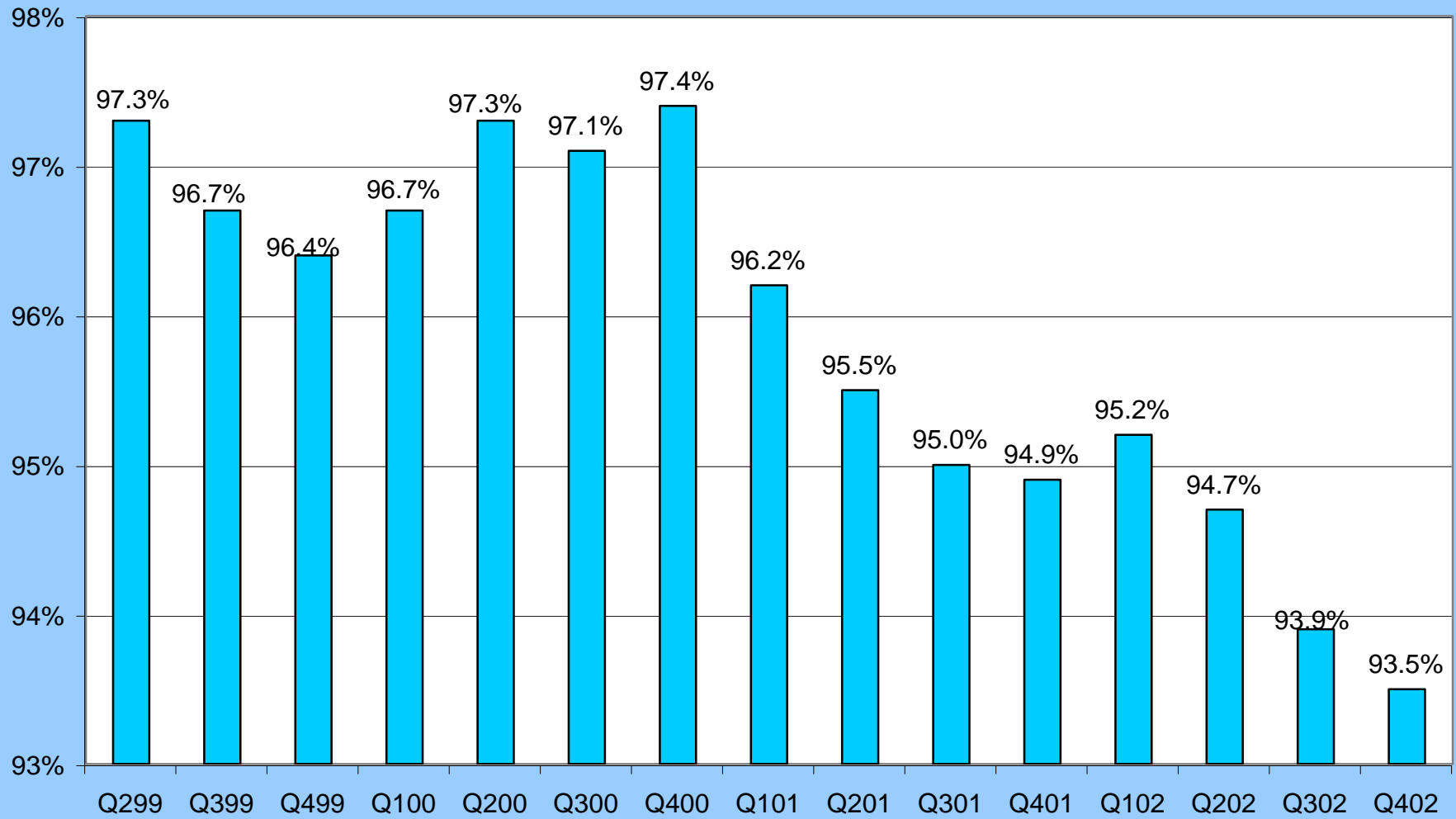
## "Same Park" Revenue Growth (%)



