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

FORM 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2019.

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 No.)*

701 Western Avenue, Glendale, California 91201-2349
(Address of principal executive offices) (Zip Code)

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

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

Title of Each Class	Ticker Symbol	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value per share	PSB	New York Stock Exchange
Depositary Shares Each Representing 1/1,000 of a 5.200% Cum Pref Stock, Series W, $0.01 par value	PSBPrW	New York Stock Exchange
Depositary Shares Each Representing 1/1,000 of a 5.250% Cum Pref Stock, Series X, $0.01 par value	PSBPrX	New York Stock Exchange
Depositary Shares Each Representing 1/1,000 of a 5.200% Cum Pref Stock, Series Y, $0.01 par value	PSBPrY	New York Stock Exchange
Depositary Shares Each Representing 1/1,000 of a 4.875% Cum Pref Stock, Series Z, $0.01 par value	PSBPrZ	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

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

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
☑	☐	☐	☐	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

As of June 30, 2019, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $3,365,181,255 based on the closing price as reported on that date.

Number of shares of the registrant's common stock, par value $0.01 per share, outstanding as of February 17, 2020 (the latest practicable date): 27,441,071.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement to be filed in connection with the Annual Meeting of Shareholders to be held in 2020 are incorporated by reference into Part III of this Annual Report on Form 10-K.

PART I

ITEM 1. *BUSINESS*

Forward-Looking Statements

Forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, are made throughout this Annual Report on Form 10-K. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words “may,” “believes,” “anticipates,” “plans,” “expects,” “seeks,” “estimates,” “intends” and similar expressions are intended to identify forward-looking statements. There are a number of important factors that could cause the results of the Company to differ materially from those indicated by such forward-looking statements, including but not limited to (i) changes in general economic and business conditions; (ii) decreases in rental rates or increases in vacancy rates/failure to renew or replace expiring leases; (iii) tenant defaults; (iv) the effect of the recent credit and financial market conditions; (v) our failure to maintain our status as a real estate investment trust (a “REIT”) under the Internal Revenue Code of 1986, as amended (the “Code”); (vi) the economic health of our customers; (vii) increases in operating costs; (viii) casualties to our properties not covered by insurance; (ix) the availability and cost of capital; (x) increases in interest rates and its effect on our stock price; (xi) security breaches or a failure of our networks, systems or technology could adversely impact our business, customer and employee relationships; and (xii) other factors discussed under the heading Item 1A, “Risk Factors.” In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. Moreover, we assume no obligation to update these forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements, except as required by law.

The Company

PS Business Parks, Inc. (“PSB”) is a fully-integrated, self-advised and self-managed REIT that owns, operates, acquires and develops commercial properties, primarily multi-tenant industrial, flex and office space. Substantially all of PSB’s assets are held, and its business is conducted, through PS Business Parks, L.P. (the “OP”), a California limited partnership. PSB has full, exclusive, and complete control of the OP as the sole general partner and, as of December 31, 2019, owned 79.0% of the common partnership units, with Public Storage (“PS”) owning the remainder. PS also owns 7.2 million common shares and assuming issuance of PSB common stock upon redemption of the common partnership units held by PS, PS would own 41.6% (or 14.5 million shares) of the outstanding shares of the Company’s common stock.

Unless otherwise indicated or unless the context requires otherwise, all references to “the Company,” “we,” “us,” “our” and similar references mean PS Business Parks, Inc. and its subsidiaries, including the OP and our consolidated joint venture.

As of December 31, 2019, we owned and operated 27.6 million rentable square feet of commercial space, comprising 97 business parks, in California, Texas, Virginia, Florida, Maryland and Washington. The Company focuses on owning concentrated business parks which provide the Company with the greatest flexibility to meet the needs of its customers. Along with the commercial space, we also have a 95.0% interest in a 395-unit apartment complex. The Company also manages 438,000 rentable square feet on behalf of PS.

History of the Company: The Company was formed in 1990 as a California corporation. Through a series of transactions between January, 1997 and March, 1998, the Company was renamed “PS Business Parks, Inc.” and became a publicly held, fully integrated, self-advised and self-managed REIT having interests in commercial real estate held through our OP.

Principal Business Activities

We are in the commercial property business, with 97 business parks consisting of multi-tenant industrial, flex and office space. The Company owns 18.1 million square feet of industrial space that has characteristics similar to the warehouse component of the flex space as well as ample dock access. We own 6.2 million square feet of flex space, representing industrial buildings that are configured with a combination of warehouse and office space and can be designed to fit a wide variety of uses. The warehouse component of the flex space has a number of uses including light manufacturing and assembly, storage and warehousing, showroom, laboratory, distribution and research and development activities. The office component of flex space is complementary to the warehouse component by enabling businesses to accommodate management and production staff in the same facility. In addition, the Company

owns 3.2 million square feet of low-rise office space, generally either in business parks that combine office and flex space or in submarkets where the market demand is more office focused.

We generally seek to own and operate multi-tenant buildings in multi-building business parks which accommodate various businesses and uses. Our business parks average 14 buildings and 800,000 rentable square feet per park, located on parcels of various sizes, ranging from one to 49 buildings and 12,000 to 3.5 million square feet of rentable space. Parking is generally open but in some instances is covered. The ratio of parking spaces to rentable square feet generally ranges from two to six per thousand square feet depending upon the use of the property and its location. Office space generally requires a greater parking ratio than most industrial uses.

The customer base for our facilities is diverse. The portfolio can be bifurcated into those facilities that service small to medium-sized businesses and those that service larger businesses. Approximately 36.8% of in-place rents from the portfolio are derived from facilities that generally serve small to medium-sized businesses. A property in this facility type is typically divided into units under 5,000 square feet and leases generally range from one to three years. The remaining 63.2% of in-place rents from the portfolio are generally derived from facilities that serve larger businesses, with units 5,000 square feet and larger. The Company also has several customers that lease space in multiple buildings and locations. As of December 31, 2019, the U.S. Government is the largest customer with multiple leases encompassing approximately 521,000 square feet and 3.1% of the Company's annualized rental income.

We operate in six states and we may expand our operations to other states or reduce the number of states in which we operate. However, we have no current plans to expand into additional markets or exit existing markets. Properties are acquired for both income and capital appreciation potential; we place no limitation on the amount that can be invested in any specific property.

The Company owns approximately 14.0 acres and 6.4 acres of land in Dallas and Northern Virginia, respectively, which are reflected on our consolidated balance sheets as land and building held for development. The Company will seek to develop these parcels and possibly seek redevelopment of other assets in the future.

See "Objectives and Strategies" below for further information.

Our principal executive offices are located at 701 Western Avenue, Glendale, California 91201-2349, and our telephone number is (818) 244-8080. We maintain a website with the address www.psbusinessparks.com. The information contained on our website is not a part of, or incorporated by reference into, this Annual Report on Form 10-K. We make available free of charge through our website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file or furnish such material to the Securities and Exchange Commission (the "SEC").

Recent Company Developments

Acquisition of Real Estate Facilities: Subsequent to December 31, 2019, we acquired a multi-tenant industrial park comprised of approximately 73,000 rentable square feet in La Mirada, California, for a total purchase price of $13.5 million, inclusive of capitalized transaction costs. The park consists of five buildings and was 100.0% occupied at acquisition with suites ranging from 1,200 to 3,000 square feet.

On December 20, 2019, we acquired a multi-tenant flex park comprised of approximately 79,000 rentable square feet in Santa Clara, California, for a total purchase price of $16.8 million, inclusive of capitalized transaction costs. The park consists of nine buildings and was 95.6% occupied at acquisition with suites ranging from 200 to 3,500 square feet.

On September 5, 2019, we acquired a multi-tenant industrial park comprised of approximately 543,000 rentable square feet in Santa Fe Springs, California, for a total purchase price of $104.3 million, inclusive of capitalized transaction costs. The park consists of ten buildings and was 100.0% occupied at acquisition with suites ranging from 5,000 to 288,000 square feet.

On April 18, 2019, we acquired a multi-tenant industrial park comprised of approximately 74,000 rentable square feet in Signal Hill, California, for a total purchase price of $13.8 million, inclusive of capitalized transaction costs. The park consists of eight buildings and was 98.4% occupied at acquisition with suites ranging from 1,200 to 8,000 square feet. The eight buildings are located in the Signal Hill industrial submarket where we already own five industrial parks totaling 268,000 square feet.

Development of Multifamily Real Estate: In 2019, we successfully rezoned our 628,000 square foot office park known as The Mile in Tysons, Virginia. The rezoning will allow us to develop, at our election, up to 3,000 additional multifamily units and approximately 500,000 square feet of other commercial uses. We leveraged the expertise of a well-regarded local developer and operator of multifamily real estate to develop our first multifamily development at The Mile which completed in 2017, a 395-unit multifamily property known as Highgate. We are currently seeking to demolish a 123,000 square foot vacant office building in order to construct our second multifamily property, for which we will likely enter into a similar joint venture with the same well-regarded local developer. There could be several phases of the development at The Mile beyond that, but the scope, timing and construction of all future phases of development of The Mile are subject to a variety of contingencies, including site plan approvals and building permits. See "Objectives and Strategies" below for further information regarding our development and redevelopment activities.

Sales of Real Estate Facilities: On October 8, 2019, we sold three business parks located in Montgomery County, Maryland: Metro Park North, Meadow Business Park and WesTech Business Park. The parks, consisting of 28 buildings totaling approximately 1.3 million rentable square feet, sold for net sale proceeds of $144.6 million, which resulted in a gain of $16.6 million.

Also subsequent to December 31, 2019, the Company completed the sale of a single-tenant building totaling 113,000 square feet in Montgomery County, Maryland, for a gross sales price of $30.0 million. The building had been marketed previously as part of a broader portfolio of suburban Maryland office properties sold in 2019, but was excluded from the 1.3 million square foot sale which closed October 8, 2019 and as such was the Company's only remaining office asset at Metro Park North.

Tax and Corporate Structure

For all periods presented herein, we have elected REIT status under the Code. As a REIT, we generally do not incur federal income tax if we distribute substantially all of our "REIT taxable income" (generally, net rents and gains from real property, dividends, and interest) each year, and if we meet certain organizational and operational requirements. To the extent that we continue to qualify as a REIT, we will not be taxed, with certain limited exceptions, on the "REIT taxable income" that is distributed to our shareholders. We believe we have met these requirements in all periods presented herein, and we expect to continue to elect and qualify as a REIT.

PSB is structured as an umbrella partnership REIT ("UPREIT"), with substantially all of our activities conducted through the OP. We acquired interests in certain properties from PS during PSB's initial formation in exchange for operating partnership units, which allowed PS to defer the recognition of a tax gain on the contributed properties. We have the ability to offer similar tax-efficient transactions to potential sellers of real estate in the future.

We are the sole general partner of the OP, which has equity in the form of common partnership units and preferred partnership units that are identical as to terms, coupon rates, and liquidation amounts as our preferred shares outstanding. As of December 31, 2019, we owned 79.0% of the common partnership units of the OP and 100% of the preferred partnership units. The remainder of the common partnership units are owned by PS. The common units owned by PS may be redeemed, subject to certain limitations, for shares of our common stock on a one-for-one basis or, at our option, an equivalent value in cash.

The Company's interest in the OP entitles it to share in cash distributions from, and the profits and losses of, the OP in proportion to the Company's economic interest in the OP (apart from tax allocations of profits and losses to take into account pre-contribution property appreciation or depreciation). The Company, since 1998, has paid per share dividends on its common and preferred stock that track, on a one-for-one basis, the amount of per unit cash distributions the Company receives from the OP in respect of the common and preferred partnership units in the OP that are owned by the Company.

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

Common Officers and Directors with PS

Ronald L. Havner, Jr., Chairman of the Company, is also the Chairman of the Board of Trustees of PS. Joseph D. Russell, Jr. is a director of the Company and also President and Chief Executive Officer of PS. Gary E. Pruitt, an independent director of the Company, is also a trustee of PS. Other employees of PS render services to the Company pursuant to a cost sharing and administrative services agreement.

Services Provided to and by PS

We manage industrial, office, and retail facilities in the United States for PS under either the "Public Storage" or "PS Business Parks" names (the "PS Management Agreement"). Under PS's supervision, we coordinate and assist in rental and marketing activities, property maintenance and other operational activities, including the selection of vendors, suppliers, employees and independent contractors. Management fee revenue derived from the PS Management Agreement totaled $287,000, $407,000 and $506,000 for the years ended December 31, 2019, 2018 and 2017, respectively. These amounts are included in "interest and other income" on our consolidated statements of income

PS also provides property management services for the self-storage component of two assets owned by the Company. Management fee expenses under the contract were $98,000, $96,000 and $92,000 for the years ended December 31, 2019, 2018 and 2017, respectively. These amounts are included under "cost of operations" on our consolidated statements of income.

Pursuant to a cost sharing agreement, we share certain administrative services, corporate office space, and certain other third party costs with PS which are allocated based upon fair and reasonable estimates of the cost of the services expected to be provided. We reimbursed PS $1.2 million, $1.2 million and $1.3 million, respectively, in the years ended December 31, 2019, 2018 and 2017 for costs paid on our behalf, while PS reimbursed us $39,000, $38,000 and $31,000 for costs we incurred on their behalf for the years ended December 31, 2019, 2018 and 2017, respectively.

Management

Maria R. Hawthorne, President and Chief Executive Officer of the Company, leads the Company's senior management team. The Company's senior management includes: John W. Petersen, Executive Vice President and Chief Operating Officer; Jeffrey D. Hedges, Executive Vice President and Chief Financial Officer; Trenton A. Groves, Senior Vice President and Chief Accounting Officer; Coby A. Holley, Vice President, Investments; Christopher M. Auth, Vice President (Washington Metro Division); Stuart H. Hutchison, Vice President (Southern California and Pacific Northwest Divisions); Richard E. Scott, Vice President (Northern California Division); David A. Vicars, Vice President (Texas Division); Rich Guertin, Vice President (Florida Division); and Eugene Uhlman, Vice President, Construction Management.

Competition

Our properties compete for tenants with similar properties located in our markets primarily on the basis of location, rent charged, services provided and the design and condition of improvements. Competition in the market areas we operate in is significant and has from time to time negatively impacted occupancy levels and rental rates of, and increased the operating expenses of, certain of our properties. Competition may be accelerated by any increase in availability of funds for investment in real estate, because barriers to entry can be relatively low for those with the necessary capital. The demand for space in our markets is impacted by general economic conditions, which can affect the local competition for tenants. Sublease space and unleased developments have from time to time created competition among operators in certain markets in which the Company operates. We also compete for property acquisitions with entities that have greater financial resources than the Company.

We believe we possess several distinguishing characteristics and strategies, some of which are described below under "Objectives and Strategies," that enable us to compete effectively. In addition, we believe our personnel are among the most experienced in our real estate markets. The Company's facilities are part of a comprehensive system encompassing standardized procedures and integrated reporting and information networks.

We believe that the significant operating and financial experience of our executive officers and directors combined with the Company's capital structure, national investment scope, geographic diversity, financial stability, and economies of scale should enable us to compete effectively.

Objectives and Strategies

Our primary objective is to grow shareholder value in a risk appropriate and stable manner by maximizing the net cash flow generated by our existing properties, as well as prudently seeking growth through acquisitions and development that generate attractive returns on invested capital.

We seek to optimize the net cash flow of our existing properties by maximizing occupancy levels and rental rates, while minimizing capital expenditures and leasehold improvements. Below are the primary elements of our strategy:

Concentration in favorable markets: We believe that our properties generally are located in markets that have favorable characteristics such as above average population, job, and income growth, as well as high education levels. In addition, we believe our business parks are generally in higher barrier to entry markets that are close to critical infrastructure, middle to high income housing or universities and have easy access to major transportation arteries. We believe that these characteristics contribute to favorable cash flow stability and growth.

Standard build outs and finishes: We generally seek to configure our rentable space with standard buildouts and finishes that meet the needs of a wide variety of tenants, minimizing the need for specialized and costly tenant improvements and enabling space to be “move-in ready” quickly upon vacancy. We believe this makes our space more attractive to potential tenants, allows tenants to move in more quickly and seamlessly, and reduces the cost of capital improvements, relative to real estate operators that offer specialized finishes or build outs. Also, such flexibility facilitates our ability to offer diverse sizes and configurations to meet potential customer’s needs, as well as to change space sizes for existing customers when their needs change.

Large, Diverse Parks: Our business parks are generally concentrated in large complexes of diverse buildings, with a variety of available space sizes and configurations that we can offer to tenants. We believe that this allows us to attract a greater number of potential tenants to our parks and minimizes the loss of existing customers when their space requirements change.

Smaller tenants and diverse tenant base with shorter-term leases: By concentrating on smaller spaces, we seek to reach a large number of smaller tenants in the market. We believe this focus gives us a competitive edge as most institutional owners focus on large users. Small users perceive more incremental value from the level of customer service that we offer. We also believe having smaller tenants improves our diversity of tenants across industries, which improves the stability of our cash flows. In addition, our lease term tends to be shorter, generally an average of three and a half years, which we believe allows us to more quickly capture increases in market rents in our high-growth markets. At December 31, 2019, our average suite size was approximately 5,000 rentable square feet, and no individual customer, other than the U.S. Government, represents more than 1% of our annualized rental income.

Decentralized operating strategy: Our local market management is empowered, within a prescribed decision and metrics framework, to make many leasing rate, capital, and lease term decisions in a manner which we believe maximizes the return on investment on leasing transactions. We believe this decentralized approach allows us to be more nimble and efficient in our decision making, and more effectively price and market our space, relative to a more centralized approach.

Superior Service to Customers: We seek to provide a superior level of service to our customers in order to maintain occupancy and increase rental rates, as well as minimize customer turnover. The Company’s property management offices are located on-site, helping the Company maintain its properties and providing customers with convenient access to management, while conveying a sense of quality, order and security. We believe that our personnel are among the most experienced and effective in the real estate industry in our markets. The Company has significant experience in acquiring properties managed by others and thereafter improving customer satisfaction, occupancy levels, retention rates and rental income by implementing established customer service programs.

In addition, we seek to expand through acquisitions or development activities that generate attractive returns on invested capital, as follows:

Acquire facilities in targeted markets at prudent price levels: We have a disciplined capital allocation approach, seeking to purchase properties at prices that are not in excess of the cost to develop similar facilities, which we believe reduces our risk and maximizes long term returns. We seek generally to acquire in our existing markets, which we believe have favorable growth characteristics. We also believe acquiring in our existing markets leverages our operating efficiencies. We would consider expanding to additional markets with similar favorable characteristics of our existing markets, if we could acquire sufficient scale (generally at least 2 million rentable square feet); however, we have no current plans or immediate prospects to do so.

Redevelop existing real estate facilities: Certain of our existing business parks were developed in or near areas that have been undergoing gentrification and an influx of residential development, and, as a result, certain buildings in our business parks may have higher and better uses as residential space. While residential space is generally not a core asset class for us, we will seek to identify potential candidates for redevelopment in our portfolio, and plan to leverage the expertise and scale of existing operators and developers should we pursue redevelopment of any of our properties. For example, at The Mile in Tysons, Virginia, we demolished an existing building and developed Highgate, a 395-unit apartment building, with a joint venture partner. We also have successfully rezoned our 628,000 square foot office

park located within The Mile and are able to pursue the development of additional multifamily and mixed use projects. There can be no assurance as to the level of conversion opportunities throughout our portfolio in the future.

Financing Strategy

Overview of financing strategy and sources of capital: As a REIT, we generally distribute substantially all of our "REIT taxable income" to our shareholders which, relative to a taxable C corporation, limits the amount of cash flow from operations that we can retain for investment purposes. As a result, in order to expand our asset base, access to capital is important.

Our financial profile is characterized by strong credit metrics, including low leverage relative to our total capitalization and operating cash flows. Our credit profile and ratings enable us to effectively access both the public and private capital markets to raise capital. We will seek to maintain our credit profile and ratings.

Sources of capital available to us include retained cash flow, the issuance of preferred and common equity, the issuance of medium and long-term debt, joint venture financing, the sale of properties, and our revolving line of credit.

Historically, we have financed our cash investment activities primarily with retained operating cash flow and the issuance of preferred equity.

We select from the sources of capital available to us based upon relative cost, availability and the desire for leverage, nature of the investment opportunities for which the capital will be used, as well as intangible factors such as the impact of covenants in the case of debt.

Retained Operating Cash Flow: Although we are required to generally distribute substantially all of our "REIT taxable income" to our shareholders, we have nonetheless been able to retain operating cash flow to the extent that our tax depreciation exceeds our maintenance capital expenditures. In recent years, we have retained approximately $40 to $60 million in operating cash flow per year.

Preferred Equity: We view preferred equity as an important source of capital over the long term, because it reduces interest rate and refinancing risks as the dividend rate is fixed and there are no refinancing requirements. In addition, the consequences of defaulting on required preferred distributions are less severe than with debt. However, rates and market conditions for the issuance of preferred securities can be volatile or inefficient from time to time. The preferred shareholders may elect two additional directors if six quarterly distributions go unpaid, whether or not consecutive. As of December 31, 2019, we have $944.8 million in preferred securities outstanding with an average coupon rate of 5.10%.

