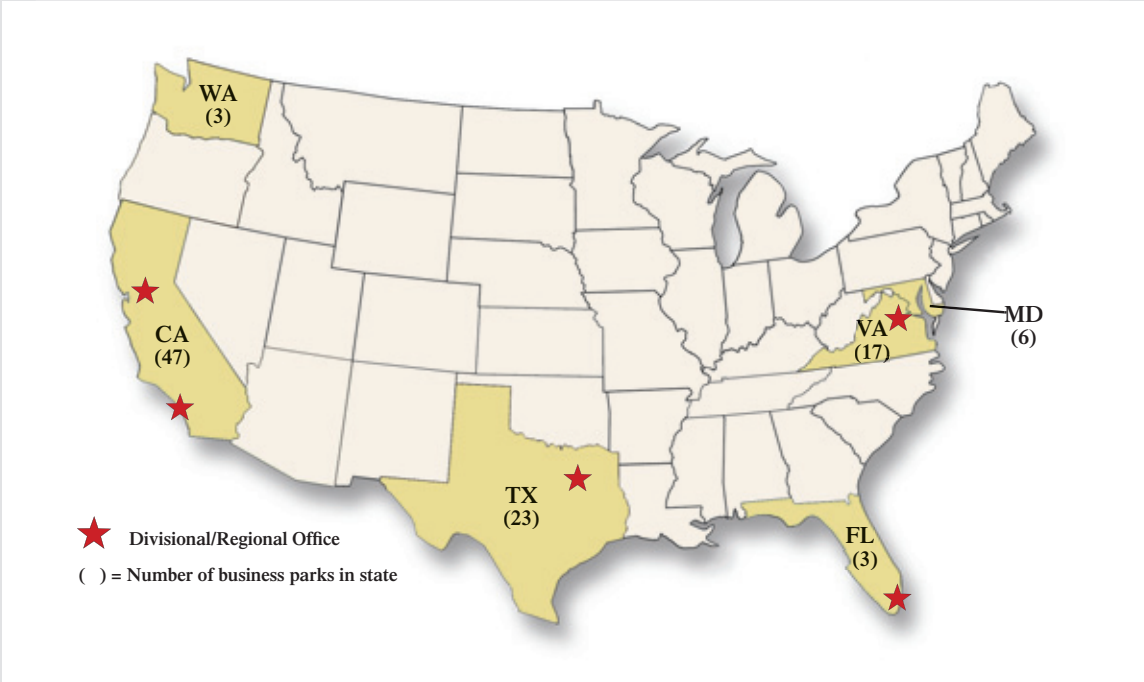
PSBUSINESSPARKS®

2016 ANNUAL REPORT

BUSINESS PARK LOCATIONS

(As of December 31, 2016)



California
Rentable Square Feet: 11,233,000
Buena Park
Carson
Cerritos
Concord
Culver City
Fremont
Hayward
Irvine
Laguna Hills
Lake Forest
Milpitas
Monterey
Monterey Park
Oakland
Orange
San Diego
San Jose
San Leandro
San Mateo
San Ramon
Santa Ana
Santa Clara
Signal Hill
South San Francisco
Studio City
Sunnyvale
Torrance

Texas
Rentable Square Feet: 5,088,000
Austin
Carrollton
Dallas
Farmers Branch
Garland
Irving
Mesquite
Plano
Richardson

Virginia
Rentable Square Feet: 3,917,000
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: 2,578,000
Beltsville
Gaithersburg
Rockville
Silver Spring

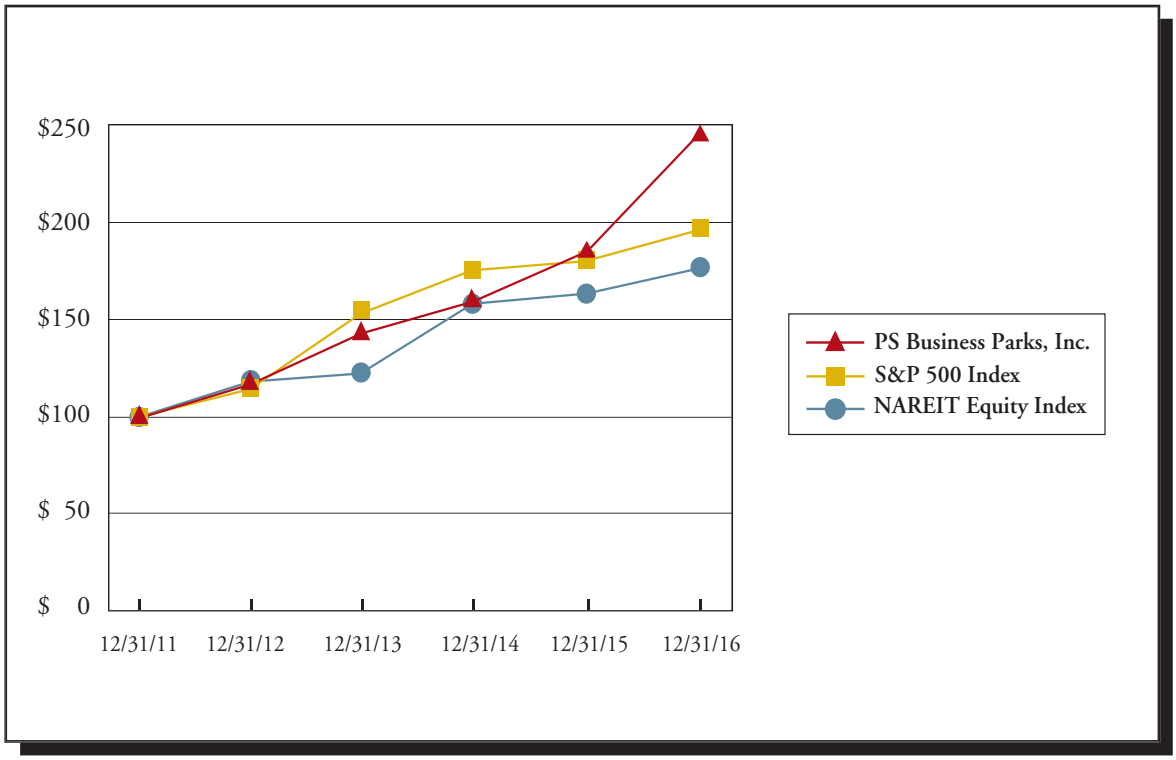
Washington
Rentable Square Feet: 1,390,000
Kent
Redmond
Renton

Cover photos (from top)

Miami International Commerce Center 3,468,000 square foot industrial park in Miami, Florida
Shady Grove Executive Park 578,000 square foot office park in Rockville, Maryland
Bay Center Business Park 463,000 square foot flex park in Hayward, California

CUMULATIVE TOTAL RETURN

PS Business Parks, Inc., S&P 500 Index and NAREIT Equity Index
December 31, 2011 - December 31, 2016



	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15	12/31/16
PS Business Parks, Inc.	$100.00	$120.40	$145.00	$160.05	$180.96	$248.11
S&P 500 Index	$100.00	$116.00	$153.57	$174.60	$177.01	$198.18
NAREIT Equity Index	$100.00	$119.70	$123.12	$157.63	$162.08	$176.07

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, 2016 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, 2011 and that all dividends were reinvested. The stock price performance shown in the graph is not necessarily indicative of future price performance.

TO THE SHAREHOLDERS OF PS BUSINESS PARKS, INC.

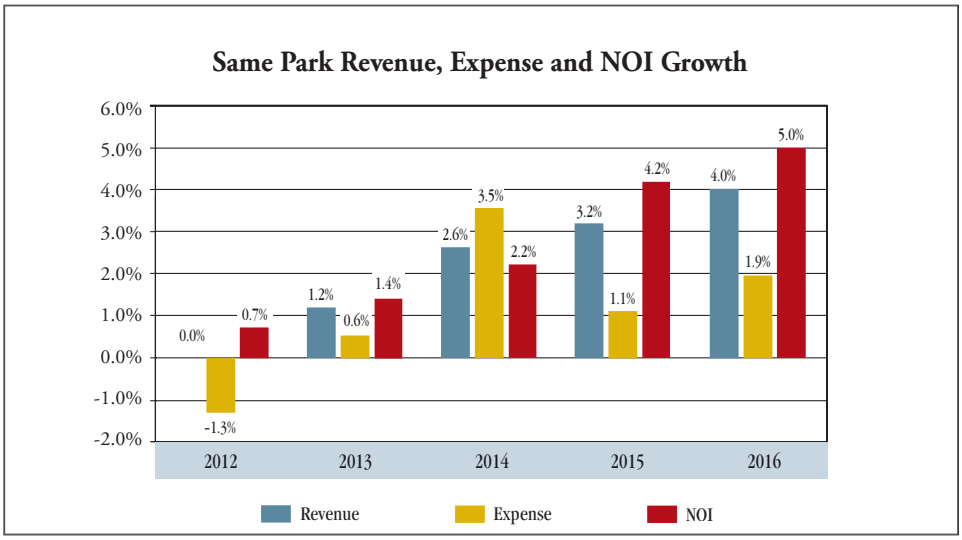
From the President and Chief Executive Officer

PS Business Parks' Strategy

PS Business Parks (PSB) has a simple strategy to which we have remained true since inception. We own and operate multi-building and multi-tenant flex, industrial and office parks in high barrier, top-tier markets. Currently, we own and operate 99 parks in six states and 12 markets. Our properties are located within specific sub-markets which are proven to be those which are typically the "last to be hit and first to recover" during real estate cycles. In addition to investing in well-located, quality assets, we work hard to hire and retain outstanding team members so that we operate our assets in ways that consistently produce market-leading results. We have highly trained and experienced teams of real estate professionals in each of our markets who interact directly with our customers to whom we provide exceptional value. Another component of PSB's strategy is a conservative and strong capital structure which facilitates our ability to retain significant levels of cash to reinvest in both existing and new parks. Successful execution of the above goals produces exceptional results and allows us to achieve the objective of growing shareholder value.

Total Shareholder Returns

The following chart compares the operating results of our same park assets and highlights the fact that 2016 was the fifth consecutive year that we reported positive same park growth as a result of strong market conditions and effective execution of our operating strategy.



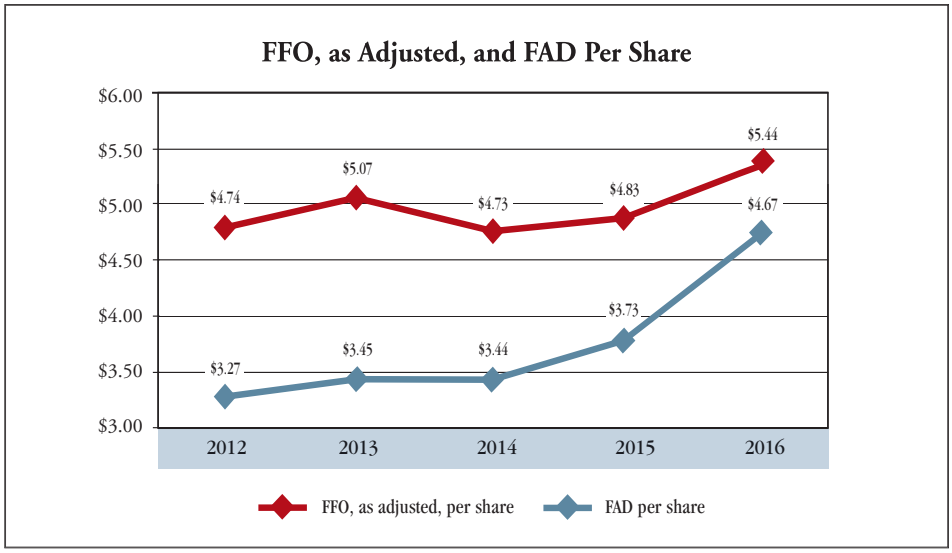
In many ways, 2016 was a record year for PSB. This means that we are going into 2017 well positioned for continued success. Market conditions remain strong on the West Coast, Texas and Florida, and there are early signs that Washington, D.C. is recovering. These market conditions should provide continued ability to increase rents and reduce transaction costs. The improvement in our operating metrics will directly increase the value of the enterprise. In 2016, PSB outperformed both the NAREIT Equity Index and S&P 500. In addition, as shown in the table below, PSB consistently outperforms and is a proven investment for our shareholders.

Average Annual Total Shareholder Return

Years	PSB	NAREIT	S&P 500
1	37.1%	8.6%	12.0%
3	19.6%	12.7%	8.9%
5	19.9%	12.0%	14.7%
10	8.7%	5.1%	7.0%
15	12.6%	10.8%	6.7%

Funds from Operations and Cash Flow

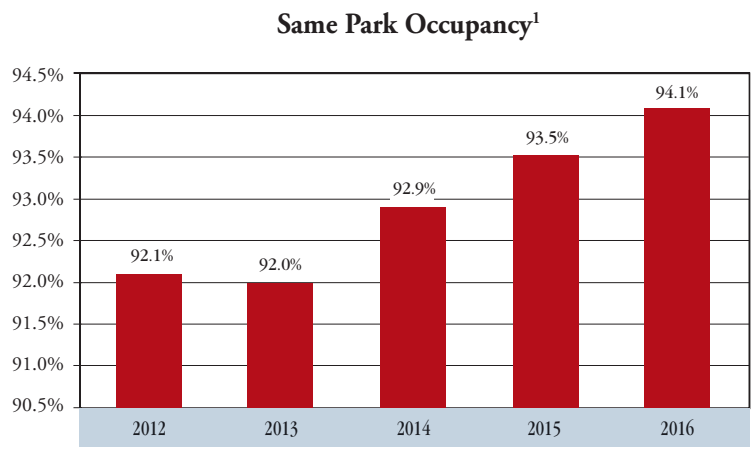
Now I will give results on a per share basis which provide a meaningful view for our shareholders. The positive commercial real estate environment in 2016 combined with our strategy resulted in an increase in funds from operations (FFO), a key industry metric measuring the operating performance of the Company. This metric, as adjusted, excludes non-cash items such as depreciation, increased to $5.44 per share in 2016 from $4.83 in 2015, an increase of 12.6%. The Company's improvement in cash flow was even better. Funds available for distribution (FAD), the cash available to distribute to our shareholders after necessary capital expenditures, was $4.67 per share in 2016, compared to $3.73 in 2015, an increase of 25.2%.



Key 2016 Highlights and Review

2016 was an excellent year as demonstrated in our operating results. Our leasing and property management teams produced outstanding returns for shareholders. Momentum grew as the year progressed and the economy continued with steady and sustained improvement, increasing the confidence among our customer base of small- to medium-sized companies. Existing customer expansions resulted

in 381,000 square feet of new leasing, a significant contributor to PSB's 2016 same park weighted average occupancy growth. The chart below illustrates the improvement in same park occupancy over the last five years.

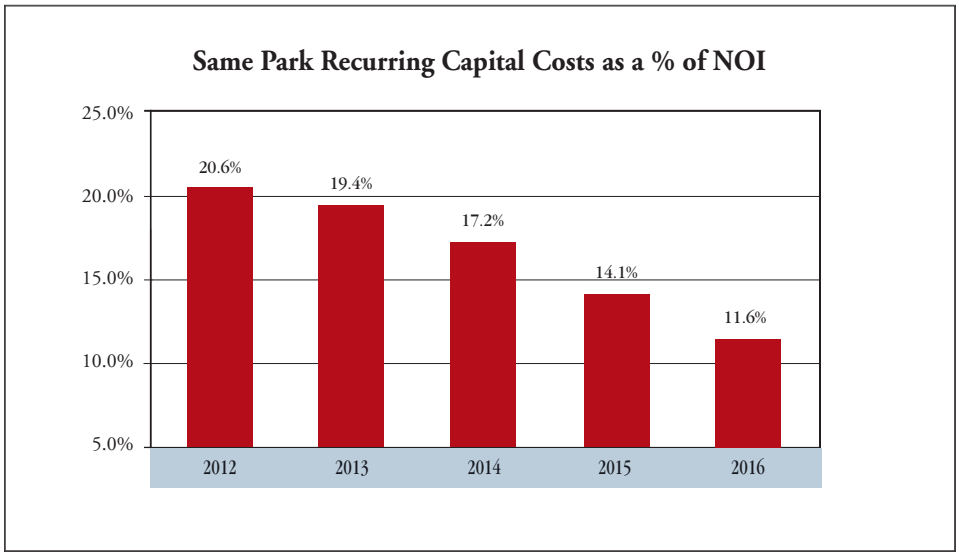


(1) Represents the same park portolio as reported in each period.

Year-over-year gains were made in Northern California, Southern California, Florida and Texas. Washington, D.C. continues to battle the trend of a decreasing office footprint of the government and government contractors. These large tenant consolidations have been partially offset by job growth and a healthy business environment within the small- to medium-sized companies which are the backbone of PSB's customer base. The end result was positive market net absorption in nearly all of the markets in which we operate for the sixth consecutive year. In addition, there was very little development of competitive product. In fact, many of our parks are located within in-fill areas where inventory of low-density flex, office and industrial product is being eliminated to make room for high density housing and office buildings. This has been the case for several years. Last year, our leasing professionals were busy as we executed leases aggregating 7.6 million square feet in nearly 2,200 separate transactions resulting in an average transaction size of 3,500 square feet. This volume came with an overall increase of 5.3% in cash rental rates. Growth in customer demand and occupancy also facilitated positive net operating income (NOI), which increased 5% on a same park basis.

Reducing Transaction Costs

As mentioned earlier, we strive to increase cash flow while maintaining our assets and providing excellent customer service. Our goal is to minimize the level of ongoing capital required to achieve our leasing volume and grow net operating income. By doing so, we are able to retain higher levels of cash, which we can use for acquiring assets, development or investing in our stock. A key metric we use, called transaction costs, trended down again in 2016. There are two main reasons for this downward trend. First is the fact that all of our markets, except D.C., are landlord favorable. When competitive properties are highly leased, landlords do not need to compete as aggressively to fill vacant space. Second, and most importantly, is that the simple and generic nature of small spaces enables us to control costs as we lease our properties. Customers leasing small spaces often do not have broker representation. In 2016, transaction costs, including tenant improvements and commissions, totaled $3.04 per square foot, compared to $3.50 per square foot in 2015, and substantially below the high watermark of $5.39 per square foot in 2011 when market conditions heavily favored the tenant and the period in which we purchased and repositioned an office portfolio in our Washington, D.C. market. In addition, we also look at recurring capital costs as a percentage of NOI. The chart below reflects the trend of recurring capital costs as a percentage of NOI. As a result, free cash for reinvestment improved by 16.9%, to $57.6 million, allowing for more capital to be invested in other areas of our business.



Investment and Development Activity

Commercial real estate fundamentals remained robust making it challenging to find opportunities to invest capital in assets where we can add value and enhance the underlying value of the Company. The investment market was extremely competitive. Capital is readily available. In many markets, rates and occupancy are reaching peak, or beyond, and cap rates remain compressed. During 2016, the Company acquired two office buildings totaling 226,000 square feet for $13.3 million in Montgomery County, Maryland. These two buildings are 18.5% leased and are located within a park we already own and where our average occupancy over the last five years was 93%. There will be additional capital required in order to reposition these two buildings into our multi-tenant standard from what was built for single-tenant use. This will take several months, and we expect to start leasing in the second quarter of 2017.

On the development front, we are more than halfway through construction of a new Class A, 395-unit, 435,000 square foot apartment building known as Highgate at The Mile. The building sits across the street from the headquarters of Hilton Worldwide and Freddie Mac. Our site specifically resides in McLean, VA, one of the highest income communities in the nation with an excellent school system.

We are encouraged about our position with Highgate due to several improvements to the Tysons market. Tysons has recently seen the delivery of approximately 2,100 units in high-rise buildings, and absorption has been strong. This absorption is driven by positive job growth, coupled with excellent reception of the $7 billion dollars of transportation infrastructure improvements, now complete, headlined by four new Metro stations. The shift in live-work balance will continue to favor our project as Tysons becomes more desirable to both commercial tenants and residents. 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 over 200,000 workers, most of whom are professionals. On the other hand, it has always been severely lacking as a residential market with less than 20,000 residents. PSB owns 45 prime acres in the heart of Tysons. The product we are developing

fits an under-served part of the market. We are offering a mid-rise building with modern and upscale amenities that will attract multiple generations of occupants. The site includes two parks, including a sizable dog park, all of which are unique in Tysons. We will begin delivery of the building and commence leasing by spring 2017, and construction will be complete by early 2018. Including the land, this is a $117 million investment. Since our expertise is not in multi-family development and management, we have partnered with Kettler, Inc. in a joint venture in which we have 95% ownership. Kettler is a well-regarded developer and manager who has been based in Tysons since 1978. There will be minimal impact to NOI in 2017, and we expect to gain momentum as apartments lease up through 2018.

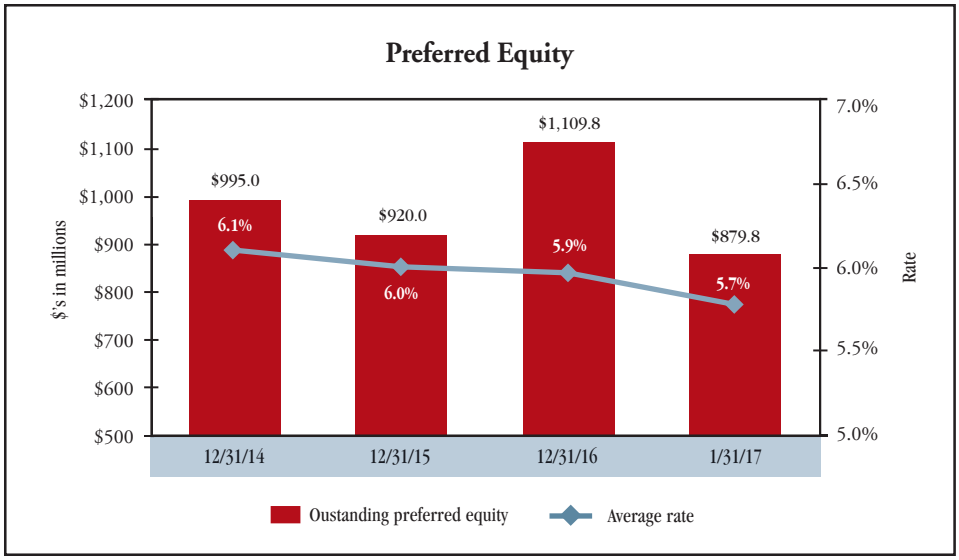
We also made the decision in 2016 to proceed with rezoning the balance of our 45 acres in Tysons. At the end of the third quarter, we had a full-building user vacate a 123,000 square foot building that is adjacent to our Highgate development. We moved this building out of operations and into land held for development. This building along with the other six remaining office buildings total 751,000 square feet. Rezoning the entire property will allow us to increase the density for future development while maintaining parcel integrity in the interim for the operating buildings. This location is an example of low-density product located in a prime in-fill location where it makes sense to look at higher and better uses in order to drive long-term growth.

Financial Strength

We ended 2016 with a capital structure that is the strongest in our history. We started 2016 with nearly $190 million of cash. During the year, we repaid the 5.45% $250 million CMBS mortgage, issued $190 million of preferred Series W, at a Company all-time low rate of 5.2%, and called for the redemption of the 6.45% $230 million preferred Series S. Going into 2017, we have $85 million drawn on our line of credit. Our ratio of FFO to combined fixed charges and preferred distributions was 3.9 to 1.0 for 2016, and our FFO and FAD payout ratios were 57.7% and 63.9%, respectively.

Our use of perpetual preferred equity has served the Company well, and we have been able to leverage the strength of the Company's balance sheet to lower our average cost

of preferred equity over the last several years as reflected in the chart below. We have significant financial flexibility with a $250 million line of credit, which can be expanded to $400 million. Our conservative balance sheet and consistent operational performance have led to the Company's A- credit rating from Standard & Poor's, one of the highest in the REIT industry. We are primed for significant enterprise expansion, and we will maintain a disciplined acquisition strategy in order to continue long-term shareholder growth.



Leadership Team

PSB has a stable management group. The entire team is adept at creating value. Our culture recognizes individual performance while emphasizing collaborative teamwork as we maneuver through a management-intensive environment meeting the needs of 5,000 customers. For the second time in the Company's history, we changed CEOs when Joe Russell became President of Public Storage. I am fortunate to have been with PSB since inception and grateful to have worked with two such strong leaders and CEOs—Ron Havner and Joe Russell. Like Ron, Joe will continue to provide guidance and expertise as a Director of PSB. John Petersen, Ed Stokx and I have been together for over 12 years, and we have made a

smooth and seamless transition with the help of the balance of our group which has also been together for an average of ten years. We look forward to continued success and growth.

Summary

2016 was an exceptional year at PS Business Parks. Externally, the markets in which we operate remained strong, facilitating our ability to improve operational performance. The strategy of focusing on small users in multi-tenant parks also affords us the ability to out-perform markets. Due to our concentrations, we are able to respond to the needs of our customers as they expand and grow. Our extremely talented teams create value with their proven ability to quickly respond to market conditions and stay close to our customers. The Company's financial structure, which has always been strong, grew even stronger giving us the opportunity to expand the enterprise and extract long-term value. In 2016, PSB delivered to our shareholders a total return of 37%. We are encouraged by a number of factors as we enter 2017. The economy and our customer base are quite healthy. Our teams are in-place and ready to find opportunities to provide excellent shareholder returns. We remain committed to our strategy of investing in multi-building, multi-tenanted business parks for what has proven to be a dynamic and consistent formula for our success.

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

Maria R. Hawthorne
President and Chief Executive Officer
March 10, 2017

Supplemental Non-GAAP Disclosures (unaudited)

Funds from Operations (FFO), FFO, as Adjusted, and Funds Available for Distribution (FAD) per Common and Dilutive Share [1]

The table below reconciles from diluted earnings per share to FFO and FFO, as adjusted, per common and dilutive share.

	For The Years Ended December 31,				
	2012	2013	2014	2015	2016
Net income per common share — diluted	$ 0.81	$ 1.77	$ 4.19	$ 2.52	$ 2.31
Gain on sale of land and real estate facilities	(0.03)	—	(2.68)	(0.82)	—
Depreciation and amortization [2]	3.46	3.38	3.21	3.06	2.86
FFO per common and dilutive share [3]	4.24	5.15	4.72	4.76	5.17
Adjustments:					
Lease buyout payments	(0.06)	(0.07)	—	—	(0.01)
LTEIP modification due to change in senior management	—	—	—	—	0.06
Acquisition transaction costs	0.01	0.03	0.01	—	0.01
Non-cash distributions related to the redemption of preferred equity	0.55	—	—	0.07	0.21
Gain on sale of ownership interest in STOR-Re	—	(0.04)	—	—	—
FFO per common and dilutive share, as adjusted [4]	$ 4.74	$ 5.07	$ 4.73	$ 4.83	$ 5.44

The table below reconciles from FFO to FAD per common and dilutive share.

