

PS Business Parks, Inc. Reports Results for the Quarter Ended June 30, 2021

GLENDALDE, Calif.--(BUSINESS WIRE)-- PS Business Parks, Inc. (NYSE:PSB) reported operating results for the three and six months ended June 30, 2021.

Operating Results for the Three and Six Months Ended June 30, 2021

Net income allocable to common stockholders for the three and six months ended June 30, 2021 was \$45.6 million, or \$1.65 per diluted share, and \$73.5 million, or \$2.66 per diluted share, respectively. Net operating income (“NOI”) attributable to the Company’s Same Park portfolio (defined below) for the three and six months ended June 30, 2021 was \$73.2 million and \$143.5 million, respectively, representing increases of 9.4% and 4.2% over the same periods in 2020.

The Company also reports NOI, a measure that is not defined in accordance with U.S. generally accepted accounting principles (“GAAP”), on a cash basis, which excludes non-cash rental income such as amortization of deferred rent receivable and other non-cash items, and also excludes rents that have been deferred or abated during the period. Same Park Cash NOI was \$73.1 million and \$143.0 million for the three and six months ended June 30, 2021, respectively, representing increases of 13.5% and 6.4% over the same periods in 2020. The increases in Same Park Cash NOI for the three and six months ended June 30, 2021 were driven by cash rental income growth of 10.7% and 5.8%, respectively, partially offset by growth in adjusted cost of operations of 4.2% and 4.4%, over the same periods in 2020.

The following table details the change in Same Park rental income for the three and six months ended June 30, 2021 and 2020 (in thousands):

| | For the Three Months Ended June 30, | | | For the Six Months Ended June 30, | | |
|---------------------------------------|--|-----------|----------|--------------------------------------|------------|----------|
| | 2021 | 2020 | Change | 2021 | 2020 | Change |
| Rental income | | | | | | |
| Base rental income | \$ 75,930 | \$ 74,268 | \$ 1,662 | \$ 149,590 | \$ 148,290 | \$ 1,300 |
| Expense recovery income | 24,701 | 22,607 | 2,094 | 49,594 | 46,429 | 3,165 |
| Lease buyout income | 316 | 257 | 59 | 693 | 514 | 179 |
| Rent receivable write-off | 38 | (1,148) | 1,186 | 29 | (1,202) | 1,231 |
| Abatements | (110) | (863) | 753 | (207) | (863) | 656 |
| Deferrals | (78) | (3,638) | 3,560 | (287) | (3,638) | 3,351 |
| Deferral repayments | 499 | — | 499 | 1,264 | — | 1,264 |
| Fee Income | 175 | 155 | 20 | 353 | 485 | (132) |
| Cash Rental Income | 101,471 | 91,638 | 9,833 | 201,029 | 190,015 | 11,014 |
| Non-Cash Rental Income ⁽¹⁾ | 30 | 2,440 | (2,410) | 467 | 3,193 | (2,726) |
| Total rental income | \$ 101,501 | \$ 94,078 | \$ 7,423 | \$ 201,496 | \$ 193,208 | \$ 8,288 |

(1) Non-cash rental income includes amortization of deferred rent receivable (net of write-offs), in-place lease intangible, tenant improvement reimbursements, and lease incentives.

Weighted average occupancy for the Company's Same Park portfolio during the three and six months ended June 30, 2021 was 92.9% and 92.7%, respectively, compared to 92.2% and 92.5% for the same periods in 2020. Total portfolio weighted average occupancy was 92.9% and 92.6% during the three and six months ended June 30, 2021, respectively, compared to 91.6% and 92.3% for the same periods in 2020.

Additional detail on Same Park NOI and Same Park Cash NOI for the three and six months ended June 30, 2021 is provided in the Property Operations—Same Park Portfolio section below.

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

FFO for the three and six months ended June 30, 2021 was \$1.75 per share and \$3.43 per share, respectively, representing increases of 10.7% and 3.8% from the same periods in 2020. The increases in FFO per share were the result of higher NOI as described above partially offset by higher general and administrative expense primarily driven by stock compensation expense and professional fees related to the reincorporation of PSB from the state of California to the state of Maryland during the second quarter of 2021.