Medium or long-term debt: We have broad powers to borrow in furtherance of our objectives. We may consider the public issuance or private placement of senior unsecured debt in the future in an effort to diversify our sources of capital.

Common equity: We believe that the market for our common equity is liquid and, as a result, common equity is a viable potential source of capital.

Tax advantaged equity: As noted above, we have the ability to offer common or preferred operating partnership units with economic characteristics that are similar to our common and preferred stock, but provide the seller the opportunity to defer the recognition of a tax gain.

Credit Facility: We have a $250.0 million unsecured revolving line of credit (the "Credit Facility"), which we use as necessary as temporary financing, along with short-term bank loans, until we are able to raise longer-term capital. As of December 31, 2019, there were no borrowings outstanding on our Credit Facility and we had no short-term bank loans.

Investments in Real Estate Facilities

As of December 31, 2019, the Company owned and operated 27.6 million rentable square feet comprised of 97 business parks in six states compared to 28.2 million rentable square feet comprised of 96 business parks in six states as of December 31, 2018. The Company also held a 95.0% interest in a 395-unit multifamily apartment complex as of December 31, 2019 and 2018.

Restrictions on Transactions with Affiliates

The Company's Restated 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.

Employees

As of December 31, 2019, the Company employed 155 individuals, comprised primarily of personnel engaged in property operations.

Insurance

The Company believes that its properties are adequately insured. Facilities operated by the Company have historically been covered by comprehensive insurance, including fire, earthquake, wind damage and liability coverage from nationally recognized carriers, subject to customary deductibles.

Environmental Matters

Compliance with laws and regulations relating to the protection of the environment, including those regarding the discharge of material into the environment, has not had any material effect upon the capital expenditures, earnings or competitive position of the Company.

Substantially all of the Company's properties have received Phase I environmental reviews. Such reviews have not revealed, and management is not aware of, any probable or reasonably possible environmental costs that management believes would have a material adverse effect on the Company's business, assets or results of operations, nor is the Company aware of any potentially material environmental liability. See Item 1A, "Risk Factors" for additional information.

ITEM 1A. *RISK FACTORS*

In addition to the other information in our Annual Report on Form 10-K, you should consider the risks described below that we believe may be material to investors in evaluating the Company. This section contains forward-looking statements, and in considering these statements, you should refer to the qualifications and limitations on our forward-looking statements that are described in Item 1, "Business — Forward-Looking Statements."

We have significant exposure to real estate risk.

Since our business consists primarily of acquiring and operating real estate, we are subject to risks related to the ownership and operation of real estate that can adversely impact our business and financial condition. Certain significant costs, such as mortgage payments, real estate taxes, insurance and maintenance, generally are not reduced even when a property's rental income is reduced. In addition, environmental and tax laws, interest rate levels, the availability of financing and other factors may affect real estate values and property income. Furthermore, the supply of commercial space fluctuates with market conditions.

Since we derive substantially all our income from real estate operations, we are subject to the following general risks of acquiring and owning real estate related assets that could result in reduced revenues, increased expenses, increased capital expenditures, or increased borrowings, which could negatively impact our operating results, cash flow available for distribution or reinvestment and our stock price:

- changes in the national, state and local economic climate and real estate conditions, such as oversupply of or reduced demand for commercial real estate space and changes in market rental rates;
- how prospective tenants perceive the attractiveness, convenience and safety of our properties;
- difficulties in consummating and financing acquisitions and developments on advantageous terms and the failure of acquisitions and developments to perform as expected;
- our ability to provide adequate management, maintenance and insurance;

- natural disasters, such as earthquakes, fires, hurricanes and floods, which could exceed the aggregate limits of our insurance coverage;
- the consequences of changes in climate, including severe weather events, and the steps taken to prevent climate change, could result in increased capital expenditures and expenses
- the expense of periodically renovating, repairing and re-letting spaces;
- the impact of environmental protection laws;
- compliance with federal, state and local laws and regulations;
- increasing operating and maintenance costs, including property taxes, insurance and utilities, if these increased costs cannot be passed through to customers;
- the result of a potential November 2020 California statewide ballot initiative (or similar legislative or regulatory actions) that could remove the property tax protections of Proposition 13 with respect to our California real estate and result in substantial increases in our California property tax bills;
- adverse changes in tax, real estate and zoning laws and regulations;
- increasing competition from other commercial properties in our market;
- tenant defaults and bankruptcies;
- tenants’ right to sublease space; and
- concentration of properties leased to non-rated private companies with uncertain financial strength.

There is significant competition among commercial property operators: Other commercial properties compete with our properties for tenants. Some of the competing properties may be newer and better located than our properties. Competition in the market areas in which many of our properties are located is significant and has affected our occupancy levels, rental rates and operating expenses. We also expect that new properties will be built in our markets. In addition, we compete with other buyers, some of which are larger than us, for attractive commercial properties. Therefore, we may not be able to grow as rapidly as we would like.

We may encounter significant delays and expense in re-letting vacant space, or we may not be able to re-let space at existing rates, in each case resulting in losses of income: When leases expire, we may incur expenses in retrofitting space and we may not be able to re-lease the space on the same terms. Certain leases provide customers with the right to terminate early if they pay a fee. As of December 31, 2019, excluding the asset sold in January, 2020, 2,074 leases, representing 6.5 million, or 24.9%, of the leased square footage of our total portfolio, or 22.7% of annualized rental income, are scheduled to expire in 2020. While we have estimated our cost of renewing leases that expire in 2020, our estimates could be wrong. If we are unable to re-lease space promptly, if the terms are significantly less favorable than anticipated or if the costs are higher, our operating results, cash available for distribution or reinvestment and stock price could be negatively impacted.

Tenant defaults and bankruptcies may reduce our cash flow and distributions: We may have difficulty collecting from customers in default, particularly if they declare bankruptcy. Since many of our customers are non-rated private companies, this risk may be enhanced. There is inherent uncertainty in a customer’s ability to continue paying rent if they are in bankruptcy. This could negatively affect our operating results, cash available for distribution or reinvestment and stock price.

Natural disasters or terrorist attacks could cause damage to our facilities that is not covered by insurance, and could increase costs, reduce revenues, and otherwise impair our operating results: While we maintain insurance coverage for the losses caused by earthquakes, fire or hurricanes, we could suffer uninsured losses or losses in excess of our insurance policy limits for such occurrences. Approximately 40.7% of our properties are located in California and are generally in areas that are subject to risks of earthquake-related damage. In the event of an earthquake, fire, hurricane or other natural disaster, we would remain liable on any mortgage debt or other unsatisfied obligations related to that property. In addition, we may not have sufficient insurance coverage for losses caused by a terrorist attack, or such insurance may not be available or cost-effective. Significant natural disasters, terrorist attacks, threats of future terrorist attacks, or resulting wider armed conflict could have negative impacts on the U.S. economy, reducing

demand for our rental space and impairing our operating results, even if our specific losses were covered. This could negatively affect our operating results, cash available for distribution or reinvestment and stock price.

Consequences of climate change, including severe weather events, and the steps taken to prevent climate change, could result in increased capital expenditures, expenses, and reduced revenues: Direct and indirect impacts of climate change, such as increased destructive weather events, fires, reduced lifespans and population reduction, reduced natural habitats, water, food, arable land, and other resources, as well as resulting armed conflicts, could increase our costs. Governmental, political, and societal pressure could (i) require costly changes to future newly developed facilities, or require retrofitting of our existing facilities, to reduce carbon emissions through multiple avenues including changes to insulation, space configuration, lighting, heating, and air conditioning, and (ii) increase energy costs as a result of switching to less carbon-intensive, but more expensive, sources of energy to operate our facilities.

The illiquidity of our real estate investments may prevent us from adjusting our portfolio to respond to market changes: There may be delays and difficulties in selling real estate. Therefore, we cannot easily change our portfolio when economic conditions change. In addition, when we sell properties at significant gains upon sale, it can increase our distribution requirements, thus making it difficult to retain and reinvest the sales proceeds. Also, REIT tax laws may impose negative consequences if we sell properties held for less than two years.

We may be adversely affected by changes in laws: Increases in income and service taxes may reduce our cash flow and ability to make expected distributions to our shareholders. Additionally, any changes in the tax law applicable to REITs may adversely affect taxation of us and/or our shareholders. Our properties are also subject to various federal, state and local regulatory requirements, such as state and local fire and safety codes. If we fail to comply with these requirements, governmental authorities could fine us or courts could award damages against us. We believe our properties comply with all significant legal requirements. However, these requirements could change in a way that could negatively affect our operating results, cash available for distribution or reinvestment and stock price.

We may incur significant environmental remediation costs: As an owner and operator of real properties, under various federal, state and local environmental laws, we are required to clean up spills or other releases of hazardous or toxic substances on or from our properties. Certain environmental laws impose liability whether or not the owner or buyer knew of, or was responsible for, the presence of the hazardous or toxic substances. In some cases, liability may not be limited to the value of the property. The presence of these substances, or the failure to properly remediate any resulting contamination, whether from environmental or microbial issues, also may adversely affect our ability to sell, lease, operate, or encumber our facilities.

We have conducted preliminary environmental assessments of most of our properties (and conduct these assessments in connection with property acquisitions) to evaluate the environmental condition of, and potential environmental liabilities associated with, our properties. These assessments generally consist of an investigation of environmental conditions at the property (including soil or groundwater sampling or analysis if appropriate), as well as a review of available information regarding the site and publicly available data regarding conditions at other sites in the vicinity. In connection with these property assessments, our operations and recent property acquisitions, we have become aware that prior operations or activities at some properties or from nearby locations have or may have resulted in contamination to the soil or groundwater at these properties. In circumstances where our environmental assessments disclose potential or actual contamination, we may attempt to obtain indemnifications and, in appropriate circumstances, we obtain limited environmental insurance in connection with the properties acquired, but we cannot assure you that such protections will be sufficient to cover actual future liabilities nor that our assessments have identified all such risks. Although we cannot provide any assurance, based on the preliminary environmental assessments, we are not aware of any environmental contamination of our facilities material to our overall business, financial condition or results of operations.

There has been an increasing number of claims and litigation against owners and managers of rental properties relating to moisture infiltration, which can result in mold or other property damage. When we receive a complaint concerning moisture infiltration, condensation or mold problems and/or become aware that an air quality concern exists, we implement corrective measures in accordance with guidelines and protocols we have developed with the assistance of outside experts. We seek to work proactively with our customers to resolve moisture infiltration and mold-related issues, subject to our contractual limitations on liability for such claims. However, we can give no assurance that material legal claims relating to moisture infiltration and the presence of, or exposure to, mold will not arise in the future.

Any such environmental remediation costs or issues, including any potential ongoing impacts on rent or operating expenses, could negatively impact our operating results, cash flow available for distribution or reinvestment and our stock price.

Operating costs, including property taxes, could increase: We could be subject to increases in insurance premiums, property and other taxes, repair and maintenance costs, payroll, utility costs, workers compensation, and other operating expenses due to various factors such as inflation, labor shortages, commodity and energy price increases, weather, changes to governmental safety and real estate use limitations, as well as other governmental actions. Our property tax expense, which totaled $45.9 million during the year ended December 31, 2019, generally depends upon the assessed value of our real estate facilities as determined by assessors and government agencies, and accordingly could be subject to substantial increases if such agencies changed their valuation approaches or opinions or if new laws are enacted, especially if new approaches are adopted or laws are enacted that result in increased property tax assessments in states or municipalities where we have a high concentration of facilities.

We have exposure to increased property tax in California: Approximately $126.3 million of our 2019 net operating income is from our properties in California, and we incurred approximately $15.1 million in related property tax expense. Due to the impact of Proposition 13, which generally limits increases in assessed values to 2% per year, the assessed value and resulting property tax we pay is significantly less than it would be if the properties were assessed at current values. From time to time proposals have been made to reduce the beneficial impact of Proposition 13, particularly with respect to commercial and industrial (non-residential) real estate. In late 2018, an initiative qualified for California's November 2020 statewide ballot that would create a "split roll," generally making Proposition 13's protections only applicable to residential real estate. We cannot predict whether the initiative will actually be on the ballot in 2020, or what the prospects for passage might be, or whether other changes to Proposition 13 may be proposed or adopted. If the initiative or a similar proposal were to be adopted, it would end the beneficial effect of Proposition 13 for our properties, and our property tax expense could increase substantially, adversely affecting our cash flow from operations and net income.

We must comply with the Americans with Disabilities Act, fire and safety regulations and zoning requirements, which can require significant expenditures: All of our properties must comply with the Americans with Disabilities Act and with related regulations (the "ADA"). The ADA has separate compliance requirements for "public accommodations" and "commercial facilities," but generally requires that buildings be made accessible to persons with disabilities. Various state laws impose similar requirements. A failure to comply with the ADA or similar state laws could lead to government imposed fines on us and/or litigation, which could also involve an award of damages to individuals affected by the non-compliance. In addition, we must operate our properties in compliance with numerous local fire and safety regulations, building codes, zoning requirements and other land use regulations, all of which are subject to change and could become more costly to comply with in the future. The cost of compliance with these requirements can be substantial, and could reduce cash otherwise available for distribution to shareholders. Failure to comply with these requirements could also affect the marketability and rentability of our real estate facilities.

We incur liability from customer and employment-related claims: From time to time we have to make monetary settlements or defend actions or arbitration to resolve customer or employment-related claims and disputes. Settling any such liabilities could negatively impact our earnings and cash available for distribution to shareholders, and could also adversely affect our ability to sell, lease, operate, or encumber affected facilities.

Our development of real estate can subject us to certain risks: As of December 31, 2019, we have a 95% interest in a 395-unit multifamily apartment complex with an aggregate cost of $115.4 million, including the fair value of the land. We also have successfully rezoned our 628,000 square foot office park within The Mile and are able to pursue the development of additional multifamily and mixed use projects. We are also considering the potential redevelopment of other facilities in our portfolio. Development or redevelopment of facilities are subject to a number of risks, including construction delays, complications in obtaining necessary zoning, occupancy and other governmental permits, cost overruns, failures of our development partners, financing risks, and the possible inability to meet expected occupancy and rent levels. In addition, we do not have experience in multifamily development and are relying to some degree on the experience of our joint venture partner. As a result of these risks, our development projects may be worth less or may generate less revenue than we believed at the time of development. Any of the foregoing risks could negatively impact our operating results, cash flow available for distribution or reinvestment and our stock price. In addition, we may be unable to successfully integrate and effectively manage the properties we develop, which could adversely affect our results of operations.

Global economic conditions can adversely affect our business, financial condition, growth and access to capital.

Economic conditions in the areas we operate, capital markets, global economic conditions, and other events or factors could adversely affect rental demand for our real estate, our ability to grow our business and acquire new facilities, to access capital, as well as the value of our real estate. Such conditions, which could negatively impact our operating results, cash flow available for distribution or reinvestment and our stock price, include the following:

Commercial credit markets: Our results of operations and share price are sensitive to volatility in the credit markets. From time to time, the commercial real estate debt markets experience volatility as a result of various factors, including changing underwriting standards by lenders and credit rating agencies. This may result in lenders increasing the cost for debt financing, which could affect the economic viability of any acquisition or development activities we may undertake or otherwise increase our costs of borrowing. Conversely, to the extent that debt becomes cheaper or underwriting terms become more favorable, it could increase the overall amount of capital being invested in real estate, allowing more competitors to bid for facilities that we may wish to acquire, reducing the potential yield from acquisitions or preventing us from acquiring assets we might otherwise wish to acquire.

Capital markets: The issuance of perpetual preferred securities historically has been a significant source of capital to grow our business, and we have considered issuing unsecured debt publicly or in private transactions. We also consider issuance of our common equity a potential source of capital. Our ability to access these sources of capital can be adversely affected by challenging market conditions, which can increase the cost of issuance of preferred equity and debt, and reduce the value of our common shares, making such sources of capital less attractive or not feasible. We believe that we have sufficient working capital and capacity under our credit facilities and our retained cash flow from operations to continue to operate our business as usual and meet our current obligations. However, if we were unable to issue public equity or borrow at reasonable rates, that could limit the earnings growth that might otherwise result from the acquisition and development of real estate facilities.

Asset valuations: Market volatility makes the valuation of our properties difficult. There may be significant uncertainty in the valuation, or in the stability of the value, of our properties, which could result in a substantial decrease in the value of our properties. As a result, we may not be able to recover the carrying amount of our properties, which may require us to recognize an impairment charge in earnings. Reductions in the value of our assets could result in a reduction in the value of our common shares.

Potential negative impacts upon demand for our space and customers' ability to pay: We believe that our current and prospective customers are susceptible to global and local economic conditions as well as the impact of capital markets, asset valuations, and commercial credit markets, which could result in an impairment of our customers' existing business operations or curtail plans for growth. Such impairment could reduce demand for our rental space, or make it difficult for customers to fulfill their obligations to us under their leases.

The acquisition of existing properties is a significant component of our long-term growth strategy, and acquisitions of existing properties are subject to risks that may adversely affect our growth and financial results.

We acquire existing properties, either in individual transactions or portfolios offered by other commercial real estate owners. In addition to the general risks related to real estate described above, we are also subject to the following risks associated with the acquisition of real estate facilities which could negatively impact our operating results, cash flow available for distribution or reinvestment and our stock price:

Due diligence could be insufficient: Failure to identify all significant circumstances or conditions that affect the value, rentability, or costs of operation of an acquired facility, such as unidentified structural, environmental, zoning, or marketability issues, could jeopardize realization of anticipated earnings from an acquisition and negatively impact our operating results.

We could fail to successfully integrate acquired properties into our platform: Failures to integrate acquired properties into our operating platform, such as a failure to maintain existing relationships with customers due to changes in processes, standards, customer service, could temporarily or permanently impair our operating results.

We compete with other real estate operators for facilities: We face significant competition for suitable acquisition properties from other real estate investors, including other publicly traded real estate investment trusts and private institutional investors. As a result, we may be unable to acquire additional properties we desire or the purchase price for desirable properties may be significantly increased, reducing potential yields from acquisitions.

Acquired properties are subject to property tax reappraisals, which occur following the acquisition and can be difficult to estimate: Facilities that we acquire are subject to property tax reappraisal, which can substantially increase ongoing property taxes. The reappraisal process is subject to a significant degree of uncertainty, because it involves the judgment of governmental agencies regarding real estate values and other factors. In connection with underwriting future or recent acquisitions of properties, if our estimates of property taxes following reappraisal are too low, we may not realize anticipated earnings from an acquisition.

We would incur adverse tax consequences if we fail to qualify as a REIT.

We believe that we have qualified as a REIT and intend to continue to maintain our REIT status. However, there can be no assurance that we qualify or will continue to qualify as a REIT, because of the highly technical nature of the REIT rules, the ongoing importance of factual determinations, the possibility of unidentified issues in prior periods or changes in our circumstances, as well as share ownership limits in our articles of incorporation that do not necessarily ensure that our shareholder base is sufficiently diverse for us to qualify as a REIT. For any year we fail to qualify as a REIT, unless certain relief provisions apply, we would not be allowed a deduction for dividends paid, we would be subject to corporate tax on our taxable income, and generally we would not be allowed to elect REIT status until the fifth year after such a disqualification. Any taxes, interest, and penalties incurred would reduce our cash available for distributions to shareholders and could negatively affect our stock price. However, for years in which we failed to qualify as a REIT, we would not be subject to REIT rules which require us to distribute substantially all of our taxable income to our shareholders.

We may need to borrow funds to meet our REIT distribution requirements.

As a REIT, we must distribute substantially all of our "REIT taxable income" to our shareholders. Our income consists primarily of our share of our OP's income. We intend to make sufficient distributions to qualify as a REIT and otherwise avoid corporate tax. However, differences in timing between income and expenses and the need to make nondeductible expenditures such as capital improvements and principal payments on debt could force us to borrow funds to make necessary shareholder distributions. Future dividend levels are not determinable at this time.

Changes in tax laws could negatively impact us.

The United States Treasury Department and Congress frequently review U.S. federal income tax legislation, regulations and other guidance. We cannot predict whether, when or to what extent new U.S. federal tax laws, regulations, interpretations or rulings will be adopted. Any legislative action may prospectively modify our tax treatment and, therefore, may adversely affect taxation of us or our shareholders.

PS has significant influence over us.

As of December 31, 2019, PS owned 7.2 million shares of the Company's common stock and 7.3 million common units of the OP (100.0% of the common units not owned by the Company). Assuming issuance of the Company's common stock upon redemption of its partnership units, PS would own 41.6% (or 14.5 million shares) of the outstanding shares of the Company's common stock at December 31, 2019. In addition, the PS Business Parks name and logo are owned by PS and licensed to the Company under a non-exclusive, royalty-free license agreement. The license can be terminated by either party for any reason with six months written notice. Ronald L. Havner, Jr., the Company's chairman, is also Chairman of Trustees of PS. Joseph D. Russell, Jr. is a director and former Chief Executive Officer of the Company and also President and Chief Executive Officer of PS. Gary E. Pruitt, an independent director of the Company, is also a trustee of PS. Consequently, PS has the ability to significantly influence all matters submitted to a vote of our shareholders, including electing directors, changing our articles of incorporation, dissolving and approving other extraordinary transactions such as mergers, and all matters requiring the consent of the limited partners of the OP. PS's interest in such matters may differ from other shareholders. In addition, PS's ownership may make it more difficult for another party to take over or acquire our Company without PS's approval, even if favorable to our public shareholders.

