

July 29, 2013



## **PS Business Parks, Inc. Reports Results for the Second Quarter Ended June 30, 2013 and Acquisition of a \$14.8 Million Flex Park in Dallas, Texas**

GLENDALE, Calif.--(BUSINESS WIRE)-- PS Business Parks, Inc. (NYSE:PSB) reported operating results for the second quarter ended June 30, 2013 and acquisition of a \$14.8 million flex park in Dallas, Texas.

Funds from operations (“FFO”) allocable to common and dilutive shares were \$38.0 million, or \$1.19 per common and dilutive share for the three months ended June 30, 2013, a 0.8% per share increase from the three months ended June 30, 2012 of \$37.3 million, or \$1.18, as adjusted, per common and dilutive share. FFO allocable to common and dilutive shares was \$76.1 million, or \$2.39 per common and dilutive share for the six months ended June 30, 2013, a 1.7% per share increase from the six months ended June 30, 2012 of \$74.4 million, or \$2.35, as adjusted, per common and dilutive share. The increase in adjusted FFO per common and dilutive share for the three and six months ended June 30, 2013 over the same periods in 2012 was due to the increase in net operating income in both the Same Park and Non-Same Park facilities partially offset by an increase in preferred equity distributions as the Company has replaced short-term debt with perpetual preferred equity.

Rental income increased \$2.3 million, or 2.7%, from \$85.6 million for the three months ended June 30, 2012 to \$87.9 million for the three months ended June 30, 2013 as a result of a \$1.5 million increase in rental income from Non-Same Park facilities combined with a \$757,000 increase from the Same Park portfolio. Rental income increased \$5.7 million, or 3.4%, from \$170.3 million for the six months ended June 30, 2012 to \$176.1 million for the six months ended June 30, 2013 as a result of a \$3.9 million increase in rental income from Non-Same Park facilities combined with a \$1.8 million increase from the Same Park portfolio. The three and six month increases were driven by increases in occupancy rates and 2012 acquisitions.

Net income allocable to common shareholders increased \$7.3 million, or 517.8%, from \$1.4 million, or \$0.06 per diluted share, for the three months ended June 30, 2012 to \$8.7 million, or \$0.36 per diluted share, for the three months ended June 30, 2013. Net income allocable to common shareholders increased \$12.4 million, or 253.6%, from \$4.9 million, or \$0.20 per diluted share, for the six months ended June 30, 2012 to \$17.3 million, or \$0.71 per diluted share, for the six months ended June 30, 2013. These increases were due to the net impact of non-cash preferred equity transactions reported in 2012 combined with an increase in net operating income in 2013.

In order to provide a meaningful period-to-period comparison of FFO derived from the Company’s ongoing business operations, the following table reconciles reported FFO to

adjusted FFO which excludes the impact of non-cash distributions related to the redemption of preferred equity on the Company's FFO per common and dilutive share for the three and six months ended June 30, 2013 and 2012:

	For The Three Months Ended June 30,			For The Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
FFO per common and dilutive share, as reported	\$ 1.19	\$ 0.92	29.3%	\$ 2.39	\$ 1.92	24.5%
Non-cash distributions related to the redemption of preferred equity	—	0.26		—	0.43	
FFO per common and dilutive share, as adjusted	<u>\$ 1.19</u>	<u>\$ 1.18</u>	0.8%	<u>\$ 2.39</u>	<u>\$ 2.35</u>	1.7%

Non-cash distributions related to the redemption of preferred equity of \$8.2 million and \$13.5 million were included in net income allocable to preferred shareholders for the three and six months ended June 30, 2012, respectively.

### Property Operations

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 owned or acquired prior to January 1, 2011. Operating properties that the Company acquired subsequent to January 1, 2011 are referred to as "Non-Same Park." For the three and six months ended June 30, 2013 and 2012, the Same Park facilities constitute 21.4 million rentable square feet, representing 76.0% of the 28.2 million square feet in the Company's portfolio as of June 30, 2013.