FFO is a non-GAAP measure defined by the National Association of Real Estate Investment Trusts and generally represents GAAP net income before (i) real estate depreciation and amortization expense, (ii) gains or losses on sales of operating properties, and (iii) land and impairment charges on real estate assets.

Core FFO, which the Company defines as FFO excluding the impact of (i) charges related to the redemption of preferred stock and (ii) other nonrecurring income or expense items as appropriate, was \$1.77 per share and \$3.44 per share for the three and six months ended June 30, 2021, respectively, representing increases of 11.7% and 4.3% from the same periods in 2020. For the three and six months ended June 30, 2021, the Company excluded in its presentation of Core FFO the one-time costs associated with the Company's reincorporation as a Maryland corporation of \$0.5 million. Core FFO per share was equal to FFO per share for the three and six months ended June 30, 2020.

FAD for the three and six months ended June 30, 2021 was \$54.5 million and \$104.8 million, respectively, representing increases of 22.2% and 11.6% from the same periods in 2020. The increases in FAD for the three and six months ended June 30, 2021 were attributable to higher Same Park Cash NOI and lower recurring capital expenditures. FAD is a non-GAAP measure that represents Core FFO adjusted to (i) deduct recurring capital improvements and capitalized tenant improvements and lease commissions and (ii) remove certain non-cash income or expenses, such as amortization of deferred rent receivable and stock compensation expense.

FFO, Core FFO, and FAD are not substitutes for GAAP net income. Other real estate investment trusts (“REITs”) may compute FFO, Core FFO, and FAD differently, which could inhibit comparability. The Company believes its presentation of FFO, Core FFO, and FAD assists investors and analysts in analyzing and comparing the operating and financial performance between reporting periods. Additional information about these measures is included on the Company's quarterly report on Form 10-Q.

Leasing Production¹

During the three and six months ended June 30, 2021, the Company executed leases on 1.9 million and 3.9 million square feet, respectively, compared to 1.8 million and 3.6 million square feet for the three and six months ended June 30, 2020, respectively. Weighted average cash rental rate growth on leases executed during the three and six months ended June 30, 2021 was 3.1% and 4.4%, respectively, while average net effective rent² growth was 10.6% and 12.7% for the same periods. The average lease term of all leases executed during the three months ended June 30, 2021 was 3.3 years, with associated average transaction costs (tenant improvements and leasing commissions) of \$2.77 per square foot. For comparative purposes, average lease term and transaction costs on leases executed during the three months ended June 30, 2020 were 3.2 years and \$2.30 per square foot, respectively.

Property Operations—Same Park Portfolio

The Company believes that evaluation of the Same Park portfolio, defined as all properties owned and operated as of June 30, 2021 that were acquired prior to January 1, 2019, provides an informative view of how the Company's portfolio has performed over comparable periods. As of June 30, 2021, the Same Park portfolio consisted of 26.3 million rentable square feet, or 95.3% of the Company's 27.6 million total rentable square feet, excluding the Company's 95.0% interest in a 395-unit multifamily property. For the three and six months ended June 30, 2021 and for all comparative periods presented herein, the Company has excluded a 244,000 square foot office park located in Herndon, Virginia, which was held for sale as of June 30, 2021. The Company also excluded a 198,000 square foot office oriented flex business park located in Chantilly, Virginia, which sold in June 2021.

¹ Leasing Production excludes assets held for sale as of June 30, 2021.

² Net effective rent represents average rental payments for the term of a lease on a straight-line basis in accordance with GAAP and excludes operating expense reimbursements.

The following table presents the unaudited operating results of the Company's Same Park portfolio for the three and six months ended June 30, 2021 and 2020 (in thousands, except per square foot amounts):