	For The Years Ended December 31,				
	2012	2013	2014	2015	2016
FFO per common and dilutive share	$ 4.24	$ 5.15	$ 4.72	$ 4.76	$ 5.17
Deduct capital expenditures and eliminate non-cash stock compensation and other non-cash items	(0.97)	(1.70)	(1.28)	(1.03)	(0.50)
FAD per common and dilutive share [5]	$ 3.27	$ 3.45	$ 3.44	$ 3.73	$ 4.67

(1) Per share amounts are computed using additional dilutive shares related to noncontrolling interests and restricted stock units.

(2) Includes depreciation from discontinued operations.

(3) Funds from Operations ("FFO") is computed in accordance with the White Paper on FFO approved by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT"). The White Paper defines FFO as net income, computed in accordance with U.S. generally accepted accounting principles ("GAAP"), before depreciation, amortization, gains or losses on asset dispositions, net income allocable to noncontrolling interests — common units, net income allocable to restricted stock unit holders, impairment charges and nonrecurring items. Management believes that FFO provides a useful measure of the Company's operating performance and when compared year over year, reflects the impact to operations from trends in occupancy rates, rental rates, operating costs, development activities, general and administrative expenses and interest costs, providing a perspective not immediately apparent from net income. FFO is a non-GAAP financial measure and should be analyzed in conjunction with net income. However, FFO should not be viewed as a substitute for net income as a measure of operating performance, as it does not reflect depreciation and amortization costs or the level of capital expenditure and leasing costs necessary to maintain the operating performance of the Company's properties, which are significant economic costs and could materially impact the Company's results of operations. Other REITs may use different methods for calculating FFO and, accordingly, the Company's FFO may not be comparable to other real estate companies' FFO.

(4) FFO, as adjusted is a non-GAAP financial measure that management believes provides useful information to the investment community by adjusting FFO for certain items so as to provide more meaningful year over year comparisons of the Company's operating performance.

(5) Funds Available for Distribution ("FAD") is a non-GAAP financial measure that is computed by adjusting FFO for recurring capital improvements, which the Company defines as those costs incurred to maintain the assets' value, tenant improvements, lease commissions, straight-line rent, stock compensation expense, in-place lease adjustment, amortization of lease incentives and tenant improvement reimbursements, capitalized interest and the effect of redemption of preferred equity. Like FFO, management considers FAD to be a useful measure for investors to evaluate the Company's operating performance on a cash flow basis. FAD should not be viewed as a substitute for net income or cash flow from operations as defined by GAAP.

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, 2016.

or

☐ **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	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value per share	New York Stock Exchange
Depositary Shares Each Representing 1/1,000 of a Share of 6.000% Cumulative Preferred Stock, Series T, $0.01 par value per share	New York Stock Exchange
Depositary Shares Each Representing 1/1,000 of a Share of 5.750% Cumulative Preferred Stock, Series U, $0.01 par value per share	New York Stock Exchange
Depositary Shares Each Representing 1/1,000 of a Share of 5.700% Cumulative Preferred Stock, Series V, $0.01 par value per share	New York Stock Exchange
Depositary Shares Each Representing 1/1,000 of a Share of 5.200% Cumulative Preferred Stock, Series W, $0.01 par value per share	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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§232.405) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

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

Large accelerated filer ☑ Accelerated filer ☐

Non-accelerated filer ☐ Smaller reporting company ☐

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, 2016, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $2,082,893,848 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 20, 2017 (the latest practicable date): 27,138,138.

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 2017 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: (a) changes in general economic and business conditions; (b) decreases in rental rates or increases in vacancy rates/failure to renew or replace expiring leases; (c) tenant defaults; (d) the effect of the recent credit and financial market conditions; (e) 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"); (f) the economic health of our tenants; (g) increases in operating costs; (h) casualties to our properties not covered by insurance; (i) the availability and cost of capital; (j) increases in interest rates and its effect on our stock price; and (k) 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 flex, office and industrial space. PS Business Parks, L.P. (the "Operating Partnership") is a California limited partnership, which owns directly or indirectly substantially all of our assets and through which we conduct substantially all of our business. 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 Operating Partnership. PSB is the sole general partner of the Operating Partnership and, as of December 31, 2016, owned 77.9% of the common partnership units. The remaining common partnership units are owned by Public Storage ("PS"). Assuming issuance of PSB common stock upon redemption of the common partnership units held by PS, PS would own 42.0% (or 14.5 million shares) of the outstanding shares of the Company's common stock. PSB, as the sole general partner of the Operating Partnership, has full, exclusive and complete responsibility and discretion in managing and controlling the Operating Partnership.

As of December 31, 2016, the Company owned and operated 28.1 million rentable square feet of commercial space, comprising 99 business parks, in the following states: 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. The Company also manages 684,000 rentable square feet on behalf of PS.

History of the Company: The Company was formed in 1990 as a California corporation under the name Public Storage Properties XI, Inc. In a March 17, 1998 merger with American Office Park Properties, Inc. ("AOPP") (the "Merger"), the Company acquired the commercial property business operated by AOPP and was renamed "PS Business Parks, Inc." Prior to the Merger, in January, 1997, AOPP was reorganized to succeed to the commercial property business of PS, becoming a fully integrated, self-advised and self-managed REIT.

From January, 2014 through December, 2016, the Company acquired 904,000 square feet of multi-tenant flex, office and industrial parks, which comprise the Non-Same Park portfolio as defined on page 29, for an aggregate purchase price of $58.8 million. The Company made no acquisitions in 2015. The table below reflects the assets acquired during this period *(in thousands)*:

Property	Date Acquired	Location	Purchase Price	Square Feet	Occupancy at December 31, 2016
Shady Grove	September, 2016	Rockville, Maryland	$13,250	226	18.5%
Total 2016 Acquisition			13,250	226	18.5%
Charcot Business Park II	December, 2014	San Jose, California	16,000	119	98.3%
McNeil 1	November, 2014	Austin, Texas	10,550	246	100.0%
Springlake Business Center II	August, 2014	Dallas, Texas	5,148	145	85.4%
Arapaho Business Park 9	July, 2014	Dallas, Texas	1,134	19	91.5%
MICC — Center 23	July, 2014	Miami, Florida	12,725	149	100.0%
Total 2014 Acquisitions			45,557	678	96.3%
Total			$58,807	904	76.9%

In 2013, the Company entered into a joint venture known as Amherst JV LLC (the "Joint Venture") with an unrelated real estate development company (the "JV Partner") for the purpose of developing a 395-unit multi-family building on a five-acre site within The Mile in Tysons, Virginia (the "Project"). PSB holds a 95.0% interest in the Joint Venture with the remaining 5.0% held by the JV Partner. The JV Partner is responsible for the development and construction of the Project and through an affiliate will oversee the leasing and management of the Project as it is completed. The aggregate amount of development costs are estimated to be $105.6 million (excluding unrealized land appreciation), of which the Company is committed to funding $75.0 million through a construction loan in addition to capital contributions of $28.5 million, which includes a land basis of $15.3 million, to the Joint Venture. The Company's investment in and advances to unconsolidated joint venture was $67.2 million as of December 31, 2016. The Project is expected to deliver its first completed units in the spring of 2017, with final completion of the Project expected in early 2018.

As of November 1, 2016, the Company transferred a 123,000 square foot building also located within The Mile in Tysons, Virginia to land and building held for development, as the Company is pursuing entitlements to develop an additional multi-family complex on this site. The scope and timing of any future development will be subject to a variety of approvals and contingencies. Prior to being classified as land and building held for development, the building was occupied by a single user. The net operating income ("NOI") associated with the prior tenant is reflected as NOI from assets sold or held for development.

During 2015, the Company sold four business parks, aggregating 492,000 square feet, in non-strategic markets for net proceeds of $41.2 million, which resulted in a gain of $23.4 million. Additionally, as part of an eminent domain process, the Company sold five buildings, aggregating 82,000 square feet, at the Company's Overlake Business Park located in Redmond, Washington, for $13.9 million, which resulted in a gain of $4.8 million.

During 2014, the Company sold five business parks aggregating 1.9 million square feet and 11.5 acres of land in non-strategic markets, including Portland, Oregon and Phoenix, Arizona, for net proceeds of $212.2 million, which resulted in a gain of $92.4 million. With these sales the Company completed its stated objective of exiting non-strategic markets in Sacramento, California, Oregon and Arizona.

The Company has elected to be taxed as a REIT under the Code, commencing with its taxable year ended December 31, 1990. To the extent that the Company continues to qualify as a REIT, it will not be taxed, with certain limited exceptions, on the net income that is currently distributed to its shareholders.

The Company's principal executive offices are located at 701 Western Avenue, Glendale, California 91201-2349. The Company's telephone number is (818) 244-8080. The Company maintains a website with the address 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. The Company makes available free of charge through its website its 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 the Company electronically files such material with, or furnishes such material to, the Securities and Exchange Commission (the "SEC").

Business of the Company: The Company is in the commercial property business, with 99 business parks consisting of multi-tenant flex, industrial and office space. The Company owns 14.6 million square feet of flex space which the Company defines as 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. The Company owns 8.8 million square feet of industrial space that has characteristics similar to the warehouse component of the flex space as well as ample dock access. In addition, the Company owns 4.7 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.

The Company's commercial properties typically consist of business parks with low-rise buildings, ranging from one to 49 buildings per park, located on parcels of various sizes which comprise from nearly 12,000 to 3.5 million aggregate square feet of rentable space. Facilities are managed through either on-site management or offices central to the facilities. 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 tenant base for the Company's 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 35.9% 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 64.1% 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 tenants that lease space in multiple buildings and locations. The U.S. Government is the largest tenant with multiple leases encompassing approximately 692,000 square feet, or 4.6% of the Company's annualized rental income.

The Company owns operating properties in six states and it may expand its operations to other states or reduce the number of states in which it operates. Properties are acquired for both income and potential capital appreciation; there is no limitation on the amount that can be invested in any specific property.

The Company owns land which may be used for the future development of commercial properties including approximately 14.0 acres in Dallas, Texas and 6.4 acres in Northern Virginia.

Operating Partnership

The properties in which the Company has an equity interest generally are owned by the Operating Partnership. Through this organizational structure, the Company has the ability to acquire interests in additional properties in transactions that could defer the contributors' tax consequences by causing the Operating Partnership to issue equity interests in return for interests in properties.

The Company is the sole general partner of the Operating Partnership. As of December 31, 2016, the Company owned 77.9% of the common partnership units of the Operating Partnership, and the remainder of such common partnership units were owned by PS. The common units owned by PS may be redeemed by PS from time to time, subject to the provisions of our charter, for cash or, at our option, shares of our common stock on a one-for-one basis. Also as of December 31, 2016, in connection with the Company's issuance of publicly traded Cumulative Preferred Stock, the Company owned 44.4 million preferred units of the Operating Partnership of various series with an aggregate redemption value of $1.1 billion with terms substantially identical to the terms of the publicly traded depositary shares each representing 1/1,000 of a share of 5.20% to 6.45% Cumulative Preferred Stock of the Company. On December 7, 2016, the Company called for the redemption of its 6.45% Cumulative Preferred Stock, Series S, at its par value of $230.0 million. As of December 31, 2016, the Company reclassified the 6.45% Cumulative Preferred Stock, Series S, of $230.0 million from equity to liabilities as preferred stock called for redemption.

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

The Company's interest in the Operating Partnership entitles it to share in cash distributions from, and the profits and losses of, the Operating Partnership in proportion to the Company's economic interest in the Operating Partnership (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 Operating Partnership in respect of the common and preferred partnership units in the Operating Partnership that are owned by the Company.

Common Officers and Directors with PS

Ronald L. Havner, Jr., Chairman of the Company, is also the Chairman of the Board of Directors of Trustee and Chief Executive Officer of PS. Joseph D. Russell, Jr. is a director of the Company and also President 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 the cost sharing and administrative services agreement.

Property Management Services

The Company manages commercial properties owned by PS, which are generally adjacent to self-storage facilities, for a management fee equal to 5% of the gross revenues of such properties in addition to reimbursement of certain costs. The property management contract with PS is for a seven-year term with the agreement automatically extending for an additional one-year period upon each one-year anniversary of its commencement (unless cancelled by either party). Either party can give notice of its intent to cancel the agreement upon expiration of its current term. Management fee revenue derived from this management contract with PS totaled $518,000, $540,000 and $660,000 for the years ended December 31, 2016, 2015 and 2014, respectively. As of December 31, 2016, the Company managed 684,000 rentable square feet on behalf of PS compared to 813,000 rentable square feet as of December 31, 2015.

PS also provides property management services for the self-storage component of two assets owned by the Company. These self-storage facilities, located in Palm Beach County, Florida, operate under the "Public Storage" name. Either the Company or PS can cancel the property management contract upon 60 days' notice. Management fee expenses under the contract were $86,000, $79,000 and $70,000 for the years ended December 31, 2016, 2015 and 2014, respectively.

Management

Maria R. Hawthorne leads the Company's senior management team. Ms. Hawthorne became President and Chief Executive Officer of the Company beginning July 1, 2016. Prior to July 1, 2016, Joseph D. Russell, Jr. was the Chief Executive Officer of the Company. The Company's senior management includes: John W. Petersen, Executive Vice President and Chief Operating Officer; Edward A. Stokx, Executive Vice President and Chief Financial Officer; Christopher M. Auth, Vice President (Washington Metro Division); Trenton A. Groves, Vice President and Corporate Controller; Coby A. Holley, Vice President, Investments; Robin E. Mather, Vice President, Business Development; Stuart H. Hutchison, Vice President (Southern California and Pacific Northwest Divisions); Eddie F. Ruiz, Vice President and Director of Facilities; Richard E. Scott, Vice President (Northern California Division); Eugene Uhlman, Vice President, Construction Management; and David A. Vicars, Vice President (Southeast Division, which includes Florida and Texas).

REIT Structure

If certain detailed conditions imposed by the Code and the related Treasury Regulations are met, an entity, such as the Company, that invests principally in real estate and that otherwise would be taxed as a corporation may elect to be treated as a REIT. The most important consequence to the Company of being treated as a REIT

for federal income tax purposes is that the Company can deduct dividend distributions (including distributions on preferred stock) to its shareholders, thus effectively eliminating the "double taxation" (at the corporate and shareholder levels) that typically results when a corporation earns income and distributes that income to shareholders in the form of dividends.

The Company believes that it has operated, and intends to continue to operate, in such a manner as to qualify as a REIT under the Code, but no assurance can be given that it will at all times so qualify. To the extent that the Company continues to qualify as a REIT, it will not be taxed, with certain limited exceptions, on the REIT taxable income that is distributed to its shareholders.

Operating Strategy

The Company believes its operating, acquisition and finance strategies combined with its diversified portfolio produces a low risk, stable growth business model. The Company's primary objective is to grow shareholder value. Key elements of the Company's growth strategy include:

Maximize Net Cash Flow of Existing Properties: The Company seeks to maximize the net cash flow generated by its properties by (i) maximizing average occupancy rates, (ii) achieving the highest possible levels of realized rent per occupied square foot, (iii) controlling its operating cost structure by improving operating efficiencies and economies of scale and (iv) minimizing recurring capital expenditures required to maintain and improve occupancy. The Company believes that its experienced property management personnel and comprehensive systems combined with focused economies of scale enhance the Company's ability to meet these goals. The Company seeks to increase occupancy rates and realized rents per square foot by providing its field personnel with incentives to lease space to credit worthy tenants and to maximize the return on investment in each lease transaction.

Focus on Targeted Markets: The Company intends to continue investing in markets that have characteristics which enable them to be competitive economically. The Company believes that markets with a combination of above average population growth, job growth, higher education levels and personal income will produce better overall economic returns. The Company targets parks in high 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.

Reduce Capital Expenditures and Increase Occupancy Rates by Providing Flexible Properties and Attracting a Diversified Tenant Base: By focusing on properties with easily reconfigurable space, the Company believes it can offer facilities that appeal to a wide range of potential tenants, which aids in reducing recurring capital expenditures associated with re-leasing space. The Company believes this property flexibility also allows it to better serve existing tenants by accommodating expansion and contraction needs. In addition, the Company believes that a diversified tenant base enables it to attract a greater number of potential users to its space which, combined with flexible parks, helps it maintain occupancy rates.

Provide Superior Property Management: The Company seeks to provide a superior level of service to its tenants in order to maintain occupancy and increase rental rates, as well as minimize customer turnover. The Company's property management offices are located either on-site or regionally, providing tenants with convenient access to management and helping the Company maintain its properties and while conveying a sense of quality, order and security. The Company has significant experience in acquiring properties managed by others and thereafter improving tenant satisfaction, occupancy levels, retention rates and rental income by implementing established tenant service programs.

Financing Strategy

The Company's primary objective in its financing strategy is to maintain financial flexibility and a low risk capital structure. Key elements of this strategy are:

Retain Operating Cash Flow: The Company seeks to retain significant funds (after funding its distributions and capital improvements) for additional investments. During the years ended December 31, 2016 and 2015, the Company distributed 41.4% and 31.7%, respectively, of its cash flow from operating activities computed in

accordance with GAAP, and 57.7% and 46.1%, respectively, of its funds from operations ("FFO") to common shareholders/unit holders. FFO is computed in accordance with the White Paper on FFO approved by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT"). The White Paper defines FFO as net income, computed in accordance with U.S. generally accepted accounting principles ("GAAP"), before depreciation, amortization, gains or losses on asset dispositions, net income allocable to noncontrolling interests — common units, net income allocable to restricted stock unit holders, impairment charges and nonrecurring items. FFO is a non-GAAP financial measure and should be analyzed in conjunction with net income. However, FFO should not be viewed as a substitute for net income as a measure of operating performance or liquidity, as it does not reflect depreciation and amortization costs or the level of capital expenditure and leasing costs necessary to maintain the operating performance of the Company's properties, which are significant economic costs and could materially impact the Company's results of operations. Other REITs may use different methods for calculating FFO and, accordingly, the Company's FFO may not be comparable to other real estate companies' FFO. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Non-GAAP Supplemental Disclosure Measure: Funds from Operations" for a reconciliation of FFO and net income allocable to common shareholders and for additional information on why the Company presents FFO.

Perpetual Preferred Stock/Units: The primary source of leverage in the Company's capital structure is perpetual preferred stock or equivalent preferred units in the Operating Partnership. This method of financing reduces interest rate and refinancing risks as the dividend rate is fixed and the stated value or capital contribution is not required to be repaid. In addition, the consequences of defaulting on required preferred distributions are less severe than with debt. The preferred shareholders may elect two additional directors if six quarterly distributions go unpaid, whether or not consecutive.

Throughout this Form 10-K, we use the term "preferred equity" to mean both the preferred stock issued by the Company (including the depositary shares representing interests in that preferred stock) and the preferred partnership units issued by the Operating Partnership and the term "preferred distributions" to mean dividends and distributions on the preferred stock and preferred partnership units.

Debt Financing: The Company, from time to time, has used debt financing to facilitate real estate acquisitions and other capital allocations. The primary source of debt the Company has historically relied upon to provide short-term capital is its $250.0 million unsecured line of credit (the "Credit Facility"). In addition, during 2011, in connection with its $520.0 million portfolio acquisition in Northern California, the Company obtained a $250.0 million unsecured three-year term loan and assumed a $250.0 million mortgage note. The unsecured three-year term loan was repaid in full during 2013 and the $250.0 million mortgage note was repaid in full on June 1, 2016. From time to time, the Company may also consider other sources of unsecured debt financing to meet its capital needs.

Access to Capital: The Company targets a minimum ratio of FFO to combined fixed charges and preferred distributions paid of 3.0 to 1.0. Fixed charges include interest expense and capitalized interest while preferred distributions include amounts paid to preferred shareholders and preferred Operating Partnership unit holders. For the year ended December 31, 2016, the FFO to combined fixed charges and preferred distributions paid ratio was 3.9 to 1.0, excluding the non-cash charge for the issuance costs related to the redemption of preferred equity. The Company believes that its financial position enables it to access capital to finance future growth. Subject to market conditions, the Company may add leverage to its capital structure.

Competition

Competition in the market areas in which many of the Company's properties are located is significant and has from time to time negatively impacted occupancy levels and rental rates of, and increased the operating expenses of, certain of these properties. Competition may be accelerated by any increase in availability of funds for investment in real estate. Barriers to entry are relatively low for those with the necessary capital and the Company competes for property acquisitions and tenants with entities that have greater financial resources than the Company. Sublease space and unleased developments continue to create competition among operators in certain markets in which the Company operates. While the Company will have to respond to market demands,

management believes that the combination of its ability to offer a variety of options within its business parks and the Company's financial stability provide it with an opportunity to compete favorably in its markets.

The Company's properties compete for tenants with similar properties located in its markets primarily on the basis of location, rent charged, services provided and the design and condition of improvements. The Company believes it possesses several distinguishing characteristics that enable it to compete effectively in the flex, office and industrial space markets. The Company believes its personnel are among the most experienced in these real estate markets. The Company's facilities are part of a comprehensive system encompassing standardized procedures and integrated reporting and information networks. The Company believes that the significant operating and financial experience of its executive officers and directors combined with the Company's capital structure, national investment scope, geographic diversity and economies of scale should enable the Company to compete effectively.

Investments in Real Estate Facilities

As of December 31, 2016, the Company owned and operated 28.1 million rentable square feet comprised of 99 business parks in six states compared to 28.0 million rentable square feet at December 31, 2015.

Investment in and Advances to Unconsolidated Joint Venture

PSB holds a 95.0% interest in the Joint Venture with the remaining 5.0% held by the JV Partner. The JV Partner is responsible for the development and construction of the Project and through an affiliate will oversee the leasing and management of the Project as it is completed. The Project is expected to deliver its first completed units in the spring of 2017, with final completion of the Project expected in early 2018.

On October 5, 2015 (the "Contribution Date"), the Company contributed the site, along with capitalized improvements, to the Joint Venture. Subsequent to the Contribution Date, demolition, site preparation and construction commenced. The JV partner serves as the managing member, with mutual consent from both the Company and the managing member required for all significant decisions. As such, the Company accounts for its investment in the Joint Venture using the equity method.

Along with the equity capital the Company has committed to the Joint Venture, the Company has also agreed to provide the Joint Venture with a construction loan in the amount of $75.0 million. The Joint Venture will pay interest under the construction loan at a rate equal to the London Interbank Offered Rate ("LIBOR") plus 2.25%. The loan will mature on April 5, 2019 with two one-year extension options. The Company has reflected the aggregate value of the contributed site, its' equity contributions, capitalized interest and loan advances to date as investment in and advances to unconsolidated joint venture. The aggregate amount of development costs are estimated to be $105.6 million (excluding unrealized land appreciation), of which the Company is committed to funding $75.0 million through a construction loan in addition to capital contributions of $28.5 million, which includes a land basis of $15.3 million, to the Joint Venture.

The Company's investment in and advances to unconsolidated joint venture was $67.2 million and $26.7 million as of December 31, 2016 and 2015, respectively. For the year ended December 31, 2016, the Company made loan advances of $33.9 million, capital contributions of $5.7 million and capitalized $885,000 of interest.

Summary of Business Model

The Company has a geographically diversified portfolio in six states across the country with a diversified customer mix by both size and industry concentration. The Company believes that this diversification combined with a conservative financing strategy, a focus on markets with strong demographics for growth and a decentralized operating strategy gives the Company a business model that mitigates risk and provides strong long-term growth opportunities.

Restrictions on Transactions with Affiliates

The Company's 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.

Borrowings

On June 1, 2016, the Company repaid in full the $250.0 million mortgage note which had a fixed interest rate of 5.45%. See Notes 6 and 7 to the consolidated financial statements included in this Form 10-K for a summary of the Company's outstanding borrowings as of December 31, 2016.

The Company's Credit Facility is with Wells Fargo Bank, National Association ("Wells Fargo"). Subsequent to December 31, 2016, the Company modified and extended the terms of its Credit Facility and the Company's related guaranty. The expiration date was extended from May 1, 2019 to January 10, 2022. The Credit Facility has a borrowing limit of $250.0 million. The rate of interest charged on borrowings was modified to a rate ranging from the 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%, down from the previous rate of 0.875%. 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%). The Company had no balance outstanding on the Credit Facility at December 31, 2016 and 2015. Subsequent to December 31, 2016, the Company had $85.0 million outstanding on the Credit Facility in conjunction to the redemption of its 6.45% Cumulative Preferred Stock, Series S. The Company had $539,000 and $769,000 of unamortized commitment fees as of December 31, 2016 and 2015, respectively. The Credit Facility requires the Company to meet certain covenants, all of which the Company was in compliance with at December 31, 2016. Interest on outstanding borrowings is payable monthly.

The Company has broad powers to borrow in furtherance of the Company's objectives. The Company has incurred in the past, and may incur in the future, both short-term and long-term indebtedness to facilitate real estate acquisitions and other capital allocations.

Employees

As of December 31, 2016, the Company employed 157 individuals, primarily 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 and liability coverage from nationally recognized carriers.

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 been subjected to Phase I environmental reviews. Such reviews have not revealed, nor is management 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."

Since our business consists primarily of acquiring and operating real estate, we are subject to the risks related to the ownership and operation of real estate that can adversely impact our business and financial condition.

The value of our investments may be reduced by general risks of real estate ownership: Since we derive substantially all of our income from real estate operations, we are subject to the general risks of acquiring and owning real estate-related assets, including:

- 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, hurricanes and floods, which could exceed the aggregate limits of our insurance coverage;
- 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 tenants;
- 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.

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.

If our properties do not generate sufficient income to meet operating expenses, including any debt service, tenant improvements, lease commissions and other capital expenditures, we may have to borrow additional amounts to cover fixed costs, and we may have to reduce our distributions to shareholders.

There is significant competition among commercial properties: 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 tenants with the right to terminate early if they pay a fee. As of December 31, 2016, 2,217 leases, representing 6.3 million, or 24.0% of the leased square footage of our total portfolio, or 22.6% of annualized rental income, are scheduled to expire in 2017. While we have estimated our cost of renewing leases that expire in 2017, 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, we may have to reduce our distributions to shareholders.

Tenant defaults and bankruptcies may reduce our cash flow and distributions: We may have difficulty collecting from tenants in default, particularly if they declare bankruptcy. This could affect our cash flow and our ability to fund distributions to shareholders. Since many of our tenants are non-rated private companies, this risk may be enhanced. There is inherent uncertainty in a tenant's ability to continue paying rent if they are in bankruptcy.

We may be adversely affected if casualties to our properties are not covered by insurance: While we maintain insurance coverage for the losses caused by earthquakes or hurricanes, we could suffer uninsured losses or losses in excess of our insurance policy limits for such occurrences. Approximately 39.9% 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, hurricane or other natural disaster, we would remain liable on any mortgage debt or other unsatisfied obligations related to that property.

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. 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 would reduce our cash flow and ability to make distributions to shareholders.

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 for purposes of borrowing.

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 tenants 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.