The following table presents the operating results of the Company's properties for the three and six months ended June 30, 2013 and 2012 in addition to other income and expense items affecting income from continuing operations (unaudited, in thousands, except per square foot amounts):

	For The Three Months Ended June 30,			For The Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Rental income:						
Same Park (21.4 million rentable square feet)	\$ 74,572	\$ 73,815	1.0%	\$ 148,847	\$ 147,044	1.2%
Non-Same Park (6.8 million rentable square feet)	13,358	11,812	13.1%	27,203	23,260	17.0%
Total rental income	<u>87,930</u>	<u>85,627</u>	2.7%	<u>176,050</u>	<u>170,304</u>	3.4%
Cost of operations:						
Same Park	24,485	24,080	1.7%	49,645	48,562	2.2%
Non-Same Park	4,235	3,637	16.4%	8,459	7,270	16.4%
Total cost of operations	<u>28,720</u>	<u>27,717</u>	3.6%	<u>58,104</u>	<u>55,832</u>	4.1%
Net operating income (1):						
Same Park	50,087	49,735	0.7%	99,202	98,482	0.7%
Non-Same Park	9,123	8,175	11.6%	18,744	15,990	17.2%
Total net operating income	<u>59,210</u>	<u>57,910</u>	2.2%	<u>117,946</u>	<u>114,472</u>	3.0%
Other:						
Facility management fees	157	164	(4.3%)	315	330	(4.5%)
Other income and expense	(3,892)	(5,133)	(24.2%)	(8,437)	(10,438)	(19.2%)
Depreciation and amortization	(26,629)	(27,198)	(2.1%)	(53,590)	(54,442)	(1.6%)
General and administrative	(2,370)	(2,412)	(1.7%)	(4,769)	(4,685)	1.8%
Income from continuing operations	<u>\$ 26,476</u>	<u>\$ 23,331</u>	13.5%	<u>\$ 51,465</u>	<u>\$ 45,237</u>	13.8%

Same Park gross margin (2)	67.2%	67.4%	(0.3%)	66.6%	67.0%	(0.6%)
Same Park weighted average occupancy	91.9%	91.4%	0.5%	92.0%	91.5%	0.5%
Non-Same Park weighted average occupancy	82.7%	82.8%	(0.1%)	81.8%	81.9%	(0.1%)
Same Park annualized realized rent per square foot (3)	\$ 15.15	\$ 15.08	0.5%	\$ 15.10	\$ 15.00	0.7%

(1) Net operating income ("NOI") is an important measurement in the commercial real estate industry for determining the value of the real estate generating the 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 in accordance with generally accepted accounting principles ("GAAP").

(2) Computed by dividing Same Park NOI by Same Park rental income.

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

## **Property Acquisition**

On July 26, 2013, the Company acquired a 389,000 square foot multi-tenant flex park consisting of 18 single-story buildings located in Dallas, Texas, for a purchase price of \$14.8 million. The park was 66.5% occupied at the time of acquisition. The acquisition was funded with cash on hand.

## **Personnel Announcement**

Maria R. Hawthorne has been promoted to Executive Vice President, Chief Administrative Officer. Ms. Hawthorne most recently served as Executive Vice President, East Coast, with responsibility for PS Business Parks' operations in Northern Virginia, Maryland and South Florida. This change in Maria's role is reflective of the increasing responsibilities she has assumed within the Company.

## **Financial Condition**

The following are key financial ratios with respect to the Company's leverage at and for the three months ended June 30, 2013:

Ratio of FFO to fixed charges (1)	14.4x
Ratio of FFO to fixed charges and preferred distributions (1)	3.0x
Debt and preferred equity to total market capitalization (based on common stock price of \$72.17 at June 30, 2013)	36.9%
Available balance under the \$250.0 million unsecured credit facility at June 30, 2013	\$250.0 million

(1) Fixed charges include interest expense of \$4.0 million.

## **Distributions Declared**

The Board of Directors declared a quarterly dividend of \$0.44 per common share on July 29, 2013. Distributions were also declared on the various series of depositary shares, each representing 1/1,000 of a share of preferred stock listed below. Distributions are payable September 30, 2013 to shareholders of record on September 13, 2013.

<u>Series</u>	<u>Dividend Rate</u>	<u>Dividend Declared</u>
Series R	6.875%	\$ 0.429688
Series S	6.450%	\$ 0.403125
Series T	6.000%	\$ 0.375000

Series U	5.750%	\$	0.359375
Series V	5.700%	\$	0.356250

## **Company Information**

PS Business Parks, Inc., a member of the S&P SmallCap 600, is a self-advised and self-managed real estate investment trust (“REIT”) that acquires, develops, owns and operates commercial properties, primarily multi-tenant flex, office and industrial space. The Company defines “flex” space as buildings that are configured with a combination of office and warehouse space and can be designed to fit a number of uses (including office, assembly, showroom, laboratory, light manufacturing and warehouse space). As of June 30, 2013, the Company wholly owned 28.2 million rentable square feet with approximately 4,650 customers located in eight states, concentrated in California (11.1 million sq. ft.), Virginia (4.0 million sq. ft.), Florida (3.7 million sq. ft.), Texas (3.5 million sq. ft.), Maryland (2.4 million sq. ft.), Washington (1.5 million sq. ft.), Oregon (1.3 million sq. ft.) and Arizona (0.7 million sq. ft.).