| | For the Three Months Ended June 30, | | | For the Six Months Ended June 30, | | |
|--|--|-----------|---------|--------------------------------------|------------|----------|
| | 2021 | 2020 | Change | 2021 | 2020 | Change |
| Rental income | | | | | | |
| Cash Rental Income ⁽¹⁾ | \$ 101,471 | \$ 91,638 | 10.7% | \$ 201,029 | \$ 190,015 | 5.8% |
| Non-Cash Rental Income ⁽²⁾ | 30 | 2,440 | (98.8%) | 467 | 3,193 | (85.4%) |
| Total rental income | 101,501 | 94,078 | 7.9% | 201,496 | 193,208 | 4.3% |
| Adjusted Cost of Operations ⁽³⁾ | | | | | | |
| Property taxes | 11,155 | 11,102 | 0.5% | 22,579 | 22,158 | 1.9% |
| Utilities | 4,323 | 4,027 | 7.4% | 8,960 | 8,999 | (0.4%) |
| Repairs and maintenance | 5,805 | 5,586 | 3.9% | 11,274 | 10,950 | 3.0% |
| Compensation | 4,114 | 3,886 | 5.9% | 8,394 | 8,156 | 2.9% |
| Snow removal | 9 | — | 100.0% | 1,028 | 71 | 1,347.9% |
| Property insurance | 1,171 | 856 | 36.8% | 2,349 | 1,735 | 35.4% |
| Other expenses | 1,753 | 1,724 | 1.7% | 3,430 | 3,492 | (1.8%) |
| Total Adjusted Cost of Operations | 28,330 | 27,181 | 4.2% | 58,014 | 55,561 | 4.4% |

| | | | | | | |
|-------------------------|-----------|-----------|-------|------------|------------|------|
| NOI ⁽⁴⁾ | \$ 73,171 | \$ 66,897 | 9.4% | \$ 143,482 | \$ 137,647 | 4.2% |
| Cash NOI ⁽⁵⁾ | \$ 73,141 | \$ 64,457 | 13.5% | \$ 143,015 | \$ 134,454 | 6.4% |

Selected Statistical Data

| | | | | | | |
|---|----------|----------|-------|----------|----------|------|
| Rentable square footage at period end | 26,271 | 26,271 | — | 26,271 | 26,271 | — |
| NOI margin ⁽⁶⁾ | 72.1% | 71.1% | 1.4% | 71.2% | 71.2% | — |
| Cash NOI margin ⁽⁷⁾ | 72.1% | 70.3% | 2.6% | 71.1% | 70.8% | 0.4% |
| Weighted average square foot occupancy | 92.9% | 92.2% | 0.8% | 92.7% | 92.5% | 0.2% |
| Revenue per occupied square foot ⁽⁸⁾ | \$ 16.63 | \$ 15.53 | 7.1% | \$ 16.55 | \$ 15.90 | 4.1% |
| Revenue per available foot (RevPAF) ⁽⁹⁾ | \$ 15.45 | \$ 14.32 | 7.9% | \$ 15.34 | \$ 14.71 | 4.3% |
| Cash Rental Income per occupied square foot ⁽¹⁰⁾ | \$ 16.63 | \$ 15.13 | 9.9% | \$ 16.52 | \$ 15.64 | 5.6% |
| Cash Rental Income per available foot ⁽¹¹⁾ | \$ 15.45 | \$ 13.95 | 10.8% | \$ 15.30 | \$ 14.47 | 5.7% |