Property taxes can increase and cause a decline in yields on investments: Each of our properties is subject to real property taxes, which could increase in the future as property tax rates change and as our properties are assessed or reassessed by tax authorities. Recent local government shortfalls in tax revenue may cause pressure to increase tax rates or assessment levels or impose new taxes. Such increases could adversely impact our profitability.

We must comply with the Americans with Disabilities Act and fire and safety regulations, 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, and other land use regulations. Compliance with these requirements can require us to spend substantial amounts of money, which would reduce cash otherwise available for distribution to shareholders. Failure to comply with these requirements could also affect the marketability of our real estate facilities.

We incur liability from tenant and employment-related claims: From time to time we have to make monetary settlements or defend actions or arbitration to resolve tenant or employment-related claims and disputes.

Development of properties can subject us to risks: As of December 31, 2016, we have a joint venture development for the purpose of developing a 395-unit multi-family project. Developments of this nature are subject to a number of risks, including construction delays, complications in obtaining necessary zoning, occupancy and other governmental permits, cost overruns, problems with our joint venture partner, financing risks, and the possible inability to meet expected occupancy and rent levels. If any of these problems occur, development costs for a project may increase, and there may be costs incurred for projects that are not completed. As a result of the foregoing, some properties may be worth less or may generate less revenue than, or simply not perform as well as, we believed at the time of development, negatively affecting our operating results. Any of the foregoing risks could adversely affect our financial condition, operating results and cash flow, and our ability to pay dividends on, and the market price of, our stock. 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 adversely affect our business, financial condition, growth and access to capital.

While there continues to be global economic uncertainty, United States unemployment levels and economic activity have improved. Economic conditions in the markets where we operate facilities, and other events or factors could adversely affect demand for commercial real estate, which could adversely affect our business. To the extent that turmoil in the financial markets returns or intensifies, it has the potential to materially affect the value of our properties, the availability or the terms of financing and may impact the ability of our customers to enter into new leasing transactions or satisfy rental payments under existing leases. The volatility and duration of an economic recovery could also affect our operating results and financial condition as follows:

Debt and Equity 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. Should the overall cost of borrowings increase, either by increases in the index rates or by increases in lender spreads, we will need to factor such increases into the economics of our acquisitions. In addition, the state of the debt markets could have an effect on the overall amount of capital being invested in real estate, which may result in price or value decreases of real estate assets and affect our ability to raise capital.

Our ability to issue preferred shares or obtain other sources of capital, such as borrowing, has been in the past, and may in the future, be adversely affected by challenging credit market conditions. The issuance of perpetual preferred securities historically has been a significant source of capital to grow our business. 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 preferred shares or borrow at reasonable rates, that could limit the earnings growth that might otherwise result from the acquisition and development of real estate facilities.

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.

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 which may jeopardize our realization of benefits from acquisitions.

Any failure to manage acquisitions and other significant transactions to achieve anticipated results and to successfully integrate acquired operations into our existing business could negatively impact our financial results: To fully realize anticipated earnings from an acquisition, we must successfully integrate the property into our operating platform. Failures or unexpected circumstances in the integration process, such as a failure to maintain existing relationships with tenants and employees due to changes in processes, standards, or compensation arrangements, or circumstances we did not detect during due diligence, could jeopardize realization of the anticipated earnings.

During 2016, we acquired two multi-tenant office buildings aggregating 226,000 square feet in Rockville, Maryland, for a purchase price of $13.3 million. The buildings are located within Shady Grove Executive Park, where we own three other buildings aggregating 352,000 square feet and we will continue to seek to acquire additional multi-tenant flex, industrial and office properties where they meet our criteria. Our belief, however, is subject to risks, uncertainties and other factors, many of which are forward-looking and are uncertain in nature or are beyond our control, including the risks that our acquisitions and developments may not perform as expected, we may be unable to quickly integrate new acquisitions and developments into our existing operations, and any costs to develop projects or redevelop acquired properties may exceed estimates. Further, 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.

In addition, some of these properties may have unknown characteristics or deficiencies or may not complement our portfolio of existing properties. We may also finance future acquisitions and developments through a combination of borrowings, proceeds from equity or debt offerings by us or the Operating Partnership, and proceeds from property divestitures. These financing options may not be available when desired or required or may be more costly than anticipated, which could adversely affect our cash flow. Real property development is subject to a number of risks, including construction delays, complications in obtaining necessary zoning, occupancy and other governmental permits, cost overruns, financing risks, and the possible inability to meet expected occupancy and rent levels. If any of these problems occur, development costs for a project may increase, and there may be costs incurred for projects that are not completed. As a result of the foregoing, some properties may be worth less or may generate less revenue than, or simply not perform as well as, we believed at the time of acquisition or development, negatively affecting our operating results. Any of the foregoing risks could adversely affect our financial condition, operating results and cash flow, and our ability to pay dividends on, and the market price of, our stock. In addition, we may be unable to successfully integrate and effectively manage the properties we do acquire and develop, which could adversely affect our results of operations.

Acquired properties are subject to property tax reappraisals which may increase our property tax expense: Facilities that we acquire are subject to property tax reappraisal which can result in substantial increases to the ongoing property taxes paid by the seller. The reappraisal process is subject to judgment of governmental agencies regarding estimated real estate values and other factors, and as a result there is a significant degree of uncertainty in estimating the property tax expense of an acquired property. In connection with 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.

Our cash flow would be reduced if we fail to qualify as a REIT: While we believe that we have qualified since 1990 to be taxed as a REIT, and will continue to be so qualified, we cannot be certain. To continue to qualify as a REIT, we need to satisfy certain requirements under the federal income tax laws relating to our income, assets, distributions to shareholders and shareholder base. In this regard, the share ownership limits in our articles of incorporation 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, we would be taxed at regular corporate tax rates on our taxable income unless certain relief provisions apply. Taxes would reduce our cash available for distributions to shareholders or for reinvestment, which could adversely affect us and our shareholders. Also we would not be allowed to elect REIT status for five years after we fail to qualify unless certain relief provisions apply.

We may need to borrow funds to meet our REIT distribution requirements: To qualify as a REIT, we must generally distribute to our shareholders 90% of our REIT taxable income. Our income consists primarily of our share of our Operating Partnership'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.

Subsequent to December 31, 2016, the Board of Directors of the Company (the "Board") increased its quarterly dividend from $0.75 per common share to $0.85 per common share, increasing quarterly distributions by $3.4 million per quarter.

The Board will continue to evaluate our dividend rate in light of our actual and projected taxable income, liquidity requirements and other circumstances, and there can be no assurance that the future dividends declared by our Board will not differ materially.

Potential changes in tax laws could negatively impact us.

The Trump Administration and the Republican-led Congress are exploring potential changes to United States tax law, such as reducing income tax rates, reducing the deductibility of interest, changing the allowable recovery periods for acquired assets, and eliminating or limiting many other deductions and credits. These potential changes, and others we may not be aware of, could have negative impacts such as reducing the value of our common stock, reducing our access to capital, or making the acquisition of real estate assets less attractive. In response, we may need to take actions such as changing our sources of capital, revising our capital allocation and asset acquisition strategy, or reconsidering our status as a REIT. Such responses could be costly, reduce cash available for distributions to shareholders, and present certain business and tax risks. We cannot predict whether, when, or to what extent new federal tax laws, regulations, interpretations or rulings will be adopted.

PS has significant influence over us.

As of December 31, 2016, PS owned 7.2 million shares of the Company's common stock and 7.3 million common units of the Operating Partnership (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 42.0% (or 14.5 million shares) of the outstanding shares of the Company's common stock at December 31, 2016. 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 the Board and Chief

Executive Officer of PS. Joseph D. Russell, Jr. is a director and former Chief Executive Officer of the Company and also President 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 Operating Partnership. 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 our Company without PS's approval.

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 Operating Partnership 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 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) even if it may be favorable to our public shareholders. 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 as they would 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 Operating Partnership to issue additional interests for cash or in exchange for property.

The partnership agreement of our Operating Partnership restricts mergers: The partnership agreement of our Operating Partnership generally provides that we may not merge or engage in a similar transaction unless the limited partners of our Operating Partnership are entitled to receive the same proportionate payments as our shareholders. In addition, we have agreed not to merge unless the merger would have been approved had the limited partners been able to vote together with our shareholders, which has 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 Operating Partnership may conflict with the interests of our common stockholders.

Limited partners of our Operating Partnership, 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 Operating Partnership, we are required to protect the interests of the limited partners of the Operating Partnership. 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 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 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.

There can also be no assurance that, in response to current economic conditions or the current political environment or otherwise, laws and regulations will not be implemented or changed in ways that adversely affect our operating results and financial condition, such as recently adopted legislation that expands health care coverage costs or facilitates union activity or federal legislative proposals to otherwise increase operating costs.

Terrorist attacks and the possibility of wider armed conflict may have an adverse impact on our business and operating results and could decrease the value of our assets.

Terrorist attacks and other acts of violence or war could have a material adverse impact on our business and operating results. There can be no assurance that there will not be further terrorist attacks against the U.S. Attacks or armed conflicts that directly impact one or more of our properties could significantly affect our ability to operate those properties and thereby impair our operating results. Further, we may not have insurance coverage for losses caused by a terrorist attack. Such insurance may not be available, or if it is available and we decide to obtain such terrorist coverage, the cost for the insurance may be significant in relationship to the risk overall. In addition, the adverse effects that such violent acts and threats of future attacks could have on the U.S. economy could similarly have a material adverse effect on our business and results of operations. Finally, further terrorist acts could cause the U.S. to enter into a wider armed conflict, which could further impact our business and operating results.

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.

Our shares of preferred stock are entitled to cumulative dividends before any dividends may be declared or set aside on our common stock. Upon our voluntary or involuntary liquidation, dissolution or winding up, 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. This will reduce the remaining amount of our assets, if any, available to distribute to holders of our common stock. 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.

Future issuances by us of shares of our common stock may be dilutive to existing stockholders, and future sales of shares of our common stock may adversely affect the market price of our common stock.

Sales of substantial amounts of shares of our common stock in the public market (either by us or by PS), or issuances of shares of common stock in connection with redemptions of common units of our Operating Partnership, could adversely affect the market price of our common stock. The Company may seek to engage in common stock offerings in the future. Offerings of common stock, including by us in connection with portfolio or other property acquisitions or by PS in secondary offerings, and the issuance of common units of the Operating Partnership in exchange for shares of common stock, could have an adverse effect on the market price of the shares of our common stock.

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. Although we believe we have taken commercially reasonable steps to protect the security of our systems, there can be no assurance that such security measures will prevent failures, inadequacies or interruptions in system services, or that system security will not be breached. Disruptions in service, system shutdowns and security breaches could have a material adverse effect on our business.

ITEM 1B. *UNRESOLVED STAFF COMMENTS*

None.

ITEM 2. ***PROPERTIES***

As of December 31, 2016, the Company owned 99 business parks consisting of a geographically diverse portfolio of 28.1 million rentable square feet of commercial real estate which consists of 14.6 million square feet of flex space, 8.8 million square feet of industrial space and 4.7 million square feet of office space. The weighted average occupancy rate throughout 2016 was 94.0% and the realized rent per square foot was $14.61.

The following table reflects the geographical diversification of the 99 business parks owned by the Company as of December 31, 2016, the type of the rentable square footage and the weighted average occupancy rates throughout 2016 (except as set forth below, all of the properties are held in fee simple interest) *(in thousands, except number of business parks)*:

State	Number of Business Parks	Rentable Square Footage				Weighted Average Occupancy Rate
		Flex	Industrial	Office	Total	
California	47	5,539	4,618	1,076	11,233	96.2%
Texas (1)	23	4,611	477	—	5,088	92.8%
Virginia	17	1,947	—	1,970	3,917	92.3%
Florida	3	1,074	2,780	12	3,866	94.0%
Maryland	6	970	—	1,608	2,578	86.2%
Washington	3	411	951	28	1,390	98.5%
Total	99	14,552	8,826	4,694	28,072	94.0%

(1) The Company owns two properties comprising of 232,000 square feet that are subject to ground leases in Las Colinas, Texas, expiring in 2019 and 2020, each with one 10-year extension option.

While we currently anticipate that each of the properties listed above will continue to be used for its current purpose. Management will from time to time evaluate its properties from a highest and best use perspective. Competition exists in each of the market areas in which these properties are located.

The Company renovates its properties in connection with the re-leasing of space to tenants and expects that it will fund the costs of such renovations from rental income. From time to time the Company may identify higher and better use of its assets. The Company has risks that tenants will default on leases and declare bankruptcy. Management believes these risks are mitigated through the Company's geographic diversity and diverse tenant base.

The Company evaluates the performance of its business parks primarily based on NOI. NOI is defined by the Company as rental income as defined by GAAP less cost of operations as defined by GAAP, excluding depreciation and amortization. NOI is a non-GAAP financial measure that is often used by investors to determine the performance and value of commercial real estate. Management believes NOI provides the most consistent measurement on a comparative basis of the performance of the commercial real estate and its contribution to the value of the Company. Depreciation and amortization have been excluded from NOI as they are generally not used in determining the value of commercial real estate by management or the investment community. Depreciation and amortization are generally not used in determining value as they consider the historical costs of an asset compared to its current value; therefore, to understand the effect of the assets' historical cost on the Company's results, investors should look at GAAP financial measures, such as total operating costs including depreciation and amortization. The Company's calculation of NOI may not be comparable to those of other companies and should not be used as an alternative to measures of performance calculated in accordance with GAAP. Following the table below, we have reconciled total NOI to net income, which we consider the most directly comparable financial measure calculated in accordance with GAAP. The following information illustrates adjusted rental income, adjusted cost of operations and NOI generated by the Company's total portfolio in 2016, 2015 and 2014 by state and by property classifications. Assets disposed of or transferred to development are reflected as assets sold or held for development.

The Company's calculation of NOI may not be comparable to those of other companies and should not be used as an alternative to measures of performance in accordance with GAAP. In order to provide a meaningful period-to-period comparison, adjusted rental income in the tables below exclude a material lease buyout payment noted below and adjusted cost of operations exclude amortization of the Senior Management Long-Term Equity Incentive Plan ("LTEIP") related to field leadership. The tables below also include a reconciliation of NOI to the most comparable amounts based on GAAP *(in thousands)*:

	For the Year Ended December 31, 2016				For the Year Ended December 31, 2015				For the Year Ended December 31, 2014			
	Flex	Office	Industrial	Total	Flex	Office	Industrial	Total	Flex	Office	Industrial	Total
Adjusted Rental Income:												
California	$ 80,698	$ 24,228	$42,436	$147,362	$ 76,883	$ 21,658	$38,917	$137,458	$ 69,606	$ 19,890	$37,291	$126,787
Texas	55,766	—	3,311	59,077	50,699	—	2,684	53,383	45,881	—	1,564	47,445
Virginia	32,390	43,895	—	76,285	32,249	44,948	—	77,197	32,108	45,571	—	77,679
Florida	13,073	245	24,835	38,153	12,677	169	22,553	35,399	12,180	285	21,538	34,003
Maryland	15,757	31,350	—	47,107	15,390	33,494	—	48,884	15,667	33,585	—	49,252
Washington	7,729	597	6,747	15,073	7,516	586	6,371	14,473	6,875	568	5,052	12,495
Assets sold or held for development	—	3,286	—	3,286	2,711	3,630	—	6,341	22,223	6,371	—	28,594
Total	205,413	103,601	77,329	386,343	198,125	104,485	70,525	373,135	204,540	106,270	65,445	376,255
Adjusted Cost of Operations:												
California	22,508	9,210	9,755	41,473	22,368	9,234	9,523	41,125	21,701	9,094	9,118	39,913
Texas	19,836	—	1,016	20,852	18,657	—	967	19,624	16,977	—	431	17,408
Virginia	9,764	15,730	—	25,494	9,615	15,497	—	25,112	9,483	15,395	—	24,878
Florida	3,871	69	6,638	10,578	4,016	95	6,774	10,885	3,895	120	6,491	10,506
Maryland	5,215	11,677	—	16,892	5,328	10,806	—	16,134	5,709	11,765	—	17,474
Washington	2,004	193	1,714	3,911	2,059	200	1,671	3,930	1,983	202	1,652	3,837
Assets sold or held for development	—	905	—	905	1,242	702	—	1,944	8,823	1,909	—	10,732
Total	63,198	37,784	19,123	120,105	63,285	36,534	18,935	118,754	68,571	38,485	17,692	124,748
NOI:												
California	58,190	15,018	32,681	105,889	54,515	12,424	29,394	96,333	47,905	10,796	28,173	86,874
Texas	35,930	—	2,295	38,225	32,042	—	1,717	33,759	28,904	—	1,133	30,037
Virginia	22,626	28,165	—	50,791	22,634	29,451	—	52,085	22,625	30,176	—	52,801
Florida	9,202	176	18,197	27,575	8,661	74	15,779	24,514	8,285	165	15,047	23,497
Maryland	10,542	19,673	—	30,215	10,062	22,688	—	32,750	9,958	21,820	—	31,778
Washington	5,725	404	5,033	11,162	5,457	386	4,700	10,543	4,892	366	3,400	8,658
Assets sold or held for development	—	2,381	—	2,381	1,469	2,928	—	4,397	13,400	4,462	—	17,862
Total	$142,215	$ 65,817	$58,206	$266,238	$134,840	$ 67,951	$51,590	$254,381	$135,969	$ 67,785	$47,753	$251,507

The following table reconciles NOI to net income as determined by GAAP *(in thousands)*:

	For The Years Ended December 31,		
	2016	2015	2014
Total NOI	$266,238	$ 254,381	$ 251,507
Other income and (expenses):			
Lease buyout payment (1)	528	—	—
LTEIP amortization:			
Cost of operations	(3,003)	(2,470)	(2,623)
General and administrative	(6,758)	(5,766)	(4,802)
Facility management fees	518	540	660
Other income and (expenses)	(4,949)	(12,740)	(13,221)
Depreciation and amortization	(99,486)	(105,394)	(110,357)
Adjusted general and administrative (2)	(7,776)	(7,816)	(8,487)
Acquisition transaction costs	(328)	—	(350)
Gain on sale of real estate facilities	—	28,235	92,373
Net income	$144,984	$ 148,970	$ 204,700

(1) Represents a material lease buyout payment recorded in 2016 associated with a 58,000 square foot lease in Northern Virginia.

(2) Adjusted general and administrative expenses exclude LTEIP amortization and acquisition transaction costs.

Portfolio Information

The table below sets forth information with respect to occupancy and rental rates of the Company's total portfolio for each of the last five years, including discontinued operations:

	2016(1)	2015	2014	2013(1)	2012(1)
Weighted average occupancy rate	94.0%	92.8%	91.3%	89.9%	89.4%
Realized rent per square foot	$14.61	$14.27	$14.00	$13.91	$14.05

(1) Excludes material lease buyout payments of $528,000, $2.3 million and $1.8 million for the years ended December 31, 2016, 2013 and 2012, respectively.

The following table sets forth the lease expirations for all operating assets as of December 31, 2016 *(dollars and square feet in thousands)*:

Lease Expirations as of December 31, 2016

Year of Lease Expiration	Number of Tenants	Rentable Square Footage Subject to Expiring Leases	Annualized Rental Income Under Expiring Leases	Percent of Annualized Rental Income Represented by Expiring Leases
2017	2,217	6,346	$ 92,499	22.6%
2018	1,360	6,029	95,187	23.2%
2019	677	5,301	77,784	19.0%
2020	316	3,409	50,482	12.3%
2021	225	2,138	32,568	8.0%
2022	50	1,226	22,204	5.4%
2023	24	707	10,226	2.5%
2024	11	509	8,345	2.0%
2025	18	472	11,379	2.8%
2026	16	160	4,160	1.0%
Thereafter	7	169	4,823	1.2%
Total	4,921	26,466	$409,657	100.0%

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 for negligence and other 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 Price of the Registrant's Common Equity:

The common stock of the Company trades on the NYSE under the symbol PSB. The following table sets forth the high and low sales prices of the common stock on the NYSE for the applicable periods:

	Range		Dividends
Three Months Ended	**High**	**Low**	**Declared**
March 31, 2015	$ 88.92	$ 76.93	$0.50
June 30, 2015	$ 84.25	$ 71.14	$0.50
September 30, 2015	$ 79.95	$ 70.15	$0.60
December 31, 2015	$ 90.25	$ 77.00	$0.60
March 31, 2016	$102.52	$ 81.27	$0.75
June 30, 2016	$106.17	$ 94.88	$0.75
September 30, 2016	$117.00	$104.44	$0.75
December 31, 2016	$117.35	$102.32	$0.75

Holders:

As of February 20, 2017, there were 315 holders of record of the common stock.

Dividends:

Holders of common stock are entitled to receive distributions when, as and if declared by our Board out of any funds legally available for that purpose. The Company is required to distribute at least 90% of its REIT taxable income prior to the filing of the Company's tax return to maintain its REIT status for federal income tax purposes. It is management's intention to pay distributions of not less than these required amounts.

Subsequent to December 31, 2016, the Board increased its quarterly dividend from $0.75 per common share to $0.85 per common share, increasing quarterly distributions by $3.4 million per quarter.

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 previously 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, 2016, there were no shares of the Company's common stock repurchased. As of December 31, 2016, 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:

The equity compensation plan information is provided in Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

ITEM 6. *SELECTED FINANCIAL DATA*

The following sets forth selected consolidated financial and operating information on a historical basis 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,				
	2016	2015	2014	2013	2012
	(In thousands, except per share data)				
Revenues:					
Rental income	$386,871	$373,135	$376,255	$359,246	$346,548
Facility management fees	518	540	660	639	649
Total operating revenues	387,389	373,675	376,915	359,885	347,197
Expenses:					
Cost of operations	123,108	121,224	127,371	114,831	114,108
Depreciation and amortization	99,486	105,394	110,357	108,917	109,398
General and administrative	14,862	13,582	13,639	5,312	8,919
Total operating expenses	237,456	240,200	251,367	229,060	232,425
Other income and (expenses):					
Interest and other income	715	590	372	1,485	241
Interest and other expenses	(5,664)	(13,330)	(13,593)	(16,166)	(20,618)
Total other income and (expenses)	(4,949)	(12,740)	(13,221)	(14,681)	(20,377)
Gain on sale of real estate facilities	—	28,235	92,373	—	—
Income from continuing operations	144,984	148,970	204,700	116,144	94,395
Discontinued operations:					
Income from discontinued operations (1)	—	—	—	—	42
Gain on sale of real estate facilities	—	—	—	—	935
Total discontinued operations	—	—	—	—	977
Net income	$144,984	$148,970	$204,700	$116,144	$ 95,372
Net income allocation:					
Net income allocable to noncontrolling interests:					
Noncontrolling interests — common units	$ 16,955	$ 18,495	$ 30,729	$ 12,952	$ 5,970
Noncontrolling interests — preferred units	—	—	—	—	323
Total net income allocable to noncontrolling interests	16,955	18,495	30,729	12,952	6,293
Net income allocable to PS Business Parks, Inc.:					
Preferred shareholders	64,588	61,885	60,488	59,216	69,136
Restricted stock unit holders	569	299	329	125	138
Common shareholders	62,872	68,291	113,154	43,851	19,805
Total net income allocable to PS Business Parks, Inc.	128,029	130,475	173,971	103,192	89,079
Net income	$144,984	$148,970	$204,700	$116,144	$ 95,372

	For The Years Ended December 31,				
	2016	2015	2014	2013	2012
	(In thousands, except per share data)				
Per Common Share:					
Cash Distributions (2)	$ 3.00	$ 2.20	$ 4.75	$ 1.76	$ 1.76
Net income — basic	$ 2.32	$ 2.53	$ 4.21	$ 1.77	$ 0.82
Net income — diluted	$ 2.31	$ 2.52	$ 4.19	$ 1.77	$ 0.81
Weighted average common shares — basic	27,089	26,973	26,899	24,732	24,234
Weighted average common shares — diluted	27,179	27,051	27,000	24,833	24,323
Balance Sheet Data:					
Total assets	$2,119,371	$2,186,658	$2,227,114	$2,238,559	$2,151,817
Total debt	$ —	$ 250,000	$ 250,000	$ 250,000	$ 468,102
Preferred stock called for redemption	$ 230,000	$ —	$ —	$ —	$ —
Equity:					
PS Business Parks, Inc.'s shareholders' equity:					
Preferred stock	$ 879,750	$ 920,000	$ 995,000	$ 995,000	$ 885,000
Common stock	$ 733,509	$ 740,496	$ 718,281	$ 722,941	$ 560,689
Noncontrolling interests:					
Common units	$ 197,455	$ 200,103	$ 194,928	$ 196,699	$ 168,572
Other Data:					
Net cash provided by operating activities	$ 250,507	$ 238,839	$ 228,180	$ 222,680	$ 209,576
Net cash (used in) provided by investing activities	$ (85,008)	$ 3,131	$ 113,188	$ (172,872)	$ (105,729)
Net cash used in financing activities	$ (225,782)	$ (205,525)	$ (220,382)	$ (31,210)	$ (95,944)
Square footage owned at the end of period	28,072	27,969	28,550	29,740	28,208

(1) Prior to the adoption of the new guidance for reporting discontinued operations and disposal of components of an entity, the operating results from assets classified as properties held for disposition prior to December 31, 2013 are included in discontinued operations for the years ended December 31, 2012 and 2013. Subsequent to the adoption, the operating results from assets sold after January 1, 2014 are included in income from continuing operations.

(2) Amount includes a $2.75 per common share special cash dividend for the year ended December 31, 2014.

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.

Overview

All operating metrics discussed in this section as of and for the years ended December 31, 2016, 2015 and 2014 exclude assets sold or held for development. Management believes excluding the results of such assets provides the most relevant perspective on the ongoing operations of the Company. Please refer to "Item 15. Exhibits and Financial Statement Schedules" for financial metrics that include results from assets sold or held for development.

The Company focuses on increasing profitability and cash flow aimed at maximizing shareholder value. The Company strives 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. The Company also acquires properties it believes will create long-term value, and from time to time disposes of properties which no longer fit within the Company's strategic objectives. Operating results are driven primarily by income from rental operations and are therefore substantially influenced by demand for rental space within our properties and our markets, which impacts occupancy, rental rates and capital requirements.

During 2016, the Company executed leases comprising 7.6 million square feet of space including 5.1 million square feet of renewals of existing leases and 2.5 million square feet of new leases. Overall, the change in rental rates for the Company continued to improve. See further discussion of operating results below.

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 most critical accounting policies relate to revenue recognition, property acquisitions, allowance for doubtful accounts, impairment of long-lived assets, depreciation, accruals of operating expenses and accruals for contingencies, each of which are more fully discussed below.

