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

FORM 10-K

[X] Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 1998.

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	95-4300881
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

701 WESTERN AVENUE, GLENDALE, CALIFORNIA 91201-2397
(Address of principal executive offices) (Zip Code)

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

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

Common Stock, $0.01 par value	American Stock Exchange
(Title of each class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act
None
(Title of class)

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 X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Company'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. [X]

The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 5, 1999:

Common Stock, $0.01 par value, $279,389,255 (computed on the basis of $22.9375 per share which was the reported closing sale price of the Company's Common Stock on the American Stock Exchange as of March 5, 1999).

Number of shares outstanding of the registrant's class of common stock, as of March 5, 1999:

Common Stock, $0.01 par value, 23,637,410 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement to be filed in connection with the annual shareholders' meeting to be held in 1999 are incorporated by reference into Part III.

This Annual Report contains forward-looking statements. Actual results could differ materially from those set forth in the forward-looking statements as a result of various factors, including general real estate investment risks, competition, risks associated with acquisition and development activities and debt financing, environmental matters, general uninsured losses and seismic activity.

PART I.

ITEM 1. BUSINESS

THE COMPANY

PS Business Parks, Inc. (the "Company") is a self-advised and self-managed real estate investment trust ("REIT") that acquires, develops, owns and operates commercial properties, primarily multi-tenant office industrial or "flex" space. The Company is the sole general partner of PS Business Parks, L.P. (the "Operating Partnership") through which the Company conducts most of its activities and owned, as of December 31, 1998, a 72.6% partnership interest. Substantially all of the remaining partnership interest is owned by Public Storage, Inc. ("PSI") and its affiliates. As of December 31, 1998, PSI owned 27.1% of the Operating Partnership.

In a March 17, 1998 merger (the "Merger") of American Office Park Properties, Inc. ("AOPP") with and into the Company (formerly "Public Storage Properties XI, Inc."), the Company acquired the commercial property business previously operated by AOPP and was renamed "PS Business Parks, Inc." Concurrent with the Merger, the Company exchanged 11 mini-warehouses and two properties that combined mini-warehouse and commercial space for 11 commercial properties owned by PSI.

As of December 31, 1998, the Company and the Operating Partnership owned 106 commercial properties in 11 states containing approximately 10.9 million square feet of commercial space, representing an increase in commercial square footage between December 31, 1997 and December 31, 1998 of 82%. In addition, the Operating Partnership manages, on behalf of PSI and affiliated entities, an additional 36 commercial properties (approximately 1.0 million net rentable square feet) at December 31, 1998.

For financial accounting purposes, the Merger was accounted for as a reverse acquisition whereby AOPP was deemed to have acquired Public Storage Properties XI, Inc. However, PS Business Parks, Inc. (formerly Public Storage Properties XI, Inc.) is the continuing legal entity and registrant for both Securities and Exchange Commission filing purposes and income tax reporting purposes.

AOPP was originally organized in 1986 as a California corporation to serve as the manager of the commercial properties owned by PSI and its related entities. In January 1997, AOPP was reorganized to succeed to the commercial property business of PSI, becoming a fully integrated, self-advised and self-managed REIT. AOPP conducted substantially all of its business as the sole general partner of the Operating Partnership.

In January 1997, as part of a reorganization, PSI and its consolidated partnerships transferred 35 commercial properties to AOPP and the Operating Partnership. During April 1997, PSI transferred four additional commercial properties to the Operating Partnership. During the remainder of 1997, AOPP acquired six properties containing approximately 2 million square feet of commercial space from the Acquiport Corporations, subsidiaries of the New York State Common Retirement Fund, and four properties containing approximately 0.6 million square feet of commercial space from other third parties. At December 31, 1997, AOPP and the Operating Partnership owned 49 properties located in 10 states. The Operating Partnership also managed an additional 49 properties owned by PSI and its related entities (including the 13 properties acquired in the Merger). As of December 31, 1997, AOPP owned a 35.4% partnership interest in the Operating Partnership. The balance of the Operating Partnership was owned by PSI, its consolidated partnerships and certain third parties.

During 1998, The Company completed the Merger and acquired approximately 4.9 million square feet of commercial space, including 2.3 million square feet of space located in Oregon and Texas from Principal Mutual Life Insurance Company in May 1998 and 1.8 million square feet of commercial space located in California, Maryland, Virginia and Texas from other unaffiliated third parties.

The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (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 distributed currently to its shareholders.

The Company's principal executive offices are located at 701 Western Avenue, Glendale, California 91201-2397. Its telephone number is (818) 244-8080.

The commercial properties owned by the Company and the Operating Partnership generally include both business park (industrial/"flex" space) and office space. The industrial space is used for, among other things, light manufacturing and assembly, storage and warehousing, distribution and research and development activities. Tenants who are also renting industrial space occupy most of the office space. The commercial properties typically consist of one to ten one-story buildings located on three to 20 acres and contain from approximately 10,000 to 500,000 square feet of rentable space (more than 50,000 square feet in the case of the freestanding properties). A property is typically divided into units ranging in size from 500 to 10,000 square feet. Leases generally range from one to five years and some tenants have options to extend the original terms of their leases. The larger facilities have on-site management. Parking is open or covered, and the ratio of spaces to rentable square feet ranges from two to five 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 Company may acquire properties that do not have these characteristics.

The Company intends to continue to acquire commercial properties located throughout the United States. The Company's policy of acquiring commercial properties may be changed by its Board of Directors without shareholder approval. However, the Board of Directors has no intention to change this policy at this time. Although the Company currently operates properties in 13 states, it may expand its operations to other states. Properties are acquired both for income and potential capital appreciation; there is no limitation on the amount that can be invested in any specific property. Although there is no limitation on mortgage debt, the Company has no current intention to incur significant debt (other than short-term borrowings from time to time (including from PSI) to fund acquisitions). The Company may acquire land on which it develops commercial properties, particularly land that is adjacent to existing commercial properties that the Company acquires. The Company currently has four facilities under development.

OPERATING PARTNERSHIP

The properties in which the Company has an equity interest generally will be owned by the Operating Partnership. This structure enables the Company to acquire interests in additional properties in transactions that could defer the contributors' tax consequences. This structure also enabled PSI and its consolidated partnerships to contribute interests in their properties and to defer until a later date the tax liabilities that they otherwise would have incurred if they had received Common Stock.

As the general partner of the Operating Partnership, the Company has the exclusive power under the Operating Partnership Agreement to manage and conduct the business of the Operating Partnership. The Board of Directors directs the affairs of the Operating Partnership by managing the Company's affairs. The Operating Partnership will be responsible for, and pay when due, its share of all administrative and operating expenses of the properties it owns under the terms of a cost sharing and administrative services agreement with an affiliate of PSI. See "Cost Allocation and Administrative Services."

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). Substantially all of the economic interest in the Operating Partnership that is not held by the Company is held by PSI and its consolidated partnerships as limited partners.

SUMMARY OF THE OPERATING PARTNERSHIP AGREEMENT

The following summary of the Operating Partnership Agreement is qualified in its entirety by reference to the Operating Partnership Agreement, which has been filed as an exhibit with the Securities and Exchange Commission.

ISSUANCE OF ADDITIONAL PARTNERSHIP INTERESTS: As the general partner of the Operating Partnership, the Company is authorized to cause the Operating Partnership from time to time to issue to partners of the Operating Partnership or to other persons additional partnership units in one or more classes, and in one or more series of any of such classes, with such designations, preferences and relative, participating, optional, or other special rights, powers and duties (which may be senior to the existing partnership units), as will be determined by the Company, in its sole and absolute discretion. No such additional partnership units, however, will be issued to the Company unless (i) the agreement to issue the additional partnership interests arises in connection with the issuance of shares of the Company, which shares have designations, preferences and other rights, such that the economic interests are substantially similar to the designations, preferences and other rights of the additional partnership units that would be issued to the Company and (ii) the Company agrees to make a capital contribution to the Operating Partnership in an amount equal to the proceeds raised in connection with the issuance of such shares of the Company.

CAPITAL CONTRIBUTIONS: No partner is required to make additional capital contributions to the Operating Partnership, except the Company as the general partner is required to contribute the net proceeds of the sale of equity interests in the Company to the Operating Partnership. A limited partner may be required to pay to the Operating Partnership any taxes paid by the Operating Partnership on behalf of that limited partner. No partner is required to pay to the Operating Partnership any deficit or negative balance, which may exist in its capital account.

DISTRIBUTIONS: The Company, as general partner, is required to distribute at least quarterly the "available cash" (as defined in the Operating Partnership Agreement) generated by the Operating Partnership for such quarter. Distributions are to be made (i) first, with respect to any class of partnership interests having a preference over other classes of partnership interests; and (ii) second, in accordance with the partners' respective percentage interests on the "partnership record date" (as defined in the Operating Partnership Agreement). Commencing in 1998, the Operating Partnership's policy is to make distributions per unit that are equal to the per share distributions made by the Company with respect to its Common Stock, and in any case the per unit and per share distributions will be equal during partnership years 1999 and 2000.

REDEMPTION OF PARTNERSHIP INTERESTS: Subject to certain limitations described below, each limited partner other than the Company has the right to require the redemption of such limited partner's unit. This right may be exercised on at least 10 days notice at any time or from time to time, beginning on the date that is one year after the date on which such limited partner is admitted to the Operating Partnership (unless otherwise contractually agreed by the general partner).

Unless the Company, as general partner, elects to assume and perform the Operating Partnership's obligation with respect to a redemption right, as described below, a limited partner that exercises its redemption right will receive cash from the Operating Partnership in an amount equal to the "redemption amount" (as defined in the Operating Partnership Agreement generally to reflect the average trading price of the Common Stock of the Company over a specified 10 day period) for the units redeemed. In lieu of the Operating Partnership redeeming the partner for cash, the Company, as the general partner, has the right to elect to acquire the units directly from a limited partner exercising its redemption right, in exchange for cash in the amount specified above as the "redemption amount" or by issuance of the "shares amount" (as defined in the Operating Partnership Agreement generally to mean the issuance of one share of the Company Common Stock for each unit of limited partnership interest redeemed).

A limited partner cannot exercise its redemption right if delivery of shares of 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 or certain antitrust laws, or would result in the Operating Partnership no longer being treated as a partnership for federal income tax purposes.

MANAGEMENT: The Operating Partnership is organized as a California limited partnership. The Company, as the sole general partner of the Operating Partnership has full, exclusive and complete responsibility and discretion in managing and controlling the Operating Partnership, except as provided in the Operating Partnership Agreement and by applicable law. The limited partners of the Operating Partnership have no authority to transact business for, or participate in the management activities or decisions of, the Operating Partnership except as provided in the Operating Partnership Agreement and as permitted by applicable law. However, the consent of the limited partners holding a majority of the interests of the limited partners (including limited partnership interests held by the Company) generally will be required to amend the Operating Partnership Agreement. Further, the Operating Partnership Agreement cannot be amended without the consent of each partner adversely affected if, among other things, the amendment would alter the partner's rights to distributions from the Operating Partnership (except as specifically permitted in the Operating Partnership Agreement), alter the redemption right, or impose on the limited partners an obligation to make additional capital contributions. The consent of all limited partners will be required to (i) take any action that would make it impossible to carry on the ordinary business of the Operating Partnership, except as otherwise provided in the Operating Partnership Agreement; or (ii) possess Operating Partnership property, or assign any rights in specific Operating Partnership property, for other than an Operating Partnership purpose except as otherwise provided in the Operating Partnership Agreement. In addition, without the consent of any adversely affected limited partner, the general partner may not perform any act that would subject a limited partner to liability as a general partner in any jurisdiction or any other liability except as provided in the Operating Partnership Agreement or under California law.

EXTRAORDINARY TRANSACTIONS: The Operating Partnership Agreement provides that the Company may not engage in any business combination, defined to mean any merger, consolidation or other combination with or into another person or sale of all or substantially all of its assets, any reclassification, any recapitalization (other than certain stock splits or stock dividends) or change of outstanding shares of common stock, unless (i) the limited partners of the Operating Partnership will receive, or have the opportunity to receive, the same proportionate consideration per unit in the transaction as shareholders of the Company (without regard to tax considerations); or (ii) limited partners of the Operating Partnership (other than the general partner) holding at least 60% of the interests in the Operating Partnership held by limited partners (other than the general partner) vote to approve the business combination. In addition, the Company, as general partner of the Operating Partnership, has agreed in the Operating Partnership Agreement with the limited partners of the Operating Partnership that it will not consummate a business combination in which the Company conducted a vote of shareholders unless the matter is also submitted to a vote of the partners. The foregoing provision of the Operating Partnership Agreement would under no circumstances enable or require the Company to engage in a business combination which required the approval of shareholders if the shareholders of the Company did not in fact give the requisite approval. Rather, if the shareholders did approve a business combination, the Company would not consummate the transaction unless the Company as general partner first conducts a vote of partners of the Operating Partnership on the matter. For purposes of the Operating Partnership vote, the Company shall be deemed to vote its partnership interest in the same proportion as the shareholders of the Company voted on the matter (disregarding shareholders who do not vote). The Operating Partnership vote will be deemed approved if the votes recorded are such that if the Operating Partnership vote had been a vote of shareholders, the business combination would have been approved by the shareholders. As a result of these provisions of the Operating Partnership, a third party may be inhibited from making an acquisition proposal that it would otherwise make, or the Company, despite having the requisite authority under its articles of incorporation, may not be authorized to engage in a proposed business combination.

TAX PROTECTION PROVISIONS: The Operating Partnership Agreement provides that, until 2007, the Operating Partnership may not sell any of 13 designated properties in a transaction that will produce taxable gain for the contributing partner without the prior written consent of PSI. The Operating Partnership is not required to obtain PSI's consent if PSI and its affiliated partnerships do not continue to hold at the time of the sale at least 30% of their original interest in the Operating Partnership. Since PSI's consent is required only in connection with a taxable sale of one of the 13 designated properties, the Operating Partnership will not be required to obtain PSI's consent in connection with a "like-kind" exchange or other nontaxable transaction involving one of these properties.

INDEMNIFICATION: The Operating Partnership Agreement provides that the Company and its officers and directors will be indemnified and held harmless by the Operating Partnership for any act performed for, or on behalf of, the Operating Partnership, or in furtherance of the Operating Partnership's business unless it is established that (i) the act or omission of the indemnified person was material to the matter giving rise to the proceeding and either was

committed in bad faith or was the result of active and deliberate dishonesty; (ii) the indemnified person actually received an improper personal benefit in money, property or services; or (iii) in the case of any criminal proceeding, the indemnified person had reasonable cause to believe that the act or omission was unlawful. The termination of any proceeding by judgment, order or settlement does not create a presumption that the indemnified person did not meet the requisite standards of conduct set forth above. The termination of any proceeding by conviction or upon a plea of nolo contendere or its equivalent, or an entry of an order of probation prior to judgment, creates a rebuttable presumption that the indemnified person did not meet the requisite standard of conduct set forth above. Any indemnification so made shall be made only out of the assets of the Operating Partnership.

DUTIES AND CONFLICTS: The Operating Agreement allows the Company to operate the Operating Partnership in a manner that will enable the Company to satisfy the requirements for being classified as a REIT. The Company intends to conduct all of its business activities, including all activities pertaining to the acquisition, management and operation of properties, through the Operating Partnership. However, the Company may own, directly or through subsidiaries, interest in Operating Partnership properties that do not exceed 1% of the economic interest of any property, and if appropriate for regulatory, tax or other purposes, the Company also may own, directly or through subsidiaries, interests in assets that the Operating Partnership otherwise could acquire, if the Company grants to the Operating Partnership the option to acquire the assets within a period not to exceed three years in exchange for the number of partnership units that would be issued if the Operating Partnership had acquired the assets at the time of acquisition by the Company.

TERM: The Operating Partnership will continue in full force and effect until December 31, 2096 or until sooner dissolved upon the withdrawal of the general partner (unless the limited partners elect to continue the Operating Partnership), or by the election of the general partner (with the consent of the holders of a majority of the partnerships interests if such vote is held before January 1, 2056), in connection with a merger, by the sale or other disposition of all or substantially all of the assets of the Operating Partnership, or by judicial decree.

COST ALLOCATION AND ADMINISTRATIVE SERVICES

Pursuant to a cost sharing and administrative services agreement, PSCC, Inc. ("PSCC") has been formed to serve as a cooperative cost allocation and administrative services clearing house that performs centralized administrative services for the Company, PSI and other property owners affiliated with PSI. These services include accounting and finance, employee relations, management information systems, legal, office services, marketing, administration and property management training. In addition, to take advantage of economies of scale, PSCC purchases supplies and services for the benefit of multiple property owners and allocates the costs of these supplies and services to the benefited property owners and employs and administers the payroll for employees required for the operation of the properties and the ownership entities. As to the Company, this agreement is not terminable until January 2002. The Company has no intention to terminate this agreement. The Company, PSI and certain other property owners own the capital stock of PSCC. Since the Company owns less than 10% of the capital stock of PSCC, the Company does not control the operations and activities of PSCC. Under this agreement, PSCC allocates costs to the Company in accordance with a methodology that is intended to fairly allocate charges among participating entities.

COMMON OFFICERS AND DIRECTORS

Harvey Lenkin, the President of PSI, is a Director of both the Company and PSI. Ronald L. Havner, Jr., the Chairman and Chief Executive Officer of the Company, was Senior Vice President and Chief Financial Officer of PSI until December 1996 and is currently an employee of PSI. Mary Jayne Howard, the Executive Vice President of the Company, was a Senior Vice President of PSI until December 1996. The Company engages additional executive personnel who render services exclusively for the Company. However, it is expected that officers of PSI will continue to render services for the Company as requested.

MANAGEMENT AGREEMENT

The Company continues to manage commercial properties owned by PSI and affiliates, which are generally adjacent to mini-warehouses, for a fee of 5% of the gross revenues of such properties in addition to reimbursement of direct costs. The property management contract with PSI is for a seven-year term with

the term extended one-year each anniversary. The property management contracts with affiliates of PSI are cancelable by either party upon sixty days notice.

MANAGEMENT

Ronald L. Havner, Jr. (41), President, Chairman and Chief Executive Officer heads the Company's senior management team. Mr. Havner has been President and Chief Executive Officer of the Company or AOPP since December 1996. He became Chairman of the Company in March 1998. He was Senior Vice President and Chief Financial Officer of PSI from 1992 until December 1996. The Company's executive management includes: Mary Jayne Howard (53), Executive Vice President and President-Property Operations; Jack Corrigan (38), Vice President and Chief Financial Officer; and Michael Lynch (46), Vice President-Acquisitions and Development.

REIT STRUCTURE

If certain detailed conditions imposed by the Code and the related Treasury Regulations are met, an entity, such as PS Business Parks, Inc., 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 PS Business Parks, Inc. of being treated as a REIT for federal income tax purposes is that this enables PS Business Parks, Inc. to deduct dividend distributions 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.

INVESTMENT OBJECTIVE - GROWTH IN FUNDS FROM OPERATIONS PER SHARE

The Company's primary objective is to maximize shareholder value by achieving long term growth in funds from operations per share. The Company intends to continue achieving this objective through internal growth of existing facilities combined with acquisitions of quality commercial properties in growth markets and submarkets. The Company intends to continue investing in properties and markets that have characteristics which enable them to be competitive in the short and long term. The Company seeks markets with above average population growth, education levels and personal income. In addition, the Company targets properties in those markets where it believes supply is constrained and where properties are close to important services and have easy access to major transportation arteries.

The Company attempts to limit the risk in its portfolio through attracting a diversified tenant base, both in size and industry focus. The Company's focus is on properties that are easily divisible and therefore appeal to a wide range of potential tenants. Such property flexibility also allows the Company to better serve existing tenants by accommodating their inevitable expansion and contraction needs. In addition, the Company's experience is that such property flexibility helps it maintain high occupancy rates particularly when market conditions are less favorable.

By focusing on divisible properties and a wide range of tenants, the Company seeks to control capital expenditures associated with re-leasing space. The Company also attempts to limit tenant improvement expenditures to those that are appropriate for a high number of users.

The Company seeks to provide a superior level of service to its tenants in order to achieve high occupancy and rental rates, as well as low turnover. The Company's property management offices are located on-site, providing tenants with convenient access to management. On-site staff enables the Company's properties to be well maintained and to convey 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, renewal rates and rental income by implementing the Company's tenant service programs.

COMPETITION

SIGNIFICANT COMPETITION AMONG COMMERCIAL PROPERTIES: Competition in the market areas in which many of the Company's properties are located is significant and has reduced the 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 will be competing for property acquisition and tenants with entities that have greater financial resources than the Company. Recent increases in development of commercial properties are expected to further intensify competition among operators in certain market areas in which the Company operates.

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 continue to compete effectively with other entities.

BUSINESS ATTRIBUTES

The Company believes it possesses several distinguishing characteristics that enable it to compete effectively in the Office/Warehouse, "flex" space industry. The Company's facilities are part of a comprehensive system encompassing standardized procedures and integrated reporting and information networks. The Company believes it possesses the most experienced property operations group within this industry. The Company has a strong track record of growing revenues and net operating income for the properties it has operated for at least seven years. The Company is diversified geographically and by tenant. In addition, the Company has a consistent record of acquiring properties in selected markets at prices believed to be below replacement costs and which enables the Company to execute its growth strategies.

Financially, the Company has adopted a conservative policy characterized by a low payout ratio and minimal debt levels. These attributes are complemented by sponsorship from PSI, a widely known and respected REIT.

GROWTH STRATEGIES

The Company's growth strategies focus on improving the operating performance of its existing properties and on increasing its ownership of "flex" space facilities through additional investments. Major elements of these strategies are as follows:

INCREASE NET CASH FLOW OF EXISTING PROPERTIES: The Company seeks to increase the net cash flow generated by its existing properties by (i) increasing average occupancy rates and (ii) achieving higher levels of realized monthly rents per occupied square foot and (iii) reducing its operating cost structure by improving operating efficiencies and economies of scale. The Company believes that its proactive property management personnel and systems combined with strong markets and increasing economies of scale will enhance the Company's ability to meet these goals.