- (1) Cash Rental Income represents rental income excluding Non-Cash Rental Income (defined below). Detail of the components of Cash Rental Income can be found in the table presented under operating results above.
- (2) Non-Cash Rental Income represents amortization of deferred rent receivable (net of write-offs), in-place lease intangible, tenant improvement reimbursements, and lease incentives. Same Park Non-Cash Rental Income is presented net of deferred rent receivable write-offs of \$0.1 million and \$2.4 million for the three months ended June 30, 2021 and 2020, respectively, and \$0.2 million and \$2.4 million for the six months ended June 30, 2021 and 2020, respectively.
- (3) Adjusted Cost of Operations, as presented above, excludes stock compensation expense for employees whose compensation expense is recorded in cost of operations, which can vary significantly period to period based upon the performance of the Company.
- (4) The Company utilizes NOI, a non-GAAP financial measure, to evaluate the operating performance of its properties. The Company defines NOI as rental income less Adjusted Cost of Operations. The Company believes NOI assists investors in analyzing the performance of its real estate by excluding (i) corporate overhead (i.e., general and administrative expense) because it does not relate to the direct operating performance of the real estate, (ii) depreciation and amortization expense because it does not accurately reflect changes in the fair value of the real estate, and (iii) stock compensation expense because this expense item can vary significantly from period to period and thus impact comparability across periods.
- (5) The Company utilizes Cash NOI, a non-GAAP financial measure, to evaluate the cash flow performance of its properties and believes investors utilize this metric for the same purpose. The Company defines Cash NOI as Cash Rental Income less Adjusted Cost of Operations.
- (6) NOI margin is computed by dividing NOI by rental income.
- (7) Cash NOI margin is computed by dividing Cash NOI by Cash Rental Income.
- (8) Revenue per occupied square foot is computed by dividing rental income for the period by weighted average occupied square feet for the same period. Revenue per occupied square foot for the three and six month periods shown is annualized.
- (9) Revenue per Available Square Foot (RevPAF) is computed by dividing rental income for the period by weighted average available square feet for the same period. RevPAF for the three and six month periods shown is annualized.
- (10) Cash Rental Income per occupied square foot is computed by dividing Cash Rental Income for the period by weighted average occupied square feet for the same period. Cash rental income per occupied square foot for the three and six month periods shown is annualized.
- (11) Cash Rental Income per Available Square Foot is computed by dividing Cash Rental Income for the period by weighted average available square feet for the same period. Cash rental income per available square foot for the three and six month periods shown is annualized.

The following table summarizes unaudited selected quarterly financial data with respect to the Same Park portfolio (in thousands, except per square foot amounts):

| | For the Three Months Ended | | | |
|--|----------------------------|------------|--------------|-------------|
| | March 31 | June 30 | September 30 | December 31 |
| Rental income | | | | |
| 2021 | \$ 99,995 | \$ 101,501 | \$ — | \$ — |
| 2020 | \$ 99,130 | \$ 94,078 | \$ 97,893 | \$ 97,937 |
| Adjusted Cost of Operations ⁽¹⁾ | | | | |
| 2021 | \$ 29,684 | \$ 28,330 | \$ — | \$ — |
| 2020 | \$ 28,380 | \$ 27,181 | \$ 29,142 | \$ 28,624 |
| NOI ⁽¹⁾ | | | | |
| 2021 | \$ 70,311 | \$ 73,171 | \$ — | \$ — |
| 2020 | \$ 70,750 | \$ 66,897 | \$ 68,751 | \$ 69,313 |
| Weighted average square foot occupancy | | | | |
| 2021 | 92.4% | 92.9% | — | — |
| 2020 | 92.8% | 92.2% | 92.3% | 92.0% |
| Revenue per occupied square foot ⁽¹⁾ | | | | |
| 2021 | \$ 16.47 | \$ 16.63 | \$ — | \$ — |
| 2020 | \$ 16.27 | \$ 15.53 | \$ 16.15 | \$ 16.21 |
| RevPAF ⁽¹⁾ | | | | |
| 2021 | \$ 15.23 | \$ 15.45 | \$ — | \$ — |
| 2020 | \$ 15.09 | \$ 14.32 | \$ 14.91 | \$ 14.91 |

(1) Defined in Property Operations—Same Park Portfolio table.

COVID-19 Pandemic/Rent Collections Update

The COVID-19 pandemic has had and is expected to continue to have an impact on our operations and capital plans. During the three months ended June 30, 2021, the Company granted \$0.1 million of rent deferral and \$0.1 million of rent abatement, which was significantly lower than \$3.8 million of rent deferral and \$0.9 million of abatement granted at the initial onset of the COVID-19 pandemic during the three months ended June 30, 2020. During the six months ended June 30, 2021, the Company granted \$0.3 million of rent deferral and \$0.2 million of rent abatement. Since the onset of the COVID-19 pandemic, the Company entered into rent relief agreements consisting of \$5.9 million of rent deferrals and \$1.5 million of rent abatements. As of June 30, 2021, the 352 current customers that received rent relief account for 10.4% of rental income. As of June 30, 2021, the Company collected \$4.3 million of rent deferral repayment, representing 99.2% of the amounts scheduled to be repaid through June 2021. An additional \$0.6 million of rent deferral repayment is scheduled to be repaid by customers between July 1, 2021 and December 31, 2021, with another \$0.8 million thereafter.