Revenue Recognition: The Company must meet four basic criteria before revenue can be recognized: persuasive evidence of an arrangement exists; the delivery has occurred or services have been rendered; the fee is fixed or determinable; and collectability is reasonably assured. All leases are classified as operating leases. Rental income is recognized on a straight-line basis over the terms of the leases. Straight-line rent is recognized for all tenants with contractual fixed increases in rent that are not included on the Company's credit watch list. Deferred rent receivable represents rental revenue recognized on a straight-line basis in excess of billed rents. Reimbursements from tenants for real estate taxes and other recoverable operating expenses are recognized as rental income in the period the applicable costs are incurred. Property management fees are recognized in the period earned.

Property Acquisitions: The purchase price of acquired properties is recorded to land, buildings and improvements (including tenant improvements, unamortized lease commissions, acquired in-place lease values, and tenant relationships, if any) and intangible assets and liabilities associated with the value of above-market and below-market leases based on their respective estimated fair values. Acquisition related costs are expensed as incurred.

In determining the fair value of the tangible assets of the acquired properties, management considers the value of the properties as if vacant as of the acquisition date. Management must make significant assumptions in determining the value of assets acquired and liabilities assumed. Using different assumptions in the recording of the purchase cost of the acquired properties would affect the timing of recognition of the related revenue and expenses. Amounts recorded to land are derived from comparable sales of land within the same region. Amounts recorded to buildings and improvements, tenant improvements and unamortized lease commissions are based on current market replacement costs and other market information.

The value recorded to the above-market or below-market in-place lease values of acquired properties is determined based upon the present value (using a discount rate which reflects the risks associated with the acquired leases) of the difference between (i) the contractual rents to be paid pursuant to the in-place leases, and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease. The amounts recorded to above-market or below-market leases are included in other assets or other liabilities in the accompanying consolidated balance sheets and are amortized on a straight-line basis as an increase or reduction of rental income over the remaining non-cancelable term of the respective leases.

Allowance for Doubtful Accounts: Rental revenue from our tenants is our principal source of revenue. Tenant receivables consist primarily of amounts due for contractual lease payments, reimbursements of common area maintenance expenses, property taxes and other expenses recoverable from tenants. Deferred rent receivable represents the amount that the cumulative straight-line rental income recorded to date exceeds cash rents billed to date under the lease agreement. We monitor the collectability of our receivable balances including the deferred rent receivable on an ongoing basis. Based on these reviews, we maintain an allowance for doubtful accounts for estimated losses resulting from the possible inability of our tenants to make contractual rent payments to us. Tenant receivables and deferred rent receivable are carried net of the allowances for uncollectible tenant receivables and deferred rent. Determination of the adequacy of these allowances requires significant judgments and estimates, and our evaluation of the adequacy of the allowance for uncollectible current tenant receivables and deferred rent receivable are performed using a methodology that incorporates specific identification, aging analysis, an overall evaluation of the historical loss trends and the current economic and business environment.

Impairment of Long-Lived Assets: The Company evaluates a property for potential impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. On a quarterly basis, we evaluate our entire portfolio for impairment based on current operating information. In the event that these periodic assessments reflect that the carrying amount of a property exceeds the sum of the undiscounted cash flows (excluding interest) that are expected to result from the use and eventual disposition of the property, the Company would recognize an impairment loss to the extent the carrying amount exceeded the estimated fair value of the property. The estimation of expected future net cash flows is inherently uncertain and relies on subjective assumptions dependent upon future and current market conditions and events that affect the ultimate value of the property. Management must make assumptions related to the property such as future rental rates, tenant allowances, operating expenditures, property taxes, capital improvements, occupancy levels and the estimated proceeds generated from the future sale of the property. These assumptions could differ materially from actual results in future periods. Our intent to hold properties over the long-term directly decreases the likelihood of recording an impairment loss. If our strategy changes or if market conditions otherwise dictate an earlier sale date, an impairment loss could be recognized, and such loss could be material.

Depreciation: We compute depreciation on our buildings and improvements using the straight-line method based on estimated useful lives generally ranging from five to 30 years. A significant portion of the acquisition cost of each property is recorded to building and building components. The recording of the acquisition cost to building and building components, as well as the determination of their useful lives, are based on estimates. If we do not appropriately record to these components or we incorrectly estimate the useful lives of these components, our computation of depreciation expense may not appropriately reflect the actual impact of these costs over future periods, which will affect net income. In addition, the net book value of real estate assets could be overstated or understated. The statement of cash flows, however, would not be affected.

Accruals of Operating Expenses: The Company accrues for property tax expenses, performance bonuses and other operating expenses each quarter based on historical trends and anticipated disbursements. If these estimates are incorrect, the timing and amount of expense recognized will be affected.

Accruals for Contingencies: The Company is exposed to business and legal liability risks with respect to events that may have occurred, but in accordance with GAAP has not accrued for such potential liabilities

because the loss is either not probable or not estimable. Future events could result in such potential losses becoming probable and estimable, which could have a material adverse impact on our financial condition or results of operations.

Effect of Economic Conditions on the Company's Operations: Throughout 2016, most markets continued to reflect favorable conditions allowing for stable to improving occupancy as well as increasing rental rates. With the exception of the Virginia and Maryland markets, new rental rates for the Company improved over expiring rental rates on executed leases as economic conditions and tenant demand remained healthy. The Virginia and Maryland markets continue to experience soft market conditions as evidenced by continued pressure on occupancy and rental rates. In these markets, rental rates on executed leases declined 7.2% and 5.7%, respectively, over expiring rents for the year ended December 31, 2016. Given lease expirations of 925,000 square feet in Virginia and 334,000 square feet in Maryland through December 31, 2017, the Company may continue to experience a decrease in rental income in these markets.

Tenant Credit Risk: The Company historically has experienced a low level of write-offs of uncollectable rents, but there is inherent uncertainty in a tenant's ability to continue paying rent and meet its full lease obligation. The table below summarizes the impact to the Company from tenants' inability to pay rent or continue to meet their lease obligations *(in thousands)*:

	For The Years Ended December 31,		
	2016	**2015**	**2014**
Annual write-offs of uncollectible rent	$855	$919	$1,101
Annual write-offs as a percentage of rental income	0.2%	0.2%	0.3%
Square footage of leases terminated prior to their scheduled expiration due to business failures/bankruptcies	378	473	362
Accelerated depreciation and amortization related to unamortized tenant improvements and lease commissions associated with early terminations	$747	$539	$ 460

As of February 20, 2017, the Company had 64,000 square feet of leased space occupied by three tenants that are protected by Chapter 11 of the U.S. Bankruptcy Code. From time to time, tenants contact us, requesting early termination of their lease, reductions in space under lease, or rent deferment or abatement. At this time, the Company cannot anticipate what impact, if any, the ultimate outcome of these discussions will have on our future operating results.

Company Performance and Effect of Economic Conditions on Primary Markets: During the year ended December 31, 2016, initial rental rates on new and renewed leases within the Company's total portfolio increased 5.3% over expiring rents, an improvement from the year ended December 31, 2015, in which initial rental rates on new and renewed leases increased 4.4%. The Company's Same Park (defined below) occupancy rate at December 31, 2016 was 95.0%, compared to 94.7% at December 31, 2015. The Company's total portfolio occupancy rate at December 31, 2016 was 94.4% compared to 94.8% at December 31, 2015. The decrease is tied to the September 2016 acquisition of two buildings in Maryland comprising 226,000 square feet that were 18.5% leased at December 31, 2016. The Company's operations are substantially concentrated in eight regions. Each of the eight regions in which the Company owns assets is subject to its own unique market influences. See "Supplemental Property Data and Trends" below for more information on regional operating data.

Effect of Acquisitions, Development and Dispositions of Properties on the Company's Operations: The Company is focused on growing its operations by looking for opportunities to expand its presence in existing and new markets through strategic acquisitions that meet the Company's focus on multi-tenant flex, industrial and office parks in markets where it has or may obtain a substantial market presence. The Company may also from time to time dispose of assets based on market conditions.

On September 28, 2016, the Company acquired two multi-tenant office buildings aggregating 226,000 square feet in Rockville, Maryland, for a purchase price of $13.3 million. The buildings, which were 18.5% leased at the time of acquisition, are located within Shady Grove Executive Park, where the Company owns three other buildings aggregating 352,000 square feet, which were 85.2% leased as of December 31, 2016.

As of December 31, 2016, the blended occupancy rate of the six assets acquired during 2014 and 2016, which comprise the 904,000 square feet of Non-Same Park portfolio (defined below), was 76.9% compared to a blended occupancy rate of 39.7% at the time of acquisition. As of December 31, 2016, the Company had 209,000 square feet of vacant space spread over these acquisitions, which we believe provides the Company with the opportunity to generate additional rental income given that the Company's Same Park assets in these same submarkets have a weighted average occupancy of 95.1% at December 31, 2016. The table below contains the assets acquired during 2014 and 2016 *(dollars and square feet in thousands)*:

Property	Date Acquired	Location	Purchase Price	Square Feet	Occupancy at Acquisition	Occupancy at December 31, 2016
Shady Grove	September, 2016	Rockville, Maryland	$13,250	226	18.5%	18.5%
Charcot Business Park II	December, 2014	San Jose, California	16,000	119	96.7%	98.3%
McNeil 1	November, 2014	Austin, Texas	10,550	246	53.3%	100.0%
Springlake Business Center II	August, 2014	Dallas, Texas	5,148	145	35.4%	85.4%
Arapaho Business Park 9	July, 2014	Dallas, Texas	1,134	19	100.0%	91.5%
MICC — Center 23	July, 2014	Miami, Florida	12,725	149	0.0%	100.0%
Total			**$58,807**	**904**	**39.7%**	**76.9%**

As of November 1, 2016, the Company transferred a 123,000 square foot building located in Tysons, Virginia to land and building held for development.

During 2015, the Company completed the sale of assets in Tempe, Arizona, Sacramento, California, Milwaukie, Oregon and Redmond, Washington. The assets sold aggregated 574,000 square feet and generated net proceeds of $55.2 million, which resulted in an aggregate gain of $28.2 million.

During 2014, the Company sold five business parks aggregating 1.9 million square feet and 11.5 acres of land in non-strategic markets, including Portland, Oregon and Phoenix, Arizona, for net proceeds of $212.2 million, which resulted in a gain of $92.4 million.

PSB holds a 95.0% interest in the Joint Venture with the remaining 5.0% held by the JV Partner. The aggregate amount of development costs are estimated to be $105.6 million (excluding unrealized land appreciation), of which the Company is committed to funding $75.0 million through a construction loan. The Company's investment in and advances to unconsolidated joint venture was $67.2 million as of December 31, 2016. The Project is expected to deliver its first completed units in the spring of 2017, with final completion of the Project expected in early 2018.

Scheduled Lease Expirations: In addition to the 1.6 million square feet, or 5.6%, of vacancy in our total portfolio as of December 31, 2016, 2,217 leases, representing 6.3 million square feet, or 24.0% of the leased square footage of our total portfolio are scheduled to expire in 2017. Our ability to re-lease available space will depend upon market conditions in the specific submarkets in which our properties are located. As a result, we cannot predict with certainty the rate at which expiring leases will be re-leased.

Impact of Inflation: Although inflation has not been significant in recent years, it remains a potential factor in our economy, and the Company continues to seek ways to mitigate its potential impact. A substantial portion of the Company's leases require tenants 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.

To present comparative results, for the purpose of computing NOI, the tables below exclude amortization of the Senior Management Long-Term Equity Incentive Plan ("LTEIP") for the years ended December 31, 2016, 2015 and 2014.

Concentration of Portfolio by Region: The table below reflects the Company's square footage based on regional concentration as of December 31, 2016. As part of the table below, we have reconciled total NOI to net income *(in thousands)*:

Region	Square Footage	Percent of Square Footage	2016 NOI	Percent of NOI
California				
Northern California	7,245	25.7%	$ 63,776	24.2%
Southern California	3,988	14.2%	42,113	16.0%
Texas				
Northern Texas	3,125	11.1%	20,245	7.7%
Southern Texas	1,963	7.0%	17,980	6.8%
Virginia	3,917	14.0%	50,791	19.2%
Florida	3,866	13.8%	27,575	10.4%
Maryland	2,578	9.2%	30,215	11.5%
Washington	1,390	5.0%	11,162	4.2%
Total	28,072	100.0%	$263,857	100.0%

Reconciliation of NOI to net income

Total NOI	$ 263,857
Other income and (expenses):	
NOI from assets sold or held for development	2,381
Lease buyout payment	528
LTEIP amortization:	
Cost of operations	(3,003)
General and administrative	(6,758)
Facility management fees	518
Other income and (expenses)	(4,949)
Depreciation and amortization	(99,486)
Adjusted general and administrative	(7,776)
Acquisition transaction costs	(328)
Net income	$ 144,984

Concentration of Credit Risk by Industry: The information below depicts the industry concentration of our tenant base as of December 31, 2016. The Company analyzes this concentration to minimize significant industry exposure risk.

Industry	Percent of Annualized Rental Income
Business services	18.5%
Warehouse, distribution, transportation and logistics	10.6%
Health services	10.0%
Computer hardware, software and related services	9.8%
Government	8.0%
Retail, food, and automotive	7.3%
Engineering and construction	6.9%
Insurance and financial services	4.2%
Electronics	3.1%
Home furnishings	3.1%
Aerospace/defense products and services	2.8%
Communications	2.2%
Educational services	1.7%
Other	11.8%
Total	100.0%

The information below depicts the Company's top 10 customers by annualized rental income as of December 31, 2016 *(in thousands)*:

Tenants	Square Footage	Annualized Rental Income(1)	Percent of Annualized Rental Income
US Government	692	$17,725	4.6%
Lockheed Martin Corporation	168	4,524	1.2%
Kaiser Permanente	158	4,142	1.1%
Keeco, L.L.C.	460	3,527	0.9%
Luminex Corporation	185	3,239	0.8%
MAXIMUS, Inc.	102	2,062	0.5%
KZ Kitchen Cabinet & Stone	181	1,985	0.5%
Investorplace Media, LLC	46	1,802	0.5%
Inova Health Care Services	63	1,779	0.5%
Kuehne + Nagel, Inc.	163	1,675	0.4%
Total	2,218	$42,460	11.0%

(1) For leases expiring prior to December 31, 2017, annualized rental income represents income to be received under existing leases from January 1, 2017 through the date of expiration.

Comparison of 2016 to 2015

Results of Operations: Net income for the year ended December 31, 2016 was $145.0 million compared to $149.0 million for the year ended December 31, 2015. Net income allocable to common shareholders for the year ended December 31, 2016 was $62.9 million compared to $68.3 million for the year ended December 31, 2015. Net income per common share on a diluted basis was $2.31 for the year ended December 31, 2016 compared to $2.52 for the year ended December 31, 2015 (based on weighted average diluted common shares outstanding of 27,179,000 and 27,051,000, respectively). The decrease in net income allocable to common shareholders was primarily due to gain on sale of assets reported in 2015 partially offset by an increase in overall NOI and lower interest expense in 2016.

In order to evaluate the performance of the Company's portfolio over comparable periods, management analyzes the operating performance of properties owned and operated throughout both periods (herein referred to as "Same Park"). The Same Park portfolio includes all operating properties acquired prior to January 1, 2014. Operating properties acquired subsequently are referred to as "Non-Same Park." For the years ended December 31, 2016 and 2015, the Same Park facilities constitute 27.2 million rentable square feet, representing 96.8% of the 28.1 million square feet in the Company's total portfolio as of December 31, 2016.

The following table presents the operating results of the Company's properties for the years ended December 31, 2016 and 2015 in addition to other income and expenses items affecting net income *(in thousands, except per square foot data)*:

	For The Years Ended December 31,		
	2016	**2015**	**Change**
Adjusted rental income:			
Same Park (27.2 million rentable square feet)	$376,023	$ 361,510	4.0%
Non-Same Park (904,000 rentable square feet)	7,034	5,284	33.1%
Total adjusted rental income (1)	383,057	366,794	4.4%
Adjusted cost of operations:			
Same Park	116,803	114,675	1.9%
Non-Same Park	2,397	2,135	12.3%
Total adjusted cost of operations (2)	119,200	116,810	2.0%
Net operating income:			
Same Park	259,220	246,835	5.0%
Non-Same Park	4,637	3,149	47.3%
Total net operating income	263,857	249,984	5.5%
Other income and (expenses):			
NOI from assets sold or held for development (1) (2)	2,381	4,397	(45.8%)
Lease buyout payment	528	—	100.0%
LTEIP amortization:			
Cost of operations	(3,003)	(2,470)	21.6%
General and administrative	(6,758)	(5,766)	17.2%
Facility management fees	518	540	(4.1%)
Other income and (expenses)	(4,949)	(12,740)	(61.2%)
Depreciation and amortization	(99,486)	(105,394)	(5.6%)
Adjusted general and administrative (3)	(7,776)	(7,816)	(0.5%)
Acquisition transaction costs	(328)	—	(100.0%)
Gain on sale of real estate facilities	—	28,235	(100.0%)
Net income	$144,984	$ 148,970	(2.7%)
Same Park gross margin (4)	68.9%	68.3%	0.9%
Same Park weighted average occupancy	94.1%	93.1%	1.1%
Non-Same Park weighted average occupancy	89.8%	80.8%	11.1%
Same Park realized rent per square foot (5)	$ 14.71	$ 14.29	2.9%

(1) Adjusted rental income excludes a material lease buyout payment of $528,000 recorded in 2016 and rental income from assets sold or held for development of $3.3 million and $6.3 million for the years ended December 31, 2016 and 2015, respectively.

(2) Adjusted cost of operations excludes LTEIP amortization of $3.0 million and $2.5 million for the years ended December 31, 2016 and 2015, respectively, as well as, cost of operations from assets sold or held for development of $905,000 and $1.9 million for the years ended December 31, 2016 and 2015, respectively.

(3) Adjusted general and administrative expenses exclude LTEIP amortization of $6.8 million and $5.8 million for the years ended December 31, 2016 and 2015, respectively, as well as, acquisition transaction costs of $328,000 recorded during 2016.

(4) Computed by dividing Same Park NOI by Same Park adjusted rental income.

(5) Represents the annualized Same Park adjusted rental income earned per occupied square foot.

Rental Income: Rental income increased $13.7 million, or 3.7%, from $373.1 million for the year ended December 31, 2015 to $386.9 million for the year ended December 31, 2016. For comparative purposes, management has adjusted rental income for a material lease buyout payment of $528,000 recorded in 2016 and rental income from assets sold or held for development of $3.3 million and $6.3 million for the years ended December 31, 2016 and 2015, respectively. Adjusted rental income increased $16.3 million from $366.8 million for the year ended December 31, 2015 to $383.1 million for the year ended December 31, 2016 as a result of an increase in the Same Park portfolio of $14.5 million, or 4.0%, combined with a $1.8 million, or 33.1%, increase from Non-Same Park facilities. The Same Park increase was due to increases in occupancy and executed rental rates.

Facility Management Fees: Facility management fees, derived from PS, account for a small portion of the Company's revenues. During the year ended December 31, 2016, $518,000 of revenue was recognized from facility management fees compared to $540,000 for the year ended December 31, 2015.

Cost of Operations: Cost of operations increased $1.9 million, or 1.6%, from $121.2 million for the year ended December 31, 2015 to $123.1 million for the year ended December 31, 2016. For comparative purposes, management has adjusted cost of operations for LTEIP amortization of $3.0 million and $2.5 million for the years ended December 31, 2016 and 2015, respectively, as well as, cost of operations from assets sold or held for development of $905,000 and $1.9 million for the years ended December 31, 2016 and 2015, respectively. Adjusted cost of operations increased $2.4 million, or 2.0%, from $116.8 million for the year ended December 31, 2015 to $119.2 million for the year ended December 31, 2016 as a result of increases in the Same Park portfolio of $2.1 million, or 1.9% and Non-Same Park facilities of $262,000, or 12.3%. This Same Park increase was due to increases in property taxes and repairs and maintenance costs partially offset by a decrease in compensation expense.

Depreciation and Amortization Expense: Depreciation and amortization expense was $99.5 million for the year ended December 31, 2016 compared to $105.4 million for the year ended December 31, 2015. The decrease in depreciation and amortization expense was due to a reduction in capital expenditure additions combined with assets being fully depreciated.

General and Administrative Expenses: For the year ended December 31, 2016, general and administrative expenses increased $1.3 million, or 9.4%, over 2015. For comparative purposes, management has adjusted general and administrative expenses for LTEIP amortization of $6.8 million for the year ended December 31, 2016 and $5.8 million for the year ended December 31, 2015, as well as, acquisition transaction costs of $328,000 recorded in 2016. The increase in the LTEIP amortization was primarily due to a net non-cash stock compensation charge of $2.0 million recorded in 2016 related to a change in senior management and the future issuances of restricted stock units our former Chief Executive Officer will receive under the Company's LTEIP. Adjusted general and administrative expenses decreased $40,000, or 0.5%, resulting from a decrease in compensation expense.

Net Income Allocable to Noncontrolling Interests: Net income allocable to noncontrolling interests reflects the net income allocable to equity interests in the Operating Partnership that are not owned by the Company. Net income allocable to noncontrolling interests was $17.0 million and $18.5 million of allocated income to common unit holders for the years December 31, 2016 and 2015, respectively. The decrease was primarily the result of the gain on sale of real estate facilities recognized in 2015 partially offset by an increase in overall NOI.

Supplemental Property Data and Trends: NOI is summarized for the years ended December 31, 2016 and 2015 by region below. See Item 2, "Properties" above for more information on NOI, including why the Company presents NOI and how the Company uses NOI. The Company's calculation of NOI may not be comparable to those of other companies and should not be used as an alternative to measures of performance calculated in accordance with GAAP.

The following table summarizes the Same Park and Non-Same Park operating results by region for the years ended December 31, 2016 and 2015. In addition, the table reflects the comparative impact on the overall adjusted rental income, adjusted cost of operations and NOI from properties that have been acquired since January 1, 2014, and the impact of such is included in Non-Same Park facilities in the table below. As part of the table below, we have reconciled total NOI to net income *(in thousands)*:

Region	Adjusted Rental Income December 31, 2016	Adjusted Rental Income December 31, 2015	Increase (Decrease)	Adjusted Cost of Operations December 31, 2016	Adjusted Cost of Operations December 31, 2015	Increase (Decrease)	NOI December 31, 2016	NOI December 31, 2015	Increase (Decrease)
Same Park									
Northern California	$ 84,337	$ 76,943	9.6%	$ 22,074	$ 21,791	1.3%	$ 62,263	$ 55,152	12.9%
Southern California	60,967	58,621	4.0%	18,854	18,797	0.3%	42,113	39,824	5.7%
Northern Texas	30,093	29,510	2.0%	10,849	10,550	2.8%	19,244	18,960	1.5%
Southern Texas	25,779	21,714	18.7%	8,797	7,918	11.1%	16,982	13,796	23.1%
Virginia	76,285	77,197	(1.2%)	25,494	25,112	1.5%	50,791	52,085	(2.5%)
Florida	36,678	34,168	7.3%	10,221	10,443	(2.1%)	26,457	23,725	11.5%
Maryland	46,811	48,884	(4.2%)	16,603	16,134	2.9%	30,208	32,750	(7.8%)
Washington	15,073	14,473	4.1%	3,911	3,930	(0.5%)	11,162	10,543	5.9%
Total Same Park	376,023	361,510	4.0%	116,803	114,675	1.9%	259,220	246,835	5.0%
Non-Same Park									
Northern California	2,058	1,894	8.7%	545	537	1.5%	1,513	1,357	11.5%
Northern Texas	1,517	1,065	42.4%	516	535	(3.6%)	1,001	530	88.9%
Southern Texas	1,688	1,094	54.3%	690	621	11.1%	998	473	111.0%
Florida	1,475	1,231	19.8%	357	442	(19.2%)	1,118	789	41.7%
Maryland	296	—	100.0%	289	—	100.0%	7	—	100.0%
Total Non-Same Park	7,034	5,284	33.1%	2,397	2,135	12.3%	4,637	3,149	47.3%
Total	$383,057	$366,794	4.4%	$119,200	$116,810	2.0%	$263,857	$ 249,984	5.5%

Reconciliation of NOI to net income			
Total NOI	$263,857	$ 249,984	5.5%
Other income and (expenses):			
NOI from assets sold or held for development	2,381	4,397	(45.8%)
Lease buyout payment	528	—	100.0%
LTEIP amortization:			
Cost of operations	(3,003)	(2,470)	21.6%
General and administrative	(6,758)	(5,766)	17.2%
Facility management fees	518	540	(4.1%)
Other income and (expenses)	(4,949)	(12,740)	(61.2%)
Depreciation and amortization	(99,486)	(105,394)	(5.6%)
Adjusted general and administrative	(7,776)	(7,816)	(0.5%)
Acquisition transaction costs	(328)	—	(100.0%)
Gain on sale of real estate facilities	—	28,235	(100.0%)
Net income	$144,984	$ 148,970	(2.7%)

The following table summarizes Same Park weighted average occupancy rates and realized rent per square foot by region for the years ended December 31, 2016 and 2015. Realized rent per square foot for Virginia and Total Same Park excludes a material lease buyout payment of $528,000 for the year ended December 31, 2016.

	Weighted Average Occupancy Rates			Realized Rent Per Square Foot		
Region	2016	2015	Change	2016	2015	Change
Northern California	96.8%	95.8%	1.0%	$12.23	$11.27	8.5%
Southern California	95.1%	93.7%	1.5%	$16.09	$15.69	2.5%
Northern Texas	90.0%	88.4%	1.8%	$11.28	$11.27	0.1%
Southern Texas	97.3%	93.0%	4.6%	$15.43	$13.60	13.5%
Virginia	92.3%	91.3%	1.1%	$21.10	$21.57	(2.2%)
Florida	93.8%	93.7%	0.1%	$10.52	$ 9.81	7.2%
Maryland	87.8%	89.6%	(2.0%)	$22.65	$23.19	(2.3%)
Washington	98.5%	96.8%	1.8%	$11.01	$10.76	2.3%
Total Same Park	94.1%	93.1%	1.1%	$14.71	$14.29	2.9%

Comparison of 2015 to 2014

Results of Operations: Net income for the year ended December 31, 2015 was $149.0 million compared to $204.7 million for the year ended December 31, 2014. Net income allocable to common shareholders for the year ended December 31, 2015 was $68.3 million compared to $113.2 million for the year ended December 31, 2014. Net income per common share on a diluted basis was $2.52 for the year ended December 31, 2015 compared to $4.19 for the year ended December 31, 2014 (based on weighted average diluted common shares outstanding of 27,051,000 and 27,000,000, respectively). The decrease in net income allocable to common shareholders was primarily due to higher gain on sale of assets reported in 2014 (gain on sale of real estate facilities was $28.2 million in 2015 compared to $92.4 million in 2014).

For the years ended December 31, 2015 and 2014, the Same Park facilities constitute 27.2 million rentable square feet, representing 97.1% of the 28.0 million square feet in the Company's total portfolio as of December 31, 2015.