ACQUIRE PROPERTIES OWNED OR OPERATED BY OTHERS: The Company believes its presence in and knowledge of its markets enhances its ability to identify attractive acquisition opportunities and capitalize on the overall fragmentation in the "flex" space industry. The Company maintains local market information on rates, occupancy and competition in each of the markets in which it operates. Of the more than 800 million square feet of "flex" space facilities in the United States noted by Torto Wheaton Research, the Company believes that the ten largest operators manage less than 15% of the total space. During 1998, the Company acquired 44 "flex" space facilities from unaffiliated third parties. Similar to 1998, the Company expects third party acquisitions to be its most significant growth area during fiscal 1999, if attractive investment opportunities continue to be available.

DEVELOP PROPERTIES IN EXISTING MARKETS: The Company's development strategy is to selectively construct new properties next to existing business parks. In accordance with that strategy, the Company commenced construction of office and "flex" space adjacent to facilities in Beaverton, Oregon and Las Colinas, Texas, in 1998. These developments are expected to be complete in June 1999. The Company plans to keep development activities below 10% of its portfolio.

FINANCING OF THE COMPANY'S GROWTH STRATEGIES

RETAIN OPERATING CASH FLOW: The Company seeks to retain significant funds (after funding its distributions and capital improvements) for additional

investments and debt reduction. During the year ended December 31, 1998, the Company distributed 51% of its funds from operations ("FFO") allocable to common stock and retained $19.7 million which was available for principal payments on debt and reinvestment into real estate assets. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources."

REVOLVING LINE OF CREDIT: The Company currently has a $100 million unsecured credit facility with Wells Fargo Bank, which the Company uses as a temporary source of acquisition financing. The Company seeks to ultimately finance all acquisitions with permanent capital to eliminate refinancing and interest rate risk. As of December 31, 1998, there was $12.5 million outstanding on this credit facility.

ACCESS TO ACQUISITION CAPITAL: The Company believes that its strong financial position enables it to access capital to finance its growth. In 1998, the Company issued approximately $322 million of common equity and Operating Partnership units to finance its acquisitions. The Company's debt as a percentage of total capitalization was 7% at December 31, 1998. The Company targets a 40% leverage ratio, which is defined as debt and preferred stock as a percentage of its total capitalization (shareholders' equity plus debt plus minority interest). In addition, the Company targets a ratio of FFO to fixed charges (FFO plus interest expense divided by fixed charges) of 3.0 to 1.0. Fixed charges include interest expense, capitalized interest and preferred dividends. The FFO to fixed charges ratio was 22.74 to 1.0 at December 31, 1998. The Company plans to add leverage in its capital structure primarily through the use of preferred stock, but may assume debt in connection with acquisitions. This policy is subject to change depending upon market conditions.

INVESTMENTS IN REAL ESTATE FACILITIES

As of December 31, 1998, the Company had a total of 106 (10,930,000 square feet) real estate facilities compared to 49 (6,009,000 square feet) facilities at December 31, 1997. The increase in the number of facilities was due to acquisitions of facilities from third parties in addition to the Merger.

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

The Company has an unsecured $100 million credit facility ("Credit Facility") with Wells Fargo Bank which expires on August 5, 2000. The expiration date may be extended by one year on each anniversary of the Credit Facility. Interest on outstanding borrowings on the Credit Facility is payable monthly. At the option of the Company, the rate of interest charged on borrowings is equal to (i) the prime rate or (ii) a rate ranging from the London Interbank Offered Rate ("LIBOR") plus 0.55% to LIBOR plus 0.95% depending on the Company's credit rating and coverage ratios, as defined. In addition, the Company is required to pay a commitment fee of 0.25% (per annum) of the revolving Credit Facility.

Under covenants of the Credit Facility, the Company is required to (i) maintain a balance sheet leverage ratio (as defined) of less than 0.50 to 1.00, (ii) maintain interest and fixed charge coverage ratios (as defined) of not less than 2.25 to 1.0 and 2.0 to 1.0, respectively, (iii) maintain a minimum total shareholder's equity (as defined) and (iv) limit distributions to 95% of funds from operations. In addition, the Company is limited in its ability to incur additional borrowings (the Company is required to maintain unencumbered assets with an aggregate book value equal to or greater than two times the Company's unsecured recourse debt) or sell assets. The Company was in compliance with the covenants of the Credit Facility at December 31, 1998.

As of December 31, 1998, the Company had outstanding mortgage notes payable balances of approximately $38 million and $12.5 million outstanding on the Credit Facility. See Notes 6 and 7 to the consolidated financial statements for a summary of the Company's borrowings at December 31, 1998.

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 increase its funds available for investment in real estate, capital expenditures and distributions.

EMPLOYEES

As of December 31, 1998, the Company employed 95 individuals, primarily personnel engaged in property operations. The Company believes that its relationship with its employees is good and none of the employees are represented by a labor union.

FEDERAL INCOME TAX

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 Internal Revenue Code of 1986, 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 taxable income that is distributed to its shareholders.

INSURANCE

The Company believes that its properties are adequately insured. Facilities operated by the Company have historically carried comprehensive insurance, including fire, earthquake, liability and extended coverage from nationally recognized carriers.

IMPACT OF YEAR 2000

See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Impact of Year 2000."

ITEM 2. PROPERTIES

As of December 31, 1998, the Company's portfolio of properties consisted primarily of "flex" space and suburban office buildings located principally in five major markets including Southern and Northern California, Virginia/Maryland, Texas and Oregon. The Company owned approximately 1.2 million square feet of suburban office space and 9.7 million square feet of "flex" space as of December 31, 1998 and the average occupancy rate of the properties was 96%.

The following table contains information as of December 31, 1998 about properties owned by the Company and the Operating Partnership:
<TABLE>
<CAPTION>

City	Number of Properties	Rentable Square Footage: Business Park	Office	Total	Occupancy at December 31, 1998
<S>	<C>	<C>	<C>	<C>	<C>
ARKANSAS					
Little Rock...........	1	91,100	-	91,100	83%
	1	91,100	-	91,100	83%
ARIZONA					
Mesa..................	1	78,000	-	78,000	100%
Tempe.................	3	291,300	-	291,300	99%
	4	369,300	-	369,300	100%
NORTHERN CALIFORNIA					
Monterey..............	1	-	12,000	12,000	100%
Hayward...............	1	406,700	-	406,700	100%
Sacramento............	1	153,600	-	153,600	89%
San Jose..............	2	386,800	-	386,800	89%
San Ramon.............	2	24,600	27,500	52,100	100%
So. San Francisco.....	2	93,800	-	93,800	100%
	9	1,065,500	39,500	1,105,000	95%
SOUTHERN CALIFORNIA					
Buena Park............	1	317,300	-	317,300	100%
Carson................	1	77,600	-	77,600	91%
Cerritos..............	2	394,600	31,300	425,900	92%
Culver City...........	1	145,400	-	145,400	97%
Laguna Hills..........	2	613,900	-	613,900	99%
Lake Forest...........	1	296,600	-	296,600	92%
Lakewood..............	1	-	56,900	56,900	96%
Monterey Park.........	1	199,100	-	199,100	92%
San Diego.............	7	372,000	232,800	604,800	99%
Signal Hill...........	2	178,200	-	178,200	99%
Studio City...........	1	22,100	-	22,100	100%
Torrance..............	2	147,200	-	147,200	85%
	22	2,764,000	321,000	3,085,000	96%
KANSAS					
Overland Park.........	1	61,800	-	61,800	99%
	1	61,800	-	61,800	

99%

</TABLE>

<TABLE>
<CAPTION>

City	Number of Properties	Rentable Square Footage: Business Park	Office	Total	Occupancy at December 31, 1998
<S>	<C>	<C>	<C>	<C>	<C>
MARYLAND					
Baltimore (1).........	1	-	240,900	240,900	90%
Beltsville...........	1	307,800	-	307,800	96%
Gaithersburg..........	1	-	29,000	29,000	73%
Landover (2)..........	2	379,700	-	379,700	95%
Largo................	1	149,900	-	149,900	100%
	6	837,400	269,900	1,107,300	94%
OKLAHOMA					
Broken Arrow..........	1	87,900	-	87,900	92%
Tulsa.................	1	56,600	-	56,600	84%
	2	144,500	-	144,500	89%
OREGON					
Beaverton............	14	879,700	121,000	1,000,700	99%
Milwaukee............	2	101,600	-	101,600	90%
	16	981,300	121,000	1,102,300	98%
TENNESSEE					
Nashville............	2	138,000	-	138,000	98%
	2	138,000	-	138,000	98%
TEXAS					
Austin (2)...........	7	525,100	-	525,100	92%
Dallas...............	2	237,900	-	237,900	96%
Garland..............	1	36,500	-	36,500	92%
Houston..............	1	-	130,600	130,600	100%
Las Colinas (1).......	10	725,100	-	725,100	100%
Mesquite.............	1	56,500	-	56,500	97%
Missouri City.........	1	66,000	-	66,000	98%
Pasadena.............	1	154,000	-	154,000	99%
Plano................	1	184,800	-	184,800	72%
Richardson...........	3	173,900	-	173,900	

					97%
San Antonio..........	2	-	199,300	199,300	88%
	30	2,159,800	329,900	2,489,700	94%
VIRGINIA					
Alexandria...........	3	154,700	53,700	208,400	100%
Herndon..............	1	193,600	-	193,600	97%
Lorton (2)...........	1	246,500	-	246,500	100%
Springfield..........	2	59,800	90,500	150,300	94%
Sterling (2).........	4	295,600	-	295,600	99%
Woodbridge...........	1	113,600	-	113,600	96%
	12	1,063,800	144,200	1,208,000	98%
WASHINGTON					
Renton................	1	27,900	-	27,900	77%
	1	27,900	-	27,900	77%
Totals - 11 states....	106	9,704,400	1,225,500	10,929,900	96%

</TABLE>

(1) The Company owns two properties that are subject to a ground lease in Baltimore, Maryland and Las Colinas, Texas.

(2) Eleven commercial properties serve as collateral to mortgage notes payable. See detailed listing in Schedule III.

Each of these properties will continue to be used for its current purpose. Competition exists in the market areas in which these properties are located. Barriers to entry are relatively low for competitors with the necessary capital and the Company will be competing for properties and tenants with entities that have greater financial resources than the Company. However, the Company believes that the current overall demand for commercial space is strong.

The Company has risks that tenants will default on leases and declare bankruptcy. Management believes these risks are mitigated through its geographic diversity and its diverse tenant base. As of December 31, 1998, tenants occupying approximately 50,000 square feet of commercial space have delcared bankruptcy. However, all of the bankrupt tenants remain current on their monthly rental payments. In the Company's opinion, risk of loss due to property damage is adequately covered by insurance.

As of December 31, 1998, none of these properties have a book value of more than 10% of the Company's current total assets or accounts for more than 10% of its current aggregate gross revenues.

The following table sets forth the lease expirations for the properties owned as of December 31, 1998:

<TABLE>
<CAPTION>

Year of Lease Expiration	Rentable Square Footage Subject to Expiring Leases	Annual Base Rents Under Expiring Leases	Percentage of Total Annual Base Rents Represented by Expiring Leases
<S>	<C>	<C>	<C>
1999	2,641,000	$ 25,722,000	25.5%
2000	2,618,000	25,497,000	25.2%
2001	1,788,000	17,415,000	17.2%
2002	1,316,000	12,821,000	12.7%

2003	1,016,000	9,899,000	9.8%
Thereafter	996,000	9,704,000	9.6%
Total	10,375,000	$101,058,000	100.0%

</TABLE>

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 effects upon the capital expenditures, earnings or competitive position of the Company.

The properties contributed by PSI and affiliates during 1997 and 1998 were each subject to environmental audits within the two-year period ended December 31, 1995. In addition, for each of the properties acquired subsequent to December 31, 1995, and for each parcel of land purchased for development, an environmental investigation was conducted as part of the acquisition due diligence process. The environmental investigations have not revealed any environmental liability that the Company 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, except as discussed below.

The Company acquired a property in Beaverton, Oregon ("Creekside Corporate Park") in May 1998. A property adjacent to Creekside Corporate Park is currently the subject of an environmental remedial investigation/feasibility study that is being conducted by the current and past owners of the property, pursuant to an order issued by the Oregon Department of Environmental Quality ("ODEQ"). As part of that study, ODEQ ordered the property owners to sample soil and groundwater on the Company's property to determine the nature and extent of contamination resulting from past industrial operations at the property subject to the study. The Company, which is not a party of the Order on Consent, executed separate Access Agreements with the property owners to allow access to its property to conduct the required sampling and testing. The sampling and testing is ongoing, and preliminary results from one area indicate that the contamination from the property subject to the study may have migrated onto a portion of Creekside Corporate Park owned by the Company.

There is no evidence that any past or current use of the Creekside Corporate Park property contributed in any way to the contamination that is the subject of the current investigation. Nevertheless, upon completion of the study, it is likely that removal or remedial measures will be required to address any contamination detected during the current investigation, including any contamination on or under the Creekside Corporate Park property. Because of

the preliminary nature of the investigation, the Company cannot predict the outcome of the investigation, nor can it estimate the costs of any remediation or removal activities that may be required.

The Company believes that it bears no responsibility or liability for the contamination. In the event the Company is ultimately deemed responsible for any costs relating to this matter, the Company believes that the party from whom the property was purchased will be responsible for any expenses or liabilities that the Company may incur as a result of this contamination.

Although the environmental investigations conducted to date have not revealed any environmental liability that the Company believes would have a material adverse effect on the Company's business, assets or results of operations, and the Company is not aware of any such liability, it is possible that these investigations did not reveal all environmental liabilities or that there are material environmental liabilities of which the Company is unaware. No assurances can be given that (i) future laws, ordinances, or regulations will not impose any material environmental liability, or (ii) the current environmental condition of the Properties has not been, or will not be, affected by tenants and occupants of the Properties, by the condition of properties in the vicinity of the Properties, or by third parties unrelated to the Company.

PROPERTIES UNDER DEVELOPMENT: The Company plans to develop office and "flex" properties that are located within or adjacent to existing parks. The properties will be developed using the expertise of local development companies on a fee basis. The development program is designed to enhance the Company's existing portfolio. There are two projects currently under development.

The following table sets forth certain information regarding the Company's properties under development as of December 31, 1998:

<TABLE>
<CAPTION>

Property Name	Location	Estimated Completion Date	Rentable Square Feet	Amount Invested
<S>	<C>	<C>	<C>	<C>
Royal Tech 16	Las Colinas, TX	May 1999	61,000	$ 1,261,000

Woodside	Beaverton, OR	June 1999	70,000	5,617,000
Creekside	Beaverton, OR	TBD	23,000	838,000
			154,000	$ 7,716,000

</TABLE>

The Royal Tech 16 project will have dock loading capabilities and an above standard parking ratio of five cars per thousand square feet. The Company currently has approximately 725,000 square feet of rentable space in Las Colinas, Texas. The project is expected to cost approximately $6,364,000.

The Woodside project will be a three-story brick and glass structure and is adjacent to Nike's world headquarters. The Company currently has approximately one million square feet in Beaverton, Oregon. The project is expected to cost approximately $10,951,000.

Both of these existing construction projects are expected to be completed in the second quarter of 1999 with rent stabilization projected within six to nine months of completion.

ACQUISITIONS COMPLETED SUBSEQUENT TO DECEMBER 31, 1998: The following table sets forth certain information regarding properties acquired between January 1, 1999 and March 5, 1999.

<TABLE>
<CAPTION>

Property Name	Location	Date Acquired	Total Rentable Square Feet	Amount Invested
<S>	<C>	<C>	<C>	<C>
Waterford A	Austin, Texas	January 6, 1999	30,000	$ 3,300,000
McNeil 6	Austin, Texas	January 6, 1999	28,000	2,412,000
Rutland 11	Austin, Texas	January 6, 1999	40,000	1,797,000
Rutland 12	Austin, Texas	January 6, 1999	59,000	2,957,000
Rutland 13	Austin, Texas	January 6, 1999	52,000	2,593,000
Rutland 19	Austin, Texas	January 6, 1999	21,000	870,000
Lafayette (1)	Chantilly, Virginia	January 29, 1999	57,000	4,768,000
Monroe II	Herndon, Virginia	January 29, 1999	51,000	5,665,000
			338,000	$ 24,362,000

</TABLE>

(1) Does not include additional costs of land parcels acquired for future development of $1 million on which the Company estimates 136,000 square feet can be developed.

ITEM 3. LEGAL PROCEEDINGS

There are no material proceedings pending against the Company or any of its subsidiaries.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company did not submit any matter to a vote of security holders in the fourth quarter of the fiscal year ended December 31, 1998.

ITEM 4A. EXECUTIVE OFFICERS

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

Ronald L. Havner, Jr., age 41, became a director of the Company on March 16, 1998 and Chairman of the Company on March 17, 1998. Mr. Havner has been President and Chief Executive Officer of the Company or AOPP since December 1996. He was Senior Vice President and Chief Financial Officer of PSI and Vice President of the Company and certain other REITs affiliated with PSI until December 1996.

Mary Jayne Howard, age 53, became Executive Vice President and President-Property Operations of the Company on March 17, 1998 with overall responsibility for property operations. Ms. Howard has been a senior officer of the Company or AOPP since December 1985 with overall responsibility for commercial property operations and was a Senior Vice President of PSI from November 1985 until December 1996.

Jack E. Corrigan, age 38, a certified public accountant, became Vice President, Chief Financial Officer and Secretary of the Company on June 8, 1998. From February 1991 until June 1998, Mr. Corrigan was a partner of LaRue, Corrigan & McCormick with responsibility for the audit and accounting practice.

He was Vice President and Controller of PSI (formerly Storage Equities, Inc.) from 1989 until February 1991.

J. Michael Lynch, age 46, became Vice President-Director of Acquisitions and Development of the Company on June 8, 1998. Mr. Lynch was Vice President of Acquisitions and Development of Nottingham Properties, Inc. from 1995 until May 1998. He has 16 years of real estate experience, primarily in acquisitions and development. From 1988 until 1995, Mr. Lynch was a development project manager for The Parkway Companies. From 1983 until 1988, he was an Assistant Vice President, Real Estate Investment Department of First Wachovia Corporation.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

a. Market Price of the Registrant's Common Equity:

The Common Stock (formerly Common Stock Series A) of the Company (then known as Public Storage Properties XI, Inc.) began trading on the American Stock Exchange on March 27, 1991 under the symbol PSM. In connection with the March 1998 merger of AOPP into the Company, the Company changed its name from Public Storage Properties XI, Inc. to PS Business Parks, Inc. and the Company's Common Stock Series A was reclassified as Common Stock and began trading on the American Stock Exchange under the symbol PSB.

The following table sets forth the high and low sales prices of the Common Stock (formerly Common Stock Series A) on the American Stock Exchange for the applicable periods:
<TABLE>
<CAPTION>

		Range	
Year	Quarter	High	Low
<S>	<C>	<C>	<C>
1997	1st	$20-3/8	$19-3/8
	2nd	20-1/8	19-3/8
	3rd	21-7/16	19-5/16
	4th	23-1/2	20-1/2
1998	1st	24-1/2	20-1/2
	2nd	25-3/4	22-5/16
	3rd	26-5/8	18-7/16
	4th	24-3/8	18

</TABLE>

As of March 5, 1999, there were approximately 794 holders of record of the Common Stock.

b. Dividends

Holders of Common Stock are entitled to receive distributions when and if declared by the Company's Board of Directors out of any funds legally available for that purpose. The Company is required to distribute at least 95% of its net taxable ordinary income prior to the filing of the Company's tax return and 85%, subject to certain adjustments, during the calendar year, to maintain its REIT status for federal income tax purposes. It is management's intention to pay distributions of not less than this required amount.

Distributions paid per share of Common Stock for 1998 and 1997 amounted to $1.10 and $0.68, respectively (distributions paid prior to March 17, 1998 refer to distributions paid on the AOPP common stock).

Since the second quarter of 1998, the Company has declared regular quarterly dividends of $0.25 per common share. This reflects a decrease from the quarterly dividend of $0.34 per common share which was paid to the previous shareholders of Public Storage Properties XI, Inc. through the first quarter of 1998. The Board of Directors has established a distribution policy to maximize the retention of operating cash flow and only distribute the minimum amount required for the Company to maintain its tax status as a REIT.

ITEM 6. SELECTED FINANCIAL DATA (1)
<TABLE>
<CAPTION>

	For the Year Ended December 31,	For the Periods (2)		For the Years Ended December 31,
		April 1, 1997	January 1, 1997	

	1998	through December 31, 1997	through March 31, 1997	1996	1995	1994
	(In thousands, except per share data)					
Revenues:						
Rental income...............	$ 88,320	$ 24,364	$ 5,805	$ -	$ -	$ -
Facility management fees.....	529	709	247	2,133	2,044	1,973
Interest income.............	1,411	424	29	43	37	40
	90,260	25,497	6,081	2,176	2,081	2,013
Expenses:						
Cost of operations..........	26,073	9,837	2,493	-	-	-
Cost of facility management..	77	129	60	514	570	523
Depreciation and amortization	18,908	4,375	820	-	-	-
General and administrative...	2,233	1,248	213	1,143	319	245
Interest expense............	2,361	1	-	-	-	-
	49,652	15,590	3,586	1,657	889	768
Income before minority interest....................	40,608	9,907	2,495	519	1,192	1,245
Minority interest in income..	(11,208)	(6,753)	(1,813)	-	-	-
Income before income taxes...	29,400	3,154	682	519	1,192	1,245
Income tax expense (2).......	-	-	-	(216)	(472)	(488)
Net income..................	$ 29,400	$ 3,154	$ 682	$ 303	$ 720	$ 757
PER COMMON SHARE:						
Distribution................	$ 1.10	$ 0.68	$ 0.00	$ 0.43	$ 0.90	$ 0.64
Net income - Basic..........	$ 1.52	$ 0.92	$ 0.31	$ 0.32	$ 0.80	$ 0.84
Net income - Diluted........	$ 1.51	$ 0.92	$ 0.31	$ 0.32	$ 0.80	$ 0.84
Weighted average common shares-Basic................	19,361	3,414	2,193	947	905	900
Weighted average common shares-Diluted..............	19,429	3,426	2,193	947	905	900
BALANCE SHEET DATA						
Total assets................	$ 709,414	$ 323,454	$ 136,922	$ 1,941	$ 1,110	$ 326
Total debt..................	50,541	3,500	-	-	-	-
Minority interest...........	153,015	168,665	97,180	-	-	

-

Shareholders' equity.........	$ 489,905	$ 142,958	$ 36,670	$ 1,734	$ 1,041	$ 343
OTHER DATA						
Net cash provided by operating activities.........	$ 60,228	$ 13,597	$ 5,840	$ 413	$ 950	$ 571
Net cash used in investing activities..................	(308,646)	(47,105)	(582)	-	-	-
Net cash provided by (used in) financing activities.....	250,602	31,443	(228)	(378)	(84)	(563)
Funds from operations (3)....	$ 57,430	$ 14,282	$ 3,315	$ 303	$ 720	$ 757
Square footage owned at end of period....................	10,930	6,009	3,014	-	-	-

</TABLE>

(1) The selected financial data for periods prior to March 17, 1998 refers to AOPP.
(2) See Note 2 of the Notes to Consolidated Financial Statements.
(3) Funds from operations ("FFO") is defined as net income, computed in accordance with generally accepted accounting principles ("GAAP") before depreciation, amortization, minority interest in income, straight line rent adjustments and extraordinary or non-recurring items.