As of August 2, 2021, the Company had collected 99.4% of revenue billed during the six months ended June 30, 2021. The Company noted that the second quarter of 2021 marked the fourth consecutive quarter of normal accounts receivable write-off activity. During the three and six months ended June 30, 2021, the Company wrote off \$0.0 of accounts receivable, net of recoveries, compared to \$1.2 million written off during both the three and six months ended June 30, 2020. During the three and six months ended June 30, 2021, the

Company wrote off \$0.1 million and \$0.2 million of deferred rent receivable, respectively, which is significantly lower than the \$2.4 million written off during both the three and six months ended June 30, 2020.

As of August 2, 2021, the Company had open rent relief requests from approximately 1% of its customers. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Certain Factors that May Impact Future Results—Impact of COVID-19 Pandemic” in our Form 10-Q for the quarter ended June 30, 2021 for more information.

Dispositions Update

On June 17, 2021, the Company sold a 198,000 square foot office oriented flex business park located in Chantilly, Virginia, for net proceeds of \$32.6 million. Subsequent to June 30, 2021, the Company completed the sale of a 244,000 square foot office business park located in Herndon, Virginia, for a gross sales price of \$41.3 million. Both properties were reclassified as held for sale as of December 31, 2020. The Company noted that these dispositions are consistent with its strategy to opportunistically divest certain non-strategic assets.

The Company also announced that it is separately marketing for sale a 371,000 square foot flex park located in San Diego, California, and 267,000 square feet of flex properties located in Irving, Texas. The Company noted that it is not committed to, or required to, sell these assets and will evaluate the prospect of a sale based on market interest. Due to the uncertainty of these potential dispositions, the properties remain as held for use in the consolidated financial statements as of June 30, 2021 and for all comparable periods.

Distributions Declared

On July 27, 2021, the Board of Directors declared a quarterly dividend of \$1.05 per share of common stock. Distributions were also declared on the various series of depository shares, each representing 1/1,000 of a share of preferred stock. Distributions for both common stock and preferred stock will be payable on September 30, 2021 to stockholders of record on September 15, 2021.

Company Information

PS Business Parks, Inc. (NYSE:PSB), a S&P MidCap 400 company, is a REIT that acquires, develops, owns, and operates commercial properties, predominantly multi-tenant industrial, industrial-flex, and low-rise suburban office. Located primarily in major coastal markets, PS Business Parks’ 96 properties serve approximately 5,000 tenants in 27 million square feet of space as of August 3, 2021. The portfolio also includes 800 residential units (including units in-process).

Forward-Looking Statements

When used within this press release, the words “may,” “believes,” “anticipates,” “plans,” “expects,” “seeks,” “estimates,” “intends,” and similar expressions are intended to identify “forward-looking statements.” Such forward-looking statements involve known and unknown risks, uncertainties, and other factors, which may cause the actual results and performance of the Company to be materially different from those expressed or implied in the forward-

looking statements. Such factors include the duration and severity of the COVID-19 pandemic and its impact on our business and our customers; the impact of competition from new and existing commercial facilities which could impact rents and occupancy levels at the Company's facilities; the Company's ability to evaluate, finance, and integrate acquired and developed properties into the Company's existing operations; the Company's ability to effectively compete in the markets that it does business in; the impact of the regulatory environment as well as national, state, and local laws and regulations including, without limitation, those governing REITs; security breaches, including ransomware, or a failure of the Company's networks, systems or technology, which could adversely impact the Company's operations or its business, customer and employee relationships or result in fraudulent payments; the impact of general economic and business conditions, including as a result of the economic fallout of the COVID-19 pandemic; rental rates and occupancy levels at the Company's facilities; and changes in these conditions as a result of the COVID-19 pandemic, the availability of permanent capital at attractive rates, the outlook and actions of rating agencies and risks detailed from time to time in the Company's SEC reports, including quarterly reports on Form 10-Q, reports on Form 8-K, and annual reports on Form 10-K.

Additional information about PS Business Parks, Inc., including more financial analysis of the second quarter operating results, is available on the Company's website at psbusinessparks.com.