The following table presents the operating results of the Company's properties for the years ended December 31, 2015 and 2014 in addition to other income and expenses items affecting net income *(in thousands, except per square foot data)*:

	For The Years Ended December 31,		
	2015	2014	Change
Adjusted rental income:			
Same Park (27.2 million rentable square feet)	$ 361,510	$ 347,263	4.1%
Non-Same Park (678,000 rentable square feet)	5,284	398	1,227.6%
Total adjusted rental income (1)	366,794	347,661	5.5%
Adjusted cost of operations:			
Same Park	114,675	113,420	1.1%
Non-Same Park	2,135	596	258.2%
Total adjusted cost of operations (2)	116,810	114,016	2.5%
Net operating income:			
Same Park	246,835	233,843	5.6%
Non-Same Park	3,149	(198)	(1,690.4%)
Total net operating income	249,984	233,645	7.0%
Other income and (expenses):			
NOI from assets sold or held for development (1) (2)	4,397	17,862	(75.4%)
LTEIP amortization:			
Cost of operations	(2,470)	(2,623)	(5.8%)
General and administrative	(5,766)	(4,802)	20.1%
Facility management fees	540	660	(18.2%)
Other income and (expenses)	(12,740)	(13,221)	(3.6%)
Depreciation and amortization	(105,394)	(110,357)	(4.5%)
Adjusted general and administrative (3)	(7,816)	(8,487)	(7.9%)
Acquisition transaction costs	—	(350)	(100.0%)
Gain on sale of real estate facilities	28,235	92,373	(69.4%)
Net income	$ 148,970	$ 204,700	(27.2%)
Same Park gross margin (4)	68.3%	67.3%	1.5%
Same Park weighted average occupancy	93.1%	91.6%	1.6%
Non-Same Park weighted average occupancy	80.8%	37.0%	118.4%
Same Park realized rent per square foot (5)	$ 14.29	$ 13.95	2.4%

(1) Adjusted rental income excludes rental income from assets sold or held for development of $6.3 million and $28.6 million for the years ended December 31, 2015 and 2014, respectively.

(2) Adjusted cost of operations excludes LTEIP amortization of $2.5 million and $2.6 million for the years ended December 31, 2015 and 2014, respectively, as well as, cost of operations from assets sold or held for development of $1.9 million and $10.7 million for the years ended December 31, 2015 and 2014, respectively.

(3) Adjusted general and administrative expenses exclude LTEIP amortization of $5.8 million and $4.8 million for the years ended December 31, 2015 and 2014, respectively, as well as, acquisition transaction costs of $350,000 recorded during 2014.

(4) Computed by dividing Same Park NOI by Same Park adjusted rental income.

(5) Represents the annualized Same Park adjusted rental income earned per occupied square foot.

Rental Income: Rental income decreased $3.1 million from $376.3 million for the year ended December 31, 2014 to $373.1 million for the year ended December 31, 2015. For comparative purposes, management has adjusted rental income for rental income from assets sold or held for development of $6.3 million and $28.6 million for the years ended December 31, 2015 and 2014, respectively. Adjusted rental income increased $19.1 million from $347.7 million for the year ended December 31, 2014 to $366.8 million for the year ended December 31, 2015 as a result of an increase from the Same Park portfolio of $14.2 million, or 4.1%, combined with a $4.9 million increase from Non-Same Park facilities. The Same Park increase was due to increases in occupancy and executed rental rates, while the Non-Same Park increase was due to a combination of an increase in occupancy and the acquisition of additional parks during the latter half of 2014.

Facility Management Fees: Facility management fees, derived from PS, account for a small portion of the Company's revenues. During the year ended December 31, 2015, $540,000 of revenue was recognized from facility management fees compared to $660,000 for the year ended December 31, 2014.

Cost of Operations: Cost of operations decreased $6.1 million from $127.4 million for the year ended December 31, 2014 to $121.2 million for the year ended December 31, 2015. For comparative purposes, management has adjusted cost of operations for LTEIP amortization of $2.5 million and $2.6 million for the years ended December 31, 2015 and 2014, respectively, as well as, cost of operations from assets sold or held for development of $1.9 million and $10.7 million for the years ended December 31, 2015 and 2014, respectively. Adjusted cost of operations increased $2.8 million, or 2.5%, from $114.0 million for the year ended December 31, 2014 to $116.8 million for the year ended December 31, 2015 as a result of an increase in the Non-Same Park facilities of $1.5 million combined with an increase in the Same Park portfolio of $1.3 million, or 1.1%. The increase in Same Park cost of operations was a result of increases in repairs and maintenance costs and property taxes driven by higher assessed values partially offset by lower utility costs.

Depreciation and Amortization Expense: Depreciation and amortization expense was $105.4 million for the year ended December 31, 2015 compared to $110.4 million for the year ended December 31, 2014. The decrease in depreciation and amortization expense was due to the disposition of assets, partially offset by 2014 acquisitions.

General and Administrative Expenses: General and administrative expenses decreased $57,000 to $13.6 million for the year ended December 31, 2015. For comparative purposes, management has adjusted general and administrative expenses for LTEIP amortization of $5.8 million and $4.8 million for the years ended December 31, 2015 and 2014, respectively, as well as, acquisition transaction costs of $350,000 recorded during 2014. Adjusted general and administrative expenses decreased $671,000, or 7.9%, for the year ended December 31, 2015 over the same period in 2014 as a result of non-cash expense of $840,000 relating to adjustments made to outstanding stock options in December, 2014 in connection with the special cash dividend, as well as an adjustment to shares to be granted to directors upon retirement in 2014.

Net Income Allocable to Noncontrolling Interests: Net income allocable to noncontrolling interests reflects the net income allocable to equity interests in the Operating Partnership that are not owned by the Company. Net income allocable to noncontrolling interests was $18.5 million and $30.7 million of allocated income to common unit holders for the years ended December 31, 2015 and 2014, respectively. The decrease was primarily due to higher gain on sale of assets reported in 2014 (gain on sale of real estate facilities was $28.2 million in 2015 compared to $92.4 million in 2014) partially offset with an increase in NOI.

Supplemental Property Data and Trends: NOI is summarized for the years ended December 31, 2015 and 2014 by region below. The Company's calculation of NOI may not be comparable to those of other companies and should not be used as an alternative to measures of performance calculated in accordance with GAAP.

The following table summarizes the Same Park and Non-Same Park operating results by region for the years ended December 31, 2015 and 2014. In addition, the table reflects the comparative impact on the overall adjusted rental income, adjusted cost of operations and NOI from properties that have been acquired since January 1, 2014, and the impact of such is included in Non-Same Park facilities in the table below. As part of the table below, we have reconciled total NOI to net income *(in thousands)*:

Region	Adjusted Rental Income December 31, 2015	Adjusted Rental Income December 31, 2014	Increase (Decrease)	Adjusted Cost of Operations December 31, 2015	Adjusted Cost of Operations December 31, 2014	Increase (Decrease)	NOI December 31, 2015	NOI December 31, 2014	Increase (Decrease)
Same Park									
Northern California	$ 76,943	$ 71,917	7.0%	$ 21,791	$ 20,870	4.4%	$ 55,152	$ 51,047	8.0%
Southern California	58,621	54,864	6.8%	18,797	19,043	(1.3%)	39,824	35,821	11.2%
Northern Texas	29,510	27,096	8.9%	10,550	10,323	2.2%	18,960	16,773	13.0%
Southern Texas	21,714	20,040	8.4%	7,918	6,736	17.5%	13,796	13,304	3.7%
Virginia	77,197	77,679	(0.6%)	25,112	24,878	0.9%	52,085	52,801	(1.4%)
Florida	34,168	33,920	0.7%	10,443	10,259	1.8%	23,725	23,661	0.3%
Maryland	48,884	49,252	(0.7%)	16,134	17,474	(7.7%)	32,750	31,778	3.1%
Washington	14,473	12,495	15.8%	3,930	3,837	2.4%	10,543	8,658	21.8%
Total Same Park	361,510	347,263	4.1%	114,675	113,420	1.1%	246,835	233,843	5.6%
Non-Same Park									
Northern California	1,894	6	31,466.7%	537	—	100.0%	1,357	6	22,516.7%
Northern Texas	1,065	237	349.4%	535	277	93.1%	530	(40)	(1,425.0%)
Southern Texas	1,094	72	1,419.4%	621	72	762.5%	473	—	100.0%
Florida	1,231	83	1,383.1%	442	247	78.9%	789	(164)	(581.1%)
Total Non-Same Park	5,284	398	1,227.6%	2,135	596	258.2%	3,149	(198)	(1,690.4%)
Total	$366,794	$347,661	5.5%	$116,810	$114,016	2.5%	$ 249,984	$ 233,645	7.0%

Reconciliation of NOI to net income			
Total NOI	$ 249,984	$ 233,645	7.0%
Other income and (expenses):			
NOI from assets sold or held for development	4,397	17,862	(75.4%)
LTEIP amortization:			
Cost of operations	(2,470)	(2,623)	(5.8%)
General and administrative	(5,766)	(4,802)	20.1%
Facility management fees	540	660	(18.2%)
Other income and (expenses)	(12,740)	(13,221)	(3.6%)
Depreciation and amortization	(105,394)	(110,357)	(4.5%)
Adjusted general and administrative	(7,816)	(8,487)	(7.9%)
Acquisition transaction costs	—	(350)	(100.0%)
Gain on sale of real estate facilities	28,235	92,373	(69.4%)
Net income	$ 148,970	$ 204,700	(27.2%)

The following table summarizes Same Park weighted average occupancy rates and realized rent per square foot by region for the years ended December 31, 2015 and 2014.

	Weighted Average Occupancy Rates			Realized Rent Per Square Foot		
Region	2015	2014	Change	2015	2014	Change
Northern California	95.8%	94.2%	1.7%	$11.27	$10.71	5.2%
Southern California	93.7%	92.4%	1.4%	$15.69	$14.89	5.4%
Northern Texas	88.4%	85.0%	4.0%	$11.27	$10.76	4.7%
Southern Texas	93.0%	94.8%	(1.9%)	$13.60	$12.31	10.5%
Virginia	91.3%	90.0%	1.4%	$21.57	$22.04	(2.1%)
Florida	93.7%	95.9%	(2.3%)	$ 9.81	$ 9.51	3.2%
Maryland	89.6%	87.8%	2.1%	$23.19	$23.86	(2.8%)
Washington	96.8%	85.8%	12.8%	$10.76	$10.42	3.3%
Total Same Park	93.1%	91.6%	1.6%	$14.29	$13.95	2.4%

Liquidity and Capital Resources

Cash and cash equivalents decreased $60.3 million from $188.9 million at December 31, 2015 to $128.6 million at December 31, 2016 for the reasons noted below.

Net cash provided by operating activities for the years ended December 31, 2016 and 2015 was $250.5 million and $238.8 million, respectively. The increase of $11.7 million in net cash provided by operating activities was primarily due to an increase in NOI. Management believes that the Company's internally generated net cash provided by operating activities will be sufficient to enable it to meet its operating expenses, capital expenditures, debt service requirements and distributions to shareholders for the foreseeable future.

Net cash used in investing activities was $85.0 million for the year ended December 31, 2016 compared to net cash provided by investing activities of $3.1 million for the year ended December 31, 2015. The change was primarily due to net proceeds of $55.2 million received from assets sold in 2015 combined with a $34.9 million increase in cash investment in the Joint Venture and $12.6 million acquisition in Rockville, Maryland, in 2016. This change was partially offset by a decrease in cash paid related to capital improvements.

Net cash used in financing activities was $225.8 million and $205.5 million for the years ended December 31, 2016 and 2015, respectively. The change was primarily due to repayment of mortgage note payable of $250.0 million in 2016 combined with an increase in distributions paid to common shareholders and unit holders of $27.8 million ($3.00 per share in 2016 compared to $2.20 in 2015). This change was also impacted by net preferred equity transactions of $258.3 million resulting from the issuance of preferred equity of $183.3 million in 2016 and the redemption of preferred equity of $75.0 million in 2015.

As described in Item 1, "Business — Borrowings," the Company repaid in full the $250.0 million mortgage note in 2016. The Company had no balance outstanding on its $250.0 million Credit Facility at December 31, 2016 and 2015. Subsequent to December 31, 2016, the Company had $85.0 million outstanding on the Credit Facility in conjunction to the redemption of its 6.45% Cumulative Preferred Stock, Series S. See Notes 6 and 7 to the consolidated financial statements included in this Form 10-K for a summary of the Company's outstanding borrowings as of December 31, 2016.

The Company's preferred equity outstanding decreased from 22.0% of its market capitalization during the year ended December 31, 2015 to 21.7% at December 31, 2016 primarily due to an increase in stock price from $87.43 at December 31, 2015 to $116.52 at December 31, 2016 combined with the repayment of the $250.0 million mortgage note. The Company calculates market capitalization by adding (1) the liquidation preference of the Company's outstanding preferred equity, (2) principal value of the Company's outstanding debt and (3) the total number of common shares and common units outstanding at December 31, 2016 multiplied by the closing price of the stock on that date.

The Company focuses on retaining cash for reinvestment, as we believe this provides us the greatest level of financial flexibility. As operating fundamentals improve, additional increases in distributions to the Company's common shareholders may be required. The Company will continue to monitor its taxable income and the corresponding dividend requirements as discussed below.

Issuance of Preferred Stock: On October 20, 2016, the Company issued $189.8 million or 7,590,000 depositary shares, each representing 1/1,000 of a share of the 5.20% Cumulative Preferred Stock, Series W, at $25.00 per depositary share.

Redemption of Preferred Stock: On December 7, 2016, the Company called for the redemption of its 6.45% Cumulative Preferred Stock, Series S, at its par value of $230.0 million and subsequently completed the redemption on January 18, 2017. The Company reported non-cash distributions of $7.3 million, representing the original issuance costs, as a reduction of net income allocable to common shareholders and unit holders for the year ended December 31, 2016. As of December 31, 2016, the Company reclassified the 6.45% Cumulative Preferred Stock, Series S, of $230.0 million from equity to liabilities as preferred stock called for redemption.

On October 15, 2015, the Company completed the redemption of its 6.875% Cumulative Preferred Stock, Series R, at its par value of $75.0 million. The Company reported non-cash distributions of $2.5 million, representing the original issuance costs, as a reduction of net income allocable to common shareholders and unit holders for the year ended December 31, 2015.

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, 2016 or 2015.

Mortgage Note Repayment: On June 1, 2016, the Company repaid in full a $250.0 million mortgage note which had a fixed interest rate of 5.45%.

Investment in and Advances to Unconsolidated Joint Venture: The aggregate amount of development costs are estimated to be $105.6 million (excluding unrealized land appreciation), of which the Company is committed to funding $75.0 million through a construction loan in addition to capital contributions of $28.5 million, which includes a land basis of $15.3 million, to the Joint Venture. The Company's investment in and advances to unconsolidated joint venture was $67.2 million and $26.7 million as of December 31, 2016 and 2015, respectively. For the year ended December 31, 2016, the Company made loan advances of $33.9 million, capital contributions of $5.7 million and capitalized $885,000 of interest.

Prior to the Contribution Date, the Company capitalized $2.8 million to the Project, of which $813,000 was related to capitalized interest from January 1, 2015 through October 5, 2015. Subsequent to the Contribution Date, the Company made capital contributions of $5.2 million and capitalized $346,000 of interest on its investment in the Joint Venture from October 6, 2015 through December 31, 2015. The Company made no loan advances to the Joint Venture in 2015.

At December 31, 2014, the land and capitalized development costs were $18.4 million for the Project. For the year ended December 31, 2014, the Company capitalized $2.2 million to the Project, of which $944,000 was related to capitalized interest.

Capital Expenditures: The Company defines recurring capital expenditures as those necessary to maintain and operate its commercial real estate at its current economic value. During the years ended December 31, 2016, 2015 and 2014, the Company expended $31.0 million, $39.8 million and $47.2 million, respectively, in recurring capital expenditures, or $1.10, $1.41 and $1.59 per weighted average square foot owned, respectively. Tenant improvements exclude tenant reimbursements of $5.4 million, $3.1 million and $2.7 million for the years ended December 31, 2016, 2015 and 2014, respectively. Nonrecurring capital improvements include property renovations and expenditures related to repositioning acquisitions.

The following table depicts capital expenditures *(in thousands)*:

	For the Years Ended December 31,		
	2016	2015	2014
Recurring capital expenditures			
Capital improvements	$ 8,336	$ 8,136	$ 8,664
Tenant improvements	16,086	22,705	27,824
Lease commissions	6,530	9,005	10,684
Total recurring capital expenditures	30,952	39,846	47,172
Nonrecurring capital improvements	925	3,808	4,614
Total capital expenditures	$31,877	$43,654	$51,786

Capital expenditures on a per square foot owned basis are as follows:

	For the Years Ended December 31,		
	2016	2015	2014
Recurring capital expenditures			
Capital improvements	$0.30	$0.29	$0.29
Tenant improvements	0.57	0.80	0.94
Lease commissions	0.23	0.32	0.36
Total recurring capital expenditures	1.10	1.41	1.59
Nonrecurring capital improvements	0.03	0.13	0.16
Total capital expenditures	$1.13	$1.54	$1.75

For the year ended December 31, 2016, recurring capital expenditures decreased $8.9 million, or 22.3%, over 2015 primarily due to lower tenant improvement costs and continued efforts to reduce capital expenditures.

Distributions: The Company has elected and intends to qualify as a REIT for federal income tax purposes. In order to maintain its status as a REIT, the Company must meet, among other tests, sources of income, share ownership and certain asset tests. As a REIT, the Company is not taxed on that portion of its taxable income that is distributed to its shareholders provided that at least 90% of its REIT taxable income is distributed to its shareholders prior to the filing of its tax return.

Subsequent to December 31, 2016, the Board increased its quarterly dividend from $0.75 per common share to $0.85 per common share, increasing quarterly distributions by $3.4 million per quarter.

The Company paid distributions of $138.6 million ($57.3 million to preferred shareholders and $81.3 million to common shareholders), $118.8 million ($59.4 million to preferred shareholders and $59.4 million to common shareholders) and $188.3 million ($60.5 million to preferred shareholders and $127.8 million to common shareholders) during the years ended December 31, 2016, 2015 and 2014, respectively. All of these distributions were REIT qualifying distributions.

The Board will continue to evaluate our dividend rate in light of our actual and projected taxable income, liquidity requirements and other circumstances, and there can be no assurance that the future dividends declared by our Board will not differ materially.

The Company's funding strategy has been to primarily use permanent capital, including common and preferred stock, along with internally generated retained cash flows to meet its liquidity needs. In addition, the Company may sell properties that no longer meet its investment criteria. From time to time, the Company may use its Credit Facility or other forms of debt to facilitate real estate acquisitions or other capital allocations. For the year ended December 31, 2016, the earnings to combined fixed charges and preferred distributions coverage ratio was 2.1 to 1.0. The Company targets a minimum ratio of FFO to combined fixed charges and preferred distributions of 3.0 to 1.0. Fixed charges include interest expense and capitalized interest while preferred distributions include amounts paid to preferred shareholders and preferred Operating Partnership unit holders.

For the year ended December 31, 2016, the FFO to combined fixed charges and preferred distributions coverage ratio was 3.9 to 1.0, excluding the non-cash charge for the issuance costs related to the redemption of preferred equity.

Non-GAAP Supplemental Disclosure Measure: FFO: Management believes that FFO and FFO, as adjusted are useful supplemental measures of the Company's operating performance. The Company computes FFO in accordance with the White Paper on FFO approved by the Board of Governors of NAREIT. The White Paper defines FFO as net income, computed in accordance with GAAP, before depreciation, amortization, gains or losses on asset dispositions, net income allocable to noncontrolling interests — common units, net income allocable to restricted stock unit holders, impairment charges and nonrecurring items. Management believes that FFO provides a useful measure of the Company's operating performance and when compared year over year, reflects the impact to operations from trends in occupancy rates, rental rates, operating costs, development activities, general and administrative expenses and interest costs, providing a perspective not immediately apparent from net income.

FFO and FFO, as adjusted should be analyzed in conjunction with net income. However, FFO and FFO, as adjusted should not be viewed as substitutes for net income as measures of operating performance or liquidity, as they do not reflect depreciation and amortization costs or the level of capital expenditure and leasing costs necessary to maintain the operating performance of the Company's properties, which are significant economic costs and could materially affect the Company's results of operations.

Management believes FFO provides useful information to the investment community about the Company's operating performance when compared to the performance of other real estate companies as FFO is generally recognized as the industry standard for reporting operations of REITs. Management believes FFO, as adjusted provides useful information to the investment community by adjusting FFO for certain items so as to provide more meaningful period-to-period comparisons of our operating performance. Other REITs may use different methods for calculating FFO and/or FFO, as adjusted and, accordingly, our FFO and FFO, as adjusted may not be comparable to other real estate companies' FFO and/or FFO, as adjusted.

FFO for the Company is computed as follows (*in thousands, except per share data*):

	For The Years Ended December 31,				
	2016	2015	2014	2013	2012
Net income allocable to common shareholders	$ 62,872	$ 68,291	$113,154	$ 43,851	$ 19,805
Gain on sale of land and real estate facilities	—	(28,235)	(92,373)	—	(935)
Depreciation and amortization (1)	99,486	105,394	110,357	108,917	109,494
Net income allocable to noncontrolling interests — common units holders	16,955	18,495	30,729	12,952	5,970
Net income allocable to restricted stock unit holders	569	299	329	125	138
FFO allocable to common and dilutive shares	179,882	164,244	162,196	165,845	134,472
FFO allocated to noncontrolling interests — common units holders	(37,871)	(34,853)	(34,586)	(37,755)	(31,041)
FFO allocated to restricted stock unit holders	(1,576)	(701)	(256)	(264)	(455)
FFO allocated to common shares	$140,435	$128,690	$127,354	$127,826	$102,976
Weighted average common shares outstanding	27,089	26,973	26,899	24,732	24,234
Weighted average common operating partnership units outstanding	7,305	7,305	7,305	7,305	7,305
Weighted average restricted stock units outstanding	290	130	69	51	107
Weighted average common share equivalents outstanding	90	78	101	101	89
Total common and dilutive shares	34,774	34,486	34,374	32,189	31,735
Net income per common share — diluted	$ 2.31	$ 2.52	$ 4.19	$ 1.77	$ 0.81
Gain on sale of land and real estate facilities (2)	—	(0.82)	(2.68)	—	(0.03)
Depreciation and amortization (2)	2.86	3.06	3.21	3.38	3.46
FFO per common and dilutive shares, as reported (2)	$ 5.17	$ 4.76	$ 4.72	$ 5.15	$ 4.24

(1) Includes depreciation from discontinued operations.

(2) Per share amounts are computed using additional dilutive shares related to noncontrolling interests and restricted stock units.

The following table reconciles reported FFO to FFO, as adjusted, which excludes material lease buyout payments, a net non-cash stock compensation charge of $2.0 million, acquisition transaction costs, the impact of non-cash distributions related to the redemption of preferred equity and gain on sale of ownership interest in STOR-Re on the Company's FFO per common and dilutive share for the years ended December 31, 2012 through December 31, 2016.

	For The Years Ended December 31,				
	2016	2015	2014	2013	2012
FFO allocable to common and dilutive shares, as reported	$179,882	$164,244	$162,196	$165,845	$134,472
Lease buyout payments	(528)	—	—	(2,252)	(1,783)
LTEIP modification due to change in senior management	2,018	—	—	—	—
Acquisition transaction costs	328	—	350	854	350
Non-cash distributions related to the redemption of preferred equity	7,312	2,487	—	—	17,316
Gain on sale of ownership interest in STOR-Re	—	—	—	(1,144)	—
FFO allocable to common and dilutive shares, as adjusted	$189,012	$166,731	$162,546	$163,303	$150,355
FFO per common and dilutive share, as reported	$ 5.17	$ 4.76	$ 4.72	$ 5.15	$ 4.24
Lease buyout payments	(0.01)	—	—	(0.07)	(0.06)
LTEIP modification due to change in senior management	0.06	—	—	—	—
Acquisition transaction costs	0.01	—	0.01	0.03	0.01
Non-cash distributions related to the redemption of preferred equity	0.21	0.07	—	—	0.55
Gain on sale of ownership interest in STOR-Re	—	—	—	(0.04)	—
FFO per common and dilutive share, as adjusted	$ 5.44	$ 4.83	$ 4.73	$ 5.07	$ 4.74

FFO allocable to common and dilutive shares, as adjusted, increased $22.3 million for the year ended December 31, 2016 compared to 2015. The increase was due to an increase in NOI and a decrease in interest expense partially offset by non-cash distributions related to the redemption of preferred equity.

Related Party Transactions: As of December 31, 2016, PS owned 7.2 million shares of the Company's common stock and 7.3 million common units of the Operating Partnership (100.0% of the common units not owned by the Company). Assuming issuance of the Company's common stock upon redemption of its common partnership units, PS would own 42.0% (or 14.5 million shares) of the outstanding shares of the Company's common stock at December 31, 2016. Ronald L. Havner, Jr., the Company's chairman, is also the Chairman of the Board, Chief Executive Officer of PS. Joseph D. Russell, Jr. is a director of the Company and also President of PS. Gary E. Pruitt, an independent director of the Company, is also a trustee of PS.

Pursuant to a cost sharing and administrative services agreement, the Company shares costs with PS for certain administrative services and rental of corporate office space. The administrative services include investor relations, legal, lease administration, corporate tax and information systems, which were allocated between the Company and PS in accordance with a methodology intended to fairly allocate those costs. For the year ended December 31, 2016 the costs allocated to the Company totaled $493,000 and costs allocated to PS totaled $38,000. In addition, the Company provides property management services for properties owned by PS for a management fee equal to 5% of the gross revenues of such properties in addition to reimbursement of certain costs. These management fee revenues recognized under a management contract with PS totaled $518,000 in 2016. PS also provides property management services for the self-storage component of two assets owned by the Company for a fee of 6% of the gross revenues of such properties in addition to reimbursement of certain costs. Management fee expense recognized under the management contract with PS totaled $86,000 for the year ended December 31, 2016.

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.

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: The Company does not have any contractual obligations 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.

The Company is scheduled to pay cash dividends of $51.1 million per year on its preferred equity outstanding as of December 31, 2016. Dividends 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.

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, 2016.

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, 6 and 7 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, 2016 and 2015 and for the years ended December 31, 2016, 2015 and 2014 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, 2016. 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, 2016, 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. The Company also has an investment in an unconsolidated joint venture and because we do not control the joint venture, our disclosure controls and procedures with respect to such joint venture are substantially more limited than those we maintain with respect to our consolidated subsidiaries.

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, 2016.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2016 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 2016 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.

We have audited PS Business Parks, Inc.'s internal control over financial reporting as of December 31, 2016, 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). PS Business Parks, Inc.'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 conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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.

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.