Provisions in our organizational documents may prevent changes in control.

Our articles generally prohibit any person from owning more than 7% of our shares: Our articles of incorporation restrict the number of shares that may be owned by any "person," and the partnership agreement of our OP contains an anti-takeover provision. No shareholder (other than PS and certain other specified shareholders) may own more than 7% of the outstanding shares of our common stock, unless our Board of Directors of the Company (the "Board") waives this limitation. We imposed this limitation to avoid, to the extent possible, a concentration of ownership that might jeopardize our ability to qualify as a REIT. This limitation, however, also makes a change of control much more difficult (if not impossible). These provisions will prevent future takeover attempts not supported by PS even if a majority of our public shareholders consider it to be in their best interests, such as to receive a premium for their shares over market value or for other reasons.

Our Board can set the terms of certain securities without shareholder approval: Our Board is authorized, without shareholder approval, to issue up to 50.0 million shares of preferred stock and up to 100.0 million shares of equity stock, in each case in one or more series. Our Board has the right to set the terms of each of these series of stock.

Consequently, the Board could set the terms of a series of stock that could make it difficult (if not impossible) for another party to take over our Company even if it might be favorable to our public shareholders. Our articles of incorporation also contain other provisions that could have the same effect. We can also cause our OP to issue additional interests for cash or in exchange for property.

The partnership agreement of our OP restricts our ability to enter into mergers: The partnership agreement of our OP generally provides that we may not merge or engage in a similar transaction unless either the limited partners of our OP are entitled to receive the same proportionate consideration as our shareholders, or 60% of the OP's limited partners approve the merger. In addition, we may not consummate a merger unless the matter is approved by a vote of the OP's partners, with our interests in the OP voted in proportion to the manner in which our shareholders voted to approve the merger. These provisions have the effect of increasing PS's influence over us due to PS's ownership of operating partnership units. These provisions may make it more difficult for us to merge with another entity.

The interests of limited partners of our OP may conflict with the interests of our common stockholders.

Limited partners of our OP, including PS, have the right to vote on certain changes to the partnership agreement. They may vote in a way that is against the interests of our shareholders. Also, as general partner of our OP, we are required to protect the interests of the limited partners of the OP. The interests of the limited partners and of our shareholders may differ.

We depend on external sources of capital to grow our Company.

We are generally required under the Code to annually distribute at least 90% of our "REIT taxable income." Because of this distribution requirement, we may not be able to fund future capital needs, including any necessary building and tenant improvements, from operating cash flow. Consequently, we may need to rely on third-party sources of capital to fund our capital needs. We may not be able to obtain the financing on favorable terms or at all. Access to third-party sources of capital depends, in part, on general market conditions, the market's perception of our growth potential, our current and expected future earnings, our cash flow, and the market price per share of our common stock. If we cannot obtain capital from third-party sources, we may not be able to acquire properties when strategic opportunities exist, satisfy any debt service obligations, or make cash distributions to shareholders.

We are subject to laws and governmental regulations and actions that affect our operating results and financial condition.

Our business is subject to regulation under a wide variety of U.S. federal, state and local laws, regulations and policies including those applicable to our status as a REIT, and those imposed by the SEC, the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act and the New York Stock Exchange (the "NYSE"), as well as applicable local, state and national labor laws. Although we have policies and procedures designed to comply with applicable laws and regulations, failure to comply with the various laws and regulations may result in civil and criminal liability, fines and penalties, increased costs of compliance and restatement of our financial statements and could also affect the marketability of our real estate facilities.

In response to current economic conditions or the current political environment or otherwise, laws and regulations could be implemented or changed in ways that adversely affect our operating results and financial condition, such as legislation that could otherwise increase operating costs. Such changes could also adversely affect the operations of our customers, which could affect the price and demand for our space as well as our customer's ability to pay their rent.

The California Consumer Privacy Act (the "CCPA") went into effect on January 1, 2020. The CCPA requires, among other things, companies that collect personal information about California residents to make new disclosures to those residents about their data collection, use and sharing practices, allows residents to opt out of certain data sharing with third parties, and provides a new cause of action for data breaches. However, regulations from the California Attorney General have not been finalized, and it is expected that additional amendments to the CCPA will be introduced in 2020. It therefore remains unclear what, if any, modifications will be made to the CCPA or how it will be interpreted. While we believe we have developed processes to comply with CCPA requirements, a regulatory agency may not agree with certain of our implementation decisions, which could subject us to litigation, regulatory actions or changes to our business practices that could increase costs or reduce revenues. Other states have also considered or are considering privacy laws similar to the CCPA. Similar laws may be implemented in other jurisdictions that we do business in and in ways that may be more restrictive than the CCPA, increasing the cost of compliance, as well as the risk of noncompliance, on our business.

Holders of depositary shares, each representing 1/1,000 of a share of our outstanding preferred stock, have dividend, liquidation and other rights that are senior to the rights of the holders of shares of our common stock.

Holders of our shares of preferred stock are entitled to cumulative dividends before any dividends may be declared or set aside on our common stock. Upon liquidation, before any payment is made to holders of our common stock, shares of our preferred stock are entitled to receive a liquidation preference of $25,000 per share (or $25.00 per depositary share) plus any accrued and unpaid distributions before any payment is made to the common shareholders. These preferences may limit the amount received by our common shareholders for ongoing distributions or upon liquidation. In addition, our preferred stockholders have the right to elect two additional directors to our Board whenever dividends are in arrears in an aggregate amount equivalent to six or more quarterly dividends, whether or not consecutive.

Preferred Shareholders are subject to certain risks.

Holders of our preferred shares have preference rights over our common shareholders with respect to liquidation and distributions, which gives them some assurance of continued payment of their stated dividend rate, and receipt of their principal upon liquidation of the Company or redemption of their securities. However, holders of our preferred shares should consider the following risks:

- The Company has in the past, and could in the future, issue or assume additional debt. Preferred shareholders would be subordinated to the interest and principal payments of such debt, which would increase the risk that there would not be sufficient funds to pay distributions or liquidation amounts to the preferred shareholders.

- The Company has in the past, and could in the future, issue additional preferred shares that, while pari passu to the existing preferred shares, increases the risk that there would not be sufficient funds to pay distributions to the preferred shareholders.

- While the Company has no plans to do so, if the Company were to lose its REIT status or no longer elect REIT status, it would no longer be required to distribute its taxable income to maintain REIT status. If, in such a circumstance, the Company ceased paying dividends, unpaid distributions to the preferred shareholders would continue to accumulate. While the preferred shareholders would have the ability to elect two additional members to serve on our Board until the arrearage was cured. The preferred shareholders would not receive any compensation (such as interest) for the delay in the receipt of distributions, and it is possible that the arrearage could accumulate indefinitely.

We rely on technology in our operations and failures, inadequacies or interruptions to our service could harm our business.

The execution of our business strategy is heavily dependent on the use of technologies and systems, including the Internet, to access, store, transmit, deliver and manage information and processes. We rely extensively on third-party vendors to retain data, process transactions and provide other systems services. The failure, damage or interruption of these systems, including as a result of power outages, computer and telecommunications failures, hackers, computer worms, viruses and other destructive or disruptive security breaches, natural disasters, terrorist attacks, and other catastrophic events could significantly and have a material adverse effect on our business.

If our confidential information is compromised or corrupted, including as a result of a cybersecurity breach, our reputation and business relationships could be damaged, which could adversely affect our financial condition and operating results.

In the ordinary course of our business we acquire and store sensitive data, including personally identifiable information of our prospective and current customers and our employees. The secure processing and maintenance of this information is critical to our operations and business strategy. Although we believe we have taken commercially reasonable steps to protect the security of our confidential information, information security risks have generally increased in recent years due to the rise in new technologies and the increased sophistication and activities of perpetrators of cyberattacks. Despite our security measures, we have experienced security breaches due to cyberattacks and additional breaches could occur in the future. When we experience security breaches our information technology and infrastructure is vulnerable and our or our customers' or employees' confidential information could be compromised or misappropriated. Any such breach could result in serious and harmful consequences for us.

Our confidential information may also be compromised due to programming or human error or malfeasance. We must continually evaluate and adapt our systems and processes to address the evolving threat landscape, and therefore

there is no guarantee that they will be adequate to safeguard against all data security breaches or misuses of data. In addition, as the regulatory environment related to information security, data collection and use, and privacy becomes increasingly rigorous, with new and changing requirements applicable to our business from multiple regulatory agencies at the local, state, federal, or international level, compliance with those requirement could also result in additional costs, or we could fail to comply with those requirements due to various reasons such as not being aware of them.

Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, disruption to our operations and the services we provide to customers or damage our reputation, any of which could adversely affect our results of operations, reputation and competitive position. In addition, our customers could lose confidence in our ability to protect their personal information, which could cause them to discontinue leasing our facilities. Such events could lead to lost future revenues and adversely affect our results of operations and could result in remedial and other costs, fines or lawsuits, which could be in excess of any available insurance that we have procured.

ITEM 1B. ***UNRESOLVED STAFF COMMENTS***

None.

ITEM 2. ***PROPERTIES***

As of December 31, 2019, we owned 97 business parks comprising of a geographically diverse portfolio of 27.6 million rentable square feet of commercial real estate which consists of 18.1 million square feet of industrial space, 6.2 million square feet of flex space and 3.2 million square feet of office space. The weighted average occupancy rate for these assets throughout 2019 was 94.2% and the realized rent per square foot was $15.71.

The following table reflects the geographical diversification of the 97 business parks owned by the Company as of December 31, 2019, the type of the rentable square footage and the weighted average occupancy rates throughout 2019 (except as set forth below, all of the properties are held in fee simple interest) *(in thousands, except number of business parks)*:

Region	Number of Business Parks	Rentable Square Footage				Weighted Average Occupancy Rate
		Industrial	Flex	Office	Total	
Northern California	30	6,391	593	340	7,324	96.1%
Southern California	16	2,916	953	31	3,900	95.3%
Dallas [1]	12	1,300	1,587	—	2,887	92.4%
Austin	9	755	1,208	—	1,963	91.8%
Northern Virginia	19	1,564	1,440	1,970	4,974	92.1%
South Florida	3	3,728	126	12	3,866	95.4%
Suburban Maryland	4	394	—	751	1,145	89.3%
Seattle	3	1,092	270	28	1,390	96.2%
Total	96	18,140	6,177	3,132	27,449	94.2%
Asset held for sale	1	—	—	113	113	100.0%
Total	97	18,140	6,177	3,245	27,562	94.2%

(1) The Company owns two properties comprised of 231,000 square feet that are subject to ground leases in Irving, Texas. These leases expire in 2029 and 2030.

Along with the 27.6 million rentable square feet of commercial space, we also have a 95.0% interest in a 395-unit apartment complex.

We currently anticipate that each of our properties will continue to be used for its current purpose, other than the one property held for development. However, we will from time to time evaluate our properties from a highest and best use perspective, and may identify higher and better uses for our real estate. We renovate our properties in connection with the re-leasing of space to customers and expect to fund the costs of such renovations generally from rental income.

Competition exists in each of the market areas in which these properties are located, and we have risks that customers could default on leases and declare bankruptcy. We believe these risks are mitigated in part through the Company's geographic diversity and our diverse customer base.

Please refer to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" for portfolio information with respect to lease expirations and operating results in 2019, 2018 and 2017 by region and by type of rentable space.

ITEM 3. ***LEGAL PROCEEDINGS***

We are not presently subject to material litigation nor, to our knowledge, is any material litigation threatened against us, other than routine actions, claims and administrative proceedings arising in the ordinary course of business, some of which are expected to be covered by liability insurance or third party indemnifications and all of which collectively are not expected to have a materially adverse effect on our financial condition, results of operations, or liquidity.

ITEM 4. ***MINE SAFETY DISCLOSURES***

Not applicable.

PART II

ITEM 5. ***MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES***

Market for the Registrant's Common Equity:

The common stock of the Company trades on the NYSE under the symbol PSB.

Holders:

As of February 14, 2020, there were 277 holders of record of the common stock.

Dividends:

Holders of common stock are entitled to receive distributions when and if declared by our Board out of any funds legally available for that purpose. As a REIT, we do not incur federal income tax if we distribute substantially all of our "REIT taxable income" each year, and if we meet certain organizational and operational requirements. We believe we have met these REIT requirements in all periods presented herein, and we expect to continue to elect and qualify as a REIT.

The Board has established a distribution policy intended to maximize the retention of operating cash flow and distribute the amount required for the Company to maintain its tax status as a REIT.

Issuer Repurchases of Equity Securities:

The Board has authorized the repurchase, from time to time, of up to 6.5 million shares of the Company's common stock on the open market or in privately negotiated transactions. During the three months ended December 31, 2019, there were no shares of the Company's common stock repurchased. As of December 31, 2019, the Company has 1,614,721 shares available for repurchase under the program. The program does not expire. Purchases will be made subject to market conditions and other investment opportunities available to the Company.

Securities Authorized for Issuance Under Equity Compensation Plans:

Information related to the Company's equity compensation plan is provided in Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth selected consolidated financial and operating information of the Company. The following information should be read in conjunction with the consolidated financial statements and notes thereto of the Company included in this Form 10-K.

	For The Years Ended December 31,				
	2019	2018	2017	2016	2015
	(In thousands, except per share data)				
Rental income	$ 429,846	$ 413,516	$ 402,179	$ 386,871	$ 373,135
Expenses					
Cost of operations	128,343	124,630	122,348	120,518	118,469
Depreciation and amortization	104,249	99,242	94,270	99,486	105,394
General and administrative	13,761	12,072	12,671	17,452	16,337
Total operating expenses	246,353	235,944	229,289	237,456	240,200
Interest and other income	4,492	1,510	942	1,233	1,130
Interest and other expense	(657)	(665)	(1,285)	(5,664)	(13,330)
Equity in loss of unconsolidated joint venture	—	—	(805)	—	—
Gain on sale of real estate facilities	16,644	93,484	1,209	—	28,235
Gain on sale of development rights	—	—	6,365	—	—
Net income	203,972	271,901	179,316	144,984	148,970
Allocation to noncontrolling interests	(29,006)	(45,199)	(24,279)	(16,955)	(18,495)
Net income allocable to PS Business Parks, Inc.	174,966	226,702	155,037	128,029	130,475
Allocation to preferred shareholders based upon					
Distributions	(54,346)	(51,880)	(52,873)	(57,276)	(59,398)
Redemptions	(11,007)	—	(10,978)	(7,312)	(2,487)
Allocation to restricted stock unit holders	(910)	(1,923)	(761)	(569)	(299)
Net income allocable to common shareholders	$ 108,703	$ 172,899	$ 90,425	$ 62,872	$ 68,291
Per Common Share:					
Cash Distributions	$ 4.20	$ 3.80	$ 3.40	$ 3.00	$ 2.20
Net income — basic	$ 3.96	$ 6.33	$ 3.32	$ 2.32	$ 2.53
Net income — diluted	$ 3.95	$ 6.31	$ 3.30	$ 2.31	$ 2.52
Weighted average common shares — basic	27,418	27,321	27,207	27,089	26,973
Weighted average common shares — diluted	27,526	27,422	27,412	27,179	27,051

	As Of And For The Years Ended December 31,				
	2019	2018	2017	2016	2015
	(In thousands, except per square foot data)				
Balance Sheet Data					
Total assets	$ 2,046,443	$ 2,068,594	$ 2,100,159	$ 2,119,371	$ 2,186,658
Total debt	$ —	$ —	$ —	$ —	$ 250,000
Preferred stock called for redemption	$ —	$ —	$ 130,000	$ 230,000	$ —
Equity					
PS Business Parks, Inc.'s shareholders' equity					
Preferred stock	$ 944,750	$ 959,750	$ 959,750	$ 879,750	$ 920,000
Common stock	$ 800,926	$ 805,612	$ 733,561	$ 733,509	$ 740,496
Noncontrolling interests	$ 216,135	$ 218,091	$ 196,625	$ 197,455	$ 200,103
Other Data					
Net cash provided by operating activities	$ 290,595	$ 276,153	$ 271,614	$ 250,507	$ 238,839
Net cash (used in) provided by investing activities	$ (34,322)	$ (36,066)	$ (79,237)	$ (85,008)	$ 3,131
Net cash used in financing activities	$ (230,866)	$ (317,590)	$ (205,036)	$ (225,782)	$ (205,525)
Square footage owned at the end of period	27,562	28,186	28,028	28,072	27,969
Weighted average occupancy rate	94.2%	94.2%	93.8%	94.0%	92.8%
Revenue per occupied square foot	$ 15.71	$ 15.34	$ 15.30	$ 14.61	$ 14.27

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

The following discussion and analysis of the results of operations and financial condition should be read in conjunction with the selected financial data and the Company's consolidated financial statements and notes thereto included in this Form 10-K.

Critical Accounting Policies and Estimates:

Our accounting policies are described in Note 2 to the consolidated financial statements included in this Form 10-K. We believe our critical accounting policies relate to income tax expense, accounting for acquired real estate facilities, accounting for customer receivable balances, including deferred rent receivable balances, impairment of long-lived assets, and accrual for uncertain and contingent liabilities, each of which are more fully discussed below.

Income Tax Expense: We have elected to be treated as a REIT, as defined in the Code. As a REIT, we do not incur federal income tax on our "REIT taxable income" that is fully distributed each year (for this purpose, certain distributions paid in a subsequent year may be considered), and if we meet certain organizational and operational requirements. We believe we have met these REIT requirements for all periods presented herein. Accordingly, we have recorded no federal income tax expense related to our "REIT taxable income."

Our evaluation that we have met the REIT requirements could be incorrect, because compliance with the tax rules requires factual determinations, and circumstances we have not identified could result in noncompliance with the tax requirements in current or prior years. For any taxable year that we fail to qualify as a REIT and for which applicable statutory relief provisions did not apply, we would be taxed at the regular corporate rates on all of our taxable income for at least that year and the ensuing four years, we could be subject to penalties and interest, and our net income would be materially different from the amounts shown in our consolidated financial statements.

Accounting for Acquired Real Estate Facilities: We estimate the fair value of land, buildings, intangible assets and intangible liabilities for purposes of allocating purchase price. Such estimates, which are determined with the assistance of third-party valuation specialists where appropriate, are based upon many assumptions and judgments, including, but not limited to, (i) market rates of return and capitalization rates on real estate and intangible assets, (ii) building and material cost levels, (iii) estimated market rent levels, (iv) future revenue growth rates, (v) future cash flows from the real estate and the existing customer base and (vi) comparisons of the acquired underlying land parcels to recent land transactions. Others could come to materially different conclusions as to the estimated fair values, which could result in different depreciation and amortization expense, rental income, gains and losses on sale of real estate assets, and real estate and intangible assets.

Accounting for Customer Receivable Balances, including Deferred Rent Receivable Balances: Customer receivables consist primarily of amounts due for contractual lease payments, reimbursements of common area maintenance expenses, property taxes and other expenses recoverable from customers. Deferred rent receivables represent the amount that the cumulative straight-line rental income recorded to date exceeds cash rents billed to date under the lease agreement. The Company writes off uncollectible customer receivable balances, including deferred rent receivable balances, in the period such receivable balances are deemed uncollectible. Significant bad debt losses could materially impact our net income.

Impairment of Long-Lived Assets: The analysis of impairment of our long-lived assets involves identification of indicators of impairment, projections of future operating cash flows and estimates of fair values or selling prices, all of which require significant judgment and subjectivity. Others could come to materially different conclusions. In addition, we may not have identified all current facts and circumstances that may affect impairment. Any unidentified impairment loss, or change in conclusions, could have a material adverse impact on our net income.

Accrual for Uncertain and Contingent Liabilities: We accrue for certain contingent and other liabilities that have significant uncertain elements, such as property taxes, performance bonuses and other operating expenses, as well as other legal claims and disputes involving customers, employees, governmental agencies and other third parties. We estimate such liabilities based upon many factors such as past trends and our evaluation of likely outcomes. However, the estimates of known liabilities could be incorrect or we may not be aware of all such liabilities, in which case our accrued liabilities and net income could be materially different.

Business Overview

Our overall operating results are impacted primarily by the performance of our existing real estate facilities, which at December 31, 2019 were comprised of 27.6 million rentable square feet of primarily multi-tenant industrial, flex and office properties concentrated in six states and a 95.0% interest in a 395-unit multifamily apartment complex. Our portfolio of multi-tenant commercial properties are located in markets that have experienced long-term economic growth with a particular concentration on small- and medium-size customers. Accordingly, a significant degree of management attention is paid to maximizing the cash flow from our existing real estate portfolio. Also, our strong and conservative capital structure allows us the flexibility to use debt and equity capital prudently to fund our growth, which allows us to acquire properties we believe will create long-term value. From time to time we sell properties which no longer fit the Company's strategic objectives.

Existing Real Estate Facilities: The operating results of our existing real estate facilities are substantially influenced by demand for rental space within our properties and our markets, which impacts occupancy, rental rates and capital expenditure requirements. We strive to maintain high occupancy levels while increasing rental rates and minimizing capital expenditures when market conditions allow, although the Company may decrease rental rates in markets where conditions require. Management's initiatives and strategies with respect to our existing real estate facilities include incentivizing our personnel to maximize the return on investment for each lease transaction and providing a superior level of service to our customers.