## **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 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; the impact of general economic conditions upon rental rates and occupancy levels at the Company’s facilities; 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 Internet. The Company’s website is [www.psbusinessparks.com](http://www.psbusinessparks.com).

A conference call is scheduled for Tuesday, July 30, 2013, at 8:00 a.m. (PDT) to discuss the second quarter results. The toll free number is (888) 299-3246; the conference ID is 18551997. 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 6, 2013 at (855) 859-2056. A replay of the conference call will also be available on the Company’s website.

Additional financial data attached.

	June 30, 2013 <u>(Unaudited)</u>	December 31, 2012 <u></u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 18,762	\$ 12,883
Real estate facilities, at cost:		
Land	787,425	793,352
Buildings and equipment	2,243,149	2,235,448
	<u>3,030,574</u>	<u>3,028,800</u>
Accumulated depreciation	(988,256)	(942,639)
	<u>2,042,318</u>	<u>2,086,161</u>
Land and building held for development	22,301	6,829
	<u>2,064,619</u>	<u>2,092,990</u>
Rent receivable	4,806	4,754
Deferred rent receivable	26,194	25,329
Other assets	11,899	15,861
	<u>52,899</u>	<u>45,944</u>
Total assets	<u>\$2,126,280</u>	<u>\$ 2,151,817</u>
<b>LIABILITIES AND EQUITY</b>		
Accrued and other liabilities	\$ 65,095	\$ 69,454
Term loan	90,000	200,000
Mortgage notes payable	250,000	268,102
Total liabilities	<u>405,095</u>	<u>537,556</u>
Commitments and contingencies		
Equity:		
PS Business Parks, Inc.'s shareholders' equity:		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized, 39,800 and 35,400 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	995,000	885,000
Common stock, \$0.01 par value, 100,000,000 shares authorized, 24,380,571 and 24,298,475 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	242	242
Paid-in capital	539,270	537,091
Cumulative net income	1,014,069	967,783
Cumulative distributions	(994,822)	(944,427)
Total PS Business Parks, Inc.'s shareholders' equity	<u>1,553,759</u>	<u>1,445,689</u>
Noncontrolling interests:		
Common units	167,426	168,572
Total noncontrolling interests	<u>167,426</u>	<u>168,572</u>
Total equity	<u>1,721,185</u>	<u>1,614,261</u>
Total liabilities and equity	<u>\$2,126,280</u>	<u>\$ 2,151,817</u>

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

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2013	2012	2013	2012
<b>Revenues:</b>				
Rental income	\$ 87,930	\$ 85,627	\$176,050	\$170,304
Facility management fees	157	164	315	330
Total operating revenues	<u>88,087</u>	<u>85,791</u>	<u>176,365</u>	<u>170,634</u>
<b>Expenses:</b>				
Cost of operations	28,720	27,717	58,104	55,832
Depreciation and amortization	26,629	27,198	53,590	54,442
General and administrative	2,370	2,412	4,769	4,685
Total operating expenses	<u>57,719</u>	<u>57,327</u>	<u>116,463</u>	<u>114,959</u>
<b>Other income and (expense):</b>				
Interest and other income	69	80	112	123
Interest and other expense	(3,961)	(5,213)	(8,549)	(10,561)
Total other income and (expense)	<u>(3,892)</u>	<u>(5,133)</u>	<u>(8,437)</u>	<u>(10,438)</u>
Income from continuing operations	<u>26,476</u>	<u>23,331</u>	<u>51,465</u>	<u>45,237</u>
<b>Discontinued operations:</b>				
Income (loss) from discontinued operations	—	24	—	(37)
Total discontinued operations	<u>—</u>	<u>24</u>	<u>—</u>	<u>(37)</u>
<b>Net income</b>	<u><u>\$ 26,476</u></u>	<u><u>\$ 23,355</u></u>	<u><u>\$ 51,465</u></u>	<u><u>\$ 45,200</u></u>
<b>Net income allocation:</b>				
<b>Net income allocable to noncontrolling interests:</b>				
Noncontrolling interests — common units	\$ 2,613	\$ 425	\$ 5,179	\$ 1,473
Noncontrolling interests — preferred units	—	224	—	323
Total net income allocable to noncontrolling interests	<u>2,613</u>	<u>649</u>	<u>5,179</u>	<u>1,796</u>
<b>Net income allocable to PS Business Parks, Inc.:</b>				
Preferred shareholders	15,122	21,264	28,972	38,450
Restricted stock unit holders	30	32	63	76
Common shareholders	8,711	1,410	17,251	4,878
Total net income allocable to PS Business Parks, Inc.	<u>23,863</u>	<u>22,706</u>	<u>46,286</u>	<u>43,404</u>
	<u><u>\$ 26,476</u></u>	<u><u>\$ 23,355</u></u>	<u><u>\$ 51,465</u></u>	<u><u>\$ 45,200</u></u>
<b>Net income per common share — basic:</b>				
Continuing operations	\$ 0.36	\$ 0.06	\$ 0.71	\$ 0.20
Discontinued operations	\$ —	\$ —	\$ —	\$ —
Net income	\$ 0.36	\$ 0.06	\$ 0.71	\$ 0.20
<b>Net income per common share — diluted:</b>				
Continuing operations	\$ 0.36	\$ 0.06	\$ 0.71	\$ 0.20
Discontinued operations	\$ —	\$ —	\$ —	\$ —
Net income	\$ 0.36	\$ 0.06	\$ 0.71	\$ 0.20
<b>Weighted average common shares outstanding:</b>				
Basic	<u>24,358</u>	<u>24,234</u>	<u>24,333</u>	<u>24,195</u>
Diluted	<u>24,470</u>	<u>24,324</u>	<u>24,441</u>	<u>24,286</u>