A conference call is scheduled for Wednesday, August 4, 2021, at 10:00 a.m. PDT (1:00 p.m. EDT) to discuss second quarter results. The toll free number is (877) 876-9176; the conference ID is PSBQ221. The call will also be available via a live webcast on the Company's website. A replay of the conference call will be available through August 18, 2021 at (800) 839-4018, as well as via webcast on the Company's website.

PS BUSINESS PARKS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

| | June 30, 2021 (Unaudited) | December 31, 2020 |
|---|---------------------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 115,965 | \$ 69,083 |
| Real estate facilities, at cost | | |
| Land | 865,081 | 864,092 |
| Buildings and improvements | 2,204,461 | 2,186,621 |
| | 3,069,542 | 3,050,713 |
| Accumulated depreciation | (1,219,040) | (1,181,402) |
| | 1,850,502 | 1,869,311 |
| Properties held for sale, net | 12,871 | 26,273 |
| Land and building held for development, net | 52,529 | 40,397 |
| | 1,915,902 | 1,935,981 |
| Rent receivable | 1,903 | 1,519 |
| Deferred rent receivable | 37,589 | 36,788 |
| Other assets | 15,165 | 14,334 |
| Total assets | <u>\$ 2,086,524</u> | <u>\$ 2,057,705</u> |
| LIABILITIES AND EQUITY | | |

| | | |
|---|--------------|--------------|
| Accrued and other liabilities | \$ 88,989 | \$ 82,065 |
| Total liabilities | 88,989 | 82,065 |
| Commitments and contingencies | | |
| Equity | | |
| PS Business Parks, Inc.'s stockholders' equity | | |
| Preferred stock, \$0.01 par value, 50,000,000 shares authorized, 37,790 shares issued and outstanding at (\$944,750 aggregate liquidation preference) June 30, 2021 and December 31, 2020 | 944,750 | 944,750 |
| Common stock, \$0.01 par value, 100,000,000 shares authorized, 27,541,464 and 27,488,547 shares issued and outstanding at June 30, 2021 and December 31, 2020, respectively | 275 | 274 |
| Paid-in capital | 739,336 | 738,022 |
| Accumulated earnings | 89,800 | 73,631 |
| Total PS Business Parks, Inc.'s stockholders' equity | 1,774,161 | 1,756,677 |
| Noncontrolling interests | 223,374 | 218,963 |
| Total equity | 1,997,535 | 1,975,640 |
| Total liabilities and equity | \$ 2,086,524 | \$ 2,057,705 |

PS BUSINESS PARKS, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)
(Unaudited)

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|--|------------|--------------------------------------|------------|
| | 2021 | 2020 | 2021 | 2020 |
| Rental income | \$ 109,364 | \$ 100,559 | \$ 217,411 | \$ 206,775 |
| Expenses | | | | |
| Cost of operations | 31,849 | 30,131 | 65,067 | 61,394 |
| Depreciation and amortization | 22,514 | 22,963 | 45,499 | 49,582 |
| General and administrative | 4,799 | 3,004 | 9,181 | 6,327 |
| Total operating expenses | 59,162 | 56,098 | 119,747 | 117,303 |
| Interest and other income | 923 | 225 | 1,179 | 782 |
| Interest and other expense | (268) | (203) | (479) | (364) |
| Gain on sale of real estate facility | 19,193 | — | 19,193 | 19,621 |
| Net income | 70,050 | 44,483 | 117,557 | 109,511 |
| Allocation to noncontrolling interests | (12,094) | (6,795) | (19,505) | (17,887) |
| Net income allocable to PS Business Parks, Inc. | 57,956 | 37,688 | 98,052 | 91,624 |
| Allocation to preferred stockholders | (12,047) | (12,047) | (24,093) | (24,093) |
| Allocation to restricted stock unit holders | (314) | (119) | (478) | (394) |
| Net income allocable to common stockholders | \$ 45,595 | \$ 25,522 | \$ 73,481 | \$ 67,137 |
| Net income per share of common stock | | | | |
| Basic | \$ 1.66 | \$ 0.93 | \$ 2.67 | \$ 2.44 |
| Diluted | \$ 1.65 | \$ 0.93 | \$ 2.66 | \$ 2.44 |
| Weighted average common stock outstanding | | | | |
| Basic | 27,531 | 27,479 | 27,513 | 27,464 |
| Diluted | 27,632 | 27,560 | 27,611 | 27,557 |