Acquisitions of Real Estate Facilities: We seek to grow our portfolio through acquisitions of facilities generally consistent with the Company's focus on owning concentrated business parks with easily configurable space and in markets and product types with favorable long-term return potential.

Subsequent to December 31, 2019, we acquired a multi-tenant industrial park comprised of approximately 73,000 rentable square feet in La Mirada, California, for a total purchase price of $13.5 million, inclusive of capitalized transaction costs. The park consists of five buildings and was 100.0% occupied at acquisition with suites ranging from 1,200 to 3,000 square feet.

On December 20, 2019, we acquired a multi-tenant flex park comprised of approximately 79,000 rentable square feet in Santa Clara, California, for a total purchase price of $16.8 million, inclusive of capitalized transaction costs. The park consists of nine buildings and was 95.6% occupied at acquisition with suites ranging from 200 to 3,500 square feet.

On September 5, 2019, we acquired a multi-tenant industrial park comprised of approximately 543,000 rentable square feet in Santa Fe Springs, California, for a total purchase price of $104.3 million, inclusive of capitalized transaction costs. The park consists of ten buildings and was 100.0% occupied at acquisition with suites ranging from 5,000 to 288,000 square feet.

On April 18, 2019, we acquired a multi-tenant industrial park comprised of approximately 74,000 rentable square feet in Signal Hill, California, for a total purchase price of $13.8 million, inclusive of capitalized transaction costs. The park consists of eight buildings and was 98.4% occupied at acquisition with suites ranging from 1,200 to 8,000 square feet. The eight buildings are located in the Signal Hill industrial submarket where we already own five industrial parks totaling 268,000 square feet.

On June 8, 2018, we acquired two multi-tenant industrial parks aggregating 1.1 million rentable square feet in Springfield, Virginia, for a total purchase price of $143.8 million, inclusive of capitalized transaction costs. The portfolio consists of 19 buildings and was 76.1% occupied at acquisition with suites ranging from 100 to 32,000 square feet. The 19 buildings are located in the Springfield/Newington industrial submarket where we already own three industrial parks totaling 606,000 square feet.

We continue to seek to acquire additional facilities in our existing markets and generally in close proximity to our existing facilities; however, there can be no assurance that we will acquire additional facilities that meet our risk-adjusted return and underwriting requirements.

Development or Redevelopment of Real Estate Facilities: We may seek to redevelop our existing real estate. We own a large contiguous block of real estate (628,000 rentable square feet on 44.5 acres of land) located within an area known as The Mile in Tysons, Virginia. In 2015, we demolished one of our existing office buildings at The Mile and built Highgate, a 395-unit apartment complex, at a cost, including the estimated fair value of existing land, of $115.4 million.

While multifamily real estate was not a core asset class for us, we determined that multifamily real estate represented a unique opportunity and the highest and best use of that parcel. We have partnered through a joint venture with a local developer and operator of multifamily properties in order to leverage their development and operational experience. See "Analysis of Net Income – Multifamily", "Analysis of Net Income – Equity in loss of unconsolidated joint venture" below and Notes 3 and 4 to our consolidated financial statements for more information on Highgate.

On January 1, 2018, we began to consolidate the joint venture due to changes to the joint venture agreement that gave us control of the joint venture. Prior to January 1, 2018, we accounted for our investment in the joint venture using the equity method and accordingly, reflected our share of net loss under "equity in loss of unconsolidated joint venture."

In 2019, we successfully rezoned our 628,000 square foot office park located at The Mile in Tysons, Virginia. The rezoning will allow us to develop, at our election, up to 3,000 additional multifamily units and approximately 500,000 square feet of other commercial uses. In 2017, we completed Highgate at The Mile, a 395-unit multifamily property which is owned by a joint venture that we consolidate. We are currently seeking to demolish a 123,000 square foot vacant office building in order to construct another multifamily property on the parcel. This parcel is reflected on our consolidated balance sheets as land and building held for development. The scope and timing of the future phases of development of The Mile are subject to a variety of contingencies, including site plan approvals and building permits. We expect that commencement of the next phase of redevelopment will commence in mid-2020.

Sales of Real Estate Facilities: We may from time to time sell individual real estate facilities based on market conditions, fit with our existing portfolio, evaluation of long-term potential returns of markets or product types, or other reasons.

Subsequent to December 31, 2019, the Company completed the sale of a single-tenant building totaling 113,000 square feet in Montgomery County, Maryland, for a gross sales price of $30.0 million. The building had been marketed previously as part of a broader portfolio of suburban Maryland office properties in 2019, but was excluded from the 1.3 million square feet of flex and office business parks sale which closed October 8, 2019 and as such was the Company's only remaining office asset at Metro Park North. The asset sold has been classified as held for sale for the year ended December 31, 2019 and all comparable periods.

On October 8, 2019, we sold three business parks located in Montgomery County, Maryland: Metro Park North, Meadow Business Park and WesTech Business Park. The parks, consisting of 28 buildings totaling approximately 1.3 million rentable square feet sold for net sale proceeds of $144.6 million, which resulted in a gain of $16.6 million.

On March 5, 2018, we sold Corporate Pointe Business Park, a park consisting of five multi-tenant office buildings totaling 161,000 square feet located in Orange County, California, for net sale proceeds of $41.7 million, which resulted in a gain of $26.8 million. On April 18, 2018, we sold Orange County Business Center, a park consisting of five multi-tenant office buildings totaling 437,000 square feet located in Orange County, California, for net sale proceeds of $73.3 million, which resulted in a gain of $50.6 million. On April 30, 2018, we sold Northgate Business Park, a park consisting of seven multi-tenant flex buildings totaling 194,000 square feet located in Dallas, Texas, for net sale proceeds of $11.8 million, which resulted in a gain of $7.9 million. On October 31, 2018, we sold Orangewood Office Park, a park consisting of two multi-tenant office buildings totaling 107,000 square feet located in Orange County, California, for net sale proceeds of $18.3 million, which resulted in a gain of $8.2 million.

On May 1, 2017, we sold Empire Commerce, a two-building single-story office park comprising 44,000 square feet, located in Dallas, Texas, for net sale proceeds of $2.1 million, which resulted in a net gain of $1.2 million.

The operations of these facilities are presented below under "assets sold or held for sale."

Certain Factors that May Impact Future Results

Impact of Inflation: Although inflation has not been significant in recent years, an increase in inflation could impact our future results, and the Company continues to seek ways to mitigate its potential impact. A substantial portion of the Company's leases require customers to pay operating expenses, including real estate taxes, utilities and insurance, as well as increases in common area expenses, partially reducing the Company's exposure to inflation during each lease's respective lease period.

Regional Concentration: Our portfolio is concentrated in eight regions, in six states. We have chosen to concentrate in these regions because we believe they have characteristics which enable them to be competitive

economically, such as above average population growth, job growth, higher education levels and personal income. Changes in economic conditions in these regions in the future could impact our future results.

Industry and Customer Concentrations: We seek to minimize the risk of industry or customer concentrations. As of December 31, 2019, excluding the asset held for sale, industry concentration that represented more than 10% of our annualized rental income comes from business services, warehouse, distribution, transportation and logistics and computer hardware software and related services. No other industry group represents more than 10% of our annualized rental income as depicted in the following table.

Industry	Percent of Annualized Rental Income
Business services	19.0%
Warehouse, distribution, transportation and logistics	12.5%
Computer hardware, software and related services	10.8%
Retail, food, and automotive	7.9%
Health services	7.8%
Engineering and construction	7.7%
Government	6.1%
Insurance and financial services	3.2%
Electronics	2.9%
Home furnishings	2.6%
Communications	1.9%
Aerospace/defense products and services	1.8%
Educational services	1.0%
Other	14.8%
Total	100.0%

As of December 31, 2019, excluding the asset held for sale, leases from our top 10 customers comprised 8.6% of our annualized rental income, with only one customer, the U.S. Government (3.1%), representing more than 1% as depicted in the following table *(in thousands)*.

Customers	Square Footage	Annualized Rental Income (1)	Percent of Annualized Rental Income
U.S. Government	521,000	$ 12,806	3.1%
Luminex Corporation	199,000	4,348	1.0%
Amazon Inc.	213,000	2,718	0.7%
KZ Kitchen Cabinet & Stone	191,000	2,599	0.6%
Lockheed Martin Corporation	124,000	2,554	0.6%
CentralColo, LLC	96,000	2,313	0.6%
Applied Materials, Inc.	162,000	2,313	0.6%
Carbel, LLC	207,000	2,143	0.5%
Quanta Computer Inc.	179,000	1,874	0.5%
ECS Federal, LLC	81,000	1,840	0.4%
Total	1,973,000	$ 35,508	8.6%

(1) For leases expiring prior to December 31, 2020, annualized rental income represents income to be received under existing leases from January 1, 2020 through the date of expiration.

Customer credit risk: We have historically experienced a low level of write-offs of uncollectible rents, with less than 0.5% of rental income written off in any year over the last eight years. However, there can be no assurance that write-offs may not increase because there is inherent uncertainty in a customer's ability to continue paying rent and meet its full lease obligation. As of February 17, 2020, we did not have any customers that are protected by Chapter 11 of the U.S. Bankruptcy Code. From time to time, customers contact us, requesting early termination of their lease, reductions in space leased, or rent deferment or abatement, which we are not obligated to grant but will consider under certain circumstances.

Net Operating Income

We utilize net operating income ("NOI"), a measure that is not defined in accordance with U.S. generally accepted accounting principles ("GAAP"), to evaluate the operating performance of our real estate. We define NOI as rental income less adjusted cost of operations. Adjusted cost of operations represents cost of operations, excluding stock compensation, which can vary significantly period to period based upon the performance of the company.

We believe NOI assists investors in analyzing the performance of our real estate by excluding (i) corporate overhead (i.e., general and administrative expense) because it does not relate to the direct operating performance of our real estate, (ii) depreciation and amortization expense because it does not accurately reflect changes in the fair value of our real estate and (iii) stock compensation expense because this expense item can vary significantly from period to period and thus impact comparability across periods. The Company's calculation of NOI may not be comparable to those of other companies and should not be used as an alternative to performance measures calculated in accordance with GAAP.

Beginning January 1, 2019, the Company has recorded our divisional vice presidents' compensation costs within general and administrative expense, as we determined that the nature of these individuals' responsibilities is more consistent with corporate oversight as opposed to direct property operations. As a result of this change, we have reclassified our divisional vice presidents' compensation costs totaling $1.9 million for the year ended December 31, 2018, consisting of $1.3 million of compensation costs and $617,000 of stock compensation expense, and compensation costs totaling $3.0 million for the year ended December 31, 2017, consisting of $1.6 million of compensation costs and $1.4 million of stock compensation expense, from cost of operations into general and administrative expense on our consolidated statements of income in the years ended December 31, 2018 and 2017 in order to conform to the current periods' presentation.

See "Analysis of net income" below for reconciliations of each of these measures to their closest analogous GAAP measure from our consolidated statements of income.

Results of Operations

Operating Results for 2019 and 2018

For the year ended December 31, 2019, net income allocable to common shareholders was $108.7 million or $3.95 per diluted share, compared to $172.9 million or $6.31 per diluted share for the year ended December 31, 2018. The decrease was mainly due to higher gain on sale of real estate facilities sold in 2018 than 2019, and the charge related to the redemption of preferred stock incurred during 2019 that did not occur in 2018, partially offset by an increase in NOI with respect to the Company's real estate facilities. The increase in NOI includes a $12.7 million, or 4.9%, increase attributable to Same Park facilities (defined below) driven by an increase in rental rates, combined with increased NOI from Non-Same Park and multifamily assets, partially offset by reduced NOI from facilities sold in 2018 and 2019.

Operating Results for 2018 and 2017

For the year ended December 31, 2018, net income allocable to common shareholders was $172.9 million or $6.31 per diluted share, compared to $90.4 million or $3.30 per diluted share for the year ended December 31, 2017. The increase was mainly due to the gain on the sale of three office parks in Orange County, California, and an industrial park in Dallas, Texas, during 2018, charges related to the redemption of preferred stock incurred in 2017 that did not recur in 2018 and an increase in NOI with respect to the Company's real estate facilities. The increase in NOI includes a $9.1 million increase from our Same-Park facilities due primarily to increases in occupancy and rental rates combined with increased NOI from our Non-Same Park and multifamily assets, partially offset by reduced NOI from facilities we sold in 2018.

Analysis of Net Income

Our net income is comprised primarily of our real estate operations, depreciation and amortization expense, general and administrative expense, interest and other income, interest and other expenses and gain on sale of real estate facilities and development rights.

We segregate our real estate activities into (i) same park operations, representing all operating properties acquired prior to January 1, 2017, comprising 25.7 million rentable square feet of our 27.6 million in rentable square feet at

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December 31, 2019 (the "Same Park" facilities), (ii) non-same park operations, representing those facilities we own that were acquired after January 1, 2017 (the "Non-Same Park" facilities), (iii) multifamily operations and (iv) assets sold or held for sale, representing a 113,000 square foot asset held for sale as of December 31, 2019, operating results related to 1.3 million square feet of assets sold in 2019, 899,000 square feet of assets sold in 2018, and 44,000 square feet of assets sold during 2017.

The table below sets forth the various components of our net income *(in thousands)*:

	For the Years Ended December 31,			For the Years Ended December 31,		
	2019	2018	Variance	2018	2017	Variance
Rental income						
Same Park [1]	$ 382,823	$ 364,811	$ 18,012	$ 364,811	$ 354,393	$ 10,418
Non-Same Park	14,276	5,532	8,744	5,532	—	5,532
Multifamily	10,075	7,353	2,722	7,353	—	7,353
Assets sold or held for sale [2]	22,672	35,820	(13,148)	35,820	47,786	(11,966)
Total rental income	429,846	413,516	16,330	413,516	402,179	11,337
Cost of operations [3]						
Adjusted cost of operations [4]						
Same Park	109,708	104,380	5,328	104,380	103,038	1,342
Non-Same Park	4,899	1,884	3,015	1,884	—	1,884
Multifamily	4,137	4,054	83	4,054	—	4,054
Assets sold or held for sale [2]	8,465	12,866	(4,401)	12,866	17,679	(4,813)
Stock compensation expense [5]	1,134	1,446	(312)	1,446	1,631	(185)
Total cost of operations	128,343	124,630	3,713	124,630	122,348	2,282
NOI [6]						
Same Park	273,115	260,431	12,684	260,431	251,355	9,076
Non-Same Park	9,377	3,648	5,729	3,648	—	3,648
Multifamily	5,938	3,299	2,639	3,299	—	3,299
Assets sold or held for sale [2] [7]	14,207	22,954	(8,747)	22,954	30,107	(7,153)
Stock compensation expense [5]	(1,134)	(1,446)	312	(1,446)	(1,631)	185
Depreciation and amortization expense	(104,249)	(99,242)	(5,007)	(99,242)	(94,270)	(4,972)
General and administrative expense [3]	(13,761)	(12,072)	(1,689)	(12,072)	(12,671)	599
Interest and other income	4,492	1,510	2,982	1,510	942	568
Interest and other expense	(657)	(665)	8	(665)	(1,285)	620
Equity in loss of unconsolidated joint venture	—	—	—	—	(805)	805
Gain on sale of real estate facilities	16,644	93,484	(76,840)	93,484	1,209	92,275
Gain on sale of development rights	—	—	—	—	6,365	(6,365)
Net income	$ 203,972	$ 271,901	$ (67,929)	$ 271,901	$ 179,316	$ 92,585

(1) Same Park rental income includes lease buyout income of $1.4 million, $583,000 and $939,000 for the years ended December 31, 2019, 2018 and 2017, respectively.

(2) Amounts for the year ended December 31, 2019 reflect the operating results related to 1.3 million square feet of assets sold in 2019 and a 113,000 square foot building held for sale as of December 31, 2019; amounts shown for the year ended December 31, 2018 reflect the operating results related to 1.3 million square feet of assets sold in 2019, a 113,000 square foot building held for sale as of December 31, 2019, and 899,000 square feet of assets sold in 2018; amounts shown for the year ended December 31, 2017 reflect the operating results related to 1.3 million square feet of assets sold in 2019, a 113,000 square foot building held for sale as of December 31, 2019, 899,000 square feet of assets sold in 2018, and 44,000 square feet of assets sold in 2017.

(3) We have reclassified our divisional vice presidents' compensation costs totaling $1.9 million and $3.0 million for the years ended December 30, 2018 and 2017, respectively, from cost of operations into general and administrative expense on our consolidated statements of income in the years ended December 31, 2018 and 2017 in order to conform to the current periods' presentation. Of this amount, $617,000 and $1.4 million of stock compensation expense for the years ended December 31, 2018 and 2017, respectively, had previously been excluded from NOI.

(4) Adjusted cost of operations excludes the impact of stock compensation expense.

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

(6) NOI represents rental income less adjusted cost of operations.

(7) NOI from assets sold and held for sale in 2019 was $14.2 million, $19.9 million and $20.5 million for the years ended December 31, 2019, 2018 and 2017, respectively. The remaining amounts in 2018 and 2017 relate to assets sold during 2018 and 2017.

Rental income increased $16.3 million in 2019 compared to 2018 and by $11.3 million in 2018 compared to 2017 due primarily to increases in rental income at our Same Park and Non-Same Park facilities and an increase in rental income from our multifamily asset, offset partially by rental income from assets sold. The increase in rental income at our Same Park facilities in 2019 was due primarily to higher revenue per occupied square foot, while the 2018 increase was due primarily to higher revenue per occupied square foot and increased occupancy.

Cost of operations increased $3.7 million in 2019 compared to 2018 and by $2.3 million in 2018 compared to 2017 due primarily to increases in adjusted cost of operations for our Same Park and Non-Same Park facilities, offset partially by adjusted costs of operations from assets sold. The 2018 increase was also attributable to an increase in cost of operations from our multifamily asset. The 2019 and 2018 increases in adjusted cost of operations were partially offset by lower stock compensation expense.

Net income decreased $67.9 million in 2019 compared to 2018 and increased by $92.6 million in 2018 compared to 2017. The 2019 decrease was mainly due to higher gain on sale of real estate facilities sold in 2018 than 2019 combined with higher depreciation and amortization expense and higher general and administrative expense partially offset by higher NOI. The 2018 increase in net income was primarily due to the gain on the sale of three office parks in Orange County, California, and an industrial park in Dallas, Texas, during 2018 combined with higher NOI partially offset by higher depreciation and amortization expense.

Same Park Facilities

We believe that evaluation of the Same Park facilities provide an informative view of how the Company's portfolio has performed over comparable periods. We believe that investors and analysts use Same Park information in a similar manner.

The following table summarizes the historical operating results of these facilities and certain statistical information related to leasing activity in 2019, 2018 and 2017 *(in thousands, except per square foot data)*:

	For the Years Ended December 31,			For the Years Ended December 31,		
	2019	2018	Variance	2018	2017	Variance
Rental income [1]	$ 382,823	$ 364,811	4.9%	$ 364,811	$ 354,393	2.9%
Adjusted cost of operations [2]						
Property taxes	40,061	38,076	5.2%	38,076	36,969	3.0%
Utilities	19,521	19,535	(0.1%)	19,535	19,043	2.6%
Repairs and maintenance	23,521	21,693	8.4%	21,693	22,470	(3.5%)
Snow removal	1,046	713	46.7%	713	400	78.3%
Other expenses	25,559	24,363	4.9%	24,363	24,156	0.9%
Total	109,708	104,380	5.1%	104,380	103,038	1.3%
NOI	$ 273,115	$ 260,431	4.9%	$ 260,431	$ 251,355	3.6%
Selected Statistical Data						
NOI margin [3]	71.3%	71.4%	(0.1%)	71.4%	70.9%	0.7%
Weighted average square foot occupancy	94.5%	94.9%	(0.4%)	94.9%	94.0%	1.0%
Revenue per occupied square foot [4]	$ 15.76	$ 14.96	5.3%	$ 14.96	$ 14.67	2.0%
Revenue per available foot (RevPAF) [5]	$ 14.90	$ 14.20	4.9%	$ 14.20	$ 13.79	3.0%

(1) Same Park rental income includes lease buyout income of $1.4 million, $583,000 and $939,000 for the years ended December 31, 2019, 2018 and 2017, respectively.

(2) We have reclassified divisional vice presidents' compensation costs totaling $1.2 million and $1.5 million for the years ended December 31, 2018 and 2017, respectively, from adjusted cost of operations into general and administrative expense in order to conform to the current periods' presentation. Stock compensation expense for our divisional vice presidents, which totaled $585,000 and $1.3 million for the years ended December 31, 2018 and 2017, respectively, had previously been excluded from adjusted cost of operations.

(3) NOI margin is computed by dividing NOI by rental income.

(4) Revenue per occupied square foot is computed by dividing rental income during the period by weighted average occupied square feet during the same period.

(5) Revenue per available square foot is computed by dividing rental income during the period by weighted average available square feet.