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

The following discussion and analysis of the results of operation and financial condition of PS Business Parks, Inc. (the "Company") should be read in conjunction with the selected financial data and the Company's financial statements included elsewhere in the form 10-K. References to the Company for periods prior to March 17, 1998 refer to AOPP.

COMPARISON OF 1998 TO 1997

OVERVIEW: During 1998, the Company identified and completed strategic acquisition transactions and focused on increasing cash flow from its existing core portfolio of properties. In addition, the Company began limited development in two of its core markets. The Company strengthened its balance sheet primarily through common equity offerings and a conservative distribution policy that maximizes cash flow retention. The Company also established a capital structure that allows it to take advantage of attractive growth opportunities.

During 1998, the Company added 4.9 million square feet to its portfolio. The cost of these acquisitions was approximately $378 million. The acquisitions added square footage to each of the Company's existing core markets. The Company acquired 1,687,000 square feet in Texas at an aggregate cost of approximately $102 million; 1,001,000 square feet in Portland, Oregon at an aggregate cost of approximately $115 million; 1,442,000 square feet in the Northern Virginia/Maryland market at an aggregate cost of approximately $108 million; 422,000 square feet in Southern California at an aggregate cost of approximately $25 million and 307,000 square feet in Northern California at an aggregate cost of approximately $25 million. In addition, the Company acquired 62,000 square feet in the Merger at an aggregate cost of approximately $3 million in a market the Company does not consider a core market.

The Company was also able to increase rents and maintain expenses at a stable level at its "Same Park" facilities during 1998. Revenue increased 5.9%, while expenses remained flat resulting in a 9.5% increase in NOI. The Company defines "Same Park" facilities as those facilities owned or operated by the Company since January 1, 1996.

Net income for the year ended December 31, 1998 was $29,400,000 compared to $3,836,000 for the same period in 1997. Net income per common share on a diluted basis was $1.51 (based on weighted average diluted shares outstanding of 19,429,000) for the year ended December 31, 1998 compared to net income per common share on a diluted basis of $1.23 (based on diluted weighted average shares outstanding of 3,129,000) for the year ended December 31, 1997, representing an increase of 22.7%. The increases in net income and net income per share reflects the Company's significant growth in its asset base through the acquisition of commercial properties and increase in net operating income from the consistent group of properties.

COMPARISON WITH 1997 RESULTS: On March 31, 1997, PSI exchanged its non-voting preferred stock for voting common stock of AOPP in a transaction accounted for as a purchase of AOPP by PSI. As a result of PSI attaining a 95% ownership interest in AOPP voting common stock, the financial results for 1997 are presented separately for the period prior to the exchange transaction (January 1, 1997 to March 31, 1997) and subsequent to the exchange transaction (April 1, 1997 to December 31, 1997). To properly compare the operating results for the year ended December 31, 1997 to the same period in the current year, the amounts for 1997 have been combined as follows:

<TABLE>
<CAPTION>

<S>	April 1, 1997 through December 31, 1997 <C>	January 1, 1997 through March 31, 1997 <C>	For the Year Ended December 31, 1997 <C>
REVENUES:			
Rental income...	$ 24,364,000	$ 5,805,000	$ 30,169,000
Facility management fees from affiliates..................	709,000	247,000	956,000
Interest income..	424,000	29,000	453,000
	25,497,000	6,081,000	31,578,000
EXPENSES:			
Cost of operations..	9,837,000	2,493,000	12,330,000
Cost of facility management...............................	129,000	60,000	189,000
Depreciation and amortization.............................	4,375,000	820,000	5,195,000
General and administrative................................	1,248,000	213,000	1,461,000
Interest expense...	1,000	-	1,000
	15,590,000	3,586,000	19,176,000
Income before minority interest............................	9,907,000	2,495,000	12,402,000
Minority interest in income..............................	(6,753,000)	(1,813,000)	(8,566,000)
Net income...	$ 3,154,000	$ 682,000	$ 3,836,000

</TABLE>

RESULTS OF OPERATIONS: The Company's property operations account for almost all of the net operating income earned by the Company. The following table presents the pre-depreciation operating results of the properties for the years ended December 31, 1998 and 1997:

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	Change <C>
Rental income:			
Facilities owned throughout each period (35 facilities, 3.0 million net rentable square feet)......................	$ 25,045,000	$ 23,936,000	4.6%
Facilities acquired between March 31, 1997 and December 31, 1998 (71 facilities, 7.9 million net rentable square feet)...	63,275,000	6,233,000	915.2%
Total rental income...	$ 88,320,000	$ 30,169,000	192.8%
Cost of operations (excluding depreciation):			
Facilities owned throughout each period....................	$ 10,023,000	$ 10,073,000	(0.5%)
Facilities acquired between March 31, 1997 and December 31, 1998....................................	16,050,000	2,257,000	611.1%
Total cost of operations...................................	$ 26,073,000	$ 12,330,000	111.5%

Net operating income (rental income less cost of operations):			
Facilities owned throughout each period....................	$ 15,022,000	$ 13,863,000	8.4%
Facilities acquired between March 31, 1997 and December 31, 1998..	47,225,000	3,976,000	1,087.8%
--			
Total net operating income................................	$ 62,247,000	$ 17,839,000	248.9%

</TABLE>

Rental income and rental income less cost of operations or net operating income ("NOI") prior to depreciation are summarized for the year ended December 31, 1998 by major geographic regions below:

<TABLE>
<CAPTION>

Region	Square Footage	Percent of Total	Rental Income	Percent of Total	NOI	Percent of Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Southern California......	3,085,000	28.2%	$28,930,000	32.7%	$20,803,000	33.4%
Northern California......	1,105,000	10.1%	7,557,000	8.6%	5,513,000	8.9%
Virginia/Maryland........	2,315,300	21.2%	22,710,000	25.7%	15,864,000	25.5%
Texas....................	2,489,700	22.8%	13,927,000	15.8%	8,865,000	14.2%
Oregon...................	1,102,300	10.0%	9,725,000	11.0%	7,652,000	12.3%
Other....................	832,600	7.6%	5,471,000	6.2%	3,550,000	5.7%
Total....................	10,929,900	100.0%	$88,320,000	100.0%	$62,247,000	100.0%

</TABLE>

SUPPLEMENTAL PROPERTY DATA AND TRENDS: In order to evaluate how the Company's overall portfolio has performed, management analyzes the operating performance of a consistent group of 51 properties (4.2 million net rentable square feet). These 51 properties represent a mature group of properties that have been managed by the Company for at least three years and, as of March 17, 1998, were owned by the Company. The table below summarizes the historical operations of the 51 properties for 1998 and 1997; however, the Company did not own all of the properties throughout the periods presented and therefore, such operations are not all reflected in the Company's historical operating results.

The following table summarizes the pre-depreciation historical operating results of these "Same Park" facilities for the year ended December 31, 1998 and 1997:

<TABLE>
<CAPTION>

	1998 (1)	1997 (1)	Change
<S>	<C>	<C>	<C>
Rental income (2)..	$38,927,000	$36,760,000	5.9%
Cost of operations.......................................	14,718,000	14,655,000	0.4%
Net operating income..................................	$24,209,000	$22,105,000	9.5%
Gross margin (3)....................................	62.2%	60.1%	2.1%
Annualized realized rent per occupied square foot (4)......	$9.74	$9.24	5.4%
Weighted average occupancy for the period.................	95.1%	94.6%	0.5%

</TABLE>

(1) Operations for the year ended December 31, 1998 represent the historical operations of the 51 properties; however, the Company did not own all of the properties throughout all periods presented and therefore such operations are not reflected in the Company's historical operating results. All such properties were owned effective March 17, 1998.

(2) Rental income does not include the effect of straight-line accounting.

(3) Gross margin is computed by dividing property net operating income by rental income.

(4) Realized rent per square foot represents the actual revenue earned per occupied square foot.

The following table summarizes the operating results displayed above by major geographic regions:

<TABLE>
<CAPTION>

	Revenues 1998	Revenues 1997	Percentage Increase	NOI 1998	NOI 1997	Percentage Increase
<S>	<C>	<C>	<C>	<C>	<C>	<C>

Southern California.......	$14,965,000	$14,362,000	4.2%	$ 9,639,000	$ 9,075,000	6.2%
Northern California.......	5,668,000	5,227,000	8.4%	3,836,000	3,472,000	10.5%
Virginia/Maryland.........	5,271,000	4,953,000	6.4%	3,314,000	2,854,000	16.1%
Texas.....................	6,649,000	6,394,000	4.0%	3,407,000	3,206,000	6.3%
Arizona...................	2,728,000	2,477,000	10.1%	1,731,000	1,488,000	16.3%
Other.....................	3,646,000	3,347,000	8.9%	2,282,000	2,010,000	13.5%
Total.....................	$38,927,000	$36,760,000	5.9%	$24,209,000	$22,105,000	9.5%

</TABLE>

The increases noted above reflect the performance of the Company's existing markets. All major markets reflected increases in rental rates without corresponding increases in expenses.

FACILITY MANAGEMENT OPERATIONS: The Company's net operating income from facility management accounts for a small portion of the Company's net operating income. During the year ended December 31, 1998, $452,000 in net operating income was recognized from facility management operations compared to $767,000 for the same period in 1997. Facility management fees have decreased due to the Company's acquisition of properties previously managed.

INTEREST INCOME: Interest income reflects earnings on cash balances. Interest income was $1,411,000 for the year ended December 31, 1998 compared to $453,000 for the same period in 1997. The increase is attributable to increased average cash balances primarily due to the Company's issuance of common stock in January and May 1998 and the timing of investing these funds in newly acquired real estate facilities. Average cash balances for the year ended December 31, 1998 were approximately $28 million, compared to $9 million for the same period in 1997.

COST OF OPERATIONS: Cost of operations for the year ended December 31, 1998 was $26,073,000 compared to $12,330,000 for the same period in 1997. The increase is due primarily to the growth in the total square footage of the Company's portfolio of properties. Cost of operations as a percentage of rental income decreased from 40.9% for the year ended December 31, 1997 to 29.5% for the year ended December 31, 1998 as a result of economies of scale achieved through the acquisition of properties in existing markets. Cost of operations consists primarily of property taxes ($6,967,000), property maintenance ($4,643,000), utilities ($4,558,000) and direct payroll ($3,981,000) for the year ended December 31, 1998.

DEPRECIATION AND AMORTIZATION EXPENSE: Depreciation and amortization expense for the year ended December 31, 1998 was $18,908,000 compared to $5,195,000 for the same period in 1997. The increase is due to the acquisitions of real estate facilities in 1997 and 1998.

GENERAL AND ADMINISTRATIVE EXPENSE: General and administrative expense was $2,233,000 for the year ended December 31, 1998 compared to $1,461,000 for the same period in 1997. The increase is due to the increased size and acquisition activities of the Company. Included in general and administrative costs are acquisition costs and abandoned transaction costs. Acquisition expenses for 1998 and 1997 were $844,000 and $177,000 respectively. Abandoned transaction costs for 1998 and 1997 were $65,000 and $5,000, respectively.

INTEREST EXPENSE: Interest expense was $2,361,000 for the year ended December 31, 1998 compared to $1,000 for the same period in 1997. The increase is attributable to mortgage notes assumed in connection with the acquisition of real estate facilities totaling approximately $38 million ($1.5 million in interest expense), temporary financing in connection with acquisitions ($0.5 million in interest expense), costs to establish the line of credit ($0.5 million) and commitment fees ($0.1 million) net of $268,000 of interest expense capitalized to ongoing construction projects.

MINORITY INTEREST IN INCOME: Minority interest in income reflects the income allocable to equity interests in the Operating Partnership that are not owned by the Company. Minority interest in income for the year ended December 31, 1998 was $11,208,000 compared to $8,566,000 for the same period in 1997. The increase in minority interest in income is due to improved operating results and the issuance of additional Operating Partnership units, primarily in connection with the acquisition of real estate facilities on April 1, 1997.

COMPARISON OF 1997 TO 1996

OVERVIEW: During 1997, the Company identified and completed strategic acquisition transactions and focused on increasing cash flow from its existing core portfolio of properties. The Company strengthened its balance sheet primarily through issuance of common stock and Operating Partnership units for real estate. By maintaining low leverage, the Company facilitated future growth.

During 1997, the Company acquired 6.0 million square feet. The cost of these acquisitions was approximately $308 million. The Company acquired 39 properties (3.4 million square feet) from PSI, which the Company had been managing. In addition, the Company acquired 10 properties (2.6 million square feet) from third parties, primarily in the Southern California and the Maryland/Northern Virginia markets.

The Company did not own properties during 1996; however, it managed all 51 of the "Same Park" facilities that year. The Company was able to increase rents and maintain expenses at a stable level at its "Same Park" facilities during 1997. Revenue increased 5.4%, while expenses remained flat resulting in a 7.8% increase in NOI. The Company defines "Same Park" facilities as those facilities owned or operated by the Company since January 1, 1996.

Net income for the year ended December 31, 1997 was $3,836,000 compared to $303,000 for the same period in 1996. Net income per common share on a diluted basis was $1.23 (based on weighted average diluted shares outstanding of 3,129,000) for the year ended December 31, 1997 compared to net income per common share on a diluted basis of $0.32 (based on diluted weighted average shares outstanding of 947,000) for the year ended December 31, 1996. The increases in net income and net income per share reflect the Company's significant growth in its asset base through the acquisition of commercial properties.

COMPARISON WITH 1997 RESULTS: On March 31, 1997, PSI exchanged its non-voting preferred stock for voting common stock of AOPP in a transaction accounted for as a purchase of AOPP by PSI. As a result of PSI attaining a 95% ownership interest in AOPP voting common stock, the financial results for 1997 are presented separately for the period prior to the exchange transaction (January 1, 1997 to March 31, 1997) and subsequent to the exchange transaction (April 1, 1997 to December 31, 1997). To properly compare the operating results for the year ended December 31, 1997 to the same period in the current year, the amounts for 1997 have been combined as follows:

<TABLE>
<CAPTION>

	April 1, 1997 through December 31, 1997	January 1, 1997 through March 31, 1997	For the Year Ended December 31, 1997
<S>	<C>	<C>	<C>
REVENUES:			
Rental income..	$ 24,364,000	$ 5,805,000	$ 30,169,000
Facility management fees from affiliates.................	709,000	247,000	956,000
Interest income..	424,000	29,000	453,000
	25,497,000	6,081,000	31,578,000
EXPENSES:			
Cost of operations..	9,837,000	2,493,000	12,330,000
Cost of facility management...............................	129,000	60,000	189,000
Depreciation and amortization.............................	4,375,000	820,000	5,195,000
General and administrative................................	1,248,000	213,000	1,461,000
Interest expense...	1,000	-	1,000
	15,590,000	3,586,000	19,176,000
Income before minority interest............................	9,907,000	2,495,000	12,402,000
Minority interest in income..............................	(6,753,000)	(1,813,000)	(8,566,000)
Net income...	$ 3,154,000	$ 682,000	$ 3,836,000

</TABLE>

RESULTS OF OPERATIONS: The Company's property operations account for almost all of the net operating income earned by the Company.

Rental income and NOI are summarized for the year ended December 31, 1997 by major geographic regions below:
<TABLE>
<CAPTION>

Region	Square Footage	Percent of Total	Rental Income	Percent of Total	NOI	Percent of Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Southern California.......	2,669,000	44.1%	$10,240,000	33.9%	$ 6,284,000	35.2%
Northern California.......	798,000	13.2%	3,229,000	10.7%	2,155,000	12.1%
Virginia/Maryland.........	873,000	14.4%	5,122,000	17.0%	3,243,000	18.2%

Texas	843,000	13.9%	6,394,000	21.2%	3,076,000	17.2%
Arizona	369,000	6.1%	2,477,000	8.2%	1,455,000	8.2%
Other	503,000	8.3%	2,707,000	9.0%	1,626,000	9.1%
Total	6,055,000	100.0%	$30,169,000	100.0%	$17,839,000	100.0%

</TABLE>

SUPPLEMENTAL PROPERTY DATA AND TRENDS: In order to evaluate how the Company's overall portfolio has performed, management analyzes the operating performance of a consistent group of 51 properties (4.2 million net rentable square feet). These 51 properties represent a mature group of properties that have been managed by the Company for at least three years and, as of March 17, 1998, were owned by the Company. The table below summarizes the historical operations of the 51 properties for years ended December 31, 1997 and 1996; however, the Company did not own all of the properties throughout the periods presented and therefore, such operations are not all reflected in the Company's historical operating results.

The following table summarizes the pre-depreciation historical operating results of these "Same Park" facilities for the years ended December 31, 1997 and 1996:

<TABLE>
<CAPTION>

	1997 (1)	1996 (1)	Change
<S>	<C>	<C>	<C>
Rental income (2)	$36,760,000	$34,891,000	5.4%
Cost of operations	14,655,000	14,381,000	1.9%
Net operating income	$22,105,000	$20,510,000	7.8%
Gross margin (3)	60.1%	58.8%	1.3%
Annualized realized rent per occupied square foot (4)	$9.24	$8.74	5.7%
Weighted average occupancy for the period	94.6%	94.9%	(0.3)%

</TABLE>

(1) Operations for the year ended December 31, 1997 represent the historical operations of the 51 properties; however, the Company did not own all of the properties throughout all periods presented and therefore such operations are not reflected in the Company's historical operating results. All such properties were owned effective March 17, 1998.

(2) Rental income does not include the effect of straight-line accounting.

(3) Gross margin is computed by dividing property net operating income by rental income.

(4) Realized rent per square foot represents the actual revenue earned per occupied square foot.

The following table summarizes the operating results displayed above by major geographic regions:

<TABLE>
<CAPTION>

	Revenues 1997	Revenues 1996	Percentage Increase	NOI 1997	NOI 1996	Percentage Increase
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Southern California	$14,362,000	$13,441,000	6.9%	$ 9,075,000	$ 8,306,000	9.3%
Northern California	5,227,000	4,911,000	6.4%	3,472,000	3,187,000	8.9%
Virginia/Maryland	4,953,000	4,808,000	3.0%	2,854,000	2,657,000	7.4%
Texas	6,394,000	6,231,000	2.6%	3,206,000	3,049,000	5.1%
Arizona	2,477,000	2,232,000	11.0%	1,488,000	1,295,000	14.9%
Other	3,347,000	3,268,000	2.4%	2,010,000	2,016,000	(0.3)%
Total	$36,760,000	$34,891,000	5.4%	$22,105,000	$20,510,000	7.8%

</TABLE>

The increases noted above reflect the performance of the Company's existing markets. All major markets reflected increases in rental rates without corresponding increases in expenses.

FACILITY MANAGEMENT OPERATIONS: The Company's facility management accounts for a small portion of the Company's net operating income during 1997 and the majority of its income during 1996. During the year ended December 31, 1997, $767,000 in net operating income was recognized from facility management operations compared to $1,619,000 for the same period in 1996. Facility management fees have decreased due to the Company's acquisition of properties previously managed.

INTEREST INCOME: Interest income reflects earnings on cash balances. Interest income was $453,000 for the year ended December 31, 1997 compared to $43,000 for the same period in 1996. The increase is attributable to increased average cash balances primarily due to the Company's increased cash flow. Average cash balances for the year ended December 31, 1997 were approximately $9 million, compared to $1 million for the same period in 1996.

COST OF OPERATIONS: Cost of operations for the year ended December 31, 1997 was $12,330,000 compared to none in the same period in 1996. The increase is due to the acquisition of real estate facilities in 1997. The Company did not own real estate facilities prior to 1997 and served as a manager of commercial properties owned by PSI and its related entities. Cost of operations consists primarily of property taxes ($2,653,000), property maintenance ($1,882,000), utilities ($2,156,000) and direct payroll ($2,648,000) for the year ended December 31, 1997.

DEPRECIATION AND AMORTIZATION EXPENSE: Depreciation and amortization expense for the year ended December 31, 1997 was $5,195,000 compared to none for the same period in 1996. The increase is due to the acquisition of real estate facilities in 1997.

GENERAL AND ADMINISTRATIVE EXPENSE: General and administrative expense was $1,461,000 for the year ended December 31, 1997 compared to $1,143,000 for the same period in 1996. The increase is due to the increased size and acquisition activities of the Company. Included in general and administrative costs are acquisition costs and abandoned transaction costs. Acquisition expenses for 1997 were $177,000 and none in 1996. Abandoned transaction costs for 1997 were $5,000 and none in 1996.