In our opinion, PS Business Parks, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of PS Business Parks, Inc. as of December 31, 2016 and 2015, and the related consolidated statements of income, equity, and cash flows for each of the three years in the period ended December 31, 2016 and our report dated February 24, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California
February 24, 2017

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 2017 (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 57, was named Chief Executive Officer and elected as a Director of the Company in July, 2016. Ms. Hawthorne was promoted to President in August, 2015 and continues to serves as President of the Company. Ms. Hawthorne most recently served as Executive Vice President, Chief Administrative Officer of the Company from July, 2013 to July, 2015. Ms. Hawthorne served as Executive Vice President, East Coast from February, 2011 to July, 2013. Ms. Hawthorne was Senior Vice President from March, 2004 to February, 2011, with responsibility for property operations on the East Coast, which includes Northern Virginia, Maryland and South Florida. From June, 2001 through March, 2004, Ms. Hawthorne was 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 earned a Bachelor of Arts Degree in International Relations from Pomona College.

John W. Petersen, age 53, 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 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 recently the President of National Association of Industrial and Office Parks, Silicon Valley Chapter.

Edward A. Stokx, age 51, a certified public accountant, has been Chief Financial Officer and Secretary of the Company since December, 2003 and Executive Vice President since March, 2004. Mr. Stokx has overall responsibility for the Company's finance and accounting functions. In addition, he has responsibility for executing the Company's financial initiatives. Mr. Stokx joined Center Trust, a developer, owner, and operator of retail shopping centers in 1997. Prior to his promotion to Chief Financial Officer and Secretary in 2001, he served as Senior Vice President, Finance and Controller. After Center Trust's merger in January, 2003 with another public REIT, Mr. Stokx provided consulting services to various entities. Prior to joining Center Trust, Mr. Stokx was with Deloitte and Touche from 1989 to 1997, with a focus on real estate clients. Mr. Stokx earned a Bachelor of Science degree in Accounting from Loyola Marymount University.

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 "Corporate Governance and Board Matters," "Executive Compensation," "Corporate Governance and Board Matters — Compensation Committee Interlocks and Insider Participation" and "Report of the Compensation Committee."

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, 2016 on the Company's equity compensation plans:

Plan Category	(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	374,348	$64.92	1,160,152
Equity compensation plans not approved by security holders	—	—	—
Total	374,348*	$64.92*	1,160,152*

* 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.

PS BUSINESS PARKS, INC.

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

	Page
Report of Independent Registered Public Accounting Firm	49
Consolidated balance sheets as of December 31, 2016 and 2015	50
Consolidated statements of income for the years ended December 31, 2016, 2015 and 2014	51
Consolidated statements of equity for the years ended December 31, 2016, 2015 and 2014	52
Consolidated statements of cash flows for the years ended December 31, 2016, 2015 and 2014	53
Notes to consolidated financial statements	55
Schedule:	
III — Real estate and accumulated depreciation	72

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.

We have audited the accompanying consolidated balance sheets of PS Business Parks, Inc. as of December 31, 2016 and 2015, and the related consolidated statements of income, equity and cash flows for each of the three years in the period ended December 31, 2016. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PS Business Parks, Inc. at December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), PS Business Parks, Inc.'s internal control over financial reporting as of December 31, 2016, 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 24, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California
February 24, 2017

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

	December 31,	
	2016	2015
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$ 128,629	$ 188,912
Real estate facilities, at cost:		
Land	789,531	793,569
Buildings and improvements	2,226,881	2,215,515
	3,016,412	3,009,084
Accumulated depreciation	(1,159,808)	(1,082,603)
	1,856,604	1,926,481
Land and building held for development	27,028	6,081
	1,883,632	1,932,562
Investment in and advances to unconsolidated joint venture	67,190	26,736
Rent receivable, net	1,945	2,234
Deferred rent receivable, net	29,770	28,327
Other assets	8,205	7,887
Total assets	$ 2,119,371	$ 2,186,658
LIABILITIES AND EQUITY		
Accrued and other liabilities	$ 78,657	$ 76,059
Preferred stock called for redemption	230,000	—
Mortgage note payable	—	250,000
Total liabilities	308,657	326,059
Commitments and contingencies		
Equity:		
PS Business Parks, Inc.'s shareholders' equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, 35,190 and 36,800 shares issued and outstanding at December 31, 2016 and 2015, respectively	879,750	920,000
Common stock, $0.01 par value, 100,000,000 shares authorized, 27,138,138 and 27,034,073 shares issued and outstanding at December 31, 2016 and 2015, respectively	271	269
Paid-in capital	733,671	722,009
Cumulative net income	1,502,643	1,375,421
Cumulative distributions	(1,503,076)	(1,357,203)
Total PS Business Parks, Inc.'s shareholders' equity	1,613,259	1,660,496
Noncontrolling interests:		
Common units	197,455	200,103
Total noncontrolling interests	197,455	200,103
Total equity	1,810,714	1,860,599
Total liabilities and equity	$ 2,119,371	$ 2,186,658

See accompanying notes.

PS BUSINESS PARKS, INC.

CONSOLIDATED STATEMENTS OF INCOME

	For The Years Ended December 31,		
	2016	2015	2014
	(In thousands, except per share data)		
Revenues:			
Rental income	$386,871	$373,135	$376,255
Facility management fees	518	540	660
Total operating revenues	387,389	373,675	376,915
Expenses:			
Cost of operations	123,108	121,224	127,371
Depreciation and amortization	99,486	105,394	110,357
General and administrative	14,862	13,582	13,639
Total operating expenses	237,456	240,200	251,367
Other income and (expenses):			
Interest and other income	715	590	372
Interest and other expenses	(5,664)	(13,330)	(13,593)
Total other income and (expenses)	(4,949)	(12,740)	(13,221)
Gain on sale of real estate facilities	—	28,235	92,373
Net income	$144,984	$148,970	$204,700
Net income allocation:			
Net income allocable to noncontrolling interests:			
Noncontrolling interests — common units	$ 16,955	$ 18,495	$ 30,729
Total net income allocable to noncontrolling interests	16,955	18,495	30,729
Net income allocable to PS Business Parks, Inc.:			
Preferred shareholders	64,588	61,885	60,488
Restricted stock unit holders	569	299	329
Common shareholders	62,872	68,291	113,154
Total net income allocable to PS Business Parks, Inc.	128,029	130,475	173,971
Net income	$144,984	$148,970	$204,700
Net income per common share:			
Basic	$ 2.32	$ 2.53	$ 4.21
Diluted	$ 2.31	$ 2.52	$ 4.19
Weighted average common shares outstanding:			
Basic	27,089	26,973	26,899
Diluted	27,179	27,051	27,000

See accompanying notes.

PS BUSINESS PARKS, INC.

CONSOLIDATED STATEMENTS OF EQUITY

	Preferred Stock		Common Stock		Paid-in Capital	Cumulative Net Income	Cumulative Distributions	Total PS Business Parks, Inc.'s Shareholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Amount	Shares	Amount						
					(In thousands, except share data)					
Balances at December 31, 2013	39,800	$ 995,000	26,849,822	$267	$699,314	$1,070,975	$(1,047,615)	$1,717,941	$196,699	$1,914,640
Issuance of common stock in connection with stock-based compensation	—	—	69,339	1	3,053	—	—	3,054	—	3,054
Stock compensation, net	—	—	—	—	8,842	—	—	8,842	—	8,842
Net income	—	—	—	—	—	173,971	—	173,971	30,729	204,700
Distributions:										
Preferred stock	—	—	—	—	—	—	(60,488)	(60,488)	—	(60,488)
Common stock	—	—	—	—	—	—	(127,838)	(127,838)	—	(127,838)
Noncontrolling interests	—	—	—	—	—	—	—	—	(34,701)	(34,701)
Adjustment to noncontrolling interests in underlying operating partnership	—	—	—	—	(2,201)	—	—	(2,201)	2,201	—
Balances at December 31, 2014	39,800	995,000	26,919,161	268	709,008	1,244,946	(1,235,941)	1,713,281	194,928	1,908,209
Redemption of preferred stock, net of issuance costs	(3,000)	(75,000)	—	—	2,487	—	(2,487)	(75,000)	—	(75,000)
Issuance of common stock in connection with stock-based compensation	—	—	114,912	1	5,088	—	—	5,089	—	5,089
Stock compensation, net	—	—	—	—	8,178	—	—	8,178	—	8,178
Net income	—	—	—	—	—	130,475	—	130,475	18,495	148,970
Distributions:										
Preferred stock	—	—	—	—	—	—	(59,398)	(59,398)	—	(59,398)
Common stock	—	—	—	—	—	—	(59,377)	(59,377)	—	(59,377)
Noncontrolling interests	—	—	—	—	—	—	—	—	(16,072)	(16,072)
Adjustment to noncontrolling interests in underlying operating partnership	—	—	—	—	(2,752)	—	—	(2,752)	2,752	—
Balances at December 31, 2015	36,800	920,000	27,034,073	269	722,009	1,375,421	(1,357,203)	1,660,496	200,103	1,860,599
Cumulative effect of a change in accounting principle (Note 11)	—	—	—	—	807	(807)	—	—	—	—
Issuance of preferred stock, net of issuance costs	7,590	189,750	—	—	(6,434)	—	—	183,316	—	183,316
Redemption of preferred stock, net of issuance costs	(9,200)	(230,000)	—	—	7,312	—	(7,312)	(230,000)	—	(230,000)
Issuance of common stock in connection with stock-based compensation	—	—	104,065	2	3,886	—	—	3,888	—	3,888
Stock compensation, net	—	—	—	—	8,404	—	—	8,404	—	8,404
Net income	—	—	—	—	—	128,029	—	128,029	16,955	144,984
Distributions:										
Preferred stock	—	—	—	—	—	—	(57,276)	(57,276)	—	(57,276)
Common stock	—	—	—	—	—	—	(81,285)	(81,285)	—	(81,285)
Noncontrolling interests	—	—	—	—	—	—	—	—	(21,916)	(21,916)
Adjustment to noncontrolling interests in underlying operating partnership	—	—	—	—	(2,313)	—	—	(2,313)	2,313	—
Balances at December 31, 2016	35,190	$ 879,750	27,138,138	$271	$733,671	$1,502,643	$(1,503,076)	$1,613,259	$197,455	$1,810,714

See accompanying notes.

PS BUSINESS PARKS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For The Years Ended December 31,		
	2016	2015	2014
		(In thousands)	
Cash flows from operating activities:			
Net income	$ 144,984	$ 148,970	$ 204,700
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	99,486	105,394	110,357
In-place lease adjustment	(520)	(1,251)	(901)
Tenant improvement reimbursements, net of lease incentives	(1,666)	(1,861)	(1,580)
Gain on sale of real estate facilities	—	(28,235)	(92,373)
Stock compensation	10,913	9,245	9,580
Decrease (increase) in receivables and other assets	(2,022)	(989)	792
Increase (decrease) in accrued and other liabilities	(668)	7,566	(2,395)
Total adjustments	105,523	89,869	23,480
Net cash provided by operating activities	250,507	238,839	228,180
Cash flows from investing activities:			
Capital expenditures to real estate facilities	(31,877)	(43,654)	(51,786)
Capital expenditures to land and building held for development	(49)	(2,809)	(2,189)
Investment in and advances to unconsolidated joint venture	(40,454)	(5,566)	—
Acquisition of real estate facilities	(12,628)	—	(45,021)
Proceeds from sale of real estate facilities	—	55,160	212,184
Net cash (used in) provided by investing activities	(85,008)	3,131	113,188
Cash flows from financing activities:			
Proceeds from the exercise of stock options	3,888	5,089	3,054
Redemption of preferred stock	—	(75,000)	—
Cash paid for taxes in lieu of shares upon vesting of restricted stock units	(1,940)	(767)	(409)
Cash paid to restricted stock unit holders	(569)	—	—
Distributions paid to preferred shareholders	(57,276)	(59,398)	(60,488)
Distributions paid to common shareholders	(81,285)	(59,377)	(127,838)
Distributions paid to noncontrolling interests	(21,916)	(16,072)	(34,701)
Borrowings on credit facility	116,000	—	—
Repayment of borrowings on credit facility	(116,000)	—	—
Repayment of mortgage note payable	(250,000)	—	—
Net proceeds from the issuance of preferred stock	183,316	—	—
Net cash used in financing activities	(225,782)	(205,525)	(220,382)
Net (decrease) increase in cash and cash equivalents	(60,283)	36,445	120,986
Cash and cash equivalents at the beginning of the period	188,912	152,467	31,481
Cash and cash equivalents at the end of the period	$ 128,629	$ 188,912	$ 152,467
Supplemental disclosures:			
Interest paid	$ 7,395	$ 14,197	$ 14,200

See accompanying notes.

PS BUSINESS PARKS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For The Years Ended December 31,		
	2016	2015	2014
		(In thousands)	
Supplemental schedule of non-cash investing and financing activities:			
Adjustment to noncontrolling interests in underlying operating partnership:			
Noncontrolling interests — common units	$ 2,313	$ 2,752	$ 2,201
Paid-in capital	$ (2,313)	$ (2,752)	$(2,201)
Non-cash distributions related to the redemption of preferred stock:			
Paid-in capital	$ 7,312	$ 2,487	$ —
Cumulative distributions	$ (7,312)	$ (2,487)	$ —
Preferred stock called for redemption:			
Preferred stock called for redemption and reclassified to liabilities	$ 230,000	$ —	$ —
Preferred stock called for redemption and reclassified from equity	$(230,000)	$ —	$ —
Transfer to land and building held for development:			
Land	$ (9,676)	$ —	$ —
Buildings and improvements	$ (19,092)	$ —	$ —
Accumulated depreciation	$ 7,870	$ —	$ —
Land and building held for development	$ 20,898	$ —	$ —
Cumulative effect of a change in accounting principle (Note 11):			
Paid-in capital	$ 807	$ —	$ —
Cumulative net income	$ (807)	$ —	$ —
Transfer to investment in and advances to unconsolidated joint venture:			
Land and building held for development	$ —	$(21,170)	$ —
Investment in and advances to unconsolidated joint venture	$ —	$ 21,170	$ —

See accompanying notes.

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, 2016, PSB owned 77.9% of the common partnership units (the "common partnership units") of PS Business Parks, L.P. (the "Operating Partnership"). The remaining common partnership units are owned by Public Storage ("PS"). PSB, as the sole general partner of the Operating Partnership, has full, exclusive and complete responsibility and discretion in managing and controlling the Operating Partnership. PSB and its subsidiaries, including the Operating Partnership, are collectively referred to as the "Company." Assuming issuance of the Company's common stock upon redemption of its common partnership units, PS would own 42.0% (or 14.5 million shares) of the outstanding shares of the Company's common stock.

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 flex, office and industrial space. As of December 31, 2016, the Company owned and operated 28.1 million rentable square feet of commercial space in six states. The Company also manages 684,000 rentable square feet on behalf of PS.

References to the number of properties or square footage are unaudited and outside the scope of the Company's independent registered public accounting firm's audit of the Company's 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 the Operating Partnership. 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

The Company accounts for its investment in a joint venture that it has significant influence over, but does not control, using the equity method of accounting eliminating intra-entity profits and losses as if the joint venture were a consolidated subsidiary.

The Company consolidates all variable interest entities (each a "VIE") for which it is the primary beneficiary. Generally, a VIE is a legal entity in which the equity investors do not have the characteristics of a controlling financial interest or the equity investors lack sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. A limited partnership may be considered a VIE if the limited partners do not participate in operating decisions. Under this criteria, the Operating Partnership is considered a VIE. The Company's significant asset is its investment in the Operating Partnership, and consequently, substantially all of the Company's assets and liabilities represent those assets and liabilities of the Operating Partnership. All of the Company's debt is an obligation of the Operating Partnership.

Noncontrolling interests

The Company's noncontrolling interests are reported as a component of equity separate from the parent's equity. Purchases or sales of equity interests that do not result in a change in control are accounted for as equity

transactions. In addition, net income attributable to the noncontrolling interests is included in net income on the face of the income statement and, upon a gain or loss of control, the interests purchased or sold, as well as any interests retained, are recorded at fair value with any gain or loss recognized in earnings. At the end of each reporting period, the Company determines the amount of equity (book value of net assets) which is allocable to the noncontrolling interests based upon the ownership interest, and an adjustment is made to the noncontrolling interests, with a corresponding adjustment to paid-in capital, to reflect the noncontrolling interests' equity interest in the Company.

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.

Allowance for doubtful accounts

The Company monitors the collectability of its receivable balances including the deferred rent receivable on an ongoing basis. Based on these reviews, the Company maintains an allowance for doubtful accounts for estimated losses resulting from the possible inability of tenants to make contractual rent payments to the Company. A provision for doubtful accounts is recorded during each period. The allowance for doubtful accounts is netted against tenant and other receivables on the consolidated balance sheets. Tenant receivables are net of an allowance for uncollectible accounts totaling $400,000 at December 31, 2016 and 2015. Deferred rent receivable is net of an allowance for uncollectible accounts totaling $916,000 and $909,000 at December 31, 2016 and 2015, respectively.

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 and 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 a large number of customers. Balances that the Company expects to become uncollectible are reserved for or 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.

Carrying values of the Company's mortgage note payable and unsecured Credit Facility (as defined on page 64) 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. 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 and exceed $2,000 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, of $1,000 or more for leases with terms greater than one year are capitalized and depreciated over their estimated useful lives. Transaction costs less than $1,000 or for leases of one year or less are expensed as incurred.

Land and building held for development

Property taxes, insurance, interest and costs essential to the development of property for its intended use are capitalized during the period of development. Upon classification of an asset as held for development, depreciation of the asset is ceased.

Properties held for disposition

An asset is classified as an asset held for disposition when it meets certain requirements, which include, among other criteria, the approval of the sale of the asset, the marketing of the asset for sale and the expectation by the Company that the sale will likely occur within the next 12 months. Upon classification of an asset as held for disposition, depreciation of the asset is ceased, and the net book value of the asset is included on the balance sheet as properties held for disposition.

Intangible assets/liabilities

Intangible assets and liabilities include above-market and below-market in-place lease values of acquired properties based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease. The capitalized above-market and below-market lease values (included in other assets and accrued liabilities in the accompanying consolidated balance sheets) are amortized to rental income over the remaining non-cancelable terms of the respective leases.

As of December 31, 2016, the value of in-place leases resulted in net intangible assets of $1.1 million, net of $9.2 million of accumulated amortization with a weighted average amortization period of 9.3 years and net intangible liabilities of $784,000, net of $10.0 million of accumulated amortization with a weighted average amortization period of 6.6 years. As of December 31, 2015, the value of in-place leases resulted in net intangible assets of $1.7 million, net of $8.6 million of accumulated amortization and net intangible liabilities of $1.8 million, net of $9.0 million of accumulated amortization.

The Company recorded a net increase in rental income of $520,000, $1.3 million and $901,000 during the years ended December 31, 2016, 2015 and 2014, respectively, related to the amortization of net intangible liabilities resulting from the above-market and below-market lease values.

Evaluation of asset impairment

The Company evaluates its assets used in operations for impairment by identifying indicators of impairment and by comparing the sum of the estimated undiscounted future cash flows for each asset to the asset's carrying value. When indicators of impairment are present and the sum of the estimated undiscounted future cash flows is less than the carrying value of such asset, an impairment loss is recorded equal to the difference between the asset's current carrying value and its value based on discounting its estimated future cash flows. In addition, the Company evaluates its assets held for disposition for impairment. Assets held for disposition are reported at the lower of their carrying value or fair value, less cost of disposition. At December 31, 2016, the Company did not consider any assets to be impaired.

Asset impairment due to casualty loss

It is the Company's policy to record as a casualty loss or gain, in the period the casualty occurs, the differential between (a) the book value of assets destroyed and (b) any insurance proceeds that the Company expects to receive in accordance with its insurance contracts. Potential proceeds from insurance that are subject to any uncertainties, such as interpretation of deductible provisions of the governing agreements, the estimation of costs of restoration, or other such items, are treated as contingent proceeds and not recorded until the uncertainties are satisfied.

For the years ended December 31, 2016, 2015 and 2014 no material casualty losses were incurred.

Stock compensation

All share-based payments to employees, including grants of employee stock options, are recognized as stock compensation in the Company's income statement based on their grant date fair values. See Note 11.

Revenue and expense recognition

The Company must meet four basic criteria before revenue can be recognized: persuasive evidence of an arrangement exists; the delivery has occurred or services have been rendered; the fee is fixed or determinable; and collectability is reasonably assured. All leases are classified as operating leases. Rental income is recognized on a straight-line basis over the terms of the leases. Straight-line rent is recognized for all tenants with contractual fixed increases in rent that are not included on the Company's credit watch list. Deferred rent receivable represents rental revenue recognized on a straight-line basis in excess of billed rents. Reimbursements from tenants for real estate taxes and other recoverable operating expenses are recognized as rental income in the period the applicable costs are incurred. Property management fees are recognized in the period earned.

Costs incurred in connection with leasing (primarily tenant improvements and lease commissions) are capitalized and amortized over the lease period.

Gains from sales of real estate facilities

The Company recognizes gains from sales of real estate facilities at the time of sale using the full accrual method, provided that various criteria related to the terms of the transactions and any subsequent involvement by the Company with the properties sold are met. If the criteria are not met, the Company defers the gains and recognizes them when the criteria are met or uses the installment or cost recovery methods as appropriate under the circumstances.

General and administrative expenses

General and administrative expenses include executive and other compensation, office expenses, professional fees, acquisition transaction costs, state income taxes and other such administrative items.

Income taxes

The Company has qualified and intends to continue to qualify as a REIT, as defined in Section 856 of the Internal Revenue Code of 1986, as amended. As a REIT, the Company is not subject to federal income tax to the extent that it distributes its REIT taxable income to its shareholders. A REIT must distribute at least 90% of its REIT taxable income each year. In addition, REITs are subject to a number of organizational and operating requirements. The Company may be subject to certain state and local taxes on its income and property and to federal income and excise taxes on its undistributed taxable income. The Company believes it met all organization and operating requirements to maintain its REIT status during 2016, 2015 and 2014 and intends to continue to meet such requirements. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements.

The Company can recognize a tax benefit only if it is "more likely than not" that a particular tax position will be sustained upon examination or audit. To the extent that the "more likely than not" standard has been

satisfied, the benefit associated with a position is measured as the largest amount that is greater than 50% likely of being recognized upon settlement. As of December 31, 2016, the Company did not recognize any tax benefit for uncertain tax positions.

Accounting for preferred equity issuance costs

The Company records issuance costs as a reduction to paid-in capital on its balance sheet at the time the preferred securities are issued and reflects the carrying value of the preferred equity at the stated value. Such issuance costs are recorded as non-cash preferred equity distributions at the time the Company notifies the holders of preferred stock of its intent to redeem such shares.

Net income allocation

Net income was allocated as follows for the years ended December 31, *(in thousands)*:

	2016	2015	2014
Net income allocable to noncontrolling interests:			
Noncontrolling interests — common units	$ 16,955	$ 18,495	$ 30,729
Total net income allocable to noncontrolling interests	16,955	18,495	30,729
Net income allocable to PS Business Parks, Inc.:			
Preferred shareholders			
Distributions to preferred shareholders	57,276	59,398	60,488
Non-cash distributions related to the redemption of preferred stock	7,312	2,487	—
Total net income allocable to preferred shareholders	64,588	61,885	60,488
Restricted stock unit holders	569	299	329
Common shareholders	62,872	68,291	113,154
Total net income allocable to PS Business Parks, Inc.	128,029	130,475	173,971
Net income	$144,984	$148,970	$204,700

Net income per common share

Per share amounts are computed using the number of weighted average common shares outstanding. "Diluted" weighted average common shares outstanding includes the dilutive effect of stock options and restricted stock units under the treasury stock method. "Basic" weighted average common shares outstanding excludes such effect. The Company's restricted stock units are participating securities and are included in the computation of basic and diluted weighted average common shares outstanding. The Company's restricted stock unit holders are paid non-forfeitable dividends in excess of the expense recorded which results in a reduction in net income allocable to common shareholders and unit holders.

Earnings per share has been calculated as follows for the years ended December 31, (in thousands, except per share amounts):

	2016	2015	2014
Net income allocable to common shareholders	$62,872	$68,291	$113,154
Weighted average common shares outstanding:			
Basic weighted average common shares outstanding	27,089	26,973	26,899
Net effect of dilutive stock compensation — based on treasury stock method using average market price	90	78	101
Diluted weighted average common shares outstanding	27,179	27,051	27,000
Net income per common share — Basic	$ 2.32	$ 2.53	$ 4.21
Net income per common share — Diluted	$ 2.31	$ 2.52	$ 4.19

Options to purchase 25,000, 32,000 and 16,000 shares for the years ended December 31, 2016, 2015 and 2014, respectively, were not included in the computation of diluted net income per share because such options were considered anti-dilutive.

Segment reporting

The Company views its operations as one segment.

Reclassifications

Certain reclassifications have been made to the consolidated financial statements for 2015 and 2014 in order to conform to the 2016 presentation.

Recently issued accounting standards

In May, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers,* which amended the existing accounting standards for revenue recognition. The core principle underlying this guidance is that entities will recognize revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled for such exchange. The guidance also provides a model for the measurement and recognition of gains and losses on the sale of certain nonfinancial assets, such as property and equipment, including real estate. This guidance is currently effective for the Company's fiscal year beginning January 1, 2018. Early adoption is permitted for the Company's fiscal year beginning January 1, 2017. ASU 2014-09 allows for full retrospective adoption applied to all periods presented or modified retrospective adoption with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company intends to adopt the guidance using the modified retrospective approach for the fiscal year beginning January 1, 2018. The Company anticipates no impact upon adoption of the new accounting guidance on its consolidated financial statements relating to the Company's facility management fees for property management services provided to PS or the recognition of gains and losses on the sale of real estate assets as the Company's current accounting for such transactions is consistent with the new guidance's core principle. Rental income from leasing arrangements are a substantial portion of the Company's revenue and is specifically excluded from ASU 2014-09 and will be governed by the applicable lease codification (ASU 2016-02, *Leases)*. In conjunction with the adoption of the leasing guidance, the Company is currently in the process of evaluating certain variable payment terms included in these lease arrangements which are governed by ASU 2014-09.

In February, 2016, the FASB issued ASU 2016-02, *Leases*, which amends the existing accounting standards for lease accounting. The accounting applied by a lessor is largely unchanged under this guidance. However, the guidance requires lessees to classify leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. The classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and related liability for most leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new guidance is expected to result in the recognition of a right-of-use asset and related liability to account for our future obligations under our ground lease arrangements for which we are the lessee. As of December 31, 2016, the remaining contractual payments under our ground lease agreements aggregated $381,000. Additionally, the new guidance will require that lessees and lessors capitalize, as initial direct costs, only those costs that are incurred due to the execution of a lease. This guidance is effective for annual periods beginning after December 15, 2018 and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted. The guidance must be adopted using a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The Company is currently in the process of evaluating the impact of adoption of the new accounting guidance on its consolidated financial statements.