Analysis of Same Park Rental Income

Rental income generated by our Same Park facilities increased 4.9% in 2019 compared to 2018 and by 2.9% in 2018 compared to 2017. The 2019 increase was due primarily to higher rental rates, as revenue per occupied square foot increased 5.3%, partially offset by a 0.4% decrease in weighted average occupancy in 2019 compared to the year prior. The 2018 increase was due primarily to higher rental rates combined with higher occupancy. Revenue per occupied square foot and weighted average occupancy increased 2.0% and 1.0%, respectively, in 2018 compared to the year prior.

We believe that high occupancy levels help maximize our rental income. Accordingly, we seek to maintain a weighted average occupancy over 90%.

During 2019 and 2018, most markets continued to reflect conditions favorable to landlords allowing for stable occupancy as well as increasing cash rental rates. With the exception of Northern Virginia and Suburban Maryland markets, new cash rental rates for the Company improved over expiring cash rental rates on executed leases as economic conditions and tenant demand remained robust.

Our future revenue growth will come primarily from contractual rental increases as well as from potential increases in market rents allowing us to increase rent levels when leases are either renewed with existing customers or re-leased to new customers. The following table sets forth the expirations of existing leases in our Same Park portfolio over the next 10 years based on lease data at December 31, 2019 *(dollars and square feet in thousands)*:

Year of Lease Expiration	Number of Customers	Rentable Square Footage Subject to Expiring Leases	Percent of Total Leased Square Footage	Annualized Rental Income Under Expiring Leases	Percent of Annualized Rental Income Represented by Expiring Leases
2020	1,916	5,787	23.8%	$ 92,159	22.0%
2021	1,356	4,916	20.2%	84,293	20.1%
2022	699	4,567	18.7%	82,052	19.5%
2023	346	3,004	12.3%	51,254	12.2%
2024	290	2,467	10.1%	43,628	10.4%
2025	54	1,802	7.3%	31,854	7.5%
2026	23	677	2.8%	11,539	2.8%
2027	14	134	0.6%	3,311	0.8%
2028	7	388	1.6%	6,703	1.6%
2029	10	287	1.2%	6,953	1.7%
Thereafter	6	334	1.4%	5,833	1.4%
Total	**4,721**	**24,363**	**100.0%**	**$ 419,579**	**100.0%**

During the year ended December 31, 2019, we leased approximately 7.1 million in rentable square feet to new and existing customers at an average 8.3% increase in cash rental rates over the previous rates. Renewals of leases with existing customers represented 64.3% of our leasing activity for the year ended December 31, 2019. See "Analysis of Same Park Market Trends" below for further analysis of such data on a by-market basis.

Our ability to re-lease space as leases expire in a way that minimizes vacancy periods and maximizes market rental rates will depend upon market conditions in the specific submarkets in which each of our properties are located.

Analysis of Same Park Adjusted Cost of Operations

Adjusted cost of operations for our Same Park facilities increased 5.1% in 2019 compared to 2018 due to higher property tax expense, higher repairs and maintenance costs, higher other expenses and an increase in snow removal costs. Adjusted costs of operations increased by 1.3% in 2018 compared to 2017 due primarily to increased property taxes, higher utility costs and snow removal costs, partially offset by lower repairs and maintenance expense.

Property taxes increased 5.2% in 2019 compared to 2018 and by 3.0% in 2018 compared to 2017 due to higher assessed values. We expect property tax growth in the future due primarily to higher assessed values.

Utilities are dependent upon energy prices and usage levels. Changes in usage levels are driven primarily by weather and temperature. Utilities decreased 0.1% in 2019 compared to 2018 and increased 2.6% in 2018 compared to 2017. It is difficult to estimate future utility costs, because weather, temperature and energy prices are volatile and not predictable. However, based upon current trends and expectations regarding commercial electricity rates, we expect inflationary increases in rates in the future.

Repairs and maintenance increased 8.4% in 2019 resulting from higher roof and landscaping repairs compared to 2018 and decreased by 3.5% in 2018 compared to 2017 due to incremental costs in 2017 relating to Hurricane Irma. Repairs and maintenance costs are dependent upon many factors including weather conditions, which can impact repair and maintenance needs, inflation in material and labor costs and random events, and as a result are not readily predictable.

Snow removal increased 46.7% in 2019 compared to 2018 and increased by 78.3% in 2018 compared to 2017. Snow removal costs are weather dependent and therefore not predictable.

Other expenses increased 4.9% in 2019 compared to 2018 and 0.9% in 2018 compared to 2017. Other expenses are comprised of on-site and supervisory personnel, property insurance and other expenses incurred in the operation of our properties. The increase in 2019 was primarily due to an increase in our property insurance premium for the policy period, June 2019 to May 2020, and higher than average professional fees related to ordinary course tenant related matters. We expect increases in other expenses to be similar to the increases in prior years.

Same Park Quarterly Trends

The following table sets forth historical quarterly data related to the operations of our Same Park facilities for rental income, adjusted cost of operations, occupancies, annualized revenue per occupied square foot, and RevPaf *(in thousands, except per square foot data)*:

	For the Three Months Ended				
	March 31	**June 30**	**September 30**	**December 31**	**Full Year**
Rental income					
2019	$ 94,813	$ 95,016	$ 95,358	$ 97,636	$ 382,823
2018	$ 90,821	$ 90,980	$ 91,446	$ 91,564	$ 364,811
2017	$ 88,178	$ 87,707	$ 88,628	$ 89,880	$ 354,393
Adjusted cost of operations (1)					
2019	$ 28,177	$ 26,727	$ 27,494	$ 27,310	$ 109,708
2018	$ 26,954	$ 26,140	$ 26,033	$ 25,253	$ 104,380
2017	$ 25,471	$ 25,045	$ 25,796	$ 26,726	$ 103,038
NOI (1)					
2019	$ 66,636	$ 68,289	$ 67,864	$ 70,326	$ 273,115
2018	$ 63,867	$ 64,840	$ 65,413	$ 66,311	$ 260,431
2017	$ 62,707	$ 62,662	$ 62,832	$ 63,154	$ 251,355
Weighted average square foot occupancy					
2019	94.7%	94.2%	94.7%	94.4%	94.5%
2018	94.5%	94.5%	95.1%	95.4%	94.9%
2017	94.2%	93.2%	93.7%	94.8%	94.0%
Annualized revenue per occupied square foot					
2019	$ 15.58	$ 15.69	$ 15.67	$ 16.10	$ 15.76
2018	$ 14.97	$ 14.99	$ 14.97	$ 14.94	$ 14.96
2017	$ 14.56	$ 14.64	$ 14.73	$ 14.76	$ 14.67
RevPAF					
2019	$ 14.76	$ 14.79	$ 14.84	$ 15.20	$ 14.90
2018	$ 14.14	$ 14.16	$ 14.24	$ 14.25	$ 14.20
2017	$ 13.73	$ 13.65	$ 13.80	$ 13.99	$ 13.79

(1) To conform to current period presentation, we have reclassified divisional vice presidents' compensation costs totaling $364,000, $288,000, $280,000 and $280,000 for each of the three months ended March 31, 2018, June 30, 2018, September 30, 2018 and December 31, 2018, respectively, and $386,000 for each of the three months ended March 31, 2017, June 30, 2017, September 30, 2017 and December 31, 2017 from adjusted cost of operations into general and administrative expense. Stock compensation expense for our divisional vice presidents had previously been excluded from adjusted cost of operations.

Analysis of Same Park Market Trends

The following tables set forth rental income, adjusted cost of operations, weighted average occupancy, revenue per occupied square foot, and RevPaf data in our Same Park facilities *(in thousands, except per square foot data)*:

Region	For the Years Ended December 31, 2019	2018	Variance	For the Years Ended December 31, 2018	2017	Variance
Geographic Data on Same Park						
Rental income						
Northern California (7.2 million feet)	$ 108,046	$ 99,610	8.5%	$ 99,610	$ 93,032	7.1%
Southern California (3.3 million feet)	55,080	52,873	4.2%	52,873	50,269	5.2%
Dallas (2.9 million feet)	33,789	30,899	9.4%	30,899	31,398	(1.6%)
Austin (2.0 million feet)	30,679	29,608	3.6%	29,608	29,240	1.3%
Northern Virginia (3.9 million feet)	73,734	73,818	(0.1%)	73,818	75,590	(2.3%)
South Florida (3.9 million feet)	43,601	41,824	4.2%	41,824	41,082	1.8%
Suburban Maryland (1.1 million feet)	19,876	18,975	4.7%	18,975	17,631	7.6%
Seattle (1.4 million feet)	18,018	17,204	4.7%	17,204	16,151	6.5%
Total Same Park (25.7 million feet)	382,823	364,811	4.9%	364,811	354,393	2.9%
Adjusted cost of operations						
Northern California	24,313	22,653	7.3%	22,653	22,988	(1.5%)
Southern California	14,215	13,349	6.5%	13,349	13,025	2.5%
Dallas	11,488	10,896	5.4%	10,896	10,435	4.4%
Austin	10,843	10,352	4.7%	10,352	9,734	6.3%
Northern Virginia	25,488	25,128	1.4%	25,128	24,672	1.8%
South Florida	11,977	10,733	11.6%	10,733	11,043	(2.8%)
Suburban Maryland	7,126	6,989	2.0%	6,989	7,178	(2.6%)
Seattle	4,258	4,280	(0.5%)	4,280	3,963	8.0%
Total Same Park	109,708	104,380	5.1%	104,380	103,038	1.3%
Net operating income						
Northern California	83,733	76,957	8.8%	76,957	70,044	9.9%
Southern California	40,865	39,524	3.4%	39,524	37,244	6.1%
Dallas	22,301	20,003	11.5%	20,003	20,963	(4.6%)
Austin	19,836	19,256	3.0%	19,256	19,506	(1.3%)
Northern Virginia	48,246	48,690	(0.9%)	48,690	50,918	(4.4%)
South Florida	31,624	31,091	1.7%	31,091	30,039	3.5%
Suburban Maryland	12,750	11,986	6.4%	11,986	10,453	14.7%
Seattle	13,760	12,924	6.5%	12,924	12,188	6.0%
Total Same Park	$ 273,115	$ 260,431	4.9%	$ 260,431	$ 251,355	3.6%
Weighted average square foot occupancy						
Northern California	96.1%	97.8%	(1.7%)	97.8%	95.9%	2.0%
Southern California	95.0%	97.6%	(2.7%)	97.6%	96.4%	1.2%
Dallas	92.4%	89.7%	3.0%	89.7%	90.3%	(0.7%)
Austin	91.8%	92.5%	(0.8%)	92.5%	94.9%	(2.5%)
Northern Virginia	94.1%	92.8%	1.4%	92.8%	91.4%	1.5%
South Florida	95.4%	96.4%	(1.0%)	96.4%	97.5%	(1.1%)
Suburban Maryland	89.3%	83.1%	7.5%	83.1%	74.5%	11.6%
Seattle	96.2%	98.2%	(2.0%)	98.2%	98.1%	0.1%
Total Same Park	94.5%	94.9%	(0.4%)	94.9%	94.0%	1.0%
Revenue per occupied square foot						
Northern California	$ 15.52	$ 14.06	10.4%	$ 14.06	$ 13.39	5.0%
Southern California	$ 17.67	$ 16.50	7.1%	$ 16.50	$ 15.90	3.8%
Dallas	$ 12.66	$ 11.92	6.2%	$ 11.92	$ 12.03	(0.9%)
Austin	$ 17.02	$ 16.29	4.5%	$ 16.29	$ 15.69	3.8%
Northern Virginia	$ 20.01	$ 20.31	(1.5%)	$ 20.31	$ 21.10	(3.7%)
South Florida	$ 11.82	$ 11.23	5.3%	$ 11.23	$ 10.90	3.0%
Suburban Maryland	$ 19.39	$ 19.89	(2.5%)	$ 19.89	$ 20.62	(3.5%)
Seattle	$ 13.49	$ 12.60	7.1%	$ 12.60	$ 11.84	6.4%
Total Same Park	$ 15.76	$ 14.96	5.3%	$ 14.96	$ 14.67	2.0%
RevPAF						
Northern California	$ 14.91	$ 13.75	8.4%	$ 13.75	$ 12.84	7.1%
Southern California	$ 16.78	$ 16.11	4.2%	$ 16.11	$ 15.31	5.2%
Dallas	$ 11.70	$ 10.70	9.3%	$ 10.70	$ 10.88	(1.7%)
Austin	$ 15.63	$ 15.08	3.6%	$ 15.08	$ 14.90	1.2%
Northern Virginia	$ 18.82	$ 18.85	(0.2%)	$ 18.85	$ 19.30	(2.3%)
South Florida	$ 11.28	$ 10.82	4.3%	$ 10.82	$ 10.63	1.8%
Suburban Maryland	$ 17.36	$ 16.57	4.8%	$ 16.57	$ 15.40	7.6%
Seattle	$ 12.96	$ 12.38	4.7%	$ 12.38	$ 11.62	6.5%
Total Same Park	$ 14.90	$ 14.20	4.9%	$ 14.20	$ 13.79	3.0%

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Supplemental Same Park Data by Product Type

The following supplemental tables provide further detail of our Same Park rental income, adjusted cost of operations and net operating income by region, further segregated by industrial, flex and office for each of the three years ended December 31, 2019, 2018 and 2017.

	For the Year Ended December 31, 2019				For the Year Ended December 31, 2018				For the Year Ended December 31, 2017			
	Industrial	Flex	Office	Total	Industrial	Flex	Office	Total	Industrial	Flex	Office	Total
	In thousands											
Rental Income:												
Northern California	$ 86,088	$ 9,801	$ 12,157	$ 108,046	$ 78,721	$ 9,442	$ 11,447	$ 99,610	$ 72,878	$ 9,364	$ 10,790	$ 93,032
Southern California	35,387	18,932	761	55,080	34,272	17,954	647	52,873	32,516	17,083	670	50,269
Dallas	12,412	21,377	—	33,789	11,566	19,333	—	30,899	11,406	19,992	—	31,398
Austin	8,317	22,362	—	30,679	7,863	21,745	—	29,608	7,316	21,924	—	29,240
Northern Virginia	7,468	24,620	41,646	73,734	7,350	24,755	41,713	73,818	6,978	25,715	42,897	75,590
South Florida	41,543	1,916	142	43,601	39,810	1,931	83	41,824	38,963	1,911	208	41,082
Suburban Maryland	4,396	—	15,480	19,876	4,464	—	14,511	18,975	4,528	—	13,103	17,631
Seattle	10,950	6,342	726	18,018	10,474	6,003	727	17,204	9,901	5,675	575	16,151
Total	206,561	105,350	70,912	382,823	194,520	101,163	69,128	364,811	184,486	101,664	68,243	354,393
Adjusted Cost of Operations:												
Northern California	18,526	2,602	3,185	24,313	17,207	2,512	2,934	22,653	17,680	2,440	2,868	22,988
Southern California	8,869	5,063	283	14,215	8,397	4,685	267	13,349	8,132	4,627	266	13,025
Dallas	3,702	7,786	—	11,488	3,666	7,230	—	10,896	3,446	6,989	—	10,435
Austin	2,778	8,065	—	10,843	2,637	7,715	—	10,352	2,485	7,249	—	9,734
Northern Virginia	2,104	7,557	15,827	25,488	1,998	7,314	15,816	25,128	1,936	7,148	15,588	24,672
South Florida	11,262	602	113	11,977	10,162	509	62	10,733	10,401	576	66	11,043
Suburban Maryland	1,427	—	5,699	7,126	1,349	—	5,640	6,989	1,446	—	5,732	7,178
Seattle	2,566	1,492	200	4,258	2,612	1,446	222	4,280	2,308	1,468	187	3,963
Total	51,234	33,167	25,307	109,708	48,028	31,411	24,941	104,380	47,834	30,497	24,707	103,038
NOI:												
Northern California	67,562	7,199	8,972	83,733	61,514	6,930	8,513	76,957	55,198	6,924	7,922	70,044
Southern California	26,518	13,869	478	40,865	25,875	13,269	380	39,524	24,384	12,456	404	37,244
Dallas	8,710	13,591	—	22,301	7,900	12,103	—	20,003	7,960	13,003	—	20,963
Austin	5,539	14,297	—	19,836	5,226	14,030	—	19,256	4,831	14,675	—	19,506
Northern Virginia	5,364	17,063	25,819	48,246	5,352	17,441	25,897	48,690	5,042	18,567	27,309	50,918
South Florida	30,281	1,314	29	31,624	29,648	1,422	21	31,091	28,562	1,335	142	30,039
Suburban Maryland	2,969	—	9,781	12,750	3,115	—	8,871	11,986	3,082	—	7,371	10,453
Seattle	8,384	4,850	526	13,760	7,862	4,557	505	12,924	7,593	4,207	388	12,188
Total	$ 155,327	$ 72,183	$ 45,605	$ 273,115	$ 146,492	$ 69,752	$ 44,187	$ 260,431	$ 136,652	$ 71,167	$ 43,536	$ 251,355

As noted above, our past revenue growth has come from contractual annual rent increases, as well as re-leasing of space at rates above outgoing rental rates. We believe the percentage difference between outgoing cash rent inclusive of estimated expense recoveries and incoming cash rent inclusive of estimated expense recoveries for leases executed (the "Cash Rental Rate Change") is useful in understanding trends in current market rates relative to our existing lease rates. The following table summarizes the Cash Rental Rate Change and other key statistical information with respect to the Company's leasing production for its Same Park facilities, on a regional basis, for the year ended December 31, 2019 *(square feet in thousands)*:

	For the Year Ended December 31, 2019			
Regions	Square Footage Leased	Customer Retention	Transaction Costs per Executed Foot	Rental Rate Change [(1)]
Northern California	1,777	64.6%	$ 2.43	18.3%
Southern California	1,214	69.2%	$ 1.83	8.1%
Dallas	838	60.9%	$ 4.97	5.7%
Austin	529	77.5%	$ 5.49	5.6%
Northern Virginia	1,154	75.0%	$ 8.04	(2.8%)
South Florida	941	49.7%	$ 1.67	12.7%
Suburban Maryland	216	73.9%	$ 6.40	(3.5%)
Seattle	382	64.9%	$ 1.22	15.8%
Total	7,051	65.8%	$ 3.73	8.3%

(1) Cash Rental Rate Change is computed by taking the percentage difference between the incoming initial billed monthly cash rental rates inclusive of estimated expense recoveries (excluding the impact of certain items such as concessions or future escalators) on new leases or extensions executed in the period, and the outgoing monthly cash rental rates inclusive of estimated expense recoveries last billed on the previous lease for that space. Leases executed on spaces vacant for more than the preceding twelve months have been excluded from this measure.

During 2019 and 2018, most markets, with the exception of Northern Virginia and Suburban Maryland, continued to reflect favorable conditions allowing for stable occupancy as well as increasing cash rental rates. In Northern Virginia and Suburban Maryland, cash rental rates on executed leases declined 2.8% and 3.5%, respectively, for the year ended December 31, 2019, reflecting continued soft market conditions that have persisted for several years due to, among other factors, federal government downsizing. To the extent that such trends continue in these markets, which comprised 24.5% of our Same Park rental income for the year ended December 31, 2019 and 19.2% of square feet expiring through December 31, 2020, we may continue to face reduced rental income in these markets.

Non-Same Park facilities: The table below reflects the assets comprising our Non-Same Park facilities *(in thousands):*

Property	Date Acquired	Location	Purchase Price	Square Feet	Occupancy at Acquisition	Occupancy at December 31, 2019
San Tomas Business Center	December, 2019	Santa Clara, CA	$ 16,787	79	95.6%	95.6%
Hathaway Industrial Park	September, 2019	Santa Fe Springs, CA	104,330	543	100.0%	100.0%
Walnut Avenue Business Park	April, 2019	Signal Hill, CA	13,824	74	98.4%	96.7%
Northern Virginia and Fullerton Road Industrial Parks	June, 2018	Lorton and Springfield, VA	143,766	1,057	76.1%	91.3%
Total			$ 278,707	1,753	85.4%	94.4%

NOI from the Non-Same Park facilities included $1.7 million of NOI from the 2019 acquisitions for the year ended December 31, 2019. Excluding the results from the 2019 acquisitions, the NOI increase from prior year was tied to an increase in occupancy at our 2018 acquisition.

We believe that our management and operating infrastructure typically allows us to generate higher NOI from newly acquired real estate facilities than was achieved by the previous owners. However, it can take 24 or more months for us to fully achieve higher NOI, and the ultimate levels of NOI to be achieved can be affected by changes in general economic conditions. As a result, there can be no assurance that we will achieve our expectations with respect to newly acquired real estate facilities.

Multifamily: As of December 31, 2019, we have a 95.0% interest in Highgate, a 395-unit apartment complex. On January 1, 2018, we began to consolidate the joint venture due to changes to our joint venture agreement that gave the

Company control of the joint venture. Prior to January 1, 2018, we accounted for our investment in the joint venture using the equity method and accordingly, reflected our share of net loss under "equity in loss of unconsolidated joint venture."

Highgate began leasing activities during the second quarter of 2017. During the year ended December 31, 2019, Highgate generated $5.9 million of NOI, consisting of $10.1 million in rental income and $4.1 million in cost of operations compared to $3.3 million of NOI, consisting of $7.4 million in rental income and $4.1 million in cost of operations for the same period in 2018.