MINORITY INTEREST IN INCOME: Minority interest in income reflects the income allocable to equity interests in the Operating Partnership that are not owned by the Company. Minority interest in income for the year ended December 31, 1997 was $8,566,000 compared to none for the same period in 1996. The increase in minority interest in income is due to the issuance of Operating Partnership units, primarily in connection with the acquisition of real estate facilities on January 2, 1997 and April 1, 1997.

LIQUIDITY AND CAPITAL RESOURCES
- ------------------------------

Net cash provided by operating activities for the year ended December 31, 1998 and 1997 was $60,228,000 and $19,437,000, respectively. Management believes that its internally generated net cash provided by operating activities will continue to be sufficient to enable it to meet its operating expenses, capital improvements, debt service requirements and maintain the current level of distributions to shareholders.

The following table summarizes the Company's ability to make capital improvements to maintain its facilities through the use of cash provided by operating activities. The remaining cash flow is available to the Company to pay distributions to shareholders and acquire property interests.

<TABLE>
<CAPTION>

	1998	1997
<S>	<C>	<C>
Net income	$29,400,000	$ 3,836,000
Depreciation and amortization	18,908,000	5,195,000
Change in working capital	712,000	1,840,000
Minority interest in income	11,208,000	8,566,000
Net cash provided by operating activities	60,228,000	19,437,000
Maintenance capital expenditures	(3,376,000)	(1,442,000)
Tenant improvements	(5,258,000)	(1,415,000)
Capitalized lease commissions	(1,979,000)	(359,000)
Funds available for distribution to shareholders, minority interests, acquisitions and other corporate purposes	49,615,000	16,221,000
Cash distributions to shareholders and minority interests	(29,904,000)	(6,992,000)
Excess funds available for acquisitions and other corporate purposes	$19,711,000	$ 9,229,000

</TABLE>

The Company's capital structure is characterized by a low level of leverage. As of December 31, 1998, the Company had seven fixed rate mortgage notes payable totaling $38,041,000 and $12,500,000 drawn on its line of credit which represented 7% of its total capitalization (based on book value, including minority interests and debt). The weighted average interest rate for the mortgages is 7.82%. The line of credit currently bears interest at LIBOR plus

0.80% (5.93% at December 31, 1998).

On August 6, 1998, The Company entered into an unsecured line of credit (the "Credit Agreement") with Wells Fargo Bank. The Credit Agreement has a borrowing limit of $100 million and an expiration date of August 5, 2000. The expiration date may be extended by one year on each anniversary of the Credit Agreement. Interest on outstanding borrowings is payable monthly. At the option of the Company, the rate of interest charged is equal to (i) the prime rate or (ii) a rate ranging from the London Interbank Offered Rate ("LIBOR") plus 0.55% to LIBOR plus 0.95% depending on the Company's credit ratings and interest coverage ratios, as defined (currently LIBOR plus 0.80%). In addition, the Company is required to pay a commitment fee of 0.25% (per annum).

The Company expects to fund its growth strategies with cash on hand, internally generated retained cash flows and temporary borrowings from its line of credit. The Company intends to repay amounts borrowed under the credit facility from undistributed cash flow or, as market conditions permit and as determined to be advantageous, from the public or private placement of preferred and common stock or formation of joint ventures. The Company targets a leverage ratio of 40% and a FFO to fixed charges ratio of 3.0 to 1.0. As of December 31, 1998 and for the year then ended, the leverage ratio was 7% and the FFO to fixed charges coverage ratio was 22.74 to 1.0.

In January 1998, the Company entered into an agreement with institutional investors whereby the Company agreed to issue 6,774,072 shares of its common stock for cash ($155 million) in separate tranches. The first tranche, representing 2,185,187 share or $50 million, was issued in January 1998. The Company incurred $2.4 million in costs associated with the issuance. The remainder of the common shares (4,588,885) was issued on May 6, 1998 and the net proceeds ($105 million) were used to repay short-term borrowings.

In May 1998, the Company completed two common stock offerings, raising net proceeds totaling $118.9 million. In the first offering, the Company sold 4,000,000 shares of common stock to an underwriter, resulting in approximately $95.2 million of net proceeds. These shares were resold to various institutional investors. A portion of the proceeds was used to retire debt incurred as a result of a $190 million property portfolio acquisition. In the second common stock offering, the Company sold 1,025,800 common shares to an underwriter, resulting in net proceeds of $23.7 million. These proceeds were used for subsequent acquisitions.

FUNDS FROM OPERATIONS: Funds from operations ("FFO") is defined as net income, computed in accordance with generally accepted accounting principles ("GAAP"), before depreciation, amortization, minority interest in income,

straight line rent adjustments and extraordinary or non-recurring items. FFO is presented because the Company considers FFO to be a useful measure of the operating performance of a REIT which, together with net income and cash flows provides investors with a basis to evaluate the operating and cash flow performances of a REIT. FFO does not represent net income or cash flows from operations as defined by GAAP. FFO does not take into consideration scheduled principal payments on debt and capital improvements. Accordingly, FFO is not necessarily a substitute for cash flow or net income as a measure of liquidity or operating performance or ability to make acquisitions and capital improvements or ability to pay distributions or debt principal payments. Also, FFO as computed and disclosed by the Company may not be comparable to FFO computed and disclosed by other REITs.

Funds from operations for the Company is computed as follows:

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Net income	$29,400,000	$ 3,836,000
Depreciation and amortization	18,908,000	5,195,000
Minority interest in income	11,208,000	8,566,000
Effects of straight line rents	(2,086,000)	-
Subtotal	57,430,000	17,597,000
FFO allocated to minority interests	(15,852,000)	(12,153,000)
Funds from operations allocated to shareholders	$41,578,000	$ 5,444,000

</TABLE>

CAPITAL EXPENDITURES: During 1998, the Company incurred $10.6 million in maintenance capital expenditures, tenant improvements and capitalized leasing commissions. In addition, the Company made $0.5 million of renovation expenditures. On a recurring annual basis, the Company expects $0.90 to $1.20 per square foot in recurring capital expenditures in 1999 ($10 - $13 million based on current square footage). In addition, the Company expects to make $3 million in expenditures to continue renovation on two properties in Texas.

DISTRIBUTIONS: The Company has elected and intends to qualify as a REIT for federal income tax purposes. As a REIT, the company must meet, among other tests, sources of income, share ownership and certain asset tests. In addition, the Company is not taxed on that portion of its taxable income that is distributed to its shareholders provided that at least 95% of its taxable income is so distributed to its shareholders prior to filing of its tax return.

On February 3, 1999, the Company declared a regular dividend of $0.25 per share payable on March 31, 1999 to shareholders of record on March 15, 1999. The Board of Directors has established a distribution policy to maximize the retention of operating cash flow and only distribute the minimum amount required for the Company to maintain its tax status as a REIT.

IMPACT OF YEAR 2000
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The Company utilizes PSI's information systems in connection with a cost sharing and administrative services agreement. The Company and PSI have completed an assessment of all of its hardware and software applications including those affecting the Company to identify susceptibility to what is commonly referred to as the "Y2K Issue" whereby certain computer programs have been using two digits rather than four to define the applicable year. Certain computer programs or hardware with the Y2K Issue have date-sensitive applications or embedded chips that may recognize a date using "00" as the year 1900 rather than the year 2000, resulting in miscalculations or system failure causing disruptions to operations.

The Company in conjunction with PSI has an implementation in process for critical applications, including its general ledger and related systems, that are believed to have Y2K issues. PSI and the Company expect the implementation to be complete by June 1999. Contingency plans have been developed for use in case the implementations are not completed on a timely basis. The Company presently believes that the impact of the Y2K Issue on its system can be mitigated. However, if the plan for ensuring Y2K compliance and the related contingency plans were to fail, be insufficient, or not be implemented on a timely basis, operations of the Company could be materially impacted.

Certain of the Company's other non-computer related systems that may be impacted by the Y2K Issue, such as security systems, are currently being evaluated, and the Company expects the evaluation to be complete by June 1999. The Company expects the implementation of any required solutions to be complete in advance of December 31, 1999. The Company has not fully evaluated the impact of lack of Y2K compliance on these systems, but has no reason to believe that lack of compliance would materially impact its operations.

The Company exchanges electronic data with certain outside vendors in the banking and payroll processing areas. The Company has been advised by these vendors that their systems are or will be Y2K compliant and has requested a Y2K compliance certification from these entities. The Company is not aware of any other vendors, suppliers, or other external agents with a Y2K Issue that would materially impact the Company's results of operations, liquidity, or capital resources. However, the Company has no means of ensuring that external agents will be Y2K compliant, and there can be no assurance that the Company has identified all such external agents. The inability of external agents to complete their Year 2000 compliance process in a timely fashion could materially impact the Company. The effect of non-compliance by external agents is not determinable.

The total cost of PSI's Y2K compliance activities (which primarily consists of the costs of implementing new systems) will be allocated to all entities that use the PSI computer systems. The amount to be allocated to the Company is estimated at approximately $250,000.

The costs of the projects and the date on which PSI and the Company believe that it will be Y2K compliant are based upon management's best estimates, and were derived utilizing numerous assumptions of future events. There can be no assurance that these estimates will be achieved, and actual results could differ materially from those anticipated. There can be no assurance that PSI and the Company have identified all potential Y2K Issues either within the Company or at external agents. In addition, the impact of the Y2K issue on governmental entities and utility providers and the resultant impact on the Company, as well as disruptions in the general economy, may be material but cannot be reasonably determined or quantified.

RISK FACTORS
- ------------

The Company's business is subject to a number of risks and uncertainties. Our business operating results and financial condition could be adversely affected by any one of the following risks or any of the risks described under the caption "Risk Factors" in our Registration Statement on Form S-3 (file no.

333-50463) which risks are attached hereto as Exhibit 99.1 and incorporated herein by reference.

OUR BUSINESS COULD BE SUBJECT TO ENVIRONMENTAL LIABILITIES

Federal, state and local environmental laws impose liability on an owner or operator of real estate interests for the costs of cleaning up past or present releases of hazardous or toxic substances on or from a property for damages resulting from these releases. Some of these laws impose liability without regard to whether the owner knew of, or was responsible for, the presence of hazardous or toxic wastes at or from a property. Some of these laws also impose liability on an owner or operator of real estate interests for air and water pollution and the improper handling and disposal of hazardous or toxic wastes. This liability may exceed the value of the property. The presence of hazardous or toxic wastes, or the failure to properly remedy any resulting contamination, may make it more difficult for the owner or operator to sell, lease or operate its property or to borrow money using its property as collateral. There can be no assurance that any future environmental laws that may be enacted will not impose material liabilities on us.

We acquired a property in Beaverton, Oregon known as Creekside Corporate Park in May of 1998. A property owned by Mattel Corporation adjacent to Creekside Corporate Park is currently the subject of an environmental remedial investigation that is being conducted by the current and past owners of the property, pursuant as part of a consent order issued by the Oregon Department of Environmental Quality ("ODEQ"). We are not a party to the consent order. As part of the consent order, the ODEQ ordered the property owners to sample soil and groundwater on our property to determine the nature and extent of contamination resulting from past industrial operations at the Mattel property. We executed access agreements with the current and former property owners to allow access to

our property to conduct the required sampling and testing. The sampling and testing is ongoing, and preliminary results from one area indicate that the contamination from the Mattel property may have migrated onto a portion of the Creekside Corporate Park that we own.

There is no evidence that any past or current use of the Creekside Corporate Park property contributed in any way to the contamination that is the subject of the ODEQ's investigation. Nevertheless, upon completion of the remedial study it is likely that removal or remedial measures will be required to address any contamination detected during the remedial study, including any contamination on or under the Creekside Corporate Park property. Because of the preliminary nature of the investigation, we cannot predict the outcome of the investigation, nor can we estimate the costs of any remediation or removal activities that may be required.

We believe that we bear no responsibility or liability for the contamination, but there can be no assurance that we will not be held liable for costs and expenses incurred with respect to this matter. If we are ultimately deemed responsible for any costs or expenses relating to this matter, however, we believe that we have a claim against the party from which we purchased Creekside Corporate Park for any liabilities that we may incur as a result of this contamination.

We have conducted preliminary environmental assessments of most of our properties (and we intend to conduct preliminary environmental assessments in connection with future property acquisitions) to evaluate the environmental condition of our properties and the potential environmental liabilities associated with our properties. Our assessments generally consist of an investigation of environmental conditions at the property (not including soil or groundwater sampling or analysis), as well as a review of available information regarding the site and publicly available data regarding conditions at other sites in the vicinity.

When preliminary environmental assessments have revealed any potential environmental liability, we have obtained an indemnification from entities which we deem to be creditworthy (including Public Storage Inc.) or established escrows with funds that would otherwise be payable to sellers of property to remedy the environmental matter. Nevertheless, the preliminary environmental assessments may not reveal all environmental liabilities and there may be material environmental liabilities of which we are unaware. The current environmental condition of our properties may be affected by tenants, by the condition of land or operations in the vicinity of the properties (such as the presence of underground storage tanks) or by third parties unrelated to us.

YEAR 2000 PROBLEMS COULD HAVE AN ADVERSE EFFECT ON OUR BUSINESS

We use Public Storage's information systems in connection with a cost sharing and administrative services agreement. Both PS Business Parks, Inc. and Public Storage have completed an assessment of all of their hardware and software applications including those affecting us to identify susceptibility to what is commonly referred to as the "Y2K Issue" whereby certain computer programs have been written using two digits rather than four to define the applicable year. Certain computer programs or hardware with the Y2K Issue have date-sensitive applications or embedded chips that may recognize a date using "00" as the year 1900 rather than the year 2000, resulting in miscalculations or system failure causing disruption to operations.

PS Business Parks in conjunction with Public Storage have an implementation in process for critical applications, including its general ledger and related systems, that are believed to have Y2K issues. PS Business Parks and Public Storage expect the implementation to be complete by June 1999. Contingency plans have been developed for use in case the implementations are not completed on a timely basis. We presently believe that the impact of the Y2K Issue on our systems can be mitigated. However, if the plan for ensuring Year 2000 compliance and the related contingency plans were to fail, be insufficient, or not be implemented on a timely basis, our operations could be materially impacted.

Certain of our other non-computed related systems that may be impacted by the Y2K Issue, such as security systems, are currently being evaluated, and we expect an evaluation to be completed by June 1999. We expect the implementation of any required solutions to be completed in advance of December 31, 1999. We have not fully evaluated the impact of lack of Year 2000 compliance on these systems, but have no reason to believe that lack of compliance would materially impact our operations.

We exchange electronic data with certain outside vendors in the banking and payroll processing areas. We have been advised by these vendors that their systems are or will be Year 2000 compliant and have requested a Year 2000 compliance certification from these entities. We are not aware of any other vendors, suppliers, or other external agents with a Y2K Issue that would materially impact our results of operations, liquidity, or capital resources. However, we have no means of ensuring that external agents will be Year 2000 compliant, and there can be no assurance that we have identified all such external agents. The inability of external agents to complete their Year 2000 compliance process in a timely fashion could materially impact our business, financial condition and results of operations. The effect of non-compliance by external agents is not determinable.

The total cost of Public Storage's Year 2000 compliance activities (which primarily consists of the costs of new systems) will be allocated to all entities that use Public Storage's computer systems. The amount to be allocated to us is estimated at approximately $250,000.

The costs of the projects and the date on which PS Business Parks and Public Storage believe that it will be Year 2000 compliant are based upon management's best estimates, and were derived utilizing numerous assumptions of future events. There can be no assurance that these estimates will be achieved, and actual results could differ materially from those anticipated. There can be no assurance that PS Business Parks and Public Storage have identified all potential Y2K Issues either within PS Business Parks or at external agents. In addition, the impact of the Y2K Issue on governmental entities and utility providers and the resultant impact on PS Business Parks, as well as disruptions in the general economy, may be material but cannot be reasonably determined or quantified.

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 either of common or preferred stock. At December 31, 1998, the Company's debt as a percentage of shareholders' equity (based on book values) was 10.3%.

The Company's market risk sensitive instruments include mortgage notes payable which totaled $50,541,000 at December 31, 1998 (including $12,500,000 of borrowings on the Company's revolving line of credit which were subsequently repaid). Substantially all of the Company's mortgage notes payable bear interest at fixed rates. See Note 7 of the Notes to Consolidated Financial Statements for terms, valuations and approximate principal maturities of the mortgage notes payable as of December 31, 1998. Based on borrowing rates currently available to the Company, the carrying amount of debt approximates fair value.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements of the Company (AOPP for periods prior to March 17, 1998) at December 31, 1998 and December 31, 1997 and for the year ended December 31, 1998, the period from April 1, 1997 through December 31, 1997, the period from January 1, 1997 through March 31, 1997 and the year ended December 31, 1996 and the report of Ernst & Young LLP, Independent Auditors, thereon and the related financial statement schedule, are included elsewhere herein. Reference is made to the Index of Financial Statements and Schedule in Item 14.

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

Not Applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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 1999 (the "Proxy Statement") under the caption "Proposal No. 1-Election of Directors." Information required by this item with respect to executive officers is provided in Item 4A of this report. See "Executive Officers."

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is hereby incorporated by reference to the material appearing in the Proxy Statement under the captions "Compensation" and "Compensation Committee Interlocks and Insider Participation."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is hereby incorporated by reference to the material appearing in the Proxy Statement under the captions "Proposal No. 1-Election of Directors-Security Ownership of Certain Beneficial Owners" and "-Security Ownership of Management."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is hereby incorporated by reference to the material appearing in the Proxy Statement under the caption "Compensation Committee Interlocks and Insider Participation-Certain Relationships and Related Transactions."

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULE AND REPORTS ON FORM 8-K

a. 1. Financial Statements

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

2. Financial Statements Schedule

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

3. Exhibits

See Index to Exhibits contained herein.

b. Reports on Form 8-K

The Company filed a Current Report on Form 8-K dated September 30, 1998 (filed October 13, 1998), as amended by Form 8-K/A dated September 30, 1998 (filed November 13, 1998) pursuant to Item 5, which filed Combined Statements of Revenues and Certain Expenses for the Northpointe D and G Properties for the six months ended June 30, 1998 and for the year ended December 31, 1997, Statements of Revenues and Certain Expenses for the Gunston Property for the six months ended June 30, 1998 and for the year ended December 31, 1997, and Statements of Revenues and Certain Operating Expenses for the Spectrum 95 Property for the six month ended June 30, 1998 and for the year ended December 31, 1997.

The Company filed a Current Report on Form 8-K dated December 31, 1998 (filed January 13, 1999), as amended by Form 8-K/A dated December 31, 1998 (filed February 17, 1999) pursuant to Item 5, which filed Combined Statements of Revenues and Certain Expenses for Hill Properties for the nine months ended September 30, 1998 and for the year ended December 31, 1997 and Statements of Revenues and Certain Operating Expenses for the Las

Plumas Property for the nine months ended September 30, 1998 and for the year ended December 31, 1997.

c. Exhibits

See Index to Exhibits contained herein.

d. Financial Statement Schedules

Not applicable.

PS BUSINESS PARKS, INC.
EXHIBIT INDEX
(Item 14(c))

2.1 Amended and Restated Agreement and Plan of Reorganization among Registrant, American Office Park Properties, Inc. ("AOPP") and Public Storage, Inc. ("PSI") dated as of December 17, 1997. Filed with Registrant's Registration Statement No. 333-45405 and incorporated herein by reference.

3.1 Restated Articles of Incorporation. Filed with Registrant's Current Report on Form 8-K dated March 17, 1998 and incorporated herein by reference.

3.2 Restated Bylaws. Filed with Registrant's Current Report on Form 8-K dated March 17, 1998 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 PSI's Annual Report on Form 10-K for the year ended December 31, 1994 and incorporated herein by reference.

*10.2 Registrant's 1997 Stock Option and Incentive Plan. Filed with Registrant's Registration Statement No. 333-48313 and incorporated herein by reference.

10.3 Agreement of Limited Partnership of PS Business Parks, L.P. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998 and incorporated herein by reference.

10.4 Merger and Contribution Agreement dated as of December 23, 1997 among Acquiport Two Corporation, Acquiport Three Corporation, New York State Common Retirement Fund, American Office Park Properties, L.P., AOPP and AOPP Acquisition Corp. Three. Filed with Registrant's Registration Statement No. 333-45405 and incorporated herein by reference.

10.5 Agreement Among Shareholders and Company dated as of December 23, 1997 among Acquiport Two Corporation, AOPP, American Office Park Properties, L.P. and PSI. Filed with Registrant's Registration Statement No. 333-45405 and incorporated herein by reference.

10.6 Amendment to Agreement Among Shareholders and Company dated as of January 21, 1998 among Acquiport Two Corporation, AOPP, American Office Park Properties, L.P. and PSI. Filed with Registrant's Registration Statement No. 333-45405 and incorporated herein by reference.

10.7 Non-Competition Agreement dated as of December 23, 1997 among PSI, AOPP, American Office Park Properties, L.P. and Acquiport Two Corporation. Filed with Registrant's Registration Statement No. 333-45405 and incorporated herein by reference.

**10.8 Employment Agreement between AOPP and Ronald L. Havner, Jr. dated as of December 23, 1997. Filed with Registrant's Registration Statement No. 333-45405 and incorporated herein by reference.

**10.9 Employment Agreement between AOPP and Mary Jayne Howard dated as of December 23, 1997. Filed with Registrant's Registration Statement No. 333-45405 and incorporated herein by reference.

**10.10 Employment Agreement between Registrant and J. Michael Lynch dated as of May 20, 1998. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998 and incorporated herein by reference.

10.11 Common Stock Purchase Agreement dated as of January 23, 1998 among AOPP and the Investors signatory thereto. Filed with Registrant's Registration Statement No. 333-45405 and incorporated herein by reference.

10.12 Registration Rights Agreement dated as of January 30, 1998 among AOPP and the Investors signatory thereto. Filed with Registrant's Registration Statement No. 333-45405 and incorporated herein by reference.

10.13 Registration Rights Agreement dated as of March 17, 1998 between Registrant and Acquiport Two Corporation ("Acquiport Registration Rights Agreement"). Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998 and incorporated herein by reference.

10.14 Letter dated May 20, 1998 relating to Acquiport Registration Rights Agreement. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998 and incorporated herein by reference.