In August, 2014, the FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, which is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern for a period of one year after

the date that the financial statements are issued. This guidance is effective for annual periods ending after December 15, 2016 and interim periods within annual periods beginning after December 15, 2016. The Company adopted the new guidance during the fourth quarter of 2016 and the adoption did not require any disclosures about the Company's ability to continue as a going concern.

In February, 2015, the FASB issued ASU 2015-02, *Consolidation – Amendments to the Consolidation Analysis*, which amended the existing accounting standards for consolidation under both the variable interest model and the voting model. On January 1, 2016, the Company adopted this guidance and as the Operating Partnership is already consolidated in the balance sheets of the Company, the identification of this entity as a VIE has no impact on the consolidated financial statements of the Company. Additionally, the Company's accounting for its investment in its joint venture was not impacted by the adoption of this guidance.

In March, 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, to amend the accounting guidance for share-based payment accounting. The Company early adopted this standard effective October 1, 2016. Under this standard, a share-based payment related to the tax liability paid on behalf of employees in lieu of shares received is classified as a financing activity on the statement of cash flows, rather than as an operating activity as the Company had previously presented such amounts. The Company applied this provision retrospectively. On our consolidated statements of cash flows for the years ended December 31, 2015 and 2014, the Company reclassified $767,000 and $409,000, respectively, for share-based payments related to tax liability paid on behalf of employees in lieu of shares received upon vesting of restricted stock units as a reduction from financing activities. The Company previously reflected these amounts as a reduction from operating activities. The standard also allows an employer to make a policy election to account for forfeitures of share-based payments as they occur or estimate forfeitures and adjust the estimate when it is likely to change, as is currently required. The Company elected to recognize forfeitures of share-based payments as they occur, rather than estimating them in advance, effective October 1, 2016, under the modified retrospective transition method. The Company recorded a cumulative-effect adjustment of $807,000 to decrease cumulative net income and increase paid-in capital as of October 1, 2016, representing the impact of estimated forfeitures on our cumulative share-based compensation expense recorded through September 30, 2016. See Note 11.

3. Real estate facilities

The activity in real estate facilities for the years ended December 31, 2016, 2015 and 2014 is as follows *(in thousands)*:

	Land	Buildings and Improvements	Accumulated Depreciation	Total
Balances at December 31, 2013	$772,161	$2,115,987	$ (896,189)	$1,991,959
Acquisition of real estate facilities	21,408	24,890	—	46,298
Capital expenditures	—	54,462	—	54,462
Disposals	—	(10,587)	10,587	—
Depreciation and amortization	—	—	(110,357)	(110,357)
Transfer to properties sold	—	(1,759)	4,462	2,703
Balances at December 31, 2014	793,569	2,182,993	(991,497)	1,985,065
Capital expenditures	—	46,777	—	46,777
Disposals	—	(13,990)	13,990	—
Depreciation and amortization	—	—	(105,394)	(105,394)
Transfer to properties sold	—	(265)	298	33
Balances at December 31, 2015	793,569	2,215,515	(1,082,603)	1,926,481
Acquisition of real estate facilities	5,638	7,637	—	13,275
Capital expenditures	—	37,232	—	37,232
Disposals	—	(14,411)	14,411	—
Depreciation and amortization	—	—	(99,486)	(99,486)
Transfer to land and building held for development	(9,676)	(19,092)	7,870	(20,898)
Balances at December 31, 2016	$789,531	$2,226,881	$(1,159,808)	$1,856,604

The unaudited basis of real estate facilities for federal income tax purposes was approximately $1.9 billion at December 31, 2016.

The purchase price of acquired properties is recorded to land, buildings and improvements (including tenant improvements, unamortized lease commissions, acquired in-place lease values, and tenant relationships, if any) and intangible assets and liabilities associated with the value of above-market and below-market leases based on their respective estimated fair values. Acquisition-related costs are expensed as incurred.

In determining the fair value of the tangible assets of the acquired properties, management considers the value of the properties as if vacant as of the acquisition date. Management must make significant assumptions in determining the value of assets acquired and liabilities assumed. Using different assumptions in the recording of the purchase cost of the acquired properties would affect the timing of recognition of the related revenue and expenses. Amounts recorded to land are derived from comparable sales of land within the same region. Amounts recorded to buildings and improvements, tenant improvements and unamortized lease commissions are based on current market replacement costs and other market information. The amount recorded to acquired in-place leases is determined based on management's assessment of current market conditions and the estimated lease-up periods for the respective spaces.

On September 28, 2016, the Company acquired two multi-tenant office buildings aggregating 226,000 square feet in Rockville, Maryland, for a purchase price of $13.3 million. The buildings are located within Shady Grove Executive Park, where the Company owns three other buildings aggregating 352,000 square feet. The Company incurred and expensed acquisition transaction costs of $328,000 for the year ended December 31, 2016.

On December 30, 2014, the Company acquired Charcot Business Park II, an eight-building, 119,000 square foot multi-tenant flex park in San Jose, California, for $16.0 million. The park is contiguous to the Company's existing 164,000 square foot Charcot Business Park. On November 3, 2014, the Company acquired a 246,000 square foot multi-tenant industrial building in Austin, Texas, for a purchase price of $10.6 million. On August 21, 2014, the Company acquired a 145,000 square foot multi-tenant flex park consisting of six single-story buildings located in Dallas, Texas, for a purchase price of $5.1 million. On July 28, 2014, the Company acquired a 19,000 square foot building in Dallas, Texas, for $1.1 million. The flex building is located in the Company's 389,000 square foot Arapaho Business Park. On July 24, 2014, the Company acquired a 149,000 square foot building in Miami, Florida, for $12.7 million. The building is located within the Company's 3.3 million square foot Miami Industrial Commerce Center. The Company incurred and expensed acquisition transaction costs of $350,000 for the year ended December 31, 2014.

The Company did not acquire any assets or assume any liabilities during the year ended December 31, 2015.

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

	2016	2015	2014
Land	$ 5,638	$ —	$21,408
Buildings and improvements	7,637	—	24,890
Below-market in-place lease value	(25)	—	(666)
Total purchase price	13,250	—	45,632
Net operating assets acquired and liabilities assumed	(622)	—	(611)
Total cash paid	$12,628	$ —	$45,021

As of November 1, 2016, the Company transferred a 123,000 square foot building located within The Mile in Tysons, Virginia to land and building held for development, as the Company is pursuing entitlements to develop an additional multi-family complex on this site. The scope and timing of any future development will be subject to a variety of approvals and contingencies. Prior to being classified as land and building held for development, the building was occupied by a single user.

During 2015, the Company sold four business parks, aggregating 492,000 square feet, in non-strategic markets for net proceeds of $41.2 million, which resulted in a gain of $23.4 million. Additionally, as part of an eminent domain process, the Company sold five buildings, aggregating 82,000 square feet, at the Company's Overlake Business Park located in Redmond, Washington, for $13.9 million, which resulted in a gain of $4.8 million. During 2014, the Company sold five business parks aggregating 1.9 million square feet and 11.5 acres of land in non-strategic markets, including Portland, Oregon and Phoenix, Arizona, for net proceeds of $212.2 million, which resulted in a gain of $92.4 million. With these sales the Company has completed its stated objective of exiting non-strategic markets in Sacramento, California, Oregon and Arizona.

4. Investment in and advances to unconsolidated joint venture

In 2013, the Company entered into a joint venture known as Amherst JV LLC (the "Joint Venture") with an unrelated real estate development company (the "JV Partner") for the purpose of developing a 395-unit multi-family building on a five-acre site within The Mile in Tysons, Virginia (the "Project"). PSB holds a 95.0% interest in the Joint Venture with the remaining 5.0% held by the JV Partner. The JV Partner is responsible for the development and construction of the Project and through an affiliate will oversee the leasing and management of the Project as it is completed. The Project is expected to deliver its first completed units in the spring of 2017, with final completion of the Project expected in early 2018.

On October 5, 2015 (the "Contribution Date"), the Company contributed the site, along with capitalized improvements, to the Joint Venture. Subsequent to the Contribution date, demolition, site preparation and construction commenced. The JV partner serves as the managing member, with mutual consent from both the Company and the managing member required for all significant decisions. As such, the Company accounts for its investment in the Joint Venture using the equity method.

Along with the equity capital the Company has committed to the Joint Venture, the Company has also agreed to provide the Joint Venture with a construction loan in the amount of $75.0 million. The Joint Venture will pay interest under the construction loan at a rate equal to the London Interbank Offered Rate ("LIBOR") plus 2.25%. The loan will mature on April 5, 2019 with two one-year extension options. The Company has reflected the aggregate value of the contributed site, its' equity contributions, capitalized interest and loan advances to date as investment in and advances to unconsolidated joint venture. The aggregate amount of development costs are estimated to be $105.6 million (excluding unrealized land appreciation), of which the Company is committed to funding $75.0 million through a construction loan in addition to capital contributions of $28.5 million, which includes a land basis of $15.3 million, to the Joint Venture.

The Company's investment in and advances to unconsolidated joint venture was $67.2 million and $26.7 million at December 31, 2016 and 2015, respectively. For the year ended December 31, 2016, the Company made loan advances of $33.9 million, capital contributions of $5.7 million and capitalized $885,000 of interest.

Prior to Contribution Date, the Company capitalized $2.8 million to the Project, of which $813,000 was related to capitalized interest from January 1, 2015 through October 5, 2015. Subsequent to the Contribution Date, the Company made cash contributions of $5.2 million and capitalized $346,000 of interest on its investment in the Joint Venture from October 6, 2015 through December 31, 2015. The Company made no loan advances to the Joint Venture in 2015.

At December 31, 2014, the land and capitalized development costs were $18.4 million for the Project. For the year ended December 31, 2014, the Company capitalized $2.2 million to the Project, of which $944,000 was related to capitalized interest.

5. Leasing activity

The Company leases space in its real estate facilities to tenants primarily under non-cancelable leases generally ranging from one to 10 years. Future minimum rental revenues, excluding recovery of operating expenses under these leases, are as follows as of December 31, 2016 *(in thousands)*:

2017	$ 274,275
2018	211,707
2019	145,187
2020	94,697
2021	63,185
Thereafter	114,628
Total	$ 903,679

In addition to minimum rental payments, certain tenants reimburse the Company for their pro rata share of specified operating expenses. Such reimbursements amounted to $82.6 million, $78.9 million and $80.7 million for the years ended December 31, 2016, 2015 and 2014, respectively. These amounts are included as rental income in the accompanying consolidated statements of income.

Leases accounting for 3.6% of total leased square footage are subject to termination options, of which 2.3% of total leased square footage have termination options exercisable through December 31, 2017 (unaudited). In general, these leases provide for termination payments should the termination options be exercised. The future minimum rental revenues in the above table assume such options are not exercised.

6. Bank loans

The Company has a line of credit (the "Credit Facility") with Wells Fargo Bank, National Association ("Wells Fargo") with a borrowing limit of $250.0 million. Subsequent to December 31, 2016, the Company modified and extended the terms of its Credit Facility and the Company's related guaranty. The expiration date was extended from May 1, 2019 to January 10, 2022. The rate of interest charged on borrowings was modified to a rate ranging from the 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%, down from the previous rate of 0.875%. 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%). The Company had no balance outstanding on the Credit Facility at December 31, 2016 and 2015. Subsequent to December 31, 2016, the Company had $85.0 million outstanding on the Credit Facility in conjunction to the redemption of its 6.45% Cumulative Preferred Stock, Series S. The Company had $539,000 and $769,000 of unamortized commitment fees as of December 31, 2016 and 2015, respectively, which is included in other assets in the accompanying consolidated balance sheets. The Credit Facility requires the Company to meet certain covenants, all of which the Company was in compliance with at December 31, 2016. Interest on outstanding borrowings is payable monthly.

7. Mortgage note payable

On June 1, 2016, the Company repaid in full the $250.0 million mortgage note which had a fixed interest rate of 5.45%.

8. Noncontrolling interests

As described in Note 2, the Company reports noncontrolling interests within equity in the consolidated financial statements, but separate from the Company's shareholders' equity. In addition, net income allocable to noncontrolling interests is shown as a reduction from net income in calculating net income allocable to common shareholders.

Common partnership units

The Company presents the accounts of PSB and the Operating Partnership on a consolidated basis. Ownership interests in the Operating Partnership that can be redeemed for common stock, other than PSB's interest, are classified as noncontrolling interests — common units in the consolidated financial statements. Net income allocable to noncontrolling interests — common units consists of the common units' share of the consolidated operating results after allocation to preferred units and shares. Beginning one year from the date of admission as a limited partner (common units) and subject to certain limitations described below, each limited partner other than PSB has the right to require the redemption of its partnership interest.

A limited partner (common units) that exercises its redemption right will receive cash from the Operating Partnership in an amount equal to the market value (as defined in the Operating Partnership Agreement) of the partnership interests redeemed. In lieu of the Operating Partnership redeeming the common units for cash, PSB, as general partner, has the right to elect to acquire the partnership interest directly from a limited partner exercising its redemption right, in exchange for cash in the amount specified above or by issuance of one share of PSB common stock for each unit of limited partnership interest redeemed.

A limited partner (common units) cannot exercise its redemption right if delivery of shares of PSB common stock would be prohibited under the applicable articles of incorporation, or if the general partner believes that there is a risk that delivery of shares of common stock would cause the general partner to no longer qualify as a REIT, would cause a violation of the applicable securities laws, or would result in the Operating Partnership no longer being treated as a partnership for federal income tax purposes.

On December 30, 2014, the Company paid a one-time special cash dividend of $2.75 per share along with the fourth quarter regular dividend of $0.50 per share. Holders of the common partnership units received the same distribution.

At December 31, 2016, there were 7,305,355 common units owned by PS, which are accounted for as noncontrolling interests. Combined with PS's existing common stock ownership, on a fully converted basis, PS has a combined ownership of 42.0% (or 14.5 million shares) of the Company's common equity.

9. Related party transactions

The Operating Partnership manages industrial, office and retail facilities for PS. These facilities, all located in the United States, operate under the "Public Storage" or "PS Business Parks" names. 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.

Under the property management contract with PS, the Operating Partnership is compensated based on a percentage of the gross revenues of the facilities managed. Under the supervision of the property owners, the Operating Partnership coordinates rental policies, rent collections, marketing activities, the purchase of equipment and supplies, maintenance activities, and the selection and engagement of vendors, suppliers and independent contractors. In addition, the Operating Partnership assists and advises the property owners in establishing policies for the hire, discharge and supervision of employees for the operation of these facilities, including property managers and leasing, billing and maintenance personnel.

The property management contract with PS is for a seven-year term with the agreement automatically extending for an additional one-year period upon each one-year anniversary of its commencement (unless cancelled by either party). Either party can give notice of its intent to cancel the agreement upon expiration of its current term. Management fee revenues under this contract were $518,000, $540,000 and $660,000 for the years ended December 31, 2016, 2015 and 2014, respectively.

PS also provides property management services for the self-storage component of two assets owned by the Company. These self-storage facilities, located in Palm Beach County, Florida, operate under the "Public Storage" name.

Under the property management contract, PS is compensated based on a percentage of the gross revenues of the facilities managed. Under the supervision of the Company, PS coordinates rental policies, rent collections,

marketing activities, the purchase of equipment and supplies, maintenance activities, and the selection and engagement of vendors, suppliers and independent contractors. In addition, PS is responsible for establishing the policies for the hire, discharge and supervision of employees for the operation of these facilities, including on-site managers, assistant managers and associate managers.

Either the Company or PS can cancel the property management contract upon 60 days' notice. Management fee expenses under the contract were $86,000, $79,000 and $70,000 for the years ended December 31, 2016, 2015 and 2014, respectively.

Pursuant to a cost sharing and administrative services agreement, the Company shares costs with PS for certain administrative services and rental of corporate office space, which are allocated between the Company and PS in accordance with a methodology intended to fairly allocate those costs. Costs allocated to the Company totaled $493,000, $469,000 and $451,000 for the years ended December 31, 2016, 2015 and 2014, respectively. Costs allocated to PS totaled $38,000 for the year ended December 31, 2016.

The Company had net amounts due from PS of $295,000 and $57,000 at December 31, 2016 and 2015, respectively, for these contracts, as well as for certain operating expenses paid by the Company on behalf of PS.

10. Shareholders' equity

Preferred stock

As of December 31, 2016 and 2015, the Company had the following series of preferred stock outstanding:

				December 31, 2016		December 31, 2015	
Series	**Issuance Date**	**Earliest Potential Redemption Date**	**Dividend Rate**	**Shares Outstanding**	**Amount (in thousands)**	**Shares Outstanding**	**Amount (in thousands)**
Series T	May, 2012	May, 2017	6.000%	14,000	$350,000	14,000	$350,000
Series U	September, 2012	September, 2017	5.750%	9,200	230,000	9,200	230,000
Series V	March, 2013	March, 2018	5.700%	4,400	110,000	4,400	110,000
Series W	October, 2016	October, 2021	5.200%	7,590	189,750	—	—
Series S	January, 2012	January, 2017	6.450%	—	—	9,200	230,000
Total				35,190	$879,750	36,800	$920,000

On December 7, 2016, the Company called for the redemption of its 6.45% Cumulative Preferred Stock, Series S, at its par value of $230.0 million and subsequently completed the redemption on January 18, 2017. The Company reported non-cash distributions of $7.3 million, representing the original issuance costs, as a reduction of net income allocable to common shareholders and unit holders for the year ended December 31, 2016. As of December 31, 2016, the Company reclassified the 6.45% Cumulative Preferred Stock, Series S, of $230.0 million from equity to liabilities as preferred stock called for redemption.

On October 20, 2016, the Company issued $189.8 million or 7,590,000 depositary shares, each representing 1/1,000 of a share of the 5.20% Cumulative Preferred Stock, Series W, at $25.00 per depositary share. The 5.20% Series W Cumulative Redeemable Preferred Units are non-callable for five years and have no mandatory redemption.

On October 15, 2015, the Company completed the redemption of its 6.875% Cumulative Preferred Stock, Series R, at its par value of $75.0 million. The Company reported non-cash distributions of $2.5 million, representing the original issuance costs, as a reduction of net income allocable to common shareholders and unit holders for the year ended December 31, 2015.

The Company recorded $64.6 million, $61.9 million and $60.5 million in distributions to its preferred shareholders for the years ended December 31, 2016, 2015 and 2014, respectively.

Holders of the Company's 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, 2016, 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 previously noted redemption dates. 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. The Company had $28.4 million and $29.3 million of deferred costs in connection with the issuance of preferred stock as of December 31, 2016 and 2015, respectively, which the Company will report as additional non-cash distributions upon notice of its intent to redeem such shares.

Common stock

Subsequent to December 31, 2016, the Board increased its quarterly dividend from $0.75 per common share to $0.85 per common share, increasing quarterly distributions by $3.4 million per quarter.

During the three months ended March 31, 2016, the Board increased its quarterly dividend from $0.60 per common share to $0.75 per common share. During the three months ended September 30, 2015, the Board increased its quarterly dividend from $0.50 per common share to $0.60 per common share.

Dividends declared for the three months ended December 31, 2014 included a one-time special cash dividend of $2.75 per share (the "Special Cash Dividend") along with the fourth quarter regular dividend of $0.50 per share. The Special Cash Dividend was declared to distribute a portion of the excess income attributable to gains on sales from asset dispositions during 2014, as discussed in Note 3.

The Company paid $81.3 million ($3.00 per common share), $59.4 million ($2.20 per common share) and $127.8 million ($4.75 per common share) in distributions to its common shareholders for the years ended December 31, 2016, 2015 and 2014, respectively. The portion of the distributions classified as ordinary income was 100.0%, 89.4% and 70.5% for the years ended December 31, 2016, 2015 and 2014, respectively. The portion of the distributions classified as long-term capital gain income was 0.0%, 10.6% and 29.5% for the years ended December 31, 2016, 2015 and 2014, respectively. The percentages in the two preceding sentences are unaudited.

No shares of common stock were repurchased under the board approved common stock repurchase program during the years ended December 31, 2016, 2015 and 2014.

Equity stock

In addition to common and preferred 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.

11. Stock compensation

PSB has a 2003 Stock Option and Incentive Plan (the "2003 Plan") and a 2012 Equity and Performance-Based Incentive Compensation Plan (the "2012 Plan") covering 1.5 million and 1.0 million shares of PSB's common stock, respectively. Under the 2003 Plan and 2012 Plan, PSB has granted non-qualified options to certain directors, officers and key employees to purchase shares of PSB's common stock at a price not less than the fair market value of the common stock at the date of grant. Additionally, under the 2003 Plan and 2012 Plan, PSB has granted restricted shares of common stock to certain directors and restricted stock units to officers and key employees.

Options under the 2003 Plan and 2012 Plan vest over a five-year period from the date of grant at the rate of one fifth per year and expire 10 years after the date of grant. Restricted stock units granted prior to 2016 are subject to a six-year vesting, none in year one and 20% for each of the next five years. Restricted stock units granted during 2016 are subject to a five-year vesting at the rate of 20% per year. The grantee of restricted stock units receives dividend equivalents for each outstanding award equal to the per-share dividends received by common shareholders and are recorded in additional paid-in capital. The Company expenses any dividend equivalents previously paid upon forfeiture of the related unvested restricted stock unit. Upon vesting, the grantee receives common shares equal to the number of vested awards, less common shares withheld in exchange for tax deposits made by the Company to satisfy the grantee's statutory tax liabilities arising from the vesting.

As noted under "Recently issued accounting standards" in Note 2, the Company elected to early adopt ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting,* and account for forfeitures of share-based payments as they occur. Accordingly, compensation cost previously recognized for an award that is forfeited because of a failure to satisfy a service or performance condition will be reversed in the period of the forfeiture. This election was made using a modified retrospective approach, with a cumulative-effect adjustment of $807,000 to decrease cumulative net income and increase paid-in capital representing the impact of estimated forfeitures on cumulative share-based compensation expense recorded through September 30, 2016. The Company did not record any reserves on share-based compensation expense for the three months ended December 31, 2016.

The weighted average grant date fair value of options granted during the years ended December 31, 2016, 2015 and 2014 was $9.05 per share, $8.49 per share and $10.95 per share, respectively. The Company has calculated the fair value of each option grant on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants during the years ended December 31, 2016, 2015 and 2014, respectively: a dividend yield of 2.9%, 2.5% and 2.3%; expected volatility of 15.5%, 16.1% and 17.7%; expected life of five years; and risk-free interest rates of 1.1%, 1.4% and 1.7%.

The weighted average grant date fair value of restricted stock units granted during the years ended December 31, 2016, 2015 and 2014 was $87.45, $82.78 and $81.47, respectively. The Company calculated the fair value of each restricted stock unit grant using the market value on the date of grant.

At December 31, 2016, there was a combined total of 1.2 million options and restricted stock units authorized to be granted.

In connection with the 2014 Special Cash Dividend discussed in Note 10, the number of options and exercise prices of all outstanding options as of December 31, 2014 were adjusted pursuant to the anti-dilution provisions of the applicable plans so that the option holders would be neither advantaged nor disadvantaged as a result of the Special Cash Dividend.

Information with respect to outstanding options and nonvested restricted stock units granted under the 2003 Plan and 2012 Plan 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, 2013	380,773	$ 56.45		
Granted	16,000	$ 82.84		
Exercised	(61,273)	$ 49.84		
Forfeited	(4,000)	$ 52.35		
Special cash dividend adjustment (1)	10,352	N/A		
Outstanding at December 31, 2014	341,852	$ 57.11		
Granted	16,000	$ 80.13		
Exercised	(99,178)	$ 51.31		
Forfeited	—	$ —		
Outstanding at December 31, 2015	258,674	$ 60.76		
Granted	39,000	$102.58		
Exercised	(68,019)	$ 57.17		
Forfeited	—	$ —		
Outstanding at December 31, 2016	229,655	$ 68.93	5.35 Years	$10,930
Exercisable at December 31, 2016	153,432	$ 58.63	3.92 Years	$ 8,882

(1) In accordance with the applicable equity award plan documents, the number and exercise price of outstanding options as of December 31, 2014 have been adjusted as a result of the Special Cash Dividend so that the option holder maintains their economic position with respect to the shareholders.

Restricted Stock Units:	Number of Units	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2013	45,100	$60.07
Granted	6,800	$81.47
Vested	(12,980)	$53.65
Forfeited	(3,750)	$69.00
Nonvested at December 31, 2014	35,170	$65.62
Granted	75,606	$82.78
Vested	(25,384)	$74.19
Forfeited	(6,740)	$76.22
Nonvested at December 31, 2015	78,652	$78.44
Granted	119,950	$87.45
Vested	(47,779)	$80.45
Forfeited	(6,130)	$76.51
Nonvested at December 31, 2016	144,693	$58.56

Effective March, 2014, the Company entered into a performance-based restricted stock unit 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 restricted stock unit awards for certain employees, which would be earned only if the Company achieved one of three defined targets during 2014 to 2017. Under the LTEIP there is 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 is not achieved for an annual award, the restricted stock units allocated to be awarded for such year are added to the restricted stock units that may be received if the four-year target is achieved. All restricted stock unit awards under the LTEIP vest in four equal annual installments beginning from the date of award. Up to 99,150 restricted stock units would be awarded for each of the four years assuming achievement was met and up to 92,900 restricted stock units would be awarded for the cumulative four-year period assuming achievement was met. Compensation expense is recognized based on the restricted stock units expected to be awarded based on the target level that is expected to be achieved. Net compensation expense of $9.8 million, $8.2 million and $7.4 million related to the LTEIP was recognized for the years ended December 31, 2016, 2015 and 2014, respectively. Included in the 2016 amount, the Company recorded a net non-cash stock compensation charge of $2.0 million related to a change in senior management and the future issuance of restricted stock units our former Chief Executive Officer will receive under the Company's LTEIP.

In connection with the LTEIP, targets for 2014 and 2015 were achieved at the threshold total return level. As such, 99,150 and 66,506 restricted stock units were granted during the years ended December 31, 2016 and 2015, respectively, at a weighted average grant date fair value of $83.59 and $83.47, respectively.

Included in the Company's consolidated statements of income for the years ended December 31, 2016, 2015 and 2014, was $282,000, $261,000 and $1.1 million, respectively, in net compensation expense related to stock options. Included in the 2014 compensation expense relating to stock options was $644,000 of expense resulting from modifications made to outstanding stock options as a result of the Special Cash Dividend paid in December, 2014. Net compensation expense of $10.3 million, $8.7 million and $8.0 million related to restricted stock units was recognized during the years ended December 31, 2016, 2015 and 2014, respectively.

As of December 31, 2016, there was $566,000 of unamortized compensation expense related to stock options expected to be recognized over a weighted average period of 3.5 years. As of December 31, 2016, there was $12.6 million of unamortized compensation expense related to restricted stock units expected to be recognized over a weighted average period of 3.7 years.