PS BUSINESS PARKS, INC.
Computation of Funds from Operations ("FFO"), Core FFO, and Funds Available for Distribution ("FAD")
(In thousands, except per share amounts)
(Unaudited)

| For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|--|------|--------------------------------------|------|
| 2021 | 2020 | 2021 | 2020 |

| | | | | |
|---|-----------|-----------|------------|-----------|
| Net income allocable to common stockholders | \$ 45,595 | \$ 25,522 | \$ 73,481 | \$ 67,137 |
| Adjustments | | | | |
| Gain on sale of real estate facility | (19,193) | — | (19,193) | (19,621) |
| Depreciation and amortization expense | 22,514 | 22,963 | 45,499 | 49,582 |
| Net income allocated to noncontrolling interests | 12,094 | 6,795 | 19,505 | 17,887 |
| Net income allocated to restricted stock unit holders | 314 | 119 | 478 | 394 |
| FFO allocated to joint venture partner | (18) | (38) | (45) | (81) |
| FFO allocable to diluted common stock and units ⁽¹⁾ | 61,306 | 55,361 | 119,725 | 115,298 |
| Maryland reincorporation costs | 510 | — | 510 | — |
| Core FFO allocable to diluted common stock and units ⁽¹⁾ | 61,816 | 55,361 | 120,235 | 115,298 |
| Adjustments | | | | |
| Recurring capital improvements | (3,788) | (3,565) | (4,436) | (4,788) |
| Tenant improvements | (4,115) | (4,155) | (7,024) | (7,701) |
| Capitalized lease commissions | (1,556) | (1,254) | (3,404) | (3,336) |
| Non-cash rental income ⁽²⁾ | (183) | (2,746) | (1,490) | (3,810) |
| Non-cash stock compensation expense | 2,301 | 931 | 4,081 | 1,873 |
| Cash paid for taxes in lieu of stock upon vesting of restricted stock units | (5) | (5) | (3,202) | (3,660) |
| FAD allocable to diluted common stock and units ⁽¹⁾ | \$ 54,470 | \$ 44,567 | \$ 104,760 | \$ 93,876 |
| Distributions to common stockholders, noncontrolling interests, and restricted stock unit holders | | | | |
| | \$ 36,813 | \$ 36,698 | \$ 73,537 | \$ 73,406 |
| Distribution payout ratio | | | | |
| | 67.6% | 82.3% | 70.2% | 78.2% |
| Reconciliation of earnings per share to FFO per share | | | | |
| Net income per share of common stock—diluted | \$ 1.65 | \$ 0.93 | \$ 2.66 | \$ 2.44 |
| Gain on sale of real estate facility | (0.54) | — | (0.54) | (0.56) |
| Depreciation and amortization expense | 0.64 | 0.66 | 1.31 | 1.42 |
| FFO per share ⁽¹⁾ | 1.75 | 1.59 | 3.43 | 3.30 |
| Maryland reincorporation costs | 0.01 | — | 0.01 | — |
| Core FFO per share ⁽¹⁾ | \$ 1.77 | \$ 1.59 | \$ 3.44 | \$ 3.30 |
| Weighted average outstanding | | | | |
| Common stock | 27,531 | 27,479 | 27,513 | 27,464 |
| Common operating partnership units | 7,305 | 7,305 | 7,305 | 7,305 |
| Restricted stock units | 32 | 43 | 35 | 65 |
| Common stock equivalents | 101 | 81 | 98 | 93 |
| Total diluted common stock and units | 34,969 | 34,908 | 34,951 | 34,927 |

(1) Defined in Funds from Operations (“FFO”), Core FFO, and Funds Available for Distribution (“FAD”).

Non-cash rental income includes amortization of deferred rent receivable, in-place lease intangible, tenant improvement (2) reimbursements, and lease incentives.