10.15 Revolving Credit Agreement dated August 6, 1998 among PS Business Parks, L.P., Wells Fargo Bank, National Association, as Agent, and the Lenders named therein. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998 and incorporated herein by reference.

10.16 Form of Indemnity Agreement. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1998 and incorporated herein by reference.

10.17 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 quarterly period ended March 31, 1998 and incorporated herein by reference.

10.18 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 quarterly period ended March 31, 1998 and incorporated herein by reference.

10.19 Accounts Payable and Payroll Disbursement Services Agreement dated as of January 2, 1997 by and between PSCC, Inc. and American Office Park Properties, L.P. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1998 and incorporated herein by reference.

11 Statement re: Computation of Earnings per Share. Filed herewith.

12 Statement re: Computation of Ratio of Earnings to Fixed Charges. Filed herewith.

23 Consent of Independent Auditors. Filed herewith.

27 Financial Data Schedule. Filed herewith.

99.1 Risk factors included under the section entitled "Risk Factors" on pages 4 through 9 of the Registrant's prospectus dated May 15, 1998. Filed herewith.

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* Compensatory benefit plan.

** Management contract.

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: March 10, 1999

PS BUSINESS PARKS, INC.

BY: /s/ Ronald L. Havner, Jr.

Ronald L. Havner, Jr.
President, Chairman of the Board
and 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.

<TABLE>

<CAPTION>

Signature	Title	Date
/s/ Ronald L. Havner, Jr. Ronald L. Havner, Jr.	President, Chairman of the Board and Chief Executive Officer (principal executive officer)	March 10, 1999
/s/ Jack E. Corrigan Jack E. Corrigan	Vice President and Chief Financial Officer (principal financial officer and principal accounting officer)	March 10, 1999
/s/ Harvey Lenkin Harvey Lenkin	Director	March 10, 1999
/s/ Vern O. Curtis Vern O. Curtis	Director	March 10, 1999
/s/ James H. Kropp James H. Kropp	Director	March 10, 1999
/s/ Jack D. Steele Jack D. Steele	Director	March 10, 1999
/s/ Alan K. Pribble Alan K. Pribble	Director	March 10, 1999
/s/ Arthur M. Friedman Arthur M. Friedman	Director	March 10, 1999

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PS BUSINESS PARKS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

(Item 14(a)(3) and Item 14(c))

</TABLE>

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 AUDITORS

To the Board of Directors and Shareholders

PS Business Parks, Inc.

We have audited the accompanying consolidated balance sheets of PS Business Parks, Inc. as of December 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity and cash flows for the year ended December 31, 1998, the period from April 1, 1997 through December 31, 1997, the period from January 1, 1997 through March 31, 1997 and the year ended December 31, 1996. Our audits also included the financial statement schedule listed in the Index at Item 14(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 generally accepted auditing standards. 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, 1998 and 1997, and the consolidated results of its operations and its cash flows for the year ended December 31, 1998, the period from April 1, 1997 through December 31, 1997, the period from January 1, 1997 through March 31, 1997 and the year ended December 31, 1996 in conformity with 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.

/s/ ERNST & YOUNG LLP

Los Angeles, California
February 2, 1999

<TABLE>
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PS BUSINESS PARKS, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 1998	December 31, 1997
ASSETS		
<S>	<C>	<C>
Cash and cash equivalents	$ 6,068,000	$ 3,884,000
Real estate facilities, at cost:		
Land	176,241,000	91,754,000
Buildings and equipment	536,697,000	226,466,000
	712,938,000	318,220,000
Accumulated depreciation	(22,517,000)	(3,982,000)
	690,421,000	314,238,000
Construction in progress	7,716,000	-
	698,137,000	314,238,000
Intangible assets, net	1,583,000	3,272,000
Other assets	3,626,000	2,060,000
Total assets	$709,414,000	$323,454,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accrued and other liabilities	$ 15,953,000	$ 8,331,000
Line of credit	12,500,000	-

Mortgage notes payable...	38,041,000	-
Note payable to affiliate...	-	3,500,000
Total liabilities..	66,494,000	11,831,000
Minority interest..	153,015,000	168,665,000
Shareholders' equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, none outstanding at December 31, 1998 and December 31, 1997....................................	-	-
Common stock, $0.01 par value, 100,000,000 shares authorized, 23,635,650 shares issued and outstanding at December 31, 1998 (7,728,309 shares issued and outstanding at December 31, 1997)......................	236,000	77,000
Paid-in capital..	482,471,000	143,277,000
Cumulative net income....................................	32,554,000	3,154,000
Cumulative distributions.................................	(25,356,000)	(3,550,000)
Total shareholders' equity............................	489,905,000	142,958,000
Total liabilities and shareholders' equity.........	$709,414,000	$323,454,000

</TABLE>

See accompanying notes.

<TABLE>
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PS BUSINESS PARKS, INC.
CONSOLIDATED STATEMENTS OF INCOME

	For the Year Ended December 31, 1998	For the Periods (Note 2) April 1, 1997 through December 31, 1997	January 1, 1997 through March 31, 1997	For the Year Ended December 31, 1996
<S>	<C>	<C>	<C>	<C>
Revenues:				
Rental income..........................	$ 88,320,000	$ 24,364,000	$ 5,805,000	$ -
Facility management fees from affiliates	529,000	709,000	247,000	2,133,000
Interest income........................	1,411,000	424,000	29,000	43,000
	90,260,000	25,497,000	6,081,000	2,176,000
Expenses:				
Cost of operations......................	26,073,000	9,837,000	2,493,000	-
Cost of facility management.............	77,000	129,000	60,000	514,000
Depreciation and amortization...........	18,908,000	4,375,000	820,000	-
General and administrative..............	2,233,000	1,248,000	213,000	1,143,000
Interest expense........................	2,361,000	1,000	-	-
	49,652,000	15,590,000	3,586,000	1,657,000
Income before minority interest...........	40,608,000	9,907,000	2,495,000	519,000
Minority interest in income.............	(11,208,000)	(6,753,000)	(1,813,000)	-

Income before income taxes................	29,400,000	3,154,000	682,000	519,000
Income tax expense......................	-	-	-	(216,000)
Net income................................	$ 29,400,000	$ 3,154,000	$ 682,000	$ 303,000
Net income per share:				
Basic..................................	$ 1.52	$ 0.92	$ 0.31	$ 0.32
Diluted................................	$ 1.51	$ 0.92	$ 0.31	$ 0.32
Weighted average shares outstanding:				
Basic..................................	19,361,000	3,414,000	2,193,000	947,000
Diluted................................	19,429,000	3,426,000	2,193,000	947,000

</TABLE>

See accompanying notes.

<TABLE>
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PS BUSINESS PARKS, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Preferred Stock		Common Stock	
	Shares	Amount	Shares	Amount
<S>	<C>	<C>	<C>	<C>
BALANCES AT DECEMBER 31, 1995.................	899,608	$ 9,000	47,348	$ 1,000
Issuance of common stock for cash..........	-	-	47,349	-
Net income................................	-	-	-	-
Distributions paid.........................	-	-	-	-
BALANCES AT DECEMBER 31, 1996.................	899,608	9,000	94,697	1,000
Issuance of preferred stock in exchange for real estate facilities..................	1,198,680	12,000	-	-
Net income................................	-	-	-	-
Issuance of common stock for cash..........	-	-	4,797	-
Adjustment to reflect cost of PSI's investment in PSB	-	-	-	-
Exchange of preferred stock for common stock	(2,098,288)	(21,000)	2,098,288	21,000
Adjustment to reflect minority interest to underlying ownership interest	-	-	-	-
BALANCES AT MARCH 31, 1997....................	-	-	2,197,782	22,000
Issuance of common stock for cash..........	-	-	2,025,769	20,000
Issuance of common stock in exchange for real estate facilities..................	-	-	3,504,758	35,000
Net income................................	-	-	-	-
Distributions paid.........................	-	-	-	-
Adjustment to reflect minority interest to underlying ownership interest...........	-	-	-	-
BALANCES AT DECEMBER 31, 1997.................	-	-	7,728,309	77,000
Issuance of common stock:				
Conversion of OP units................	-	-	1,785,007	18,000
Private offerings, net of costs........	-	-	6,774,072	68,000
Exercise of stock options.............	-	-	39,024	-
In connection with a business combination	-	-	2,283,438	23,000
Public offerings, net of costs.........	-	-	5,025,800	50,000
Net income................................	-	-	-	-
Distributions paid.........................	-	-	-	-
Adjustment to reflect minority interest to				

underlying ownership interest...........	-	-	-	-
BALANCES AT DECEMBER 31, 1998................	-	$ -	23,635,650	$ 236,000

</TABLE>
<TABLE>
<CAPTION>

PS BUSINESS PARKS, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

<S>	Paid-in Capital <C>	Cumulative Net Income <C>	Cumulative Distributions <C>	Shareholders' Equity <C>
BALANCES AT DECEMBER 31, 1995................	$ 783,000	$ 248,000	$ -	$ 1,041,000
Issuance of common stock for cash..........	790,000	-	-	790,000
Net income................................	-	303,000	-	303,000
Distributions paid.........................	-	(400,000)	-	(400,000)
BALANCES AT DECEMBER 31, 1996................	1,573,000	151,000	-	1,734,000
Issuance of preferred stock in exchange for real estate facilities..................	19,988,000	-	-	20,000,000
Net income................................	-	682,000	-	682,000
Issuance of common stock for cash..........	80,000	-	-	80,000
Adjustment to reflect cost of PSI's investment in PSB	13,194,000	(833,000)	-	12,361,000
Exchange of preferred stock for common stock	-	-	-	-
Adjustment to reflect minority interest to underlying ownership interest	1,813,000	-	-	1,813,000
BALANCES AT MARCH 31, 1997....................	36,648,000	-	-	36,670,000
Issuance of common stock for cash..........	33,780,000	-	-	33,800,000
Issuance of common stock in exchange for real estate facilities..................	75,939,000	-	-	75,974,000
Net income................................	-	3,154,000	-	3,154,000
Distributions paid.........................	-	-	(3,550,000)	(3,550,000)
Adjustment to reflect minority interest to underlying ownership interest...........	(3,090,000)	-	-	(3,090,000)
BALANCES AT DECEMBER 31, 1997................	143,277,000	3,154,000	(3,550,000)	142,958,000
Issuance of common stock:				
Conversion of OP units................	33,005,000	-	-	33,023,000
Private offerings, net of costs........	152,533,000	-	-	152,601,000
Exercise of stock options.............	651,000	-	-	651,000
In connection with a business combination	46,787,000	-	-	46,810,000
Public offerings, net of costs.........	118,810,000	-	-	118,860,000
Net income................................	-	29,400,000	-	29,400,000
Distributions paid.........................	-	-	(21,806,000)	(21,806,000)
Adjustment to reflect minority interest to underlying ownership interest...........	(12,592,000)	-	-	(12,592,000)
BALANCES AT DECEMBER 31, 1998................	$482,471,000	$ 32,554,000	$ (25,356,000)	$489,905,000

</TABLE>

See accompanying notes.

<TABLE>
<CAPTION>

PS BUSINESS PARKS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

<S>	For the Year Ended December 31, 1998 <C>	For the Periods (Note 2) April 1, 1997 through December 31, 1997 <C>	For the Periods (Note 2) January 1, 1997 through March 31, 1997 <C>	For the Year Ended December 31, 1996 <C>
Cash flows from operating activities:				
Net income..	$ 29,400,000	$ 3,154,000	$ 682,000	

				$ 303,000
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization expense	18,908,000	4,375,000	820,000	-
Minority interest in income	11,208,000	6,753,000	1,813,000	-
Increase in other assets	(1,913,000)	(1,465,000)	(400,000)	(28,000)
Increase in accrued and other liabilities	2,625,000	780,000	2,925,000	138,000
Total adjustments	30,828,000	10,443,000	5,158,000	110,000
Net cash provided by operating activities	60,228,000	13,597,000	5,840,000	413,000
Cash flows from investing activities:				
Acquisition of real estate facilities	(289,415,000)	(44,122,000)	-	-
Acquisition cost of business combination	(424,000)	-	-	-
Construction in progress	(7,716,000)	-	-	-
Capital improvements to real estate facilities	(11,091,000)	(2,983,000)	(582,000)	-
Net cash used in investing activities	(308,646,000)	(47,105,000)	(582,000)	-
Cash flows from financing activities:				
Borrowings from an affiliate	179,000,000	3,500,000	-	-
Borrowings from line of credit	12,500,000	-	-	-
Repayment of borrowings from an affiliate	(182,500,000)	-	-	-
Principal payments on mortgage notes payable	(606,000)	-	-	-
Decrease (increase) in receivable from affiliate	-	1,135,000	(308,000)	(768,000)
Net proceeds from the issuance of common stock	272,112,000	33,800,000	80,000	790,000
Distributions paid to shareholders	(21,806,000)	(3,550,000)	-	(400,000)
Distributions paid to minority interests	(8,098,000)	(3,442,000)	-	-
Net cash provided by (used in) financing activities	250,602,000	31,443,000	(228,000)	(378,000)
Net increase (decrease) in cash and cash equivalents	2,184,000	(2,065,000)	5,030,000	35,000
Cash and cash equivalents at the beginning of the period	3,884,000	5,949,000	919,000	884,000
Cash and cash equivalents at the end of the period	$ 6,068,000	$ 3,884,000	$ 5,949,000	$ 919,000
Supplemental disclosures:				
Interest paid	$ 2,629,000	$ 1,000	$ -	$ -

</TABLE>

See accompanying notes.

<TABLE>
<CAPTION>

PS BUSINESS PARKS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended December 31, 1998	For the Periods (Note 2) April 1, 1997 through December 31, 1997	For the Periods (Note 2) January 1, 1997 through March 31, 1997	For the Year Ended December 31, 1996
<S>	<C>	<C>	<C>	<C>
SUPPLEMENTAL SCHEDULE OF NON CASH INVESTING AND FINANCIAL ACTIVITIES:				
Acquisitions of real estate facilities and associated assets and liabilities in exchange for preferred stock, minority interests, and mortgage notes payable:				
Real estate facilities................................	$ (44,592,000)	$(146,207,000)	$ (117,180,000)	$ -
Other assets (deposits on real estate acquisitions).....	800,000	-	-	
Accrued and other liabilities..........................	3,531,000	4,419,000	-	-
Minority interest......................................	1,614,000	65,084,000	97,180,000	-
Preferred stock..	-	-	12,000	-
Common stock...	-	35,000	-	-
Paid in capital..	-	75,939,000	19,988,000	-
Mortgage notes payable.................................	38,647,000	-	-	-
Intangible assets......................................	-	730,000	-	-
Business combination:				
Real estate facilities................................	(48,305,000)	-	-	-
Other assets...	(452,000)	-	-	-
Accrued and other liabilities..........................	1,523,000	-	-	-
Common stock...	23,000	-	-	-
Paid in capital..	46,787,000	-	-	-
Conversion of OP units into shares of common stock:				
Minority interest......................................	(33,023,000)	-	-	-
Common stock...	18,000	-	-	-
Paid in capital..	33,005,000	-	-	-
Adjustment to reflect minority interest to underlying ownership interest:				
Minority interest......................................	12,592,000	3,090,000	(1,813,000)	-
Paid in capital..	(12,592,000)	(3,090,000)	1,813,000	-
Exchange of preferred stock for common stock:				
Preferred stock..	-	-	(21,000)	-
Common stock...	-	-	21,000	-
Adjustment to acquisition cost (see Note 2):				
Real estate facilities................................	(1,315,000)	-	(7,146,000)	-
Accumulated depreciation...............................	-	-	(820,000)	-
Intangible assets......................................	1,315,000	-	(4,395,000)	-

Paid in capital.......................................	-	-	13,194,000
-			
Cumulative net income.................................	-	-	(833,000)
-			

</TABLE>

See accompanying notes.

PS BUSINESS PARKS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

ORGANIZATION

PS Business Parks, Inc. ("PSB" or the "Company"), a California corporation, is the success1r to American Office Park Properties, Inc. ("AOPP") which merged with and into Public Storage Properties XI, Inc. ("PSP 11") on March 17, 1998 (the "Merger"). The name of the Company was changed to "PS Business Parks, Inc." in connection with the Merger. See Note 3 for a description of the Merger and its terms.

Based upon the terms of the Merger, the transaction for financial reporting and accounting purposes has been accounted for as a reverse acquisition whereby AOPP is deemed to have acquired PSP11. However, PSP11 is the continuing legal entity and registrant for both Securities and Exchange filing purposes and income tax reporting purposes. All subsequent references to PSB or the Company for periods prior to March 17, 1998 shall refer to AOPP.

PSB was organized in California in 1986 as a wholly owned subsidiary of Public Storage Management, Inc. ("PSMI"), a privately owned company of B. Wayne Hughes and his family (collectively "Hughes").

On November 16, 1995, Public Storage, Inc. ("PSI") acquired PSMI in a business combination accounted for using the purchase method. In connection with the transaction, PSI exchanged its common stock for all of the non-voting participating preferred stock of PSB, representing a 95% economic interest, and Hughes purchased all the voting common stock of PSB, representing the remaining 5% economic interest. During December 1996, Ronald L. Havner, Jr. (then an executive officer of PSI) acquired all of Hughes' common stock in PSB.

On January 2, 1997, in connection with the reorganization of the commercial property operations of PSI and affiliated entities, PSB formed a partnership (the "Operating Partnership") whereby PSB became the general partner. Concurrent with the formation of the Operating Partnership, PSI and affiliated entities contributed commercial properties to the Operating Partnership in exchange for limited partnership units ("OP units"). In addition, PSI contributed commercial properties to PSB in exchange for shares of non-voting participating preferred stock, and such properties were immediately contributed by PSB along with its commercial property management operations and cash to the Operating Partnership for OP units.

Subject to certain limitations as described in Note 8, holders of OP units, other than PSB, have the right to require PSB to redeem such holders' OP units at any time or from time to time beginning on the date that is one year after the date on which such limited partner is admitted to the Operating Partnership.

DESCRIPTION OF BUSINESS

PSB is a fully integrated, self-managed real estate investment trust ("REIT") that acquires, owns, operates and develops commercial properties containing commercial and industrial rental space. From 1986 through 1996, PSB's sole business activity consisted of the management of commercial properties owned primarily by PSI and affiliated entities.

Commencing in 1997, PSB began to own and operate commercial properties for its own behalf. At December 31, 1998, PSB and the Operating Partnership collectively owned and operated 106 commercial properties (approximately 10.9 million net rentable square feet) located in 11 states. In addition, the Operating Partnership managed, on behalf of PSI and affiliated entities, 36 commercial properties (approximately 1.0 million net rentable square feet).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The financial statements for 1996 include only the accounts of PSB. The consolidated financial statements for 1998 and 1997 include the accounts of PSB and the Operating Partnership. At December 31, 1998, PSB owned approximately 73% of the OP units of the Operating Partnership. 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. Historical financial data of PSP11 have not been included in the historical financial statements of PSB.

On March 31, 1997, PSB and PSI agreed to exchange the non-voting participating preferred stock held by PSI for 2,098,288 shares of voting common stock of PSB. After the exchange, PSI owned in excess of 95% of the outstanding common voting common stock of PSB and PSB accounted for the transaction as if PSI acquired PSB in a transaction accounted for as a purchase. Accordingly, PSB reflected PSI's cost of its investment in PSB in accordance with Accounting Principles Board Opinion No. 16. As a result of PSI attaining control of PSB, the carrying value of PSB's assets and liabilities were adjusted to reflect PSI's acquisition cost of its controlling interest in PSB of approximately $35 million. As a result, the carrying value of real estate facilities was increased approximately $8.0 million, intangible assets increased approximately $4.4 million and paid in capital increased approximately $12.4 million.

Prior to March 31, 1997, control of PSB was held by entities other than PSI. As a result of PSI acquiring a majority of the voting common stock and control of PSB on March 31, 1997, the 1997 consolidated financial statements are presented separately for the period prior to March 31, 1997 (January 1, 1997 through March 31, 1997) and the period subsequent to March 31, 1997 (April 1, 1997 through December 31, 1997) when control was held by PSI.

USE OF ESTIMATES

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles 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 those estimates.

CASH AND CASH EQUIVALENTS

PSB considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents. The carrying amount of cash and cash equivalents approximates fair value.

REAL ESTATE FACILITIES

Costs related to the improvements of properties are capitalized. Expenditures for repairs and maintenance are charged to expense when incurred. Buildings and equipment are depreciated on the straight-line method over the estimated useful lives, which are generally 30 and 5 years, respectively.

Interest cost incurred during the period of construction of real estate facilities is capitalized. Construction in progress includes $268,000 of interest costs capitalized in 1998.

INTANGIBLE ASSETS

Intangible assets consist of property management contracts for properties managed, but not owned, by PSB. The intangible assets are being amortized over seven years. As properties managed are subsequently acquired by PSB, the unamortized basis of intangible assets related to such property is included in the cost of acquisition of such property. During April 1997, PSB acquired four properties from PSI and included in the cost of real estate facilities for such properties is $730,000 of cost previously classified as intangible assets. In connection with the Merger, PSB acquired 13 properties and included in the cost of such properties is $1,315,000 (which was net of accumulated amortization of $194,000) of costs previously classified as intangible assets. Intangible assets are net of accumulated amortization of $573,000 and $393,000 at December 31, 1998 and 1997, respectively.

EVALUATION OF ASSET IMPAIRMENT

PSB evaluates its assets used in operations, 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 amount. When indicators of impairment are present and the sum of the 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. At December 31, 1998, no such indicators of impairment have been identified.

NOTE PAYABLE TO AND BORROWINGS FROM AFFILIATE

Note payable to affiliate at December 31, 1997 of $3,500,000 reflects amounts borrowed from PSI on that date. The note bore interest at 6.97% and was repaid on January 31, 1998. On May 4, 1998, PSB borrowed $179,000,000 from PSI to fund a portion of the acquisition cost of real estate facilities. On May 6, 1998, $105,000,000 was repaid and the remaining balance of $74,000,000 was repaid on May 27, 1998. The borrowings bore interest at 6.91% (per annum).