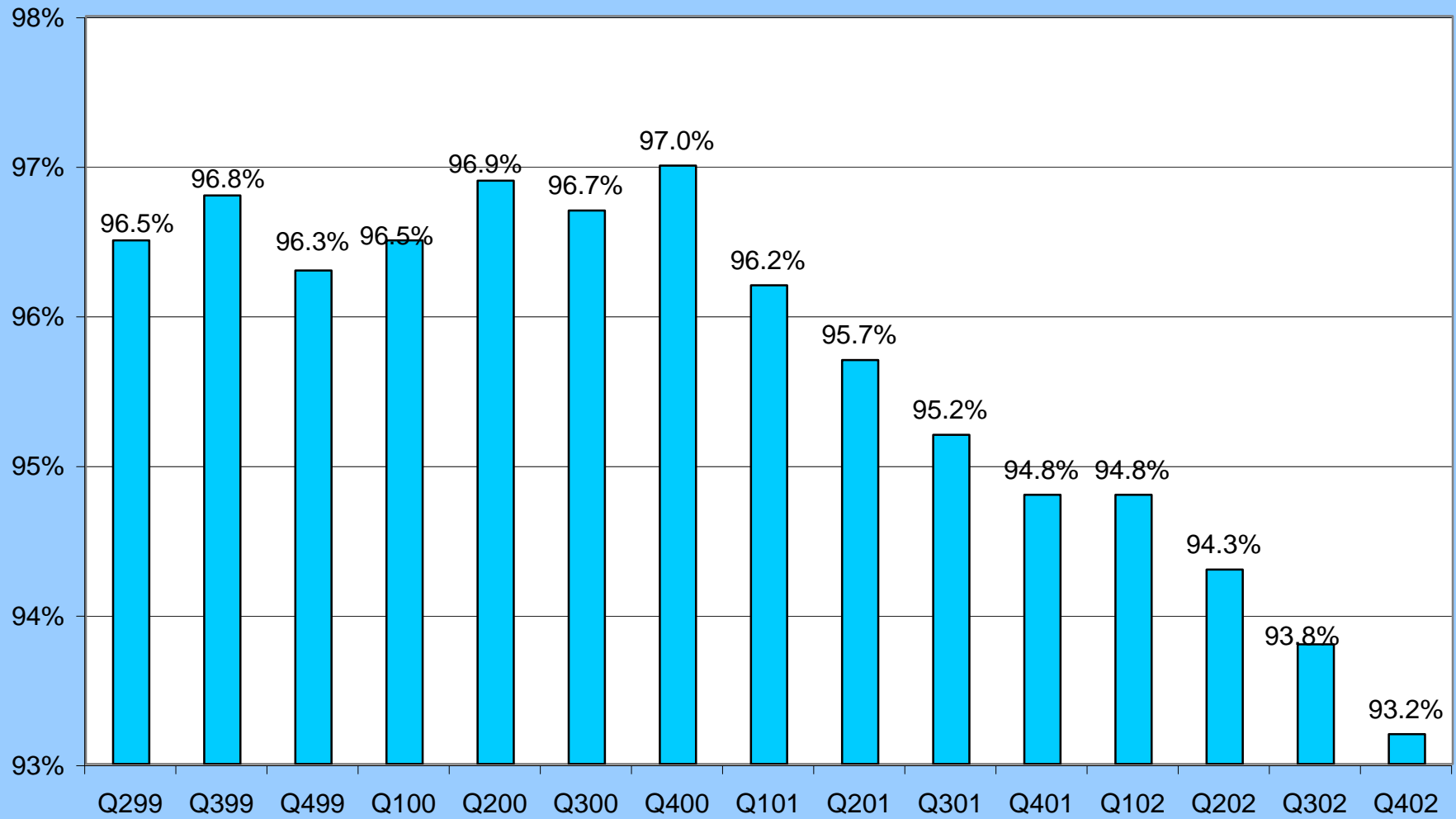
## "Same Park" NOI Growth (%)



## "Same Park" Occupancy (%)



## Total Portfolio Occupancy (%)



**PS BUSINESS PARKS, INC.**  
**PORTFOLIO ANALYSIS**

Industry Concentration as of December 31, 2002

Computer Hardware, software and related service	14.4%
Business services	12.9%
Government	9.8%
Contractors	9.5%
Financial services	7.2%
Retail	6.1%
Communications	6.0%
Home furnishings	5.6%
Electronics	6.0%
Manufacturing and assembly	3.5%
	<u>81.2%</u>