**PS BUSINESS PARKS, INC.**  
**Computation of Diluted Funds from Operations (“FFO”) and Funds Available for Distribution (“FAD”)**  
**(Unaudited, in thousands, except per share amounts)**

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2013	2012	2013	2012
<b>Computation of Diluted Funds From Operations (“FFO”) <sup>(1)</sup>:</b>				

Net income allocable to common shareholders	\$ 8,711	\$ 1,410	\$ 17,251	\$ 4,878
Adjustments:				
Depreciation and amortization	26,629	27,239	53,590	54,538
Net income allocable to noncontrolling interests — common units	2,613	425	5,179	1,473
Net income allocable to restricted stock unit holders	30	32	63	76
FFO allocable to common and dilutive shares	<u>\$37,983</u>	<u>\$ 29,106</u>	<u>\$ 76,083</u>	<u>\$ 60,965</u>
Weighted average common shares outstanding	24,358	24,234	24,333	24,195
Weighted average common OP units outstanding	7,305	7,305	7,305	7,305
Weighted average restricted stock units outstanding	92	111	95	110
Weighted average common share equivalents outstanding	112	90	108	91
Total common and dilutive shares	<u>31,867</u>	<u>31,740</u>	<u>31,841</u>	<u>31,701</u>
FFO per common and dilutive share	<u>\$ 1.19</u>	<u>\$ 0.92</u>	<u>\$ 2.39</u>	<u>\$ 1.92</u>

**Computation of Funds Available for Distribution (“FAD”) (2):**

FFO allocable to common and dilutive shares	\$37,983	\$ 29,106	\$ 76,083	\$ 60,965
Adjustments:				
Recurring capital improvements	(2,695)	(1,115)	(3,604)	(2,232)
Tenant improvements	(7,161)	(11,337)	(12,953)	(18,920)
Lease commissions	(2,117)	(1,739)	(4,332)	(3,008)
Straight-line rent	(258)	(782)	(864)	(1,918)
Non-cash stock compensation expense	1,205	1,412	2,628	2,677
In-place lease adjustment	49	127	121	286
Tenant improvement reimbursements, net of lease incentives	(348)	(179)	(625)	(349)
Non-cash distributions related to the redemption of preferred equity	—	8,208	—	13,468
FAD	<u>\$26,658</u>	<u>\$ 23,701</u>	<u>\$ 56,454</u>	<u>\$ 50,969</u>
Distributions to common and dilutive shares	<u>\$13,971</u>	<u>\$ 13,914</u>	<u>\$ 27,914</u>	<u>\$ 27,821</u>
Distribution payout ratio	<u>52.4%</u>	<u>58.7%</u>	<u>49.4%</u>	<u>54.6%</u>

(1) 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 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 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 from 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.

(2) Funds Available for Distribution (“FAD”) is computed by adjusting consolidated 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, amortization of lease incentives and tenant improvement reimbursements, in-place lease adjustment and the effect of redemption/repurchase of preferred equity. Like FFO, the Company considers FAD to be a useful measure for investors to evaluate the operations and cash flows of a REIT. FAD does not represent net income or cash flow from operations as defined by GAAP.

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Source: PS Business Parks, Inc.