STOCK-BASED COMPENSATION

PSB has elected to adopt the disclosure requirements of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," but will continue to account for stock-based compensation under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees."

STOCK SPLIT AND STOCK DIVIDEND

On January 1, 1997, the number of outstanding shares of preferred and common stock increased as a result of a 10 for 1 stock split. In March 1997, the preferred stock of PSB was converted into common stock on a share for share basis. In December 1997, PSB declared a common stock dividend at a rate of .01583 shares for each common share outstanding. Similarly, the Operating Partnership's outstanding OP units were adjusted to reflect the stock dividend. No adjustment was made to the outstanding OP units for the January 1997 stock split, as the issuance of OP units during 1997 already reflected the stock split.

On March 17, 1998, in connection with the merger, PSB's common shares were converted into 1.18 shares of PSP11. Similarly, holders of OP units received an additional 0.18 OP units for each outstanding OP unit held at the time of the merger.

References in the consolidated financial statements and notes thereto with respect to shares of preferred stock, common stock, stock options, and OP

units and the related per share/per unit amounts have been retroactively adjusted to reflect the January 1997 stock split, the December 1997 stock dividend and the March 1998 conversion in connection with the Merger.

REVENUE AND EXPENSE RECOGNITION

All leases are classified as operating leases. Rental income is recognized on a straight-line basis over the terms of the leases. Reimbursements from tenants for real estate taxes and other recoverable operating expenses are recognized as revenue in the period the applicable costs are incurred.

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

Property management fees are recognized in the period earned.

GENERAL AND ADMINISTRATIVE EXPENSE

General and administrative expense includes legal and office expense, state income taxes, executive salaries, cost of acquisition personnel and other such administrative items. Such amounts include amounts incurred by PSI on behalf of PSB, which were subsequently charged to PSB in accordance with the allocation methodology pursuant to the cost allocation and administrative service agreement between PSB and PSI.

ACQUISITION COSTS

Internal acquisition costs are expensed as incurred.

INCOME TAXES

In 1996, income taxes were accounted for under SFAS No. 109, "Accounting for Income Taxes," which requires income taxes to be recorded using the liability method. Under the liability method, deferred taxes are provided for temporary differences between the financial reporting and income tax bases of assets and liabilities, applying presently enacted tax rates and laws.

The income tax provision for 1996 is as follows:

Federal..........................	$166,000
State............................	50,000
	$216,000

The income tax provision is different from that which would be computed by applying the Federal income tax rate to income before taxes as follows:

Tax at statutory rate............	$177,000
State income taxes...............	33,000
Other............................	6,000
	$216,000

During 1997, PSB qualified and intends to continue to qualify as a real estate investment trust ("REIT"), as defined in Section 856 of the Internal Revenue Code. As a REIT, PSB is not subject to federal income tax to the extent that it distributes at least 95% of its taxable income to its shareholders. In addition, REITs are subject to a number of organizational and operating requirements. If the Company fails to qualify as a REIT in

any taxable year, the Company will be subject to federal income tax (including any applicable alternative minimum tax) based on its taxable income using corporate income tax rates. Even if the Company qualifies for taxation as a REIT, 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. PSB believes it met all organizational and operating requirements to maintain its REIT status during 1998 and 1997. In addition, PSP11 (the legal entity for income tax reporting purposes subsequent to the March 17, 1998 merger) believes it has also met these requirements during 1998, 1997 and 1996. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

The difference between book income and taxable income primarily results from timing differences consisting of depreciation expense and unearned rental income.

NET INCOME PER COMMON SHARE

Per share amounts are computed using the weighted average common shares outstanding. "Diluted" weighted average common shares outstanding include the dilutive effect of stock options under the treasury stock method. "Basic" weighted average common shares outstanding excludes such effect. Earnings per share has been calculated as follows:

<TABLE>
<CAPTION>
For the Period For the

	For the Year Ended December 31, 1998	April 1 through December 31, 1997	January 1 through March 31, 1997	Period For the Year Ended December 31, 1996
Net income and net income allocable to common shareholders (same for Basic and Diluted computations)...	$ 29,400,000	$ 3,154,000	$ 682,000	$ 303,000
Weighted average common shares outstanding:				
Basic weighted average common shares outstanding.........	19,361,000	3,414,000	2,193,000	947,000
Net effect of dilutive stock options - based on treasury stock method using average market price............	68,000	12,000	-	-
Diluted weighted average common shares outstanding.......	19,429,000	3,426,000	2,193,000	947,000
Basic earnings per common share..............................	$ 1.52	$ 0.92	$ 0.31	$ 0.32
Diluted earnings per common share............................	$ 1.51	$ 0.92	$ 0.31	$ 0.32

COMPREHENSIVE INCOME

Effective January 1, 1998, PSB adopted SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 requires a separate statement to report the components of comprehensive income for each period reported. The adoption of SFAS No. 130 did not have an impact on PSB's reporting presentation.

SEGMENT REPORTING

Effective January 1, 1998, PSB adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 established standards for the way public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. SFAS 131 also establishes standards for related disclosures about products and services, geographic areas, and major customers. As management views the Company as operating in a single segment as described in Note 1, the adoption of SFAS No. 131 did not affect PSB's disclosure of segment information.

RECLASSIFICATIONS

Certain reclassifications have been made to the consolidated financial statements for 1997 in order to conform to the 1998 presentation.

3. BUSINESS COMBINATION

On March 17, 1998, AOPP merged into PSP11, a publicly traded real estate investment trust and an affiliate of PSI. Upon consummation of the Merger of AOPP into PSP11, the surviving corporation was renamed "PS Business Parks, Inc." (PSB as defined in Note 1). In connection with the Merger:

* Each outstanding share of PSP11 common stock, which did not elect cash, continued to be owned by current holders. A total of 106,155 PSP11 common shares elected to receive cash of $20.50 per share.

* Each share of PSP11 common stock Series B and each share of PSP11 common stock Series C converted into .8641 shares of PSP11 common stock.

* Each share of AOPP common stock converted into 1.18 shares of PSP11 common stock.

* Concurrent with the Merger, PSP11 exchanged 11 mini-warehouses and two properties that combine mini-warehouse and commercial space for 11 commercial properties owned by PSI. The fair value of each group of real estate facilities was approximately $48 million.

The Merger has been accounted for as a reverse merger whereby PSB is treated as the accounting acquirer using the purchase method. This has been determined based upon the following: (i) the former shareholders and unitholders of PSB owned in excess of 80% of the merged companies and (ii) the business focus post-Merger will continue to be that of PSB's which includes the acquisition, ownership and management of commercial properties. Prior to the Merger, PSP11's business focus has been primarily on the ownership and operation of its self-storage facilities which represented approximately 81% of its portfolio.

Allocations of the total acquisition cost to the net assets acquired were made based upon the fair value of PSP11's assets and liabilities as of the date of the Merger. The acquisition cost and the fair market values of the assets acquired and liabilities assumed in the Merger are summarized as follows:

<TABLE>

<S>	<C>
ACQUISITION COST:	
Issuance of common stock..........	$46,810,000
Cash.............................	424,000
Total acquisition cost........	$47,234,000
ALLOCATION OF ACQUISITION COST:	
Real estate facilities...........	$48,305,000
Other assets.....................	452,000
Accrued and other liabilities.....	(1,523,000)
Total allocation.............	$47,234,000

</TABLE>

The historical operating results of PSP11 prior to the Merger have not been included in PSB's historical operating results. Pro forma data for the year ended December 31, 1998 and 1997 as though the Merger and related exchange of properties have been effective at the beginning of fiscal 1997 are as follows:

<TABLE>
<CAPTION>

	For the Years Ended December 31, 1998	1997
<S>	<C>	<C>
Revenues...............................	$ 92,137,000	$ 40,615,000
Net income.............................	$ 30,159,000	$ 7,042,000
Net income per share - basic...........	$ 1.52	$ 1.30
Net income per share - diluted.........	$ 1.52	$ 1.30

</TABLE>

The pro forma data does not purport to be indicative either of the results of operations that would have occurred had the Merger occurred at the beginning of fiscal 1997 or of the future results of PSB.

4. REAL ESTATE FACILITIES

The activity in real estate facilities for the year ended December 31, 1998 is as follows:

<TABLE>
<CAPTION>

Accumulated

	Land	Buildings	Depreciation	Total
Balances at December 31, 1997.......	$ 91,754,000	$ 226,466,000	$ (3,982,000)	$ 314,238,000
Property acquisitions...............	70,087,000	263,920,000	-	334,007,000
Acquired in connection with the Merger.........................	14,400,000	33,905,000	-	48,305,000
Adjustment from intangible assets...	-	1,315,000	-	1,315,000
Capital improvements................	-	11,091,000	-	11,091,000
Depreciation expense................	-	-	(18,535,000)	(18,535,000)
Balances at December 31, 1998.......	$ 176,241,000	$ 536,697,000	$ (22,517,000)	$ 690,421,000

</TABLE>

At December 31, 1998, real estate facilities for Federal income tax purposes were approximately $676,186,000 (unaudited), net of accumulated depreciation of $159,842,000 (unaudited).

5. LEASING ACTIVITY

The Company leases space in its real estate facilities to tenants under non-cancelable leases generally ranging from one to seven years. Future minimum rental revenues excluding recovery of expenses as of December 31, 1998 under these leases are as follows:

<TABLE>

1999.............................	$ 83,980,000
2000.............................	60,969,000
2001.............................	40,812,000
2002.............................	26,451,000
2003.............................	15,260,000
Thereafter.......................	24,333,000
	$ 251,805,000

</TABLE>

In addition to minimum rental payments, tenants pay reimbursements for their pro rata share of specified operating expenses, which amounted to $10,357,000, $3,106,000 and none for the years ended December 31, 1998, 1997 and 1996, respectively. These amounts are included as rental income and cost of operations in the accompanying statements of income.

6. REVOLVING LINE OF CREDIT

The Company has an unsecured line of credit (the "Credit Facility") with Wells Fargo Bank. The Credit Facility has a borrowing limit of $100 million and an expiration date of August 5, 2000. The expiration date may be extended by one year on each anniversary of the Credit Facility. Interest on outstanding borrowings is payable monthly. At the option of the Company, the rate of interest charged is equal to (i) the prime rate or (ii) a rate ranging from the London Interbank Offered Rate ("LIBOR") plus 0.55% to LIBOR plus 0.95% depending on the Company's credit ratings and coverage ratios, as defined (currently LIBOR plus 0.80%). In addition, the Company is required to pay a commitment fee of 0.25% (per annum). As of December 31, 1998, the Company had $12.5 million outstanding on the line of credit at an interest rate of 5.93%.

Under covenants of the Credit Facility, the Company is required to (i) maintain a balance sheet leverage ratio (as defined) of less than 0.50 to 1.00, (ii) maintain interest and fixed charge coverage ratios (as defined) of not less than 2.25 to 1.0 and 2.0 to 1.0, respectively, (iii) maintain a minimum total shareholder's equity (as defined) and (iv) limit distributions to 95% of funds from operations. In addition, the Company is limited in its ability to incur additional borrowings (the Company is required to maintain unencumbered assets with an aggregate book value equal to or greater than two times the Company's unsecured recourse debt) or sell assets. The Company was in compliance with the covenants of the Credit Facility at December 31, 1998.

7. MORTGAGE NOTES PAYABLE

Mortgage notes at December 31, 1998 consist of the following:

<TABLE>

<S>	<C>
7.625% mortgage note, secured by one commercial property with an approximate carrying amount of $21,507,000, principal and interest payable monthly, due May 2004	$11,418,000
7.125% mortgage note, secured by one commercial property with an approximate carrying amount of $19,794,000, principal and interest payable monthly, due May 2006	8,905,000
8.4% mortgage note, secured by six commercial properties with approximate carrying amounts totaling $21,014,000, principal and interest payable monthly, due November 2001	8,672,000
8.125% mortgage note, secured by one commercial property with an approximate carrying amount of $12,557,000, principal and interest payable monthly, due July 2005	5,416,000
8.5% mortgage note, secured by one commercial property with an approximate carrying amount of $3,701,000, principal and interest payable monthly, due July 2007	1,939,000
8% mortgage note, secured by one commercial property with an approximate carrying amount of $3,576,000, principal and interest payable monthly, due April 2003	1,691,000
	$38,041,000

</TABLE>

At December 31, 1998, approximate principal maturities of mortgage notes payable are as follows:

<TABLE>

<S>	<C>
1999	$ 1,237,000
2000	1,364,000
2001	9,624,000
2002	1,387,000
2003	2,909,000
Thereafter	21,520,000
	$ 38,041,000

</TABLE>

The mortgage notes have a weighted average interest rate of 7.82% and an average maturity of 5.6 years. Based on borrowing rates currently available to the Company, the carrying amount of debt approximates fair value.

8. MINORITY INTERESTS

The Company presents the accounts of PSB and the Operating Partnership on a consolidated basis. Ownership interests in the Operating Partnership, other than PSB's interest, are classified as minority interest in the consolidated financial statements. Minority interest in income consists of the minority interests' share of the consolidated operating results.

Beginning one year from the date of admission as a limited partner 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 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 interest

redeemed. In lieu of the Operating Partnership redeeming the partner 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 cannot exercise its redemption right if delivery of shares of PSB common stock would be prohibited under the applicable articles of incorporation, 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.

At December 31, 1998, there were 7,400,951 OP units owned by minority interests (7,305,355 were owned by PSI and affiliated entities and 95,596 were owned by unaffiliated third parties). On a fully converted basis, assuming all 7,400,951 minority interest OP units were converted into shares of common stock of PSB at December 31, 1998, the minority interests would own approximately 23.8% of the common shares outstanding. At the end of each reporting period, PSB determines the amount of equity (book value of net assets) which is allocable to the minority interest based upon the ownership interest and an adjustment is made to the minority interest, with a corresponding adjustment to paid-in capital, to reflect the minority interests' equity in the Company.

9. PROPERTY MANAGEMENT CONTRACTS

The Operating Partnership manages industrial, office and retail facilities for PSI and entities affiliated with PSI and third party owners. These facilities, all located in the United States, operate under the "Public Storage" or "PS Business Parks" name.

The property management contracts provide for compensation of five percent of the gross revenue 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, leasing, billing and maintenance personnel.

The property management contract with PSI is for a seven year term with the term being extended one year each anniversary. The property management contracts with affiliates of PSI are cancelable by either party upon sixty days notice.

10. SHAREHOLDERS' EQUITY

In addition to common and preferred stock, PSB is authorized to issue 100,000,000 shares of Equity Stock. The Articles of Incorporation provide that the Equity Stock may be issued from time to time in one or more series and gives the Board of Directors broad authority to fix the dividend and distribution rights, conversion and voting rights, redemption provisions and liquidation rights of each series of Equity Stock.

On January 7, 1998, a holder of OP units exercised its option and converted its 1,785,007 OP units into an equal number of shares of PSB common stock. The conversion resulted in an increase in shareholders' equity and a corresponding decrease in minority interest of approximately $33,023,000 representing the book value of the OP units at the time of conversion.

In January 1998, PSB entered into an agreement with a group of institutional investors under which PSB agreed to issue up to 6,774,072 shares of common stock at $22.88 per share in cash (an aggregate of $155 million) in separate tranches. The first tranche, representing 2,185,187 shares or $50 million, was issued in January 1998. PSB incurred $2.4 million in costs associated with the issuance. The remainder of the common shares (4,588,885 common shares) was issued on May 6, 1998 and the net proceeds ($105 million) were used to fund a portion of the cost to acquire commercial properties in May 1998.

In May 1998, PSB completed two common stock offerings, raising net proceeds in aggregate totaling $118.9 million through the issuance of 5,025,800 common shares. A portion of the net proceeds was used in connection with a $190 million property portfolio acquisition.

The Company paid distributions to its shareholders totaling $1.10, $0.68 and $0.43 per share in 1998, 1997 and 1996, respectively. Pursuant to restrictions on the line of credit agreement, distributions may not exceed 95% of funds from operations (as defined in the Credit Facility Agreement).

11. STOCK OPTIONS

PSB has a 1997 Stock Option Plan (the "Plan"). Under the 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 no less than the fair market value of the common stock at the date of grant. Generally, options under the Plan vest over a three-year period from the date of grant at the rate of one third per year and expire ten years after the date of grant.

At December 31, 1998, there were 1,500,000 options authorized to grant. Information with respect to the Plan is as follows:

<TABLE>
<CAPTION>

<S>	Number of Options <C>	Exercise Price <C>	Weighted Average Exercise Price <C>
Outstanding at December 31, 1996...........	-	-	-
Granted..............................	305,570	$16.69 - $22.88	$16.80
Exercised............................	-	-	-
Canceled.............................	-	-	-
Outstanding at December 31, 1997...........	305,570	16.69 - 22.88	16.80
Granted..............................	222,500	22.88 - 25.00	24.01
Exercised............................	(39,024)	16.69	16.69
Canceled.............................	-	-	-
Outstanding at December 31, 1998...........	489,046	$16.69 - $25.00	$20.09
Exercisable at:			
December 31, 1998.....................	62,828	$16.69 - $22.88	$16.87

</TABLE>

PSB adopted the disclosure requirement provision of SFAS No. 123 in accounting for stock-based compensation issued to employees. As of December 31, 1998 and 1997, there were 489,046 and 305,570 options outstanding, respectively, that were subject to SFAS No. 123 disclosure requirements. The fair value of these options was estimated utilizing prescribed valuation models and assumptions as of each respective grant date. Based on the results of such estimates, management determined that there was no material effect on net income or earnings per share for the years ended December 31, 1998 and 1997. The remaining contractual lives were 8.9 and 9.1 years, respectively at December 31, 1998 and 1997.

12. RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which is required to be adopted in years beginning after June 15, 1999. Management anticipates that the adoption of SFAS No. 133 will have no effect on earnings or the financial position of PSB since no derivatives are currently being used.

13. SUPPLEMENTARY QUARTERLY FINANCIAL DATA (UNAUDITED)

<TABLE>
<CAPTION>

	Three Months Ended			
	March 31, 1997	June 30, 1997	September 30, 1997	December 31, 1997
<S>	<C>	<C>	<C>	<C>
Revenues.................	$ 6,081,000	$ 7,316,000	$ 8,660,000	$ 9,521,000
Net income...............	$ 682,000	$ 795,000	$ 1,182,000	$ 1,177,000
Basic....................	$0.31	$0.36	$0.33	$0.26
Diluted..................	$0.31	$0.36	$0.33	$0.26
	Three Months Ended			
	March 31, 1998	June 30, 1998	September 30, 1998	December 31, 1998
Revenues.................	$ 14,788,000	$ 21,911,000	$ 26,277,000	$ 27,284,000

Net income..............	$ 4,330,000	$ 7,046,000	$ 9,748,000	$ 8,276,000
Basic....................	$0.38	$0.38	$0.41	$0.35
Diluted..................	$0.38	$0.38	$0.41	$0.35

</TABLE>

14. COMMITMENTS AND CONTINGENCIES

PSB is subject to the risks inherent in the ownership and operation of commercial real estate. These include, among others, the risks normally associated with changes in the general economic climate, trends in the real estate industry, creditworthiness of tenants, competition, changes in tax laws, interest rate levels, the availability of financing and potential liability under environmental and other laws.

Substantially all of the 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 be material to the consolidated financial statements except as discussed below.

The Company acquired a property in Beaverton, Oregon ("Creekside Corporate Park") in May 1998. A property adjacent to Creekside Corporate Park is currently the subject of an environmental remedial investigation/feasibility study that is being conducted by the current and past owners of the property, pursuant to an order issued by the Oregon Department of Environmental Quality ("ODEQ"). As part of that study, ODEQ ordered the property owners to sample soil and groundwater on the Company's property to determine the nature and extent of contamination resulting from past industrial oeprations at the property subject to the study. The Company, which is not a party of the Order on Consent, executed separate Access Agreements with the property owners to allow access to its property to conduct the required sampling and testing. The smapling and testing is ongoing, and preliminary results from one area indicate that the contamination from the property subject to the study may have migrated onto a portion of Creekside Corporate Park owned by the Company.

There is no evidence that any past or current use of the Creekside Corporate Park property contributed in any way to the contamination that is the subject of the current investigation. Nevertheless, upon completion of

the study, it is likely that removal or remedial measures will be required to address any contamination detected during the current investigation, including any contamination on or under the Creekside Corporate Park property. Because of the preliminary nature of the investigation, the Company cannont predict the outcome of the investigation, nor can it estimate the costs of any remediation or removal activities that may be required.

The Company believes that it bears no responbility or liability for the contamination. In the event the Company is ultimately deemed responsible for any costs relating to this matter, the Company believes that the party from whom the property was purchased will be responsible for any expenses or liabilites that the Company may incur as a result of this contamination.

PSB currently is neither subject to any other material litigation nor, to management's knowledge, is any material litigation currently threatened against PSB other than routine litigation and administrative proceedings arising in the ordinary course of business. Based on consultation with counsel, management believes that these items will not have a material adverse impact on the Company's consolidated financial position or results of operations.

15. SUBSEQUENT EVENTS

On January 6, 1999, six commercial properties were acquired in Austin, Texas (approximately 230,000 net rentable square feet) from an unaffiliated third party for an aggregate cost of approximately $13.9 million in cash. The Company obtained the funds to acquire the facilities from its existing cash balances and borrowings of $14 million from its unsecured line of credit.

On January 19, 1999, PSB temporarily borrowed $26.5 million from PSI to pay off its line of credit at a rate below its borrowing rate under the line of credit

On January 29, 1999, two commercial properties (approximately 108,000 net rentable square feet) and a parcel of vacant land (approximately 402,000 square feet) were acquired in Northern Virginia from unaffiliated third parties for an aggregate cost of approximately $11.4 million, consisting of cash totaling approximately $8.9 million, the issuance of 13,669 OP units having a value of approximately $0.3 million and the assumption of an existing mortgage note payable of $2.2 million. The Company obtained the funds to acquire the facilities from its existing cash balances and additional borrowings of $6 million from PSI.