Top Ten Customers by Annual Rent as of December 31, 2002

Tenant	Square Footage	Annual Rents	%
U.S. Government	524,000	\$ 12,198,000	6.1%
Citigroup	262,000	4,419,000	2.2%
IBM	263,000	4,231,000	2.1%
Intel	237,000	3,900,000	2.0%
Hughes Network Systems	106,000	2,591,000	1.3%
County of Santa Clara	97,000	2,516,000	1.3%
Axcelis Technologies	117,000	2,236,000	1.1%
Pycon, Inc.	134,000	2,228,000	1.1%
MCI Worldcom	121,000	1,911,000	1.0%
Sabre Holdings	102,000	1,713,000	0.9%
	<u>1,963,000</u>	<u>\$ 37,943,000</u>	<u>19.1%</u>

**PS BUSINESS PARKS, INC.**  
**PORTFOLIO ANALYSIS AS OF December 31, 2002**

Lease Expirations - Flex			
Year of Lease Expiration	Rentable Square Footage	Annual Rents	%
2003	2,146,000	\$ 23,687,000	17.8%
2004	2,318,000	25,835,000	19.4%
2005	1,873,000	23,610,000	17.7%
2006	1,385,000	20,052,000	15.1%
2007	1,015,000	13,828,000	10.4%
Thereafter	1,775,000	26,128,000	19.6%
	<u>10,512,000</u>	<u>\$ 133,140,000</u>	<u>100.0%</u>

Lease Expirations - Office			
Year of Lease Expiration	Rentable Square Footage	Annual Rents	%
2003	392,000	\$ 7,136,000	16.7%
2004	343,000	5,878,000	13.7%
2005	611,000	13,114,000	30.7%
2006	271,000	6,474,000	15.1%
2007	162,000	3,842,000	9.0%
Thereafter	241,000	6,312,000	14.8%
	<u>2,020,000</u>	<u>\$ 42,756,000</u>	<u>100.0%</u>

Lease Expirations - Industrial			
Year of Lease Expiration	Rentable Square Footage	Annual Rents	%
2003	97,000	\$ 527,000	7.5%
2004	298,000	1,861,000	26.6%
2005	350,000	2,158,000	30.8%
2006	215,000	1,425,000	20.3%
2007	152,000	891,000	12.7%
Thereafter	26,000	143,000	2.1%
	<u>1,138,000</u>	<u>\$ 7,005,000</u>	<u>100.0%</u>

Lease Expirations - Total			
Year of Lease Expiration	Rentable Square Footage	Annual Rents	%
2003	2,635,000	\$ 31,350,000	17.1%
2004	2,959,000	\$ 33,574,000	18.4%
2005	2,834,000	\$ 38,882,000	21.3%
2006	1,871,000	\$ 27,951,000	15.3%
2007	1,329,000	\$ 18,561,000	10.1%
Thereafter	2,042,000	\$ 32,583,000	17.8%
	<u>13,670,000</u>	<u>\$ 182,901,000</u>	<u>100.0%</u>

**PS BUSINESS PARKS, INC.**  
**PORTFOLIO ANALYSIS AS OF December 31, 2002**

Southern California					
<u>Year of Lease Expiration</u>	<u>Rentable Square Footage</u>	<u>Annual Rents</u>	<u>%</u>	<u>% of Company</u>	
				<u>Annual rents</u>	
2003	720,000	\$ 9,137,000	23.0%	5.1%	
2004	927,000	10,652,000	26.8%	5.9%	
2005	727,000	9,212,000	23.1%	5.0%	
2006	388,000	4,833,000	12.1%	2.6%	
2007	204,000	3,070,000	7.7%	1.7%	
Thereafter	153,000	2,906,000	7.3%	1.7%	
	<u>3,119,000</u>	<u>\$ 39,810,000</u>	<u>100.0%</u>	<u>21.8%</u>	

Northern California					
<u>Year of Lease Expiration</u>	<u>Rentable Square Footage</u>	<u>Annual Rents</u>	<u>%</u>	<u>% of Company</u>	
				<u>Annual rents</u>	
2003	284,000	\$ 3,733,000	18.3%	2.0%	
2004	319,000	4,022,000	19.7%	2.2%	
2005	213,000	2,436,000	12.0%	1.3%	
2006	126,000	1,682,000	8.3%	0.9%	
2007	365,000	4,468,000	21.9%	2.4%	
Thereafter	149,000	4,035,000	19.8%	2.3%	
	<u>1,456,000</u>	<u>\$ 20,376,000</u>	<u>100.0%</u>	<u>11.1%</u>	