Cash received from 68,019 stock options exercised during the year ended December 31, 2016 was $3.9 million. Cash received from 99,178 stock options exercised during the year ended December 31, 2015 was $5.1

million. Cash received from 61,273 stock options exercised during the year ended December 31, 2014 was $3.1 million. The aggregate intrinsic value of the stock options exercised was $3.4 million, $2.6 million and $2.1 million during the years ended December 31, 2016, 2015 and 2014, respectively.

During the year ended December 31, 2016, 47,779 restricted stock units vested; in settlement of these units, 28,046 shares were issued, net of 19,733 shares applied to payroll taxes. The aggregate fair value of the shares vested for the year ended December 31, 2016 was $4.7 million. During the year ended December 31, 2015, 25,384 restricted stock units vested; in settlement of these units, 15,734 shares were issued, net of 9,650 shares applied to payroll taxes. The aggregate fair value of the shares vested for the year ended December 31, 2015 was $2.0 million. During the year ended December 31, 2014, 12,980 restricted stock units vested; in settlement of these units, 8,066 shares were issued, net of 4,914 shares applied to payroll taxes. The aggregate fair value of the shares vested for the year ended December 31, 2014 was $1.1 million. In addition to the vesting of these shares, tax deposits totaling $1.9 million, $767,000 and $409,000 were made during the years ended December 31, 2016, 2015 and 2014, respectively, on behalf of employees in exchange for common shares withheld upon vesting.

In April, 2015, the shareholders of the Company approved the issuance of up to 130,000 shares of common stock under the Retirement Plan for Non-Employee Directors (the "Director Plan"). Under the Director Plan, the Company grants 1,000 shares of common stock for each year served as a director up to a maximum of 8,000 shares issued upon retirement. The Company recognizes compensation expense over the requisite service period. As a result, included in the Company's consolidated statements of income was $339,000, $316,000 and $550,000 in compensation expense for the years ended December 31, 2016, 2015 and 2014, respectively. Included in the 2014 compensation expense relating to the retirement shares was $243,000 of expense resulting from the increase in maximum shares. As of December 31, 2016, 2015 and 2014, there was $887,000, $1.2 million and $1.5 million, respectively, of unamortized compensation expense related to these shares. In April, 2016, the Company issued 8,000 shares to a director upon retirement with an aggregate fair value of $775,000. No shares were issued during the years ended December 31, 2015 and 2014.

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

	Three Months Ended			
	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016
Rental income	$95,845	$96,087	$97,340	$97,599
Cost of operations	$31,894	$29,750	$30,796	$30,668
Net income allocable to common shareholders	$14,569	$15,731	$19,718	$12,854
Net income per share:				
Basic	$ 0.54	$ 0.58	$ 0.73	$ 0.47
Diluted	$ 0.54	$ 0.58	$ 0.72	$ 0.47

	Three Months Ended			
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015
Rental income	$92,315	$92,948	$93,322	$94,550
Cost of operations	$31,746	$30,057	$30,448	$28,973
Net income allocable to common shareholders	$19,771	$11,129	$22,484	$14,906
Net income per share:				
Basic	$ 0.73	$ 0.41	$ 0.83	$ 0.55
Diluted	$ 0.73	$ 0.41	$ 0.83	$ 0.55

13. Commitments and contingencies

The Company currently is neither subject to any other 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.

14. 401(k) Plan

The Company has a 401(k) savings plan (the "Plan") in which all eligible employees may participate. The Plan provides for the Company to make matching contributions to all eligible employees up to 4% of their annual salary dependent on the employee's level of participation. For the years ended December 31, 2016, 2015 and 2014, $409,000, $410,000, and $417,000, respectively, was charged as expense related to this plan.

PS BUSINESS PARKS, INC.

SCHEDULE III — REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2016
(IN THOUSANDS)

			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition	Gross Amount at Which Carried at December 31, 2016					
Description	Location	Square Feet	Land	Buildings and Improvements	Buildings and Improvements	Land	Buildings and Improvements	Total	Accumulated Depreciation	Year(s) Acquired	Depreciable Lives (Years)
Buena Park Industrial Center	Buena Park, CA	317	$ 3,245	$ 7,703	$ 2,715	$ 3,245	$10,418	$13,663	$ 7,047	1997	5-30
Carson	Carson, CA	77	990	2,496	1,537	990	4,033	5,023	2,867	1997	5-30
Cerritos Business Center	Cerritos, CA	395	4,218	10,273	4,139	4,218	14,412	18,630	9,960	1997	5-30
Cerritos/Edwards	Cerritos, CA	31	450	1,217	1,421	450	2,638	3,088	1,946	1997	5-30
Concord Business Park	Concord, CA	246	12,454	20,491	1,027	12,454	21,518	33,972	5,070	2011	5-30
Culver City	Culver City, CA	147	3,252	8,157	6,031	3,252	14,188	17,440	10,468	1997	5-30
Bayview Business Park	Fremont, CA	104	4,990	4,831	328	4,990	5,159	10,149	1,509	2011	5-30
Christy Business Park	Fremont, CA	334	11,451	16,254	1,586	11,451	17,840	29,291	5,030	2011	5-30
Industrial Drive Distribution Center	Fremont, CA	199	7,482	6,812	798	7,482	7,610	15,092	1,820	2011	5-30
Bay Center Business Park	Hayward, CA	463	19,052	50,501	3,702	19,052	54,203	73,255	12,659	2011	5-30
Cabot Distribution Center	Hayward, CA	249	5,859	10,811	374	5,859	11,185	17,044	2,528	2011	5-30
Diablo Business Park	Hayward, CA	271	9,102	15,721	863	9,102	16,584	25,686	3,978	2011	5-30
Eden Landing	Hayward, CA	83	3,275	6,174	131	3,275	6,305	9,580	1,569	2011	5-30
Hayward Business Park	Hayward, CA	1,091	28,256	54,418	2,807	28,256	57,225	85,481	13,205	2011	5-30
Huntwood Business Park	Hayward, CA	176	7,391	11,819	889	7,391	12,708	20,099	3,327	2011	5-30
Parkway Commerce	Hayward, CA	407	4,398	10,433	4,222	4,398	14,655	19,053	9,816	1997	5-30
Corporate Pointe	Irvine, CA	161	6,876	18,519	6,760	6,876	25,279	32,155	17,027	2000	5-30
Laguna Hills Commerce Center	Laguna Hills, CA	513	16,261	39,559	7,317	16,261	46,876	63,137	30,670	1997	5-30
Plaza Del Lago	Laguna Hills, CA	101	2,037	5,051	4,060	2,037	9,111	11,148	6,473	1997	5-30
Cañada Business Center	Lake Forest, CA	297	5,508	13,785	6,031	5,508	19,816	25,324	13,319	1997	5-30
Dixon Landing Business Park	Milpitas, CA	505	26,301	21,121	3,244	26,301	24,365	50,666	6,953	2011	5-30
Monterey/Calle	Monterey, CA	12	288	706	337	288	1,043	1,331	763	1997	5-30
Monterey Park	Monterey Park, CA	199	3,078	7,862	1,586	3,078	9,448	12,526	6,611	1997	5-30
Port of Oakland	Oakland, CA	200	5,638	11,066	627	5,638	11,693	17,331	2,817	2011	5-30
Orangewood	Orange County, CA	107	2,637	12,291	3,873	2,637	16,164	18,801	9,072	2003	5-30
Orange County Business Center	Orange County, CA	437	9,405	35,746	18,507	9,405	54,253	63,658	40,977	2003	5-30
Kearney Mesa	San Diego, CA	164	2,894	7,089	2,890	2,894	9,979	12,873	6,920	1997	5-30
Lusk	San Diego, CA	371	5,711	14,049	5,623	5,711	19,672	25,383	13,645	1997	5-30
Rose Canyon Business Park	San Diego, CA	233	15,129	20,054	2,321	15,129	22,375	37,504	12,005	2005	5-30
Charcot Business Park	San Jose, CA	283	18,654	17,580	1,704	18,654	19,284	37,938	5,239	2011/2014	5-30
Las Plumas	San Jose, CA	214	4,379	12,889	6,716	4,379	19,605	23,984	14,446	1998	5-30
Little Orchard Distribution Center	San Jose, CA	213	7,725	3,846	84	7,725	3,930	11,655	1,241	2011	5-30
Montague Industrial Park	San Jose, CA	316	14,476	12,807	485	14,476	13,292	27,768	4,334	2011	5-30
Oakland Road	San Jose, CA	177	3,458	8,765	3,233	3,458	11,998	15,456	8,267	1997	5-30
Rogers Ave	San Jose, CA	67	3,540	4,896	630	3,540	5,526	9,066	2,659	2006	5-30
Doolittle Business Park	San Leandro, CA	113	3,929	6,231	413	3,929	6,644	10,573	1,775	2011	5-30
Bayshore Corporate Center	San Mateo, CA	340	25,108	36,891	6,202	25,108	43,093	68,201	10,038	2013	5-30
San Ramon/Norris Canyon	San Ramon, CA	52	1,486	3,642	1,348	1,486	4,990	6,476	3,385	1997	5-30
Commerce Park	Santa Clara, CA	251	17,218	21,914	3,733	17,218	25,647	42,865	15,900	2007	5-30
Santa Clara Tech Park	Santa Clara, CA	178	7,673	15,645	4,514	7,673	20,159	27,832	13,468	2000	5-30
Walsh at Lafayette	Santa Clara, CA	321	13,439	17,890	281	13,439	18,171	31,610	5,151	2011	5-30

Description	Location	Square Feet	Initial Cost to Company		Cost Capitalized Subsequent to Acquisition	Gross Amount at Which Carried at December 31, 2016			Accumulated Depreciation	Year(s) Acquired	Depreciable Lives (Years)
			Land	Buildings and Improvements	Buildings and Improvements	Land	Buildings and Improvements	Total			
Signal Hill	Signal Hill, CA	269	6,693	12,699	2,695	6,693	15,394	22,087	9,169	1997/2006	5-30
Airport Boulevard	So San Francisco, CA	52	899	2,387	745	899	3,132	4,031	2,131	1997	5-30
South San Francisco/Produce	So San Francisco, CA	41	776	1,886	553	776	2,439	3,215	1,632	1997	5-30
Studio City/Ventura	Studio City, CA	22	621	1,530	589	621	2,119	2,740	1,420	1997	5-30
Kifer Industrial Park	Sunnyvale, CA	287	13,227	37,874	1,369	13,227	39,243	52,470	9,001	2011	5-30
Torrance	Torrance, CA	147	2,318	6,069	3,263	2,318	9,332	11,650	6,636	1997	5-30
Boca Commerce	Boca Raton, FL	135	7,795	9,258	3,056	7,795	12,314	20,109	4,550	2006	5-30
MICC	Miami, FL	3,468	95,115	112,583	40,445	95,115	153,028	248,143	87,812	2003/2011/2014	5-30
Wellington	Wellington, FL	263	10,845	18,560	2,490	10,845	21,050	31,895	8,792	2006	5-30
Ammendale	Beltsville, MD	309	4,278	18,380	11,175	4,278	29,555	33,833	21,995	1998	5-30
Gaithersburg/Christopher	Gaithersburg, MD	29	475	1,203	632	475	1,835	2,310	1,323	1997	5-30
Metro Park	Rockville, MD	898	33,995	94,463	40,692	33,995	135,155	169,150	87,175	2001	5-30
Parklawn Business Park	Rockville, MD	232	3,387	19,628	3,783	3,387	23,411	26,798	8,552	2010	5-30
Shady Grove	Rockville, MD	578	11,010	58,364	8,860	11,010	67,224	78,234	20,086	2010/2016	5-30
Westech Business Park	Silver Spring, MD	532	25,261	74,572	17,232	25,261	91,804	117,065	53,912	2006	5-30
Ben White	Austin, TX	108	1,550	7,015	1,952	1,550	8,967	10,517	6,312	1998	5-30
Lamar Business Park	Austin, TX	198	2,528	6,596	6,043	2,528	12,639	15,167	9,498	1997	5-30
McKalla	Austin, TX	236	1,945	13,212	2,188	1,945	15,400	17,345	7,563	1998/2012	5-30
McNeil	Austin, TX	525	5,477	24,495	4,513	5,477	29,008	34,485	10,425	1999/2010/2012/2014	5-30
Rutland	Austin, TX	235	2,022	9,397	2,160	2,022	11,557	13,579	8,017	1998/1999	5-30
Waterford	Austin, TX	106	2,108	9,649	3,823	2,108	13,472	15,580	9,215	1999	5-30
Braker Business Park	Austin, TX	257	1,874	13,990	1,723	1,874	15,713	17,587	6,327	2010	5-30
Mopac Business Park	Austin, TX	117	719	3,579	694	719	4,273	4,992	1,661	2010	5-30
Southpark Business Park	Austin, TX	181	1,266	9,882	2,361	1,266	12,243	13,509	5,109	2010	5-30
Valwood Business Center	Carrolton, TX	356	2,510	13,859	1,916	2,510	15,775	18,285	4,060	2013	5-30
Empire Commerce	Dallas, TX	44	304	1,545	814	304	2,359	2,663	1,754	1998	5-30
Northgate	Dallas, TX	194	1,274	5,505	4,112	1,274	9,617	10,891	6,893	1998	5-30
Northway Plaza	Farmers Branch, TX	131	1,742	4,503	791	1,742	5,294	7,036	1,352	2013	5-30
Springlake Business Center	Farmers Branch, TX	206	2,607	5,715	1,861	2,607	7,576	10,183	2,020	2013/2014	5-30
Westwood Business Park	Farmers Branch, TX	112	941	6,884	2,289	941	9,173	10,114	5,486	2003	5-30
Eastgate	Garland, TX	36	480	1,203	479	480	1,682	2,162	1,212	1997	5-30
Freeport Business Park	Irving, TX	256	4,564	9,506	2,348	4,564	11,854	16,418	2,920	2013	5-30
NFTZ (1)	Irving, TX	231	1,517	6,499	3,506	1,517	10,005	11,522	6,997	1998	5-30
Royal Tech	Irving, TX	794	13,989	54,113	23,889	13,989	78,002	91,991	50,291	1998-2000/2011	5-30
La Prada	Mesquite, TX	56	495	1,235	594	495	1,829	2,324	1,355	1997	5-30
The Summit	Plano, TX	184	1,536	6,654	4,291	1,536	10,945	12,481	8,140	1998	5-30
Arapaho Business Park	Richardson, TX	408	5,226	10,661	3,394	5,226	14,055	19,281	4,371	2013/2014	5-30
Richardson Business Park	Richardson, TX	117	799	3,568	2,954	799	6,522	7,321	4,834	1998	5-30
Bren Mar	Alexandria, VA	113	2,197	5,380	3,832	2,197	9,212	11,409	6,754	1997	5-30
Eisenhower	Alexandria, VA	95	1,440	3,635	2,486	1,440	6,121	7,561	4,610	1997	5-30
Beaumont	Chantilly, VA	107	4,736	11,051	2,238	4,736	13,289	18,025	7,419	2006	5-30
Dulles South/Sullyfield	Chantilly, VA	99	1,373	6,810	3,135	1,373	9,945	11,318	6,756	1999	5-30
Lafayette	Chantilly, VA	197	1,680	13,398	5,381	1,680	18,779	20,459	12,790	1999/2000	5-30
Park East	Chantilly, VA	198	3,851	18,029	10,270	3,851	28,299	32,150	19,339	1999	5-30
Fair Oaks Business Campus	Fairfax, VA	290	13,598	36,232	8,132	13,598	44,364	57,962	25,358	2004/2007	5-30

Description	Location	Square Feet	Initial Cost to Company		Cost Capitalized Subsequent to Acquisition	Gross Amount at Which Carried at December 31, 2016			Accumulated Depreciation	Year(s) Acquired	Depreciable Lives (Years)
			Land	Buildings and Improvements	Buildings and Improvements	Land	Buildings and Improvements	Total			
Monroe	Herndon, VA	244	6,737	18,911	11,274	6,737	30,185	36,922	21,005	1997/1999	5-30
Gunston	Lorton, VA	247	4,146	17,872	11,221	4,146	29,093	33,239	16,313	1998	5-30
The Mile	McLean, VA	628	38,279	83,596	22,340	38,279	105,936	144,215	37,304	2010/2011	5-30
Prosperity Business Campus	Merrifield, VA	659	23,147	67,575	31,491	23,147	99,066	122,213	63,020	2001	5-30
Alban Road	Springfield, VA	150	1,935	4,736	5,050	1,935	9,786	11,721	7,410	1997	5-30
I-95	Springfield, VA	210	3,535	15,672	12,142	3,535	27,814	31,349	20,528	2000	5-30
Northpointe	Sterling, VA	147	2,767	8,778	4,587	2,767	13,365	16,132	9,976	1997/1998	5-30
Shaw Road	Sterling, VA	149	2,969	10,008	4,476	2,969	14,484	17,453	10,828	1998	5-30
Tysons Corporate Center	Vienna, VA	270	9,885	25,302	9,333	9,885	34,635	44,520	13,426	2010	5-30
Woodbridge	Woodbridge, VA	114	1,350	3,398	1,908	1,350	5,306	6,656	3,935	1997	5-30
212th Business Park	Kent, WA	951	19,573	17,695	12,134	19,573	29,829	49,402	8,335	2012	5-30
Overlake	Redmond, WA	411	23,122	41,106	6,692	23,122	47,798	70,920	27,685	2007	5-30
Renton	Renton, WA	28	330	889	597	330	1,486	1,816	1,065	1997	5-30
		28,072	$789,531	$1,716,799	$510,082	$789,531	$2,226,881	$3,016,412	$1,159,808		

(1) The Company owns two properties that are subject to ground leases in Las Colinas, Texas, expiring in 2019 and 2020, each with one 10-year extension option.

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 24, 2017

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.

Signature	Title	Date
/s/ Ronald L. Havner, Jr. Ronald L. Havner, Jr.	Chairman of the Board	February 24, 2017
/s/ Maria R. Hawthorne Maria R. Hawthorne	Director and Chief Executive Officer (principal executive officer)	February 24, 2017
/s/ Edward A. Stokx Edward A. Stokx	Chief Financial Officer (principal financial and accounting officer)	February 24, 2017
/s/ Jennifer Holden Dunbar Jennifer Holden Dunbar	Director	February 24, 2017
/s/ James H. Kropp James H. Kropp	Director	February 24, 2017
/s/ Sara Grootwassink Lewis Sara Grootwassink Lewis	Director	February 24, 2017
/s/ Gary E. Pruitt Gary E. Pruitt	Director	February 24, 2017
/s/ Robert S. Rollo Robert S. Rollo	Director	February 24, 2017
/s/ Joseph D. Russell, Jr. Joseph D. Russell, Jr.	Director	February 24, 2017
/s/ Peter Schultz Peter Schultz	Director	February 24, 2017

PS BUSINESS PARKS, INC.

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

3.1 Restated Articles of Incorporation. Filed with 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 6.00% Series T Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8- K dated May 7, 2012 (SEC File No. 001-10709) and incorporated herein by reference.

3.4 Certificate of Determination of Preferences of 5.75% Series U Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Field with Registrant's Current Report on Form 8- K dated September 7, 2012 (SEC File No. 001-10709) and incorporated herein by reference.

3.5 Certificate of Determination of Preferences of 5.70% Series V Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Field with Registrant's Current Report on Form 8- K dated March 5, 2013 (SEC File No. 001-10709) and incorporated herein by reference.

3.6 Certificate of Determination of Preferences of 5.20% Series W Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Field with Registrant's Current Report on Form 8- K dated October 12, 2016 (SEC File No. 001-10709) and incorporated herein by reference.

4.1 Deposit Agreement Relating to 6.00% Cumulative Preferred Stock, Series T of PS Business Parks, Inc. dated as of May 3, 2012. Filed with Registrant's Current Report on Form 8-K dated May 7, 2012 (SEC File No. 001-10709) and incorporated herein by reference.

4.2 Deposit Agreement Relating to 5.75% Cumulative Preferred Stock, Series U of PS Business Parks, Inc. dated as of September 5, 2012. Filed with Registrant's Current Report on Form 8- K dated September 7, 2012 (SEC File No. 001-10709) and incorporated herein by reference.

4.3 Deposit Agreement Relating to 5.70% Cumulative Preferred Stock, Series V of PS Business Parks, Inc. dated as of March 5, 2013. Filed with Registrant's Current Report on Form 8-K dated March 5, 2013 (SEC File No. 001-10709) and incorporated herein by reference.

4.4 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.

10.1 Amended Management Agreement between Storage Equities, Inc. and Public Storage Commercial Properties Group, Inc. dated as of February 21, 1995. Filed with 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 with 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 with 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 with 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 with 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 Accounts Payable and Payroll Disbursement Services Agreement dated as of January 2, 1997 by and between PSCC, Inc. and AOPP LP. Filed with 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.

10.8 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. relating to 6.00% Series T Cumulative Preferred Units, Series T, dated as of May 14, 2012. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 (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 5.75% Series U Cumulative Preferred Units, dated as of September 14, 2012. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 (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 5.70% Series V Cumulative Preferred Units, dated as of March 14, 2013. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 (SEC File No. 001-10709) and incorporated herein by reference.

10.11 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.

10.12 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.

10.13* Registrant's 1997 Stock Option and Incentive Plan. Filed with Registrant's Registration Statement on Form S-8 (SEC File No. 333-48313) 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* Amended and Restated Retirement Plan for Non-Employee Directors. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2011 (SEC File No. 001-10709) and incorporated herein by reference.

10.16* 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.

10.17* 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.

10.18* 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.

10.19* 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* 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.

10.21* 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.

10.22* 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.

10.23*	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.
10.24*	Retirement Plan For Non-Employee Directors, as amended. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2015 (SEC File No. 001-10709) and incorporated herein by reference.
10.25*	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.
12	Statement re: Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends. 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 Link. Filed herewith.

* Denotes management contract or compensatory plan agreement or arrangement

Exhibit 12

PS BUSINESS PARKS, INC.

STATEMENT RE: COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED STOCK DIVIDENDS
(in thousands, except ratio data)

	For The Years Ended December 31,				
	2016	2015	2014	2013	2012
Income from continuing operations	$144,984	$148,970	$204,700	$116,144	$ 94,395
Interest expense	5,568	13,270	13,509	16,074	20,618
Earnings from continuing operations available to cover fixed charges	$150,552	$162,240	$218,209	$132,218	$115,013
Fixed charges (1)	$ 6,452	$ 14,428	$ 14,453	$ 16,433	$ 20,618
Preferred stock dividends	64,588	61,885	60,488	59,216	69,136
Preferred partnership distributions	—	—	—	—	323
Combined fixed charges and preferred distributions	$ 71,040	$ 76,313	$ 74,941	$ 75,649	$ 90,077
Ratio of earnings from continuing operations to fixed charges	23.3	11.2	15.1	8.0	5.6
Ratio of earnings from continuing operations to combined fixed charges and preferred distributions	2.1	2.1	2.9	1.7	1.3

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

Supplemental Disclosure of Ratio of Funds from Operations ("FFO") to Fixed Charges:

	For The Years Ended December 31,				
	2016	2015	2014	2013	2012
FFO	$179,882	$164,244	$162,196	$165,845	$134,472
Interest expense	5,568	13,270	13,509	16,074	20,618
Net income allocable to noncontrolling interests — preferred units	—	—	—	—	323
Preferred stock dividends	64,588	61,885	60,488	59,216	69,136
FFO available to cover fixed charges	$250,038	$239,399	$236,193	$241,135	$224,549
Fixed charges (1)	$ 6,452	$ 14,428	$ 14,453	$ 16,433	$ 20,618
Preferred stock dividends (2)	57,276	59,398	60,488	59,216	51,969
Preferred partnership distributions (2)	—	—	—	—	174
Combined fixed charges and preferred distributions paid	$ 63,728	$ 73,826	$ 74,941	$ 75,649	$ 72,761
Ratio of available FFO to fixed charges	38.8	16.6	16.3	14.7	10.9
Ratio of available FFO to combined fixed charges and preferred distributions paid	3.9	3.2	3.2	3.2	3.1

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

(2) Excludes the issuance costs related to the redemption/repurchase of preferred equity and the gain on the repurchase of preferred equity.

Exhibit 21

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
GB, LLC	Maryland
Hernmore Corporation	Maryland
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
Monroe Parkway, L.L.C.	Virginia
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 Meadows LLC	Delaware
PSB Meadows Member LLC	Delaware
PSB MICC 2323 LLC	Delaware
PSB Northern California Industrial Portfolio, LLC	Delaware
PSB Shady Grove LLC	Maryland
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

Exhibit 23

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-3 No. 333-202624);

of our reports dated February 24, 2017 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, 2016.

/s/ Ernst & Young, LLP

Los Angeles, California
February 24, 2017

Exhibit 31.1

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 24, 2017

Exhibit 31.2

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

I, Edward A. Stokx 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/ Edward A. Stokx

Name: Edward A. Stokx
Title: Chief Financial Officer
Date: February 24, 2017

Exhibit 32.1

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, 2016 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 Edward A. Stokx, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to his 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 24, 2017

/s/ Edward A. Stokx

Name: Edward A. Stokx
Title: Chief Financial Officer
Date: February 24, 2017

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 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

SARA GROOTWASSINK LEWIS (2010)
Chief Executive Officer
Lewis Corporate Advisors, LLC

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
Public Storage

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

( ) = Year director was elected to the Board

Executive Officers

MARIA R. HAWTHORNE
President and Chief Executive Officer

JOHN W. PETERSEN
Executive Vice President and Chief Operating Officer

EDWARD A. STOKX
Executive Vice President, Chief Financial Officer and Secretary

Divisional Vice Presidents

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

TRENTON A. GROVES
Vice President, Corporate Controller

COBY A. HOLLEY
Vice President, Real Estate

STUART H. HUTCHISON
Divisional Vice President, Southern California and Pacific Northwest

ROBIN E. MATHER
Vice President, Business Development

RICHARD E. SCOTT
Divisional Vice President, Northern California

EUGENE UHLMAN
Vice President, Construction Management

DAVID A. VICARS
Divisional Vice President, Texas and Florida

Regional Vice Presidents

MARK D. ANTROBIUS
Regional Vice President, Southern California

RALPH D. ASHWORTH
Vice President, Property Operations Controller

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

DENNIS FAY
Regional Vice President, Northern Virginia and Maryland

RICHARD GUERTIN
Regional Vice President, Miami, Florida

AMY L. HERITAGE
Regional Vice President, Austin, Texas

JEFFREY C. PASCHAL
Regional Vice President, Texas and Florida

EDDIE F. RUIZ
Vice President, Director of Facilities

JAMI S. SHAW
Regional Vice President, Northern California

Transfer Agent

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219
(800) 937-5449

Independent Registered Public Accounting Firm

Ernst & Young LLP
Los Angeles, CA

Stock Listing

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

PSB
LISTED
NYSE

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 17, 2016.

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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PS BUSINESS PARKS, INC.

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