The following table summarizes certain statistics for Highgate as of December 31, 2019:

Apartment Units	Total Costs [1] (in thousands)	As of December 31, 2019 Physical Occupancy	As of December 31, 2019 Average Rent per Unit [2]	Weighted Average Occupancy For the years ended December 31, 2019	Weighted Average Occupancy For the years ended December 31, 2018
395	$ 115,426	94.7%	$ 2,133	95.4%	78.2%

(1) The project cost for Highgate includes the underlying land at its assigned contribution value upon formation of the joint venture of $27.0 million, which includes unrealized land appreciation of $6.0 million that is not recorded on our balance sheet.

(2) Average rent per unit is defined as the total potential monthly rental revenue (actual rent for occupied apartment units plus market rent for vacant apartment units) divided by the total number of rentable apartment units.

Assets sold or held for sale: These amounts include historical operating results with respect to properties that we sold or intend to sell. Amounts for the year ended December 31, 2019 reflect the operating results related to 1.3 million square feet of assets sold in 2019 and a 113,000 square foot building held for sale as of December 31, 2019; amounts for the year ended December 31, 2018 reflect the operating results related to 1.3 million square feet of assets sold during 2019, a 113,000 square foot building held for sale as of December 31, 2019 and 899,000 square feet of assets sold in 2018; amounts shown for the year ended December 31, 2017 reflect the operating results related to 1.3 million square feet of assets sold in 2019, a 113,000 square foot building held for sale as of December 31, 2019, 899,000 square feet of assets sold in 2018 and 44,000 square feet of assets sold in 2017.

Depreciation and Amortization Expense: Depreciation and amortization expense increased 5.0% in 2019 compared to 2018 and increased by 5.3% in 2018 compared to 2017. The increase in 2019 over 2018 was primarily due to depreciation and amortization expense from the Non-Same Park facilities combined with depreciation expense related to the building held for development. The increase in 2018 over 2017 was primarily due to depreciation and amortization expense of our multifamily asset as we consolidated its operations effective January 1, 2018 in addition to depreciation and amortization expense from the 2018 acquisition.

General and Administrative Expense: General and administrative expense primarily represents executive and other compensation, audit and tax fees, legal expenses and other costs associated with being a public company. General and administrative expense increased $1.7 million, or 14.0%, in 2019 compared to 2018 and decreased $599,000, or 4.7%, in 2018 compared to 2017. The increase in 2019 over 2018 was primarily due to an increase in stock compensation expense tied to a modification of the Director Retirement Plan during 2019 as well as an increase in compensation costs relating to the chief financial officer who started during the latter half of 2018. The decrease in 2018 over 2017 was primarily due to a decrease in compensation costs relating to the chief financial officer position being filled during the latter half of 2018.

Equity loss from investment in and advances to unconsolidated joint venture: Prior to January 1, 2018, we accounted for our joint venture investment using the equity method and recorded our pro-rata share of the net loss in the joint venture. The Company recorded an equity loss in the unconsolidated joint venture of $805,000, comprised of our proportionate share of $1.8 million in revenue, $1.5 million in cost of operations, and $1.2 million in depreciation expense for the year ended December 31, 2017.

Gain on sale of real estate facilities and gain on sale of development rights: Subsequent to December 31, 2019, we sold a 113,000 square foot building located in Rockville, Maryland for a gross sales price of $30.0 million. We expect to record a gain on the sale of real estate in connection with the sale during the first quarter of 2020.

On October 8, 2019, we sold 1.3 million rentable square feet located in Rockville and Silver Spring, Maryland, for net sale proceeds of $144.6 million, which resulted in a gain of $16.6 million.

On March 5, 2018, we sold Corporate Pointe Business Park, a park consisting of five multi-tenant office buildings totaling 161,000 square feet located in Orange County, California, for net sale proceeds of $41.7 million, which resulted in a gain of $26.8 million. On April 18, 2018, we sold Orange County Business Center, a park consisting of

five multi-tenant office buildings totaling 437,000 square feet located in Orange County, California, for net sale proceeds of $73.3 million, which resulted in a gain of $50.6 million. On April 30, 2018, we sold Northgate Business Park, a park consisting of seven multi-tenant flex buildings totaling 194,000 square feet located in Dallas, Texas, for net sale proceeds of $11.8 million, which resulted in a gain of $7.9 million. On October 31, 2018, we sold Orangewood Office Park, a park consisting of two multi-tenant office buildings totaling 107,000 square feet located in Orange County, California, for net sale proceeds of $18.3 million, which resulted in a gain of $8.2 million.

On May 1, 2017, we sold Empire Commerce, a two-building single-story office park comprising 44,000 square feet, located in Dallas, Texas, for net sale proceeds of $2.1 million, which resulted in a net gain of $1.2 million.

On March 31, 2017, we sold development rights we held to build medical office buildings on land adjacent to our Westech Business Park in Silver Spring, Maryland for $6.5 million. We received net sale proceeds of $6.4 million, of which $4.9 million was received in 2017 and $1.5 million was received in prior years. We recorded a net gain of $6.4 million for the year ended December 31, 2017.

Liquidity and Capital Resources

This section should be read in conjunction with our consolidated statements of cash flows for the years ended December 31, 2019, 2018 and 2017 and the notes to our consolidated financial statements, which set forth the major components of our historical liquidity and capital resources. The discussion below sets forth the factors which we expect will affect our future liquidity and capital resources or which may vary substantially from historical levels.

Capital Raising Strategy: As a REIT, we generally distribute substantially all of our “REIT taxable income” to our shareholders, which relative to a taxable C corporation, limits the amount of cash flow from operations that we can retain for investment purposes. As a result, in order to grow our asset base, access to capital is important.

Our financial profile is characterized by strong credit metrics, including low leverage relative to our total capitalization and operating cash flows. We are a highly rated REIT, as determined by Moody’s and Standard & Poor’s. Our corporate credit rating by Standard and Poor’s is A-, while our preferred shares are rated BBB by Standard and Poor’s and Baa2 by Moody’s. We believe our credit profile and ratings will enable us to efficiently access both the public and private capital markets to raise capital, as necessary.

In order to maintain access to the capital markets, we target a minimum ratio of FFO (as defined below) to combined fixed charges and preferred distributions of 3.0 to 1.0. Fixed charges include interest expense, capitalized interest and preferred distributions paid to preferred shareholders. For the year ended December 31, 2019, the ratio to FFO to combined fixed charges and preferred distributions paid was 5.3 to 1.0.

We have a $250.0 million revolving Credit Facility that can be expanded to $400.0 million which expires in January, 2022. We can use the Credit Facility as necessary as temporary financing until we are able to raise longer term capital. Historically we have funded our long-term capital requirements with retained operating cash flow and proceeds from the issuance of common and preferred securities. We will select among these sources of capital based upon availability, relative cost, the impact of constraints on our operations (such as covenants), as well as the desire for leverage.

Short-term Liquidity and Capital Resource Analysis: We believe that our net cash provided by our operating activities will continue to be sufficient to enable us to meet our ongoing requirements for debt service, capital expenditures and distributions to our shareholders for the foreseeable future.

As of December 31, 2019, we had $62.8 million in unrestricted cash. In the last five years, we have retained approximately $40 to $60 million in operating cash flow per year. Retained operating cash flow represents cash flow provided by operating activities, less shareholder and unit holder distributions and capital expenditures.

Required Debt Repayment: As of December 31, 2019, we have no debt outstanding on our Credit Facility. We are in compliance with all of the covenants and other requirements of our Credit Facility.

Capital Expenditures: We define recurring capital expenditures as those necessary to maintain and operate our real estate at its current economic value. Nonrecurring capital improvements generally are related to property renovations and expenditures related to repositioning asset acquisitions. The following table sets forth our commercial capital expenditures paid for in the years ended December 31, 2019, 2018 and 2017 on an aggregate and per square foot basis:

Commercial Real Estate	For the Years Ended December 31, 2019	2018	2017	2019	2018	2017
	(in thousands)			(per total weighted average square foot)		
Recurring capital expenditures						
Capital improvements (1)	$ 11,224	$ 10,738	$ 10,069	$ 0.40	$ 0.38	$ 0.36
Tenant improvements	17,360	18,688	28,294	0.62	0.67	1.01
Lease commissions	8,267	8,048	7,477	0.29	0.29	0.27
Total commercial recurring capital expenditures (1)	36,851	37,474	45,840	1.31	1.34	1.64
Nonrecurring capital improvements	2,494	1,176	4,379	0.09	0.05	0.16
Total commercial capital expenditures (1)	$ 39,345	$ 38,650	$ 50,219	$ 1.40	$ 1.39	$ 1.80

(1) Excludes $20,000 and $13,000 of recurring capital improvements on our multifamily asset in 2019 and 2018, respectively.

The following table summarizes Same Park, Non-Same Park, multifamily and assets sold or held for sale recurring capital expenditures paid and the related percentage of NOI by region for the years ended December 31, 2019, 2018 and 2017 *(in thousands)*:

Region	Recurring Capital Expenditures 2019	2018	Change	2018	2017	Change	Recurring Capital Expenditures as a Percentage of NOI 2019	2018	2017
Same Park									
Northern California	$ 4,411	$ 3,602	22.5%	$ 3,602	$ 3,642	(1.1%)	5.3%	4.7%	5.2%
Southern California	4,514	3,167	42.5%	3,167	3,025	4.7%	11.0%	8.0%	8.1%
Dallas	4,623	5,027	(8.0%)	5,027	3,813	31.8%	20.7%	25.1%	18.2%
Austin	4,539	2,362	92.2%	2,362	1,726	36.8%	22.9%	12.3%	8.8%
Northern Virginia	10,366	10,810	(4.1%)	10,810	13,379	(19.2%)	21.5%	22.2%	26.3%
South Florida	2,191	3,149	(30.4%)	3,149	2,055	53.2%	6.9%	10.1%	6.8%
Suburban Maryland	2,051	2,714	(24.4%)	2,714	8,474	(68.0%)	16.1%	22.6%	81.1%
Seattle	927	968	(4.2%)	968	763	26.9%	6.7%	7.5%	6.3%
Total Same Park	33,622	31,799	5.7%	31,799	36,877	(13.8%)	12.3%	12.2%	14.7%
Non-Same Park									
Southern California	54	—	100.0%	—	—	—	—	—	—
Northern Virginia	2,154	615	250.2%	615	—	100.0%	—	—	—
Total Non-Same Park	2,208	615	259.0%	615	—	100.0%	—	—	—
Assets sold or held for sale	1,021	5,060	(79.8%)	5,060	8,963	(43.5%)	7.2%	22.0%	29.8%
Total commercial recurring capital expenditures	36,851	37,474	(1.7%)	37,474	45,840	(18.3%)	—	—	—
Multifamily	20	13	53.8%	13	—	100.0%	—	—	—
Total	$ 36,871	$ 37,487	(1.6%)	$ 37,487	$ 45,840	(18.2%)	12.2%	12.9%	16.3%

In the last five years, our recurring capital expenditures have averaged generally between $1.10 and $1.64 per square foot, and 11.5% and 16.3% as a percentage of NOI.

Redemption of Preferred Stock: Historically, we have reduced our cost of capital by refinancing higher coupon preferred securities with lower coupon preferred securities. On December 30, 2019, we completed the redemption of our 5.75% Cumulative Preferred Stock, Series U, at par of $230.0 million as well as our 5.70% Cumulative Preferred Stock, Series V, at par of $110.0 million using funds received from our 4.875% Series Z preferred stock issued during November, 2019, which effectively lowered the Company’s weighted average coupon rate from 5.40% to 5.10%.

Acquisitions of real estate facilities: Subsequent to December 31, 2019, we acquired a multi-tenant industrial park comprised of approximately 73,000 rentable square feet in La Mirada, California, for a total purchase price of $13.5 million, inclusive of capitalized transaction costs. On December 20, 2019, we acquired a multi-tenant flex park comprised of approximately 79,000 rentable square feet in Santa Clara, California, for a total purchase price of $16.8 million, inclusive of capitalized transaction costs. On September 5, 2019, we acquired a multi-tenant industrial park comprised of approximately 543,000 rentable square feet in Santa Fe Springs, California, for a total purchase price of

$104.3 million, inclusive of capitalized transaction costs. On April 18, 2019, we acquired a multi-tenant industrial park comprised of approximately 74,000 rentable square feet in Signal Hill, California, for a total purchase price of $13.8 million, inclusive of capitalized transaction costs. On June 8, 2018, we acquired two multi-tenant industrial parks aggregating 1.1 million rentable square feet in Springfield, Virginia, for a total purchase price of $143.8 million, inclusive of capitalized transaction costs. We continue to seek to acquire additional real estate facilities; however, there is significant competition to acquire existing facilities and there can be no assurance as to the volume of future acquisition activity.

Sale of real estate: Subsequent to December 31, 2019, we sold a 113,000 square foot building located at Metro Park North in Rockville, Maryland, that was held for sale as of December 31, 2019, for a gross sales price of $30.0 million. During the year ended December 31, 2019, we sold 1.3 million rentable square feet of flex and office business parks located in Rockville and Silver Spring, Maryland, for net sale proceeds of $144.6 million, which resulted in a gain of $16.6 million. During the year ended December 31, 2018, we sold 899,000 rentable square feet of real estate facilities located in Orange County, California, and Dallas, Texas, for net sale proceeds of $145.1 million, which resulted in a gain of $93.5 million. On May 1, 2017, we sold a two-building single-story office park comprising 44,000 square feet, located in Dallas, Texas, for net sale proceeds of $2.1 million, which resulted in a net gain of $1.2 million.

Development of real estate facilities: As noted above, we have a 123,000 square foot vacant building located within The Mile that we are seeking to redevelop into a multifamily property. There can be no assurance as to the timing or amount of any investment that may occur; however, we expect to incur any significant development costs on this potential project any earlier than mid-2020.

Repurchase of Common Stock: No shares of common stock were repurchased under the board-approved common stock repurchase program during the years ended December 31, 2019, 2018 and 2017. As of December 31, 2019, management has the authorization to repurchase an additional 1,614,721 shares.

Requirement to Pay Distributions: Our election to be taxed as a REIT, as defined by the Code, applies to all periods presented herein. As a REIT, we do not incur federal income tax on our “REIT taxable income” that is distributed each year (for this purpose, certain distributions paid in a subsequent year may be considered), and we continue to meet certain organizational and operational requirements. We believe we have met these requirements in all periods presented herein, and we expect we will continue to qualify as a REIT in future periods.

We paid REIT qualifying distributions of $169.5 million ($54.3 million to preferred shareholders and $115.2 million to common shareholders) during the year ended December 31, 2019.

We estimate the annual distribution requirements with respect to our preferred shares outstanding at December 31, 2019 to be $48.2 million per year.

Our consistent, long-term dividend policy has been to set dividend distribution amounts based on our taxable income. Future quarterly distributions with respect to common shares will continue to be determined based upon our REIT distribution requirements and, after taking into consideration distributions to the preferred shareholders, we expect will be funded with cash provided by operating activities.

Funds from Operations, Core Funds from Operations and Funds Available for Distribution

Funds from Operations (“FFO”) is a non-GAAP measure defined by the National Association of Real Estate Investment Trusts (“NAREIT”) and is considered a helpful measure of REIT performance by REITs and many REIT analysts. FFO represents GAAP net income before real estate depreciation and amortization expense, gains or losses on sales of operating properties and land and impairment charges on real estate assets.

We also present Core FFO and Funds Available for Distribution (“FAD”). Core FFO, which the Company defines as FFO excluding the net impact of (i) income allocated to preferred shareholders to the extent redemption value exceeds the related carrying value (a “Preferred Redemption Allocation”) and (ii) other nonrecurring income or expense items as appropriate. FAD, a non-GAAP measure, represents Core FFO adjusted to (i) deduct recurring capital improvements and capitalized tenant improvements and lease commissions and (ii) remove certain non-cash income or expenses such as straight-line rent and stock compensation expense.

The following table reconciles net income allocable to common shareholders to FFO, Core FFO and FAD as well as net income per share to FFO per share and Core FFO per share *(amounts in thousands, except per share data)*:

	For The Years Ended December 31,				
	2019	**2018**	**2017**	**2016**	**2015**
Net income allocable to common shareholders	$ 108,703	$ 172,899	$ 90,425	$ 62,872	$ 68,291
Adjustments					
Gain on sale of land, real estate facilities and development rights	(16,644)	(93,484)	(7,574)	—	(28,235)
Depreciation and amortization expense	104,249	99,242	94,270	99,486	105,394
Depreciation from unconsolidated joint venture	—	—	1,180	—	—
Net income allocated to noncontrolling interests	29,006	45,199	24,279	16,955	18,495
Net income allocated to restricted stock unit holders	910	1,923	761	569	299
FFO allocated to joint venture partner	(149)	(13)	—	—	—
FFO allocable to diluted common shares and units	226,075	225,766	203,341	179,882	164,244
Preferred Redemption Allocation	11,007	—	10,978	7,312	2,487
Other nonrecurring income or expense items	—	—	(414)	1,818	—
Core FFO allocable to diluted common shares and units	$ 237,082	$ 225,766	$ 213,905	$ 189,012	$ 166,731
Recurring capital expenditures	(36,871)	(37,487)	(45,840)	(30,952)	(39,846)
Cash paid for taxes in lieu of shares upon vesting of restricted stock units	(6,350)	(4,981)	(3,865)	(1,940)	(767)
Non-cash items	1,020	(1,056)	174	4,276	1,909
FAD allocable to diluted common shares and units	$ 194,881	$ 182,242	$ 164,374	$ 160,396	$ 128,027
Weighted average outstanding					
Common shares	27,418	27,321	27,207	27,089	26,973
Common operating partnership units	7,305	7,305	7,305	7,305	7,305
Restricted stock units	124	182	187	290	130
Common share equivalents	108	101	205	90	78
Total diluted common shares and units	34,955	34,909	34,904	34,774	34,486
Net income per common share — diluted	$ 3.95	$ 6.31	$ 3.30	$ 2.31	$ 2.52
Gain on sale of land, real estate facilities and development rights	(0.47)	(2.68)	(0.21)	—	(0.82)
Depreciation and amortization expense, including amounts from investments in unconsolidated joint venture	2.99	2.84	2.74	2.86	3.06
FFO per share	6.47	6.47	5.83	5.17	4.76
Preferred Redemption Allocation	0.31	—	0.31	0.21	0.07
Other nonrecurring income or expense items	—	—	(0.01)	0.06	—
Core FFO per share	$ 6.78	$ 6.47	$ 6.13	$ 5.44	$ 4.83

We believe FFO, Core FFO and FAD assist investors in analyzing and comparing the operating and financial performance of a company's real estate between periods. FFO, Core FFO and FAD are not substitutes for GAAP net income. In addition, other REITs may compute FFO, Core FFO, and FAD differently, which could inhibit comparability.

Off-Balance Sheet Arrangements: The Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a material effect on the Company's financial condition, results of operations, liquidity, capital expenditures or capital resources.

Contractual Obligations: As of December 31, 2019, we expect to pay quarterly distributions of $12.0 million to our preferred shareholders for the foreseeable future or until such time as there is a change in the amount or composition of our series of preferred equity outstanding. Dividends on preferred equity are paid when and if declared by the Company's Board and accumulate if not paid. Shares of preferred equity are redeemable by the Company in order to preserve its status as a REIT and are also redeemable five years after issuance, but are not redeemable at the option of the holder.

Our significant contractual obligations as of December 31, 2019 and their impact on our cash flow and liquidity are summarized below *(in thousands)*:

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 year**	**1 - 3 years**	**4 - 5 years**	**More than 5 years**
Transaction costs [1]	$ 9,604	$ 9,604	$ —	$ —	$ —
Ground lease obligations [2]	1,965	196	596	397	776
Total	$ 11,569	$ 9,800	$ 596	$ 397	$ 776

(1) Represents transaction costs, including tenant improvements and lease commissions, which we are committed to under the terms of executed leases.

(2) Represents future contractual payments on land under various operating leases.

ITEM 7A. ***QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

To limit the Company's exposure to market risk, the Company principally finances its operations and growth with permanent equity capital consisting of either common or preferred stock. The Company had no debt outstanding as of as of December 31, 2019.

Our exposure to market risk for changes in interest rates relates primarily to the Credit Facility, which is subject to variable interest rates. See Notes 2 and 6 to the consolidated financial statements included in this Form 10-K for additional information regarding the terms, valuations and approximate principal maturities of the Company's indebtedness, including the Credit Facility. Based on borrowing rates currently available to the Company, the difference between the carrying amount of debt and its fair value is insignificant.

ITEM 8. ***FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

The financial statements of the Company at December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017 and the report of Ernst & Young LLP, independent registered public accounting firm, thereon and the related financial statement schedule, are included elsewhere herein. Reference is made to the Index to Consolidated Financial Statements and Schedules in Item 15.

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

None.

ITEM 9A. ***CONTROLS AND PROCEDURES***

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of December 31, 2019. These controls and procedures have been designed to ensure that information required for disclosure is recorded, processed, summarized and reported within the requisite time periods and that such information is accumulated and communicated to management. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of the Company's disclosure controls and procedures as of December 31, 2019, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of such date, the Company's disclosure controls and procedures were effective at the reasonable assurance level.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control-Integrated Framework* issued by the Committee on Sponsoring Organizations of the Treadway Commission (2013 Framework). Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2019.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2019 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their attestation report which is included herein.