Southern Texas					
<u>Year of Lease Expiration</u>	<u>Rentable Square Footage</u>	<u>Annual Rents</u>	<u>%</u>	<u>% of Company</u>	
				<u>Annual rents</u>	
2003	204,000	\$ 2,070,000	29.3%	1.1%	
2004	231,000	2,119,000	30.0%	1.2%	
2005	239,000	2,068,000	29.3%	1.1%	
2006	34,000	355,000	5.0%	0.2%	
2007	29,000	246,000	3.5%	0.1%	
Thereafter	19,000	199,000	2.9%	0.1%	
	<u>756,000</u>	<u>\$ 7,057,000</u>	<u>100.0%</u>	<u>3.9%</u>	

**PS BUSINESS PARKS, INC.**  
**PORTFOLIO ANALYSIS AS OF December 31, 2002**

Northern Texas					
<u>Year of Lease Expiration</u>	<u>Rentable Square Footage</u>	<u>Annual Rents</u>	<u>%</u>	<u>% of Company</u>	
					<u>Annual rents</u>
2003	449,000	\$ 3,213,000	17.9%		1.8%
2004	548,000	4,191,000	23.3%		2.3%
2005	235,000	2,543,000	14.1%		1.4%
2006	344,000	4,681,000	26.0%		2.6%
2007	121,000	937,000	5.2%		0.5%
Thereafter	317,000	2,427,000	13.5%		1.3%
	<u>2,014,000</u>	<u>\$ 17,992,000</u>	<u>100.0%</u>		<u>9.8%</u>

Northern Virginia					
<u>Year of Lease Expiration</u>	<u>Rentable Square Footage</u>	<u>Annual Rents</u>	<u>%</u>	<u>% of Company</u>	
					<u>Annual rents</u>
2003	246,000	\$ 3,543,000	8.9%		1.9%
2004	419,000	5,405,000	13.6%		3.0%
2005	378,000	5,869,000	14.8%		3.2%
2006	405,000	7,466,000	18.9%		4.1%
2007	245,000	3,831,000	9.7%		2.1%
Thereafter	804,000	13,488,000	34.1%		7.4%
	<u>2,497,000</u>	<u>\$ 39,602,000</u>	<u>100.0%</u>		<u>21.7%</u>

Maryland					
<u>Year of Lease Expiration</u>	<u>Rentable Square Footage</u>	<u>Annual Rents</u>	<u>%</u>	<u>% of Company</u>	
					<u>Annual rents</u>
2003	242,000	\$ 3,466,000	13.4%		1.9%
2004	105,000	2,333,000	9.0%		1.3%
2005	379,000	8,035,000	31.0%		4.4%
2006	171,000	2,812,000	10.9%		1.5%
2007	177,000	3,534,000	13.6%		1.9%
Thereafter	391,000	5,716,000	22.1%		3.1%
	<u>1,465,000</u>	<u>\$ 25,896,000</u>	<u>100.0%</u>		<u>14.2%</u>