PS BUSINESS PARKS, INC.
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 1998
(DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition
Description	Location	Encumbrances	Land	Buildings and Improvements	Buildings and Improvements
<S>	<C>	<C>	<C>	<C>	<C>
I-435..................	Overland Park, KS	$-	$ 890	$ 2,176	$129
Produce................	San Francisco, CA	-	771	1,886	9
Crenshaw II............	Torrance, CA	-	1,861	4,938	253
Airport................	San Francisco, CA	-	897	2,387	56
Christopher Ave........	Gaithersburg, MD	-	466	1,203	70
Monterey Park..........	Monterey Park, CA	-	3,078	7,862	148
Calle Del Oaks.........	Monterey, CA	-	282	706	75
Milwaukie I............	Milwaukie, OR	-	690	1,754	173
Edwards Road...........	Cerritos, CA	-	450	1,217	224
Milwaukie II...........	Milwaukie, OR	-	435	1,103	168
Rainier................	Renton, WA	-	330	889	125
Lusk...................	San Diego, CA	-	1,500	3,738	257
Eisenhower.............	Alexandria, VA	-	1,440	3,635	189
McKellips..............	Tempe, AZ	-	195	522	45
Crenshaw...............	Torrance, CA	-	450	1,131	78
Old Oakland Rd.........	San Jose, CA	-	3,458	8,765	227
Junipero...............	Signal Hill, CA	-	900	2,510	221
Watson Plaza...........	Lakewood, CA	-	930	2,360	65
Northgate Blvd.........	Sacramento, CA	-	1,710	4,567	504
Camino Del Rio S.......	San Diego, CA	-	930	2,388	218
Uplander...............	Culver City, CA	-	3,252	8,157	892
University.............	Tempe, AZ	-	2,160	5,454	370
E. 28th Street.........	Signal Hill, CA	-	1,500	3,749	123
W. Main................	Mesa, AZ	-	675	1,692	55
S. Edward..............	Tempe, AZ	-	645	1,653	168
Leapwood Ave...........	Carson, CA	-	990	2,496	387
Downtown Center........	Nashville, TN	-	660	1,681	254
Airport South..........	Nashville, TN	-	660	1,657	96
Great Oaks.............	Woodbridge, VA	-	1,350	3,398	109
W. Concord Cir.........	Broken Arrow, OK	-	840	2,174	95
John Barrow............	Little Rock, AR	-	780	1,998	67
S. Peoria..............	Tulsa, OK	-	375	962	15
Ventura Blvd. II.......	Studio City, CA	-	621	1,530	162
Largo 95...............	Largo, MD	-	3,085	7,332	389
Gunston................	Lorton, VA	11,418	4,146	17,872	8

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		Gross Amount at Which Carried at December 31, 1998					
Description	Location	Land	Buildings and Improvements	Totals	Accumulated Depreciation	Date Acquired	Depreciable Lives (Years)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
I-435..................	Overland Park, KS	$ 890	$ 2,305	$ 3,195	$ 66	3/17/98	5-30
Produce................	San Francisco, CA	771	1,895	2,666	51	3/17/98	5-30
Crenshaw II............	Torrance, CA	1,861	5,191	7,052	333	4/12/97	5-30
Airport................	San Francisco, CA	897	2,443	3,340	163	4/12/97	5-30

Christopher Ave........	Gaithersburg, MD	466	1,273	1,739	83	4/12/97	5-30
Monterey Park..........	Monterey Park, CA	3,078	8,010	11,088	512	1/1/97	5-30
Calle Del Oaks.........	Monterey, CA	282	781	1,063	55	1/1/97	5-30
Milwaukie I............	Milwaukie, OR	690	1,927	2,617	157	1/1/97	5-30
Edwards Road...........	Cerritos, CA	450	1,441	1,891	106	1/1/97	5-30
Milwaukie II...........	Milwaukie, OR	435	1,271	1,706	110	1/1/97	5-30
Rainier................	Renton, WA	330	1,014	1,344	65	1/1/97	5-30
Lusk...................	San Diego, CA	1,500	3,995	5,495	252	1/1/97	5-30
Eisenhower.............	Alexandria, VA	1,440	3,824	5,264	247	1/1/97	5-30
McKellips..............	Tempe, AZ	195	567	762	38	1/1/97	5-30
Crenshaw...............	Torrance, CA	450	1,209	1,659	83	1/1/97	5-30
Old Oakland Rd.........	San Jose, CA	3,458	8,992	12,450	576	1/1/97	5-30
Junipero...............	Signal Hill, CA	900	2,731	3,631	187	1/1/97	5-30
Watson Plaza...........	Lakewood, CA	930	2,425	3,355	156	1/1/97	5-30
Northgate Blvd.........	Sacramento, CA	1,710	5,071	6,781	323	1/1/97	5-30
Camino Del Rio S.......	San Diego, CA	930	2,606	3,536	168	1/1/97	5-30
Uplander...............	Culver City, CA	3,252	9,049	12,301	594	1/1/97	5-30
University.............	Tempe, AZ	2,160	5,824	7,984	407	1/1/97	5-30
E. 28th Street.........	Signal Hill, CA	1,500	3,872	5,372	261	1/1/97	5-30
W. Main................	Mesa, AZ	675	1,747	2,422	116	1/1/97	5-30
S. Edward..............	Tempe, AZ	645	1,821	2,466	139	1/1/97	5-30
Leapwood Ave...........	Carson, CA	990	2,883	3,873	184	1/1/97	5-30
Downtown Center........	Nashville, TN	660	1,935	2,595	118	1/1/97	5-30
Airport South..........	Nashville, TN	660	1,753	2,413	111	1/1/97	5-30
Great Oaks.............	Woodbridge, VA	1,350	3,507	4,857	228	1/1/97	5-30
W. Concord Cir.........	Broken Arrow, OK	840	2,269	3,109	138	1/1/97	5-30
John Barrow............	Little Rock, AR	780	2,065	2,845	136	1/1/97	5-30
S. Peoria..............	Tulsa, OK	375	977	1,352	63	1/1/97	5-30
Ventura Blvd. II.......	Studio City, CA	621	1,692	2,313	109	1/1/97	5-30
Largo 95...............	Largo, MD	3,085	7,721	10,806	349	9/24/97	5-30
Gunston................	Lorton, VA	4,146	17,880	22,026	519	6/17/98	5-30

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PS BUSINESS PARKS, INC.
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 1998
(DOLLARS IN THOUSANDS)

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			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition
Description	Location	Encumbrances	Land	Buildings and Improvements	Buildings and Improvements
<S>	<C>	<C>	<C>	<C>	<C>
Canada.................	Lake Forest, CA	-	2,037	19,562	177

Ridge Route...........	Laguna Hills, CA	-	16,261	34,587	308
Lake Forest Commerce... Park...................	Laguna Hills, CA	-	5,508	2,364	49
Buena Park Industrial.. Center.................	Buena Park, CA	-	3,245	9,599	491
Cerritos Business Center.................	Cerritos, CA	-	4,218	11,628	146
Parkway Commerce Center	Hayward, CA	-	4,398	9,062	174
Northpointe E..........	Sterling, VA	-	1,156	2,957	58
Ammendale.............	Beltsville, MD	-	4,278	18,380	355
Centrepointe..........	Landover, MD	8,905	3,801	16,708	46
Shaw Road.............	Sterling, VA	5,416	2,969	10,008	86
Creekside-Phase 1......	Beaverton, OR	-	4,519	13,651	9
Creekside-Phase 2 Bldg-4.................	Beaverton, OR	-	832	2,542	2
Creekside-Phase 2 Bldg-5.................	Beaverton, OR	-	521	1,603	-
Creekside-Phase 2 Bldg-1.................	Beaverton, OR	-	1,326	4,035	3
Creekside-Phase 3......	Beaverton, OR	-	1,353	4,101	2
Creekside-Phase 5......	Beaverton, OR	-	1,741	5,301	16
Creekside-Phase 6......	Beaverton, OR	-	2,616	7,908	27
Creekside-Phase 7......	Beaverton, OR	-	3,293	9,938	6
Creekside-Phase 8......	Beaverton, OR	-	1,140	3,644	2
Woodside-Phase 1.......	Beaverton, OR	-	2,987	8,982	39
Woodside-Phase 2 Bldg-6	Beaverton, OR	-	255	785	22
Woodside-Phase 2 Bldg-7&8..............	Beaverton, OR	-	2,102	6,387	20
Woodside-Sequent 1.....	Beaverton, OR	-	2,890	8,672	13
Woodside-Sequent 5.....	Beaverton, OR	-	3,093	9,280	1
Northpointe G..........	Sterling, VA	1,939	824	2,965	-
Spectrum 95...........	Landover, MD	-	1,610	7,129	127
Las Plumas............	San Jose, CA	-	4,379	12,889	-
So. Shaver............	Pasadena, TX	-	464	1,184	54
Lamar Boulevard........	Austin, TX	-	2,528	6,596	741
N. Barker's Landing....	Houston, TX	-	1,140	3,003	324
One Park Ten...........	San Antonio, TX	-	1,500	4,266	1,237
Park Terrace...........	San Antonio, TX	-	360	987	131
La Prada..............	Mesquite, TX	-	495	1,235	61
NW Highway............	Garland, TX	-	480	1,203	29

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<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Canada................	Lake Forest, CA	2,037	19,739	21,776	172	12/23/97	5-30
Ridge Route...........	Laguna Hills, CA	16,261	34,895	51,156	1,334	12/23/97	5-30
Lake Forest Commerce... Park...................	Laguna Hills, CA	5,508	2,413	7,921	437	12/23/97	5-30
Buena Park Industrial.. Center.................	Buena Park, CA	3,245	10,090	13,335	284	12/23/97	5-30
Cerritos Business Center.................	Cerritos, CA	4,218	11,774	15,992	344	12/23/97	5-30
Parkway Commerce Center	Hayward, CA	4,398	9,236	13,634	353	12/23/97	5-30
Northpointe E..........	Sterling, VA	1,156	3,015	4,171	114	12/10/97	5-30
Ammendale.............	Beltsville, MD	4,278	18,735	23,013	1,099	1/13/98	5-30
Centrepointe..........	Landover, MD	3,801	16,754	20,555	761	3/20/98	5-30
Shaw Road.............	Sterling, VA	2,969	10,094	13,063	506	3/9/98	5-30
Creekside-Phase 1......	Beaverton, OR	4,519	13,660	18,179	534	5/4/98	5-30
Creekside-Phase 2 Bldg-4.................	Beaverton, OR	832	2,544	3,376	98	5/4/98	5-30
Creekside-Phase 2	Beaverton, OR	521	1,603	2,124	62	5/4/98	

Bldg-5................							5-30
Creekside-Phase 2 Bldg-1................	Beaverton, OR	1,326	4,038	5,364	157	5/4/98	5-30
Creekside-Phase 3......	Beaverton, OR	1,353	4,103	5,456	160	5/4/98	5-30
Creekside-Phase 5......	Beaverton, OR	1,741	5,317	7,058	208	5/4/98	5-30
Creekside-Phase 6......	Beaverton, OR	2,616	7,935	10,551	313	5/4/98	5-30
Creekside-Phase 7......	Beaverton, OR	3,293	9,944	13,237	389	5/4/98	5-30
Creekside-Phase 8......	Beaverton, OR	1,140	3,646	4,786	142	5/4/98	5-30
Woodside-Phase 1.......	Beaverton, OR	2,987	9,021	12,008	353	5/4/98	5-30
Woodside-Phase 2 Bldg-6	Beaverton, OR	255	807	1,062	34	5/4/98	5-30
Woodside-Phase 2 Bldg-7&8..............	Beaverton, OR	2,102	6,407	8,509	254	5/4/98	5-30
Woodside-Sequent 1.....	Beaverton, OR	2,890	8,685	11,575	342	5/4/98	5-30
Woodside-Sequent 5.....	Beaverton, OR	3,093	9,281	12,374	366	5/4/98	5-30
Northpointe G..........	Sterling, VA	824	2,965	3,789	88	6/11/98	5-30
Spectrum 95............	Landover, MD	1,610	7,256	8,866	110	9/30/98	5-30
Las Plumas.............	San Jose, CA	4,379	12,889	17,268	-	12/31/98	5-30
So. Shaver.............	Pasadena, TX	464	1,238	1,702	85	1/1/97	5-30
Lamar Boulevard........	Austin, TX	2,528	7,337	9,865	455	1/1/97	5-30
N. Barker's Landing....	Houston, TX	1,140	3,327	4,467	222	1/1/97	5-30
One Park Ten...........	San Antonio, TX	1,500	5,503	7,003	311	1/1/97	5-30
Park Terrace...........	San Antonio, TX	360	1,118	1,478	76	1/1/97	5-30
La Prada...............	Mesquite, TX	495	1,296	1,791	87	1/1/97	5-30
NW Highway.............	Garland, TX	480	1,232	1,712	83	1/1/97	5-30

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PS BUSINESS PARKS, INC.

SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION

DECEMBER 31, 1998

(DOLLARS IN THOUSANDS)

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<S>	<C>	<C>	<C>	<C>	<C>
Quail Valley...........	Missouri City, TX	-	360	918	53
Business Parkway I.....	Richardson, TX	-	759	3,371	42
The Summit.............	Plano, TX	-	1,536	6,654	116
Northgate II...........	Dallas, TX	-	1,274	5,505	548
Empire Commerce........	Dallas, TX	-	305	1,545	-
Royal Tech - Digital...	Las Colinas, TX	-	319	1,393	1
Royal Tech - Springwood	Las Colinas, TX	-	894	3,824	-
Royal Tech - Regent....	Las Colinas, TX	-	606	2,615	-
Royal Tech - Bldg 7....	Las Colinas, TX	-	246	1,061	1
Royal Tech - NFTZ......	Las Colinas, TX	-	1,517	6,499	1
Royal Tech - Olympus...	Las Colinas, TX	-	1,060	4,531	1
Royal Tech - Honeywell.	Las Colinas, TX	-	548	2,347	-
Royal Tech - Bldg 12...	Las Colinas, TX	-	1,466	6,263	1
Royal Tech - Bldg 13...	Las Colinas, TX	-	955	4,080	1
Royal Tech - Bldg 14...	Las Colinas, TX	-	2,010	10,242	-
Business Parkway II....	Richardson, TX	-	40	196	1
Royal Tech - Bldg 15...	Irving, TX	-	1,307	5,600	163
Ben White 1............	Austin, TX	1,751	789	3,571	-
Ben White 5............	Austin, TX	1,673	761	3,444	-

McKalla 3.............	Austin, TX	1,701	662	2,994	-
McKalla 4.............	Austin, TX	1,479	749	3,390	-
Mopac 6...............	Austin, TX	811	307	1,390	-
Rutland 14............	Austin, TX	1,257	535	2,422	-
Monroe Business Center.	Herndon, VA	-	5,926	13,944	460
B & O.................	Baltimore, MD	-	4,067	9,522	547
Lusk II-R&D...........	San Diego, CA	-	1,081	2,644	59
Lusk II-Office........	San Diego, CA	-	1,229	3,005	171
Norris Cn-Office.......	San Ramon, CA	-	792	1,938	82
Norris Cn-R&D.........	San Ramon, CA	-	696	1,703	71
Northpointe D.........	Sterling, VA	1,691	787	2,883	-
Kearny Mesa-Office.....	San Diego, CA	-	790	1,933	104
Kearny Mesa-R&D........	San Diego, CA	-	2,108	5,156	86
Bren Mar-Office........	Alexandria, VA	-	573	1,401	323
Lusk III..............	San Diego, CA	-	1,906	4,662	160
Bren Mar-R&D..........	Alexandria, VA	-	1,627	3,979	44
Alban Road-Office......	Springfield, VA	-	989	2,418	344
Alban Road-R&D.........	Springfield, VA	-	944	2,315	96
		$38,041	$176,241	$522,041	$14,656

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Quail Valley..........	Missouri City, TX	360	971	1,331	68	1/1/97	5-30
Business Parkway I.....	Richardson, TX	759	3,413	4,172	136	5/4/98	5-30
The Summit............	Plano, TX	1,536	6,770	8,306	274	5/4/98	5-30
Northgate II..........	Dallas, TX	1,274	6,053	7,327	240	5/4/98	5-30
Empire Commerce........	Dallas, TX	305	1,545	1,850	56	5/4/98	5-30
Royal Tech - Digital...	Las Colinas, TX	319	1,394	1,713	53	5/4/98	5-30
Royal Tech - Springwood	Las Colinas, TX	894	3,824	4,718	148	5/4/98	5-30
Royal Tech - Regent....	Las Colinas, TX	606	2,615	3,221	100	5/4/98	5-30
Royal Tech - Bldg 7....	Las Colinas, TX	246	1,062	1,308	41	5/4/98	5-30
Royal Tech - NFTZ......	Las Colinas, TX	1,517	6,500	8,017	250	5/4/98	5-30
Royal Tech - Olympus...	Las Colinas, TX	1,060	4,532	5,592	175	5/4/98	5-30
Royal Tech - Honeywell.	Las Colinas, TX	548	2,347	2,895	90	5/4/98	5-30
Royal Tech - Bldg 12...	Las Colinas, TX	1,466	6,264	7,730	242	5/4/98	5-30
Royal Tech - Bldg 13...	Las Colinas, TX	955	4,081	5,036	158	5/4/98	5-30
Royal Tech - Bldg 14...	Las Colinas, TX	2,010	10,242	12,252	400	5/4/98	5-30
Business Parkway II....	Richardson, TX	40	197	237	6	5/4/98	5-30
Royal Tech - Bldg 15...	Irving, TX	1,307	5,763	7,070	76	11/4/98	5-30
Ben White 1...........	Austin, TX	789	3,571	4,360	-	12/31/98	5-30
Ben White 5...........	Austin, TX	761	3,444	4,205	-	12/31/98	5-30
McKalla 3.............	Austin, TX	662	2,994	3,656	-	12/31/98	5-30
McKalla 4.............	Austin, TX	749	3,390	4,139	-	12/31/98	5-30
Mopac 6...............	Austin, TX	307	1,390	1,697	-	12/31/98	5-30
Rutland 14............	Austin, TX	535	2,422	2,957	-	12/31/98	5-30
Monroe Business Center.	Herndon, VA	5,926	14,404	20,330	877	8/1/97	5-

30

B & O..................	Baltimore, MD	4,067	10,069	14,136	594	8/1/97	5-30
Lusk II-R&D............	San Diego, CA	1,081	2,703	3,784	73	3/17/98	5-30
Lusk II-Office.........	San Diego, CA	1,229	3,176	4,405	89	3/17/98	5-30
Norris Cn-Office.......	San Ramon, CA	792	2,020	2,812	57	3/17/98	5-30
Norris Cn-R&D..........	San Ramon, CA	696	1,774	2,470	49	3/17/98	5-30
Northpointe D..........	Sterling, VA	787	2,883	3,670	94	6/11/98	5-30
Kearny Mesa-Office.....	San Diego, CA	790	2,037	2,827	57	3/17/98	5-30
Kearny Mesa-R&D........	San Diego, CA	2,108	5,242	7,350	141	3/17/98	5-30
Bren Mar-Office........	Alexandria, VA	573	1,724	2,297	54	3/17/98	5-30
Lusk III...............	San Diego, CA	1,906	4,822	6,728	128	3/17/98	5-30
Bren Mar-R&D...........	Alexandria, VA	1,627	4,023	5,650	106	3/17/98	5-30
Alban Road-Office......	Springfield, VA	989	2,762	3,751	81	3/17/98	5-30
Alban Road-R&D.........	Springfield, VA	944	2,411	3,355	68	3/17/98	5-30
		$176,241	$536,697	$712,938	$22,517		

</TABLE>

PS BUSINESS PARKS, INC.
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 1998

A summary of activity for real estate and accumulated depreciation is as follows:

<TABLE>
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Reconciliation of real estate:

	Years Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Balance at beginning of period......	$ 318,220,000	$ -	$ -
Additions during period:			
Acquisitions......................	378,321,000	314,655,000	-
Additional costs relating to prior year's acquisitions......	5,306,000	-	-
Improvements......................	11,091,000	3,565,000	-
Balance at close of period..........	$ 712,938,000	$ 318,220,000	$ -

Reconciliation of accumulated depreciation:

	Years Ended December 31,		
	1998	1997	1996
Balance at beginning of period......	$ 3,982,000	$ -	$ -
Additions during period:			
Depreciation......................	18,535,000	3,982,000	-
Balance at close of period..........	$ 22,517,000	$ 3,982,000	$ -

</TABLE>

Real estate for Federal income tax purposes was approximately $676,186,000 (unaudited), net of accumulated depreciation of $159,842,000 (unaudited).