Changes in Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth quarter of 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
PS Business Parks, Inc.

Opinion on Internal Control over Financial Reporting

We have audited PS Business Parks, Inc.'s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, PS Business Parks, Inc. (the Company) maintained, in all material aspects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of PS Business Parks, Inc. as of December 31, 2019 and 2018, the related consolidated statements of income, equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and financial statement schedule listed in the Index at Item 15(a) and our report dated February 19, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Security and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Los Angeles, California
February 19, 2020

ITEM 9B. ***OTHER INFORMATION***

None.

PART III

ITEM 10. ***DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE***

The information required by this item with respect to directors is hereby incorporated by reference to the material appearing in the Company’s definitive proxy statement to be filed in connection with the annual shareholders’ meeting to be held in 2020 (the “Proxy Statement”) under the caption “Election of Directors.”

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

Maria R. Hawthorne, age 60, has served as Chief Executive Officer and President of the Company since July 2016 and August 2015, respectively. In addition, Ms. Hawthorne also served as the Company's acting Chief Financial Officer (CFO) from September 2017 to September 2018. Ms. Hawthorne was also elected as a member of our Board in July 2016. Ms. Hawthorne previously served as Executive Vice President, Chief Administrative Officer of the Company from July 2013 to August 2015. Prior to that, Ms. Hawthorne served as the Company's Executive Vice President, East Coast, from February 2011 to July 2013. Ms. Hawthorne served as the Company's Senior Vice President from March 2004 to February 2011, with responsibility for property operations on the East Coast, including Northern Virginia, Maryland, and South Florida. From June 2001 through March 2004, Ms. Hawthorne was a Vice President of the Company, responsible for property operations in Virginia. From July 1994 to June 2001, Ms. Hawthorne was a Regional Manager of the Company in Virginia. From August, 1988 to July, 1994, Ms. Hawthorne was a General Manager, Leasing Director, and Property Manager for American Office Park Properties. Ms. Hawthorne also serves as director on the Executive Board of NAREIT. Ms. Hawthorne earned a Bachelor of Arts Degree in International Relations from Pomona College.

John W. Petersen, age 56, has been Executive Vice President and Chief Operating Officer since he joined the Company in December, 2004. Prior to joining the Company, Mr. Petersen was Senior Vice President, San Jose Region, for Equity Office Properties (“EOP”) from July, 2001 to December, 2004, responsible for 11.3 million square feet of multi-tenant office, industrial and R&D space in Silicon Valley. Prior to EOP, Mr. Petersen was Senior Vice President with Spieker Properties, from 1995 to 2001 overseeing the growth of that company’s portfolio in San Jose, through acquisition and development of nearly three million square feet. Mr. Petersen is a graduate of The Colorado College in Colorado Springs, Colorado, and was formerly the President of National Association of Industrial and Office Parks, Silicon Valley Chapter.

Jeffrey D. Hedges, age 37, joined the Company as Executive Vice President, Chief Financial Officer, Secretary, and principal financial officer on September 17, 2018. Prior to joining the Company, Mr. Hedges served as Senior Vice President, Accounting and Reporting from 2015 at Invitation Homes (NYSE:INVH) (formerly known as Starwood Waypoint Homes and prior to that Colony Starwood Homes), a publicly traded single-family REIT that owns and operates single-family rental homes in the United States. Prior to that, Mr. Hedges was a Senior Manager in the Transaction Advisory Services and Assurance (Audit) groups at Ernst & Young from 2006 to 2015. Mr. Hedges is a certified public accountant and holds a Bachelor of Science from the W.P. Carey School of Business, Arizona State University, and a Master of Business Administration from the Wharton School, University of Pennsylvania.

Trenton Groves, age 47, has served as the Company’s Senior Vice President, Chief Accounting Officer, Assistant Secretary, and principal accounting officer since September 2018. Mr. Groves joined the Company as Corporate Controller in 2004 and has served as Vice President, Finance, and Corporate Controller since 2007. Prior to joining the Company, Mr. Groves was in public accounting, serving as a Manager in the Assurance (Audit) group at Ernst & Young from 2002 to 2004 and as Manager at Arthur Anderson from 1998 to 2002. Mr. Groves is a certified public accountant and holds a Bachelor of Science in accounting from California State University, Northridge.

Information required by this item with respect to the nominating process, the audit committee and the audit committee financial expert is hereby incorporated by reference to the material appearing in the Proxy Statement under the caption “Corporate Governance and Board Matters.”

Information required by this item with respect to a code of ethics is hereby incorporated by reference to the material appearing in the Proxy Statement under the caption "Corporate Governance and Board Matters." We have adopted a code of ethics that applies to our principal executive officer, principal financial officer and principal accounting officer, which is available on our website at www.psbusinessparks.com. The information contained on the Company's website is not a part of, or incorporated by reference into, this Annual Report on Form 10-K. Any amendments to or waivers of the code of ethics granted to the Company's executive officers or the controller will be published promptly on our website or by other appropriate means in accordance with SEC rules.

Information required by this item with respect to the compliance with Section 16(a) of the Exchange Act is hereby incorporated by reference to the material appearing in the Proxy Statement under the caption "Section 16(a) Beneficial Ownership Reporting Compliance."

ITEM 11. *EXECUTIVE COMPENSATION*

The information required by this item is hereby incorporated by reference to the material appearing in the Proxy Statement under the captions "Compensation Committee Interlocks and Insider Participation," "Compensation of Directors," Compensation Discussion and Analysis (CD&A)," "Executive Compensation Tables," "Compensation Committee Report," and "Pay Ratio Disclosure."

ITEM 12. *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS*

The information required by this item with respect to security ownership of certain beneficial owners and management is hereby incorporated by reference to the material appearing in the Proxy Statement under the caption "Stock Ownership of Certain Beneficial Owners and Management."

The following table sets forth information as of December 31, 2019 on the Company's equity compensation plans:

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders	308,678	$ 103.62	813,400
Equity compensation plans not approved by security holders	—	—	—
Total	308,678 *	$ 103.62 *	813,400 *

* Amounts include restricted stock units.

ITEM 13. *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE*

The information required by this item is hereby incorporated by reference to the material appearing in the Proxy Statement under the captions "Corporate Governance and Board Matters" and "Certain Relationships and Related Transactions."

ITEM 14. *PRINCIPAL ACCOUNTANT FEES AND SERVICES*

The information required by this item is hereby incorporated by reference to the material appearing in the Proxy Statement under the caption "Ratification of Independent Registered Public Accountants."

PART IV

ITEM 15. ***EXHIBITS AND FINANCIAL STATEMENT SCHEDULES***

a. 1. Financial Statements

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

2. Financial Statements Schedule

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

3. Exhibits

The exhibits listed in the Exhibit Index immediately preceding such exhibits are filed with or incorporated by reference in this report.

b. Exhibits

The exhibits listed in the Exhibit Index immediately preceding such exhibits are filed with or incorporated by reference in this report.

c. Financial Statement Schedules

Not applicable.

ITEM 16. ***FORM 10-K SUMMARY***

None.

PS BUSINESS PARKS, INC.

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

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All other schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
PS Business Parks, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of PS Business Parks, Inc. (the Company) as of December 31, 2019 and 2018, and the related consolidated statements of income, equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 19, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Security and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Purchase price accounting

Description of the Matter	As described in Note 3 to the consolidated financial statements, the Company completed three acquisitions during 2019 for consideration of $134.9 million. As explained in Note 3 to the consolidated financial statements, the transactions were accounted for as asset acquisitions, and as such, are recorded at the price to acquire the real estate property, including acquisition costs. The purchase price is allocated to land, building, and acquired lease intangible assets and/or liabilities based upon the relative fair value of the acquired tangible and intangible lease assets and liabilities. The relative fair value of the acquired tangible and intangible lease assets and

	liabilities were determined by the Company and its valuation specialist utilizing available market information. Auditing the Company's accounting for its acquisitions was complex due to the significant estimation required by management in determining the fair values of the acquired land, building, and intangible lease assets and liabilities. The significant estimation was primarily due to the judgmental nature of the inputs to the valuation models used to measure the fair value of the tangible and intangible lease assets and liabilities as well as the sensitivity of the respective fair values to the significant underlying assumptions. The Company utilized the sales comparison approach to measure the fair value of the acquired land and the discounted cash flow method to measure the fair value of the remaining acquired tangible and intangible assets and liabilities. The more significant assumptions utilized included revenue growth rates, discount rates, market rental rates, and capitalization rates. These significant assumptions are forward-looking and could be affected by future economic and market conditions.
How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls over management's accounting for acquired real estate properties, including controls over the Company's review of the assumptions underlying the purchase price allocation, the cash flow projections, and the accuracy of the underlying data used. For example, we tested controls over the determination of the fair value of the land, building and intangible lease assets and liabilities, including the controls over the review of the valuation models and the underlying assumptions used to develop such estimates. For each of the Company's real estate property acquisitions, we read the purchase and sale agreements, and evaluated whether the Company had appropriately determined whether the transaction was a business combination or asset acquisition. We also evaluated the significant assumptions and methods used in developing the fair value estimates of the tangible assets and intangible lease assets acquired and liabilities assumed. To test the estimated fair value of the land, building and intangible lease assets and liabilities, we performed audit procedures that included, among other procedures, evaluating the Company's use of the income approach and testing the significant assumptions used in the discounted cash flow model, and testing the completeness and accuracy of the underlying data supporting the significant assumptions and estimates. For example, we agreed the contractual rents used in the determination of the in-place and above/below market lease intangible assets and liabilities to tenant leases and compared certain property operating expenses, such as real estate property taxes, used in the income approach to historical operating results adjusted for the transaction. We also involved our valuation specialists to assist in the assessment of the methodology utilized by the Company, performed procedures to corroborate the reasonableness of the significant assumptions utilized in the developing the fair value estimates, and performed corroborative calculations to assess the reasonableness of the acquired building asset. For example, our valuation specialists (i) used independently identified data sources to evaluate the appropriateness of management's selected comparable land sales, (ii) calculated the building value using the replacement cost approach and reconciled it to the recorded value, and (iii) obtained market specific information for the revenue growth rates, discount rates, market rental rates, and capitalization rates to corroborate the market information utilized by the Company.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1997.

Los Angeles, California
February 19, 2020

PART IV

ITEM 15. ***EXHIBITS AND FINANCIAL STATEMENT SCHEDULES (Item 15(a)(1) and Item 15(a)(2))***

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

	December 31,			
	2019		2018	
ASSETS				
Cash and cash equivalents	$	62,786	$	37,379
Real estate facilities, at cost				
Land		846,635		758,542
Buildings and improvements		2,206,134		2,138,659
		3,052,769		2,897,201
Accumulated depreciation		(1,159,769)		(1,087,102)
		1,893,000		1,810,099
Properties held for sale, net		11,502		140,384
Land and building held for development, net		28,110		30,848
		1,932,612		1,981,331
Rent receivable		1,392		1,403
Deferred rent receivable		32,993		33,308
Other assets		16,660		15,173
Total assets	$	2,046,443	$	2,068,594
LIABILITIES AND EQUITY				
Accrued and other liabilities	$	84,632	$	85,141
Total liabilities		84,632		85,141
Commitments and contingencies				
Equity				
PS Business Parks, Inc.'s shareholders' equity				
Preferred stock, $0.01 par value, 50,000,000 shares authorized, 37,790 and 38,390 shares issued and outstanding at December 31, 2019 and 2018, respectively, at liquidation preference		944,750		959,750
Common stock, $0.01 par value, 100,000,000 shares authorized, 27,440,953 and 27,362,101 shares issued and outstanding at December 31, 2019 and 2018, respectively		274		274
Paid-in capital		736,986		736,131
Accumulated earnings (deficit)		63,666		69,207
Total PS Business Parks, Inc.'s shareholders' equity		1,745,676		1,765,362
Noncontrolling interests		216,135		218,091
Total equity		1,961,811		1,983,453
Total liabilities and equity	$	2,046,443	$	2,068,594

See accompanying notes.

PS BUSINESS PARKS, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Amounts in thousands, except per share data)

	For The Years Ended December 31,		
	2019	2018	2017
Rental income	$ 429,846	$ 413,516	$ 402,179
Expenses			
Cost of operations	128,343	124,630	122,348
Depreciation and amortization	104,249	99,242	94,270
General and administrative	13,761	12,072	12,671
Total operating expenses	246,353	235,944	229,289
Interest and other income	4,492	1,510	942
Interest and other expense	(657)	(665)	(1,285)
Equity in loss of unconsolidated joint venture	—	—	(805)
Gain on sale of real estate facilities	16,644	93,484	1,209
Gain on sale of development rights	—	—	6,365
Net income	203,972	271,901	179,316
Allocation to noncontrolling interests	(29,006)	(45,199)	(24,279)
Net income allocable to PS Business Parks, Inc.	174,966	226,702	155,037
Allocation to preferred shareholders based upon			
Distributions	(54,346)	(51,880)	(52,873)
Redemptions (Note 9)	(11,007)	—	(10,978)
Allocation to restricted stock unit holders	(910)	(1,923)	(761)
Net income allocable to common shareholders	$ 108,703	$ 172,899	$ 90,425
Net income per common share			
Basic	$ 3.96	$ 6.33	$ 3.32
Diluted	$ 3.95	$ 6.31	$ 3.30
Weighted average common shares outstanding			
Basic	27,418	27,321	27,207
Diluted	27,526	27,422	27,412

See accompanying notes.

PS BUSINESS PARKS, INC.
CONSOLIDATED STATEMENTS OF EQUITY
(Amounts in thousands, except share data)

	Preferred Stock		Common Stock		Paid-in	Accumulated	Total PS Business Parks, Inc.'s Shareholders'	Noncontrolling	Total
	Shares	Amount	Shares	Amount	Capital	Earnings (Deficit)	Equity	Interests	Equity
Balances at December 31, 2016	35,190	$ 879,750	27,138,138	$ 271	$ 733,671	$ (433)	$ 1,613,259	$ 197,455	$ 1,810,714
Issuance of preferred stock, net of issuance costs	17,200	430,000	—	—	(14,221)	—	415,779	—	415,779
Redemption of preferred stock, net of issuance costs	(14,000)	(350,000)	—	—	10,978	(10,978)	(350,000)	—	(350,000)
Issuance of common stock in connection with stock-based compensation	—	—	116,469	1	4,217	—	4,218	—	4,218
Stock compensation, net	—	—	—	—	4,016	—	4,016	—	4,016
Cash paid for taxes in lieu of shares upon vesting of restricted stock units	—	—	—	—	(3,865)	—	(3,865)	—	(3,865)
Net income	—	—	—	—	—	155,037	155,037	24,279	179,316
Distributions									
Preferred stock (Note 9)	—	—	—	—	—	(52,873)	(52,873)	—	(52,873)
Common stock ($3.40)	—	—	—	—	—	(92,531)	(92,531)	—	(92,531)
Noncontrolling interests—common units	—	—	—	—	—	—	—	(24,838)	(24,838)
Adjustment to noncontrolling interests—common units in the OP	—	—	—	—	271	—	271	(271)	—
Balances at December 31, 2017	38,390	959,750	27,254,607	272	735,067	(1,778)	1,693,311	196,625	1,889,936
Issuance of common stock in connection with stock-based compensation	—	—	107,494	2	3,008	—	3,010	—	3,010
Stock compensation, net	—	—	—	—	3,032	—	3,032	—	3,032
Cash paid for taxes in lieu of shares upon vesting of restricted stock units	—	—	—	—	(4,981)	—	(4,981)	—	(4,981)
Consolidation of joint venture (see Note 3)	—	—	—	—	—	—	—	4,032	4,032
Net income	—	—	—	—	—	226,702	226,702	45,199	271,901
Distributions									
Preferred stock (Note 9)	—	—	—	—	—	(51,880)	(51,880)	—	(51,880)
Common stock ($3.80)	—	—	—	—	—	(103,837)	(103,837)	—	(103,837)
Noncontrolling interests—common units	—	—	—	—	—	—	—	(27,760)	(27,760)
Adjustment to noncontrolling interests—common units in the OP	—	—	—	—	5	—	5	(5)	—
Balances at December 31, 2018	38,390	959,750	27,362,101	274	736,131	69,207	1,765,362	218,091	1,983,453
Issuance of preferred stock, net of issuance costs	13,000	325,000	—	—	(8,962)	—	316,038	—	316,038
Redemption of preferred stock, net of issuance costs	(13,600)	(340,000)	—	—	11,007	(11,007)	(340,000)	—	(340,000)
Issuance of common stock in connection with stock-based compensation	—	—	78,852	—	969	—	969	—	969
Stock compensation, net	—	—	—	—	4,046	—	4,046	—	4,046
Cash paid for taxes in lieu of shares upon vesting of restricted stock units	—	—	—	—	(6,350)	—	(6,350)	—	(6,350)
Net income	—	—	—	—	—	174,966	174,966	29,006	203,972
Distributions									
Preferred stock (Note 9)	—	—	—	—	—	(54,346)	(54,346)	—	(54,346)
Common stock ($4.20)	—	—	—	—	—	(115,154)	(115,154)	—	(115,154)
Noncontrolling interests—									
Common units	—	—	—	—	—	—	—	(30,683)	(30,683)
Joint Venture	—	—	—	—	—	—	—	(134)	(134)
Adjustment to noncontrolling interests—common units in the OP	—	—	—	—	145	—	145	(145)	—
Balances at December 31, 2019	37,790	$ 944,750	27,440,953	$ 274	$ 736,986	$ 63,666	$ 1,745,676	$ 216,135	$ 1,961,811

See accompanying notes.

PS BUSINESS PARKS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	For The Years Ended December 31,		
	2019	2018	2017
Cash flows from operating activities			
Net income	$ 203,972	$ 271,901	$ 179,316
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization expense	104,249	99,242	94,270
Tenant improvement reimbursement amortization, net of lease incentive amortization	(1,028)	(2,226)	(2,183)
Equity in loss of unconsolidated joint venture	—	—	805
Gain on sale of real estate facilities and development rights	(16,644)	(93,484)	(7,574)
Stock compensation expense	4,956	4,174	4,777
Amortization of financing costs	544	537	475
Other, net	(5,454)	(3,991)	1,728
Total adjustments	86,623	4,252	92,298
Net cash provided by operating activities	290,595	276,153	271,614
Cash flows from investing activities			
Capital expenditures to real estate facilities	(39,365)	(38,663)	(50,219)
Capital expenditures to land and building held for development	(5,278)	(1,183)	(1,549)
Investment in and advances to unconsolidated joint venture	—	—	(34,513)
Acquisition of real estate facilities	(134,278)	(142,399)	—
Proceeds from sale of real estate facilities	144,599	145,097	2,144
Proceeds from sale of development rights	—	—	4,900
Consolidation of joint venture	—	1,082	—
Net cash used in investing activities	(34,322)	(36,066)	(79,237)
Cash flows from financing activities			
Borrowings on credit facility	70,000	50,000	250,000
Repayment of borrowings on credit facility	(70,000)	(50,000)	(250,000)
Payment of financing costs	(296)	(307)	(858)
Proceeds from the exercise of stock options	969	3,010	4,218
Cash paid for taxes in lieu of shares upon vesting of restricted stock units	(6,350)	(4,981)	(3,865)
Redemption of preferred stock	(340,000)	(130,000)	(450,000)
Net proceeds from the issuance of preferred stock	316,038	—	415,779
Cash paid to restricted stock unit holders	(910)	(1,142)	(761)
Distributions paid to preferred shareholders	(54,346)	(52,573)	(52,180)
Distributions paid to common shareholders	(115,154)	(103,837)	(92,531)
Distributions paid to noncontrolling interests—common units	(30,683)	(27,760)	(24,838)
Distributions paid to noncontrolling interests—joint venture	(134)	—	—
Net cash used in financing activities	(230,866)	(317,590)	(205,036)
Net increase (decrease)in cash and cash equivalents	25,407	(77,503)	(12,659)
Cash, cash equivalents and restricted cash at the beginning of the period	38,467	115,970	128,629
Cash, cash equivalents and restricted cash at the end of the period	$ 63,874	$ 38,467	$ 115,970
Supplemental disclosures			
Interest paid	$ 67	$ 40	$ 1,188

See accompanying notes.

PS BUSINESS PARKS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	For The Years Ended December 31,		
	2019	2018	2017
Supplemental schedule of non-cash investing and financing activities			
Adjustment to noncontrolling interests—common units in the OP			
Noncontrolling interests—common units	$ (145)	$ (5)	$ (271)
Paid-in capital	$ 145	$ 5	$ 271
Preferred redemption allocation			
Paid-in capital	$ 11,007	$ —	$ 10,978
Accumulated earnings (deficit)	$ (11,007)	$ —	$ (10,978)
Preferred stock called for redemption			
Preferred stock called for redemption and reclassified to liabilities	$ —	$ —	$ 130,000
Preferred stock called for redemption and reclassified from equity	$ —	$ —	$ (130,000)
Consolidation of joint venture			
Land	$ —	$ 21,814	$ —
Buildings and improvements	$ —	$ 84,903	$ —
Other, net	$ —	$ (1,787)	$ —
Investment in and advances to unconsolidated joint venture	$ —	$ (100,898)	$ —
Noncontrolling interests—joint venture	$ —	$ (4,032)	$ —
Accrued preferred stock distributions			
Accrued and other liabilities	$ —	$ —	$ 693
Accumulated earnings (deficit)	$ —	$ —	$ (693)

See accompanying notes.