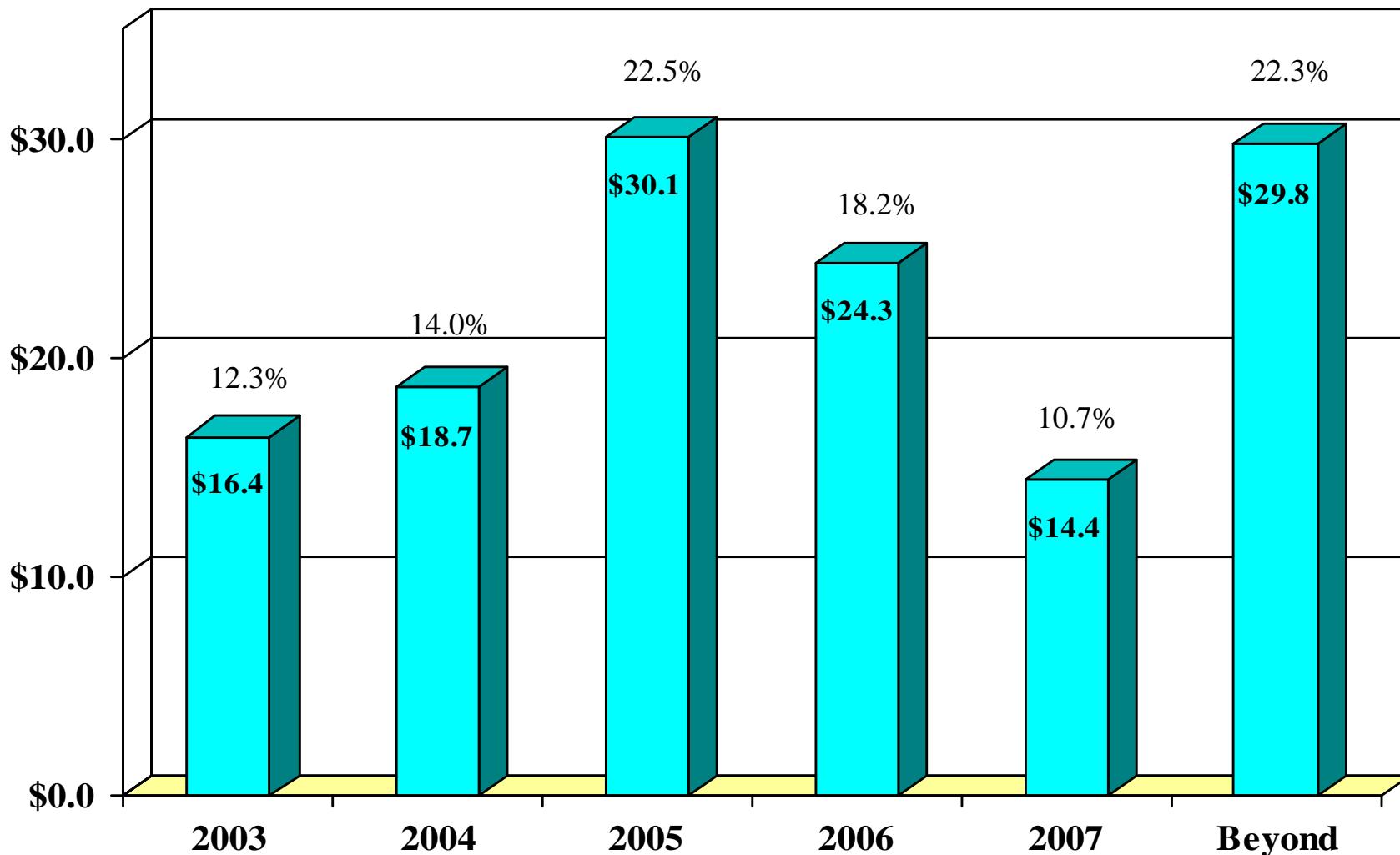
**PS BUSINESS PARKS, INC.**  
**PORTFOLIO ANALYSIS AS OF December 31, 2002**

Oregon					
<u>Year of Lease Expiration</u>	<u>Rentable Square Footage</u>	<u>Annual Rents</u>	<u>%</u>	<u>% of Company</u>	
				<u>Annual rents</u>	
2003	283,000	\$ 4,155,000	16.4%	2.3%	
2004	231,000	3,024,000	12.0%	1.7%	
2005	522,000	7,311,000	28.9%	4.0%	
2006	362,000	5,758,000	22.8%	3.1%	
2007	95,000	1,612,000	6.4%	0.9%	
Thereafter	179,000	3,400,000	13.5%	1.9%	
	<u>1,672,000</u>	<u>\$ 25,260,000</u>	<u>100.0%</u>	<u>13.8%</u>	