<TABLE>
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BASIC AND DILUTED EARNINGS PER SHARE:	For the Year Emded December 31, 1998	For the Period April 1 through December 31, 1997	For the Period January 1 through March 31, 1997	For the Year Ended December 31, 1996
<S>	<C>	<C>	<C>	<C>
Net income and net income allocable to common shareholders (same for Basic and Diluted computations).................................	$ 29,400,000	$ 3,154,000	$ 682,000	$ 303,000
Weighted average common shares outstanding:				
Basic weighted average common shares outstanding.......	19,361,000	3,414,000	2,193,000	947,000
Net effect of dilutive stock options - based on treasury stock method using average market price.............	68,000	12,000	-	-
Diluted weighted average common shares outstanding.....	19,429,000	3,426,000	2,193,000	947,000
Basic earnings per common share..........................	$ 1.52	$ 0.92	$ 0.31	$ 0.32
Diluted earnings per common share........................	$ 1.51	$ 0.92	$ 0.31	$ 0.32

</TABLE>

<TABLE>
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	Years Ended December 31,				
	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Net income before taxes............	$ 29,400,000	$ 3,836,000	$ 519,000	$ 1,192,000	$ 1,245,000
Minority interest..................	11,208,000	8,566,000	-	-	-
Interest expense...................	2,361,000	1,000	-	-	-
Earnings available to cover fixed charges.........................	$ 42,969,000	$ 12,403,000	$ 519,000	$ 1,192,000	$ 1,245,000
Fixed charges (1)..................	$ 2,629,000	$ 1,000	$ -	$ -	$ -
Ratio of earnings to fixed charges.	16.34	12,403	N/A	N/A	N/A

Supplemental disclosure of Ratio of Funds from Operations ("FFO") to fixed charges:

	Years Ended December 31,				
	1998	1997	1996	1995	1994
FFO................................	$ 57,430,000	$ 17,597,000	$ 303,000	$ 720,000	$ 757,000
Interest expense...................	2,361,000	1,000	-	-	-
Adjusted FFO available to cover fixed charges..........	$ 59,791,000	$ 17,598,000	$ 303,000	$ 720,000	$ 757,000
Fixed charges (1)..................	$ 2,629,000	$ 1,000	$ -	$ -	$ -
Ratio of FFO to fixed charges......	22.74	17,598	N/A	N/A	N/A

(1) Fixed charges include interest expense plus capitalized interest.
</TABLE>

We consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-48313) of PS Business Parks, Inc. pertaining to the PS Business Parks, Inc. 1997 Stock Option and Incentive Plan, and the Registration Statement on Form S-3 (No. 333-50463) and the related prospectus of our report dated February 2, 1999 with respect to the consolidated financial statement and schedule of PS Business Parks, Inc. included in the Annual Report (Form 10-K) for 1998 filed with the Securities and Exchange Commission.

/s/ ERNST & YOUNG LLP

Los Angeles, California
March 10, 1999

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EXHIBIT 99.1

RISK FACTORS

CONTROL AND INFLUENCE BY PSI

At May 15, 1998, PSI owned 26.4% of the outstanding shares of Common Stock (47.2% upon conversion of PSI's interest in the Operating Partnership). Consequently, PSI has the ability to effectively control all matters submitted to a vote of Shareholders, including the election of directors, amendment of the Company's articles of incorporation, dissolution and the approval of other extraordinary transactions. In addition, this concentration of ownership may have the effect of delaying or preventing a change in control of the Company.

PSI and an institutional Shareholder owning 28.4% of the Common Stock as of May 15, 1998 have agreed to vote their respective shares of Common Stock to support specified nominees to the Board of Directors until the expiration of the voting agreement, which would not be earlier than December 2001. This voting agreement will further enhance PSI's control of the Company.

OWNERSHIP LIMITATIONS AND ANTITAKEOVER PROVISIONS

The Company's articles of incorporation restrict the number of shares that may be owned by any other person and the partnership agreement of the Operating Partnership (the "Partnership Agreement") contains an anti-takeover provision. Unless the restrictions in the articles of incorporation are waived by the Board of Directors, no Shareholder (other than PSI and certain other specified, and categories of, Shareholders) may own more than 2% of the outstanding shares of Common Stock. The principal purpose of the foregoing limitations is to assist in preventing, to the extent practicable, a concentration of ownership that might jeopardize the ability of the Company to obtain the favorable tax benefits afforded a qualified REIT. An incidental consequence of such provisions is to make a change of control significantly more difficult (if not impossible) even if it would be favorable to the interests of the public Shareholders. Such provisions may prevent future takeover attempts which the Board of Directors has not approved even if a majority of the Shareholders deem it to be in their best interests or in which the Shareholders would receive a premium for their shares over the then market value. See "Description of Common Stock-Ownership Limitations".

The Board of Directors is authorized, without Shareholder approval, to issue up to 50,000,000 shares of Preferred Stock and up to 100,000,000 shares of Equity Stock, in each case in one or more series. Each series of Preferred Stock or Equity Stock shall have such rights, preferences, privileges and restrictions as may be determined by the Board of Directors. The Board would be authorized to establish a class or series of shares that could delay, defer or prevent a transaction or a change in control of the Company that might involve a price for the Common Stock or other attributes which the Shareholders may consider to be desirable. The articles of incorporation and bylaws of the Company also contain other provisions that may have the effect of delaying, deferring or preventing a transaction or a change in control of the Company that might involve a price for the Common Stock or other attributes that the Shareholders may consider to be desirable. The Company also may cause the Operating Partnership to offer additional units in the Operating Partnership in exchange for property or otherwise.

The Partnership Agreement provides that the Company may not generally engage in a business consolidation unless the limited partners of the Operating Partnership are entitled to receive the same proportionate consideration as holders of Common Stock. In addition, the Company will not engage in a business combination unless the transaction would have been approved had the limited partners of the Operating Partnership been able to vote together with the Shareholders. As a result of these provisions, the Company may be precluded from engaging in a proposed business combination.

RISKS RELATING TO THE OPERATING PARTNERSHIP

Limited partners of the Operating Partnership (including PSI and its affiliates) have the right to vote on certain amendments to the Partnership Agreement. These voting rights may be exercised in a manner that conflicts with the interests of the Shareholders. Also, the Company, as the general partner of the Operating Partnership, has fiduciary duties to the limited partners, the discharge of which may conflict with interests of the Shareholders.

PSI'S CONSENT TO CERTAIN PROPERTY SALES

Prior to 2007, the Company is restricted from selling in a taxable transaction any of 13 designated properties without PSI's consent. Since PSI would incur adverse tax consequences upon a sale of these properties, there may be a conflict between the interests of PSI and the other Shareholders as to the optimum time to sell these properties.

CERTAIN INSTITUTIONAL INVESTORS HAVE SPECIAL RIGHTS

Certain institutional investors have rights in the Company, such as the right to approve nominees to the Company's Board of Directors, the right to purchase securities offered by the Company in certain circumstances and the right to require registration of their shares, not available to public Shareholders.

FEDERAL INCOME TAX RISKS

REDUCED CASH FLOW TO SHAREHOLDERS IF THE COMPANY FAILED TO QUALIFY AS A REIT. The Company believes that commencing with its taxable year ended December 31, 1990, it has been organized and has operated in such a manner so as to qualify for taxation as a REIT under the Code, and that its proposed method of operation will enable it to continue to meet the requirements for qualification and taxation as a REIT. The Company's qualification and taxation as a REIT depend upon both (i) the satisfaction in the past by AOPP of the requirements for qualification and taxation as a REIT and (ii) the Company's ability to meet on a continuing basis, through actual annual operating and other results, the various requirements under the Code with regard to, among other things, the sources of its gross income, the composition of its assets, the level of its distributions to Shareholders and the diversity of its stock ownership. Although management believes that the Company has been and will continue to be organized and has been and will continue to be operated in such a manner as to qualify as a REIT, no assurance can be given that the actual results of the operations of the Company and AOPP, the sources of their income, the nature of their assets, the level of their distributions to Shareholders and the diversity of their share ownership for any given taxable year in the past or in the future will satisfy the requirements under the Code for qualification and taxation as a REIT. In this regard, the stock ownership limits set forth in the Company's articles of incorporation do not necessarily ensure that the Company will be able to satisfy the requirement that it not be "closely held" for any given taxable year. For any taxable year that the Company fails to qualify as a REIT and the relief provisions do not apply, the Company would be taxed at the regular corporate rates on all of its taxable income, whether or not it makes any distributions to its Shareholders. Those taxes would reduce the amount of cash available to the Company for distribution to its Shareholders or for reinvestment. As a result, failure of the Company to qualify during any taxable year as a REIT could have a material adverse effect upon the Company and its Shareholders. Furthermore, unless certain relief provisions apply, the Company would not be eligible to elect REIT status again until the fifth taxable year that begins after the first year for which the Company fails to qualify.

REDUCED CASH FLOW TO SHAREHOLDERS IF AOPP FAILED TO QUALIFY AS A REIT. AOPP elected to qualify for taxation as a REIT effective for its tax year ended 1997. The Company and AOPP believe that AOPP was organized and operated until the time of the Merger in conformity with the requirements for taxation as a REIT. If, for any reason, the IRS were subsequently to determine that AOPP failed to meet the requirements for REIT status, AOPP could lose its REIT qualification, causing the Company to lose its REIT qualification for the year of the Merger and for subsequent years. Among other requirements, a REIT is not permitted to have at the end of any taxable year any undistributed earnings and profits that are attributable to a "C corporation" taxable year. AOPP was taxable as a "C corporation" prior to 1997, and believes that at the end of 1996 it did not have any undistributed "C corporation" earnings and profits. However, neither AOPP nor the Company has sought an opinion of counsel or outside accountants to the effect that there are no "C corporation earnings and profits" at that time or as a result of the Merger or to the effect that AOPP otherwise qualified for taxation as a REIT.

BORROWINGS MAY BE REQUIRED TO MEET REIT MINIMUM DISTRIBUTION REQUIREMENTS; POSSIBLE INCURRENCE OF ADDITIONAL DEBT. In order to qualify as a REIT, the Company generally will be required each year to distribute to the Shareholders at least 95% of its net taxable income (excluding any net capital gain). In addition, the Company will be subject to a 4% nondeductible excise tax on the amount, if any, by which certain distributions paid by it with respect to any calendar year are less than the sum of (i) 85% of its ordinary income for that year, (ii) 95% of its capital gain net income for that year, and (iii) 100% of its undistributed taxable income from prior years. The Company intends to make distributions to the Shareholders to comply with the 95% distribution requirement and to avoid the nondeductible excise tax. The Company's income will consist primarily of its share of the income of the Operating Partnership, and the cash available for distribution by the Company to its Shareholders will consist primarily of its share of cash distributions from the Operating Partnership. Differences in timing between the actual receipt of income and actual payment of deductible expenses and the inclusion of such income and deduction of such expenses in arriving at taxable income of the Company or the possible need to make nondeductible payments, such as principal payments on any indebtedness, could require the Company to borrow funds on a short-term (or possibly long-term) basis to meet the 95% distribution requirement and to avoid the nondeductible excise tax.

VALUE OF INVESTMENT REDUCED BY GENERAL RISKS OF REAL ESTATE OWNERSHIP

GENERAL REAL ESTATE RISKS. The Company owns and operates commercial properties and is subject to the risks of ownership of real estate-related assets generally and of ownership of commercial properties in particular. These risks include (i) the national, state and local economic climate and real estate conditions (such as oversupply of or reduced demand for space and changes in market rental rates), (ii) the perceptions of prospective tenants of the attractiveness, convenience and safety of the Company's properties, (iii) the ability of the Company to provide adequate management, maintenance and insurance, (iv) the Company's ability to collect all rent from tenants on a timely basis, (v) the expense of periodically renovating, repairing and reletting spaces and (vi) increasing operating costs (including real estate taxes and utilities) to the extent that such increased costs cannot be passed through to tenants, (vi) changes in tax, real estate and zoning laws. Certain significant costs associated with investments in real estate (such as mortgage payments, real estate taxes, insurance and maintenance costs) generally are not reduced when circumstances cause a reduction in rental revenues from a property and vacancies result in loss of the ability to receive tenant reimbursements of operating costs customarily borne by commercial real estate tenants. In addition, real estate values and income from properties are also affected by such factors as compliance with laws applicable to real property, including environmental and tax laws, interest rate levels and the availability of financing. Furthermore, the amount of available rental square feet of commercial property is often affected by market conditions and may therefore fluctuate over time.

If the Company's properties do not generate revenue sufficient to meet operating expenses, including any debt service, tenant improvements, leasing commissions and other capital expenditures, the Company may have to borrow additional amounts to cover fixed costs, and the Company's cash available for distribution and ability to make expected distributions to its Shareholders will be adversely affected.

RECENT ACQUISITIONS. The Company recently has acquired a significant portion (at May 15, 1998, 41 properties containing approximately 5,600,000 square feet of space) of its overall portfolio. In addition, the Company anticipates that it will continue to acquire commercial properties in the future. Newly acquired properties may have characteristics or deficiencies unknown to the Company affecting their valuation or revenue potential, and the operating performance of these properties may therefore be less than anticipated or may decline. As the Company acquires additional properties, the Company will be subject to risks associated with managing new properties, including lease-up and tenant retention. In addition, the Company's ability to manage its growth effectively will require it to successfully integrate its new acquisitions into its existing management structure.

LEASE EXPIRATIONS. The Company is subject to the risk that, upon expiration, leases may not be renewed, the space may not be relet, or the terms of renewal or reletting (including the cost of required renovations) may be less favorable than the current lease terms. Certain leases pertaining to the Company's properties grant their tenants early termination rights upon payment of a termination penalty. The Company has estimated the expenditures for new and renewal leases for 1998 but no assurances can be given that the Company has correctly estimated such expenses. Lease expirations will require the Company to locate new tenants and negotiate replacement leases with such tenants. Replacement leases typically require the Company to incur tenant improvements, other tenant inducements and leasing commissions, in each case, which may be higher than the costs relating to renewal leases. If the Company is unable to promptly relet or renew leases for all or a substantial portion of expiring space, if the rental rates upon such renewal or reletting are significantly lower than expected or if the Company's reserves for these purposes prove inadequate, the Company's cash available for distribution and ability to make expected distributions to Shareholders could be adversely affected.

FINANCIALLY DISTRESSED TENANTS. In the event of any lease default by a tenant, the Company may experience delays in enforcing its rights as a landlord and may incur substantial costs in protecting its investment. In addition, at any time, a tenant of one of the Company's properties may seek the protection of bankruptcy laws, which could result in the rejection and termination of such tenant's lease and thereby cause a reduction in cash available for distribution to Shareholders.

SIGNIFICANT COMPETITION AMONG COMMERCIAL PROPERTIES. Numerous commercial properties compete with the Company's properties in attracting tenants to lease space and additional properties can be expected to be built in the markets in which the Company's properties are located. The number and quality of competitive commercial properties in a particular area will have a material effect on the Company's ability to lease space at the properties or at newly acquired properties and on the rents charged. Some of these competing properties may be newer or better located than the Company's properties. In addition, the commercial real estate market has become highly competitive. There are a significant number of buyers of commercial properties, including other publicly-traded commercial REITs, many of which have significant financial resources. This has resulted in increased competition in acquiring attractive commercial properties. Accordingly, it is possible that the Company may not be able to meet its desired level of property acquisitions due to such competition or other factors which may have an adverse effect on the Company's expected growth in 1998 and subsequent years.

UNINSURED LOSSES

The Company carries insurance with respect to its properties with policy terms and conditions customarily carried for similar properties. No assurance can be given, however, that material losses in excess of insurance proceeds will not occur in the future which would adversely affect the business of the Company and its financial condition and results of operations. In addition, certain types of losses are, or may become, uninsurable, not fully insurable or economically insurable. Should an uninsured loss or a loss in excess of insured limits occur, the Company could lose its capital invested in a property, as well as the anticipated future revenue from such property, and would continue to be obligated on any mortgage indebtedness or other obligations related to the property.

POSSIBLE ADVERSE EFFECTS OF ILLIQUIDITY OF REAL ESTATE INVESTMENTS

Equity real estate investments are relatively illiquid. Such illiquidity will tend to limit the ability of the Company to vary its portfolio promptly in response to changes in economic or other conditions. In addition, the Code limits the ability of a REIT to sell properties held for fewer than four years, which may affect the Company's ability to sell properties without adversely affecting returns to Shareholders.

REDUCED PROPERTY INCOME FROM CHANGES IN LAWS

Because increases in income and service taxes are generally not passed through to tenants under leases, such increases may adversely affect the Company's cash flow and its ability to make expected distributions to Shareholders. The Company's properties are also subject to various federal, state, and local regulatory requirements, such as requirements of the state and local fire and safety requirements. Failure to comply with these requirements could result in the imposition of fines by governmental authorities or awards of damages to private litigants. The Company believes that the Company's properties are currently in material compliance with all such requirements. However, there can be no assurance that these requirements will not change or that new requirements will not be imposed which would require significant unanticipated expenditures by the Company and could have an adverse effect on the Company's cash flow and ability to make distributions.

ADVERSE EFFECT OF POSSIBLE ADDITIONAL COSTS OF COMPLIANCE WITH AMERICANS WITH DISABILITIES ACT ON CASH FLOW AND DISTRIBUTIONS

Under the Americans with Disabilities Act of 1990 (the "ADA"), all public accommodations and commercial facilities are required to meet certain federal requirements related to access and use by disabled persons. Existing commercial properties generally are exempt from the provisions of the ADA but may be subject to provisions requiring that buildings be made accessible to people with disabilities. Compliance with the ADA requirements could require removal of access barriers, and non-compliance could result in imposition of fines by the U.S. government or an award of damages to private litigants. While the amounts of such compliance costs, if any, are not currently ascertainable, they are not expected to have a material effect on the Company.

LACK OF CONTROL OF PROPERTIES BY THE COMPANY RESULTING FROM PARTNERSHIP AND JOINT VENTURE PROPERTY OWNERSHIP STRUCTURES

The Company owns most of its properties through the Operating Partnership. In addition, the Company may also participate with other entities in property ownership through joint ventures or partnerships in the future. Partnership or joint venture investments may, under certain circumstances, involve risks not otherwise present, including the possibility that the Company's partners or co-venturers might become bankrupt, that such partners or co-venturers might at any time have economic or other business interests or goals which are inconsistent with the business interests or goals of the Company and that such partners or co-venturers may be in a position to take action contrary to the Company's instructions or requests or contrary to the Company's policies or objectives, including the Company's policy with respect to maintaining its qualification as a REIT. The Company will, however, seek to maintain sufficient control of such partnerships or joint ventures to permit the Company's business objectives to be achieved. There is no limitation under the Company's organizational documents as to the amount of funds that may be invested in partnerships or joint ventures.

POSSIBLE ENVIRONMENTAL LIABILITIES

Under various federal, state and local environmental laws, regulations and ordinances, an owner or operator of real estate interests may be liable for the costs of cleaning up, as well as certain damages resulting from, past or present spills, disposals or other releases of hazardous or toxic substances or wastes on, in or from a property. Certain environmental laws impose such liability without regard to whether the owner knew of, or was responsible for, the presence of hazardous or toxic substances or wastes at or from a property. An owner or operator of real estate or real estate interests also may be liable under certain environmental laws that govern activities or operations at a property having adverse environmental effects, such as discharges to air and water as well as handling and disposal practices for solid and hazardous or toxic wastes. In some cases, liability may not be limited to the value of the property. The presence of such substances or wastes, or the failure to properly remediate any resulting contamination, also may adversely affect the owner's or operator's ability to sell, lease or operate its property or to borrow using its property as collateral.

The Company has conducted preliminary environmental assessments of most of its properties (and the Company intends to conduct such assessments in connection with future property acquisitions) to evaluate the environmental condition of, and potential environmental liabilities associated with, such properties. Such assessments generally consist of an investigation of environmental conditions at the subject property (not including soil or groundwater sampling or analysis), as well as a review of available information regarding the site and publicly available data regarding conditions at other sites in the vicinity. The preliminary environmental assessments, including subsequent procedures where applicable, have not revealed any environmental liability that the Company believes would have a material adverse effect on the Company's business, assets or results of operations, nor is the Company aware of any such material environmental liability. When preliminary environmental assessments, including subsequent procedures where applicable, have revealed any potential environmental liability, the Company has obtained an indemnification from entities which it deems to be creditworthy (including PSI) or established escrows with funds that would otherwise be payable to sellers of property to remediate the environmental matter. Nevertheless, it is possible that the preliminary environmental assessments, relating to the properties do not reveal all environmental liabilities or that there are material environmental liabilities of which the Company is unaware. Moreover, there can be no assurance that (i) future laws, ordinances or regulations will not impose any material environmental liability or (ii) the current environmental condition of the properties will not be affected by tenants, by the condition of land or operations in the vicinity of the properties (such as the presence of underground storage tanks) or by third parties unrelated to the Company.

POSSIBLE CHANGES IN POLICIES WITHOUT SHAREHOLDER APPROVAL; NO LIMITATION ON DEBT

The Company's investment, financing and distribution policies, and its policies with respect to all other activities, including growth, capitalization and operations, will be determined by the Board of Directors. The organizational documents of the Company do not contain any limitation on the amount of indebtedness the Company may incur. The amount of indebtedness, and the Company's other investment, financing and distribution policies, may be changed by the Board of Directors without a vote of the Shareholders. A change in these policies, including the Company's level of debt, could adversely affect the Company's financial condition or results of operations or the market price of the Common Stock.

DILUTION AND SUBORDINATION

The interest of Shareholders can be diluted through the issuance of additional securities. If the Company issues Preferred Stock or Equity Stock, the interest of Shareholders could be subordinated, and if the Company issues additional Common Stock, the interest of Shareholders could be diluted.

POSSIBLE ADVERSE EFFECT OF MARKET INTEREST RATES ON PRICE OF COMMON STOCK

One of the factors that is expected to influence the market price of the Common Stock is the annual distribution rate on the Common Stock. An increase in market interest rates may lead prospective purchasers of the Common Stock to demand a higher annual distribution rate for future distributions. Such an increase in the required distribution rate may adversely affect the market price of the Common Stock.

POSSIBLE ADVERSE EFFECT ON PRICE OF COMMON SHARES OF SHARES AVAILABLE FOR FUTURE SALE

Sales of a substantial number of shares of Common Stock or other Securities, or the perception that such sales could occur, could adversely affect prevailing market prices of the Common Stock or other Securities. Certain Shareholders hold significant numbers of shares of Common Stock and, subject to compliance with applicable securities laws, could determine to reduce or liquidate such holdings through sales in the public markets or otherwise. Because certain of these shares of Common Stock were sold to the holders thereof in offerings exempt from the registration provisions of the Securities Act, resale is restricted for prescribed times and manners pursuant to Rule 144 under the Securities Act. However, these restrictions lapse at the times and in the manner specified in such Rule. In addition, certain of the Shareholders whose shares of Common Stock are subject to restriction on resale under Rule 144 have certain rights to require that the Company register such shares for offer or sale to the public.

DEPENDENCE ON KEY PERSONNEL

The Company is dependent on the efforts of its executive officers, including Ronald L. Havner, Jr., the Company's chief executive officer and president, and Mary Jayne Howard, the Company's chief operating officer and executive vice president. The loss of either of their services may have an adverse effect on the operations of the Company. The Company maintains no key person insurance with respect to either of these individuals.