PS BUSINESS PARKS, INC.
Reconciliation of Selected Non-GAAP Measures to Analogous GAAP Measures
(Unaudited, in thousands)

| | For the Three Months Ended June 30, | | | For the Six Months Ended June 30, | | |
|---|--|-----------|---------|--------------------------------------|------------|--------|
| | 2021 | 2020 | Change | 2021 | 2020 | Change |
| Rental income | | | | | | |
| Same Park | \$ 101,501 | \$ 94,078 | 7.9% | \$ 201,496 | \$ 193,208 | 4.3% |
| Non-Same Park | 3,926 | 2,067 | 89.9% | 7,695 | 4,488 | 71.5% |
| Multifamily | 2,248 | 2,488 | (9.6%) | 4,575 | 5,048 | (9.4%) |
| Assets sold or held for sale ⁽¹⁾ | 1,689 | 1,926 | (12.3%) | 3,645 | 4,031 | (9.6%) |
| Total rental income | 109,364 | 100,559 | 8.8% | 217,411 | 206,775 | 5.1% |
| Cost of operations | | | | | | |
| Adjusted Cost of Operations ⁽²⁾ | | | | | | |

| | | | | | | |
|---|---------------|---------------|---------|---------------|---------------|--------|
| Same Park | 28,330 | 27,181 | 4.2% | 58,014 | 55,561 | 4.4% |
| Non-Same Park | 1,187 | 878 | 35.2% | 2,340 | 1,707 | 37.1% |
| Multifamily | 1,177 | 1,002 | 17.5% | 2,244 | 2,018 | 11.2% |
| Assets sold or held for sale ⁽¹⁾ | 674 | 804 | (16.2%) | 1,532 | 1,568 | (2.3%) |
| Stock compensation expense ⁽³⁾ | 481 | 266 | 80.8% | 937 | 540 | 73.5% |
| Total cost of operations | <u>31,849</u> | <u>30,131</u> | 5.7% | <u>65,067</u> | <u>61,394</u> | 6.0% |

Net operating income ⁽²⁾

| | | | | | | |
|---|------------------|------------------|---------|-------------------|-------------------|---------|
| Same Park | 73,171 | 66,897 | 9.4% | 143,482 | 137,647 | 4.2% |
| Non-Same Park | 2,739 | 1,189 | 130.4% | 5,355 | 2,781 | 92.6% |
| Multifamily | 1,071 | 1,486 | (27.9%) | 2,331 | 3,030 | (23.1%) |
| Assets sold or held for sale ⁽¹⁾ | 1,015 | 1,122 | (9.5%) | 2,113 | 2,463 | (14.2%) |
| Stock compensation expense ⁽³⁾ | (481) | (266) | 80.8% | (937) | (540) | 73.5% |
| Depreciation and amortization expense | (22,514) | (22,963) | (2.0%) | (45,499) | (49,582) | (8.2%) |
| General and administrative expense | (4,799) | (3,004) | 59.8% | (9,181) | (6,327) | 45.1% |
| Interest and other income | 923 | 225 | 310.2% | 1,179 | 782 | 50.8% |
| Interest and other expense | (268) | (203) | 32.0% | (479) | (364) | 31.6% |
| Gain on sale of real estate facility | 19,193 | — | 100.0% | 19,193 | 19,621 | (2.2%) |
| Net income | <u>\$ 70,050</u> | <u>\$ 44,483</u> | 57.5% | <u>\$ 117,557</u> | <u>\$ 109,511</u> | 7.3% |

(1) Amounts shown for the three and six months ended June 30, 2021 include operating results attributable to assets held for sale comprising 244,000 square feet (subsequently sold in July 2021) and an asset sold in June 2021 comprising 198,000 square feet. Amounts shown for the three months ended June 30, 2020 include operating results attributable to assets held for sale comprising 244,000 square feet, the asset sold in June 2021 comprising 198,000 square feet, and an asset sold in September 2020 comprising 40,000 square feet. Amounts shown for the six months ended June 30, 2020 include operating results attributable to assets held for sale comprising 244,000 square feet, the asset sold in June 2021 comprising 198,000 square feet, the asset sold in September 2020 comprising 40,000 square feet, and an asset sold in January 2020 comprising 113,000 square feet.

(2) Defined in Property Operations—Same Park Portfolio table.

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

View source version on businesswire.com:

<https://www.businesswire.com/news/home/20210803005928/en/>

Jeff Hedges

(818) 244-8080, Ext. 1649

Source: PS Business Parks, Inc.