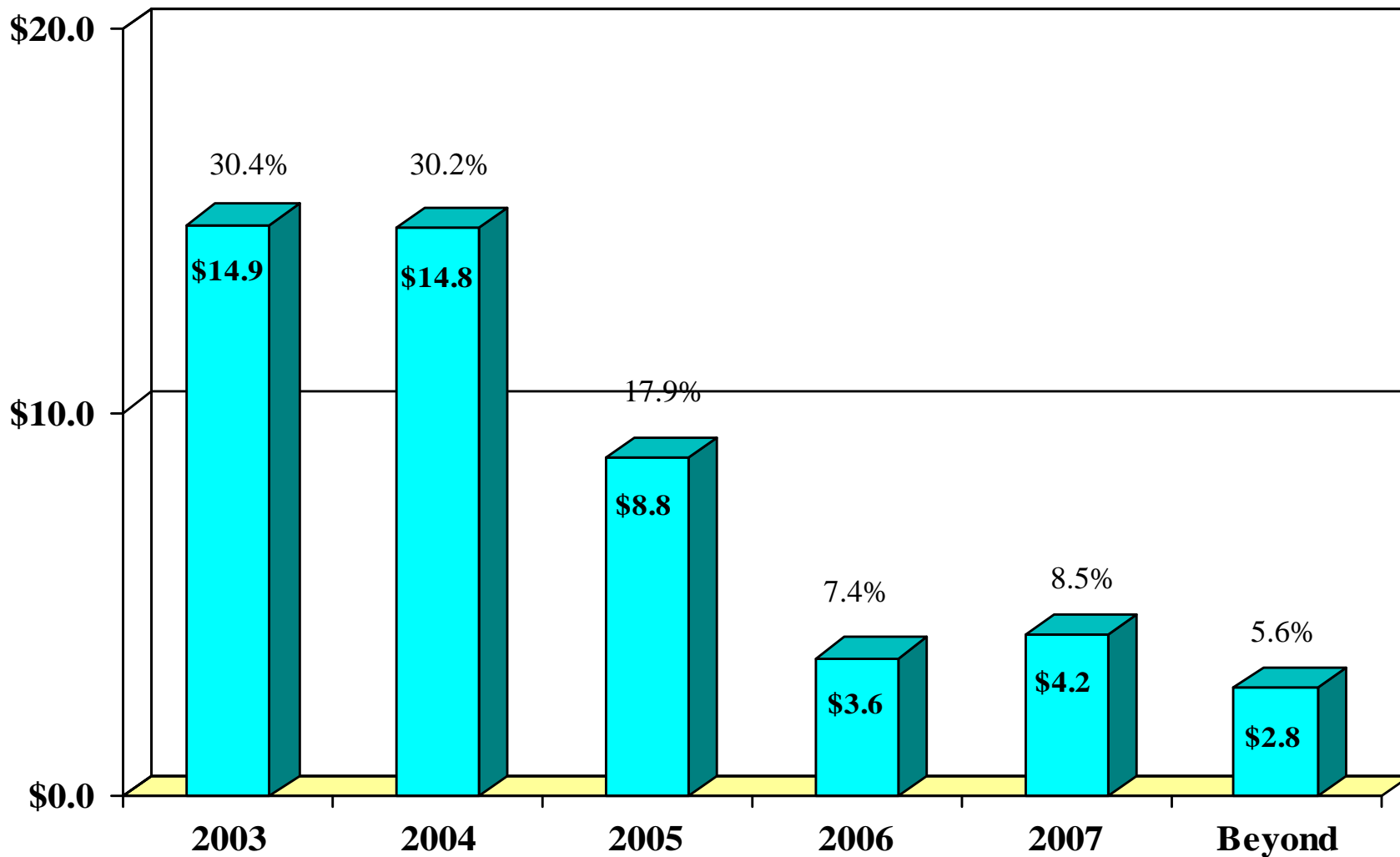
Other					
<u>Year of Lease Expiration</u>	<u>Rentable Square Footage</u>	<u>Annual Rents</u>	<u>%</u>	<u>% of Company</u>	
				<u>Annual rents</u>	
2003	207,000	\$ 2,033,000	29.4%	1.1%	
2004	178,000	1,828,000	26.5%	1.0%	
2005	139,000	1,408,000	20.4%	0.8%	
2006	41,000	364,000	5.3%	0.2%	
2007	93,000	863,000	12.5%	0.5%	
Thereafter	33,000	412,000	5.9%	0.2%	
	<u>691,000</u>	<u>\$ 6,908,000</u>	<u>100.0%</u>	<u>3.8%</u>	

Total					
<u>Year of Lease Expiration</u>	<u>Rentable Square Footage</u>	<u>Annual Rents</u>	<u>%</u>	<u>% of Company</u>	
				<u>Annual rents</u>	
2002	2,635,000	\$ 31,350,000	17.1%	17.1%	
2003	2,958,000	\$ 33,574,000	18.4%	18.4%	
2004	2,832,000	\$ 38,882,000	21.3%	21.3%	
2005	1,871,000	\$ 27,951,000	15.3%	15.3%	
2006	1,329,000	\$ 18,561,000	10.1%	10.1%	
Thereafter	2,045,000	\$ 32,583,000	17.8%	17.8%	
	<u>13,670,000</u>	<u>\$ 182,901,000</u>	<u>100.0%</u>	<u>100.0%</u>	

# Lease Expirations (Large Tenant Portfolio) as of December 31, 2002 (\$ in millions)



### Lease Expirations (Small Tenant Portfolio) as of December 31, 2002 (\$ in millions)



**Lease Expirations (Entire Portfolio) as of December 31, 2002 (\$ in millions)**