PS BUSINESS PARKS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

1. Organization and description of business

Organization

PS Business Parks, Inc. (“PSB”) was incorporated in the state of California in 1990. As of December 31, 2019, PSB owned 79.0% of the common partnership units of PS Business Parks, L.P. (the “OP”). The remaining common partnership units are owned by Public Storage (“PS”). PS’s interest in the OP is referred to as the “PS OP Interests.” PSB, as the sole general partner of the OP, has full, exclusive and complete responsibility and discretion in managing and controlling the OP. PSB and its subsidiaries, including the OP and our consolidated joint venture that owns a 395-unit multifamily apartment complex in Tysons, Virginia, are collectively referred to as the “Company,” “we,” “us,” or “our.” PS also owns 7.2 million common shares and would own 41.6% (or 14.5 million shares) of the outstanding shares of the Company’s common stock if it redeemed its common partnership units for common shares.

Description of business

The Company is a fully-integrated, self-advised and self-managed real estate investment trust (“REIT”) that owns, operates, acquires and develops commercial properties, primarily multi-tenant industrial, flex and office space. As of December 31, 2019, the Company owned and operated 27.6 million rentable square feet of commercial space in six states and held a 95.0% interest in a 395-unit multifamily apartment complex in Tysons, Virginia. The Company also manages for a fee approximately 438,000 rentable square feet on behalf of PS.

References herein to the number of properties, apartment units or square footage are unaudited and outside the scope of the Company’s independent registered public accounting firm's audit of the Company’s consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States).

2. Summary of significant accounting policies

Basis of presentation

The accompanying consolidated financial statements include the accounts of PSB and its subsidiaries, including the OP and our consolidated joint venture. All significant inter-company balances and transactions have been eliminated in the consolidated financial statements. The financial statements are presented on an accrual basis in accordance with U.S. generally accepted accounting principles (“GAAP”).

Consolidation and equity method of accounting

We consider entities to be Variable Interest Entities (“VIEs”) when they have insufficient equity to finance their activities without additional subordinated financial support provided by other parties, or the equity holders as a group do not have a controlling financial interest. A limited partnership is also generally considered a VIE if the limited partners do not participate in operating decisions. We consolidate VIEs when we are the primary beneficiary, generally defined as having (i) the power to direct the activities most significantly impacting economic performance and (ii) either the obligation to absorb losses or the right to receive benefits from the VIE.

We account for investments in entities that are not VIEs that we have significant influence over, but do not control, using the equity method of accounting and for investment in entities that we control, we consolidate. On January 1, 2018, we began to consolidate our joint venture due to changes to the joint venture agreement that gave the Company control of the joint venture. See Note 4 for more information on this entity.

PS, the sole limited partner in the OP, has no power to direct the activities of the OP. We are the primary beneficiary of the OP. Accordingly, we consider the OP a VIE and consolidate it. Substantially all of our assets and liabilities are held by the OP.

Noncontrolling interests

Noncontrolling interests represent (i) PS's noncontrolling interest in the OP through its ownership of 7,305,355 common partnership units and (ii) a third-party 5.0% interest in our consolidated joint venture owning a 395-unit multifamily apartment complex. See Note 7 for further information on noncontrolling interests.

Use of estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

Financial instruments

The methods and assumptions used to estimate the fair value of financial instruments are described below. The Company has estimated the fair value of financial instruments using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop estimates of market value. Accordingly, estimated fair values are not necessarily indicative of the amounts that could be realized in current market exchanges. The Company determines the estimated fair value of financial assets and liabilities utilizing a hierarchy of valuation techniques based on whether the inputs to a fair value measurement are considered to be observable or unobservable in a marketplace. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. This hierarchy requires the use of observable market data when available. The following is the fair value hierarchy:

- *Level 1*—quoted prices for identical instruments in active markets;

- *Level 2*—quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and

- *Level 3*—fair value measurements derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Financial assets that are exposed to credit risk consist primarily of cash equivalents and receivables. The Company considers all highly liquid investments with a remaining maturity of three months or less at the date of purchase to be cash equivalents. Cash and cash equivalents, which consist primarily of money market investments, are only invested in entities with an investment grade rating. Receivables are comprised of balances due from various customers. Balances that the Company expects to become uncollectible are written off. Due to the short period to maturity of the Company's cash and cash equivalents, accounts receivable, other assets and accrued and other liabilities, the carrying values as presented on the consolidated balance sheets are reasonable estimates of fair value.

The following table provides a reconciliation of cash, cash equivalents and restricted cash per the consolidated statements of cash flow to the corresponding financial statement line items in the consolidated balance sheets as of December 31, 2019, 2018 and 2017 *(in thousands)*:

	For The Years Ended December 31,		
	2019	**2018**	**2017**
Consolidated balance sheets			
Cash and cash equivalents	$ 62,786	$ 37,379	$ 114,882
Restricted cash included in			
Land and building held for development, net	1,088	1,088	1,088
Cash, cash equivalents and restricted cash at the end of the period	$ 63,874	$ 38,467	$ 115,970

During 2017, in conjunction with seeking entitlements to develop our multifamily projects in Tysons, Virginia, we contributed $1.1 million into an escrow account for the future development of an athletic field. This amount is reflected in the table above as restricted cash included in land and building held for development, net.

Carrying values of the Company's Credit Facility (as defined in Note 6) approximate fair value. The characteristics of these financial instruments, market data and other comparative metrics utilized in determining these fair values are "Level 2" inputs.

Real estate facilities

Real estate facilities are recorded at cost. Property taxes, insurance, interest and costs essential to the development of property for its intended use are capitalized during the period of development. Direct costs related to the renovation or improvement of the properties are capitalized. Expenditures for repairs and maintenance are expensed as incurred. Expenditures that are expected to benefit a period greater than two years are capitalized and depreciated over their estimated useful life. Buildings and improvements are depreciated using the straight-line method over their estimated useful lives, which generally range from five to 30 years. Transaction costs, which include tenant improvements and lease commissions, for leases with terms greater than one year are capitalized and depreciated over their estimated useful lives.

Property held for sale or development

Real estate is classified as held for sale when the asset is being marketed for sale and we expect that a sale is likely to occur in the next 12 months. Real estate is classified as held for development when it is no longer used in its original form and likely that it will be developed to an alternate use. Property held for sale are not depreciated.

Intangible assets/liabilities

When we acquire real estate facilities, an intangible asset is recorded as other assets for leases where the in-place rent is higher than market rents, and an intangible liability is recorded as other liabilities where the market rents are higher than the in-place rents. The amounts recorded are based upon the present value (using a discount rate which reflects the risks associated with the leases acquired) of such differences over the lease term and such amounts are amortized to rental income over the respective remaining lease term. As of December 31, 2019, the value of above-market in-place rents resulted in net intangible assets of $1.2 million, net of $10.6 million of accumulated amortization and the value of below-market in-place rents resulted in net intangible liabilities of $2.4 million, net of $11.4 million of accumulated amortization. As of December 31, 2018, the value of above-market in-place rents resulted in net intangible assets of $1.8 million, net of $10.0 million of accumulated amortization and the value of below-market in-place rents resulted in net intangible liabilities of $1.8 million, net of $10.8 million of accumulated amortization.

Additionally, when we acquire real estate facilities, the value of in-place leases (i.e., customer lease-up costs) is recorded as other assets and is amortized to depreciation and amortization expense over the respective remaining lease term. As of December 31, 2019, the value of acquired in-place leases resulted in net intangible assets of $5.7 million, net of $4.1 million of accumulated amortization. As of December 31, 2018, the value of acquired in-place leases resulted in net intangible assets of $4.7 million, net of $1.3 million of accumulated amortization.

Evaluation of asset impairment

We evaluate our real estate and finite-lived intangible assets for impairment each quarter. If there are indicators of impairment and we determine that the carrying value of the asset is not recoverable from estimated future undiscounted cash flows to be received through the asset's remaining life (or, if earlier, the expected disposal date), we record an impairment charge to the extent the carrying amount exceeds the asset's estimated fair value or net proceeds from expected disposal.

No impairment charges were recorded in any period presented herein.

Asset impairment due to casualty loss

It is our policy to record losses due to physical damages during the accounting period in which they occur, while the amount of monetary assets to be received from the insurance policy is recognized when receipt of insurance recoveries is probable. Losses, which are reduced by the related probable insurance recoveries, are recorded as costs of operations on the consolidated statements of income. Anticipated proceeds in excess of recognized losses would be considered a gain contingency and recognized when the contingency related to the insurance claim has been resolved. Anticipated recoveries for lost rental income due to property damages are also considered to be a gain contingency and recognized when the contingency related to the insurance claim has been resolved.

No material casualty losses were incurred in any period presented herein.

Stock compensation

Share-based payments to employees, including grants of employee stock options, are recognized as stock compensation expense in the Company's consolidated statements of income based on their grant date fair values, except for performance-based grants, which are accounted for based on their fair values at the beginning of the service period. See Note 10.

Accrued and other liabilities

Accrued and other liabilities consist primarily of rents prepaid by our customers, trade payables, property tax accruals, accrued payroll and contingent loss accruals when probable and estimable, as well as the intangible liabilities discussed above. We disclose the nature of significant unaccrued losses that are reasonably possible of occurring and, if estimable, a range of exposure. The fair value of accrued and other liabilities approximate book value due to the short period until settlement.

Other assets

Other assets are comprised primarily of prepaid expenses, as well as the intangible assets discussed above. The fair value of other assets approximate book value due to the short period until settlement.

Revenue recognition

We recognize the aggregate rent to be collected (including the impact of escalators and concessions) under leases ratably throughout the non-cancellable lease term on a "straight-line" basis, commencing when the customer takes control of the leased space. Cumulative straight-line rent recognized in excess of amounts billed per the lease term is presented as "deferred rent receivable" on our consolidated balance sheets. The Company presents reimbursements from customers for real estate taxes and other recoverable operating expenses under a single lease component presentation as the timing and pattern of transfer of such reimbursements are the same as base rent, and the combined single component of such leases are classified as operating leases. Accordingly, the Company recognizes such variable lease payments resulting from the reimbursements from customers for real estate taxes and other recoverable operating expenses as rental income in the period the applicable costs are incurred.

The Company monitors the collectability of its receivable balances, including deferred rent receivable balances, on an ongoing basis. The Company writes off uncollectible customer receivable balances, including deferred rent receivable balances, in the period such receivable balances are deemed uncollectible. Therefore, recognition of rental income is limited to the lesser of the amount of cash collected or rental income reflected on a "straight-line" basis, plus any accruable variable lease payments for those customer receivable balances deemed uncollectible.

Property management fees are recognized in the period earned as other income.

Sales of real estate facilities

Sales of real estate facilities are not part of our ordinary activities, and as a result, we consider such sales as contracts with non-customers. We recognize sales of real estate when we have collected payment and the attributes of ownership such as possession and control of the asset have been transferred to the buyer. If a contract for sale includes obligations to provide

goods or services to the buyer, an allocated portion of the contract price is recognized as revenue as the related goods or services are transferred to the buyer.

General and administrative expense

General and administrative expense includes executive and other compensation, corporate office expenses, professional fees, state income taxes and other such costs that are not directly related to the operation of our real estate facilities.

Income taxes

We have elected to be treated as a REIT, as defined in the Internal Revenue Code of 1986, as amended (the "Code"). As a REIT, we do not incur federal income tax if we distribute substantially all of our "REIT taxable income" each year, and if we meet certain organizational and operational requirements. We believe we have met these REIT requirements for all periods presented herein. Accordingly, we have recorded no federal income tax expense related to our "REIT taxable income."

We recognize tax benefits of uncertain income tax positions that are subject to audit only if we believe it is more likely than not that the position would ultimately be sustained assuming the relevant taxing authorities had full knowledge of the relevant facts and circumstances of our positions. As of December 31, 2019 and 2018, we did not recognize any tax benefit for uncertain tax positions.

Accounting for preferred equity issuance costs

We record issuance costs as a reduction to paid-in capital on our consolidated balance sheets at the time the preferred securities are issued and reflect the carrying value of the preferred equity at its redemption value. An additional allocation of income is made from the common shareholders to the preferred shareholders in the amount of the original issuance costs, and we reclassify the redemption value from equity to liabilities when we call preferred shares for redemption. Such liability is relieved once the preferred shares are redeemed.

Net income per common share

Notwithstanding the presentation of income allocations on our consolidated statements of income, net income is allocated to (a) preferred shareholders, for distributions paid or payable, (b) preferred shareholders, to the extent redemption value exceeds the related carrying value (a "Preferred Redemption Allocation"), (c) our joint venture partner in proportion to their percentage interest in the joint venture, to the extent the consolidated joint venture produces net income or loss during the period and (d) restricted stock unit ("RSU") holders, for non-forfeitable dividends paid adjusted for participation rights in undistributed earnings. The remaining net income is allocated to the common partnership units and our common shareholders, respectively, based upon the pro-rata aggregate number of units and shares outstanding.

Basic and diluted net income per common share are each calculated based upon net income allocable to common shareholders, divided by (i) in the case of basic net income per common share, weighted average common shares and (ii) in the case of diluted income per share, weighted average common shares adjusted for the impact of stock compensation awards outstanding (Note 10) using the treasury stock method.

The following tables set forth the calculation of the components of our basic and diluted income per share that are not reflected on the face of our consolidated statements of income, including the allocation of income to common shareholders and common partnership units, the percentage of weighted average shares and common partnership units, as well as basic and diluted weighted average shares for the years ended December 31, (*in thousands*):

	2019	2018	2017
Calculation of net income allocable to common shareholders			
Net income	$ 203,972	$ 271,901	$ 179,316
Net (income) loss allocated to			
Preferred shareholders based upon distributions	(54,346)	(51,880)	(52,873)
Preferred shareholders based upon redemptions	(11,007)	—	(10,978)
Noncontrolling interests—joint venture	(44)	1,030	—
Restricted stock unit holders	(910)	(1,923)	(761)
Net income allocable to common shareholders and noncontrolling interests—common units	137,665	219,128	114,704
Net income allocation to noncontrolling interests—common units	(28,962)	(46,229)	(24,279)
Net income allocable to common shareholders	$ 108,703	$ 172,899	$ 90,425
Calculation of common partnership units as a percentage of common share equivalents			
Weighted average common shares outstanding	27,418	27,321	27,207
Weighted average common partnership units outstanding	7,305	7,305	7,305
Total common share equivalents	34,723	34,626	34,512
Common partnership units as a percentage of common share equivalents	21.0%	21.1%	21.2%
Weighted average common shares outstanding			
Basic weighted average common shares outstanding	27,418	27,321	27,207
Net effect of dilutive stock compensation—based on treasury stock method using average market price	108	101	205
Diluted weighted average common shares outstanding	27,526	27,422	27,412

Segment reporting

The Company has two operating segments: (i) the acquisition, development, ownership and management of commercial real estate and (ii) the acquisition, development, ownership and management of multifamily real estate, but has only one reportable segment as the multifamily segment does not meet the quantitative thresholds necessary to require reporting as a separate segment.

Reclassifications

The divisional vice presidents' compensation costs totaling $1.9 million and $3.0 million for the years ended December 31, 2018 and 2017, respectively, have been reclassified from cost of operations into general and administrative expense on the consolidated statements of income in the years ended December 31, 2018 and 2017 in order to conform to the current period's presentation. Certain other reclassifications have been made to the consolidated financial statements for 2018 in order to conform to the 2019 presentation, including reclassifying assets sold in 2019 as well as reclassifying a 113,000 square foot asset held for sale as of December 31, 2019 from "real estate facilities, at costs" totaling $140.4 million as of December 31, 2018 into "properties held for sale, net" on our consolidated balance sheets.

Recently issued accounting standards

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Updates ("ASU"s) 2016-02, *Leases* (the "Lease Standard"). The standard applies to substantially all of our revenue generating activities.

Lessor accounting

The Lease Standard directs how we account for payments from the elements of our leases that are generally fixed and determinable at the inception of the lease ("Fixed Lease Payments") while ASU 2014-09, *Revenue from Contracts with*

Customers (“Revenue Standard”), directs how we account for the non-lease components of our lease contracts, primarily expense reimbursements (“Non-Lease Payments”).

The Lease Standard requires us to identify Fixed Lease Payments and Non-Lease Payments of a lease agreement and governs the recognition of revenue for the Fixed Lease Payments. Revenue related to Non-Lease Payments under our lease arrangements is subject to the Revenue Standard effective upon adoption of the Lease Standard. See further discussion below on Fixed Lease Payments and Non-Lease Payments.

Under the Lease Standard, a set of practical expedients for implementation, which required election as a package and for all leases, was elected as part of our adoption of the Lease Standard. These practical expedients include (i) relief from re-assessing whether an expired or existing contract meets the definition of a lease, (ii) relief from re-assessing the classification of expired or existing leases at the adoption date and (iii) allowing previously capitalized initial direct leasing costs to continue to be amortized.

We adopted the Lease Standard on its effective date of January 1, 2019. In addition to the package of practical expedients noted above, we also elected the practical expedient not to allocate the total consideration to Fixed Lease Payments and Non-Lease Payments based on their relative standalone selling prices. This practical expedient allows lessors to elect a combined single component presentation if (i) the timing and pattern of the revenue recognition for the Fixed Lease Payments and Non-Lease Payments are the same, and (ii) the combined single component of the lease would continue to be classified as an operating lease. We have assessed and believe the two conditions have been met for Non-Lease Payments as (i) the timing and pattern of transfer of the Fixed Lease Payments and Non-Lease Payments are the same, and (ii) the combined single component of the lease would be classified as an operating lease. The adoption of the Leasing Standard did not result in a material impact to our consolidated financial statements.

We recognized revenue from our lease arrangements aggregating to $429.8 million, $413.5 million and $402.2 million for the years ended December 31, 2019, 2018 and 2017, respectively. This revenue consisted primarily of rental income from operating leases and the related variable lease payments resulting from reimbursements of property operating expenses. Rental income was $333.3 million, $322.3 million and $311.4 million for the years ended December 31, 2019, 2018 and 2017, respectively. Variable lease payments were $96.5 million, $91.2 million and $90.8 million for the years ended December 31, 2019, 2018 and 2017, respectively.

The Lease Standard provides two approaches to account for uncollectible customer receivable balances and deferred rent receivables balances: (i) an impairment model approach or (ii) a reserve approach in accordance to ASU 450-20, Contingencies - Loss Contingencies (“Contingencies - Loss Contingencies Standard”). Under the impairment model, recognition of rental income is limited to the lesser of the amount of cash collected or rental income reflected on a “straight-line” basis, plus any accruable variable lease payments for those customer receivable balances deemed uncollectible. After completing the impairment model approach, a lessor may also choose to apply the reserve approach. Under the reserve approach, a lessor records a reserve for a portion of the receivable balances, based on historical data, for uncollectible amounts. A lessor that chooses the reserve approach will have to apply the guidance from both the Lease Standard and Contingencies - Loss Contingencies Standard. The Company has elected the impairment model approach to account for its uncollectible customer receivable balances and deferred rent receivable balances. The Company’s uncollectible receivable balances policy is consistent with the impairment model approach as the Company writes off uncollectible receivable balances in the period the amounts are deemed uncollectible. Therefore, our rental income is limited to the lesser of the amount of cash collected or rental income reflected on a “straight-line” basis, plus any accruable variable lease payments for those customer receivable balances deemed uncollectible.

Costs to execute leases

The Lease Standard also provides updated guidance on the requirements for the capitalization of the incremental costs incurred in executing leases, such as legal fees and commissions. Under the Lease Standard, any costs that would have been incurred regardless of successful lease execution, such as allocated costs of internal personnel, are to be expensed and may not be capitalized. As we have historically not capitalized any such costs, the adoption of the Lease Standard did not result in a material impact to our consolidated financial statements.

Lessee accounting

Under the Lease Standard, lessees are required to apply a dual approach by classifying leases as either finance or operating leases based on whether the lease is effectively a finance purchase of the leased asset by the lessee. This classification determines whether the lease expense is recognized based on an effective interest method or a straight-line basis over the term of the lease. For most leases with a term of greater than 12 months, in which we are the lessee, the present value of future lease payments is recognized on our balance sheet as a right-of-use ("ROU") asset and a related liability is also recorded. On January 1, 2019, the Company recorded a ROU asset of $1.7 million, included in "other assets" on our consolidated balance sheets and a corresponding liability of $1.7 million under "accrued and other liabilities", relating to our existing ground lease arrangements. These operating leases were recognized based on the present value of the future minimum lease payments over the lease term. As these leases do not provide an implicit rate, the Company used its incremental borrowing rate based on the information available in determining the present value of future payments. The discount rate used to determine the present value of these operating leases' future payments was 4.20%. These ground leases expire in 2029 and 2030 and do not have an option to extend. As of December 31, 2019, the remaining lease terms were 9.8 years and 10.1 years. Lease expense for minimum lease payments is recognized in the period the applicable costs are incurred as monthly rent for these operating leases are constant and without contractual increases throughout the remaining terms of these leases. Other than the ground leases discussed above the adoption of the Lease Standard did not result in a material impact to our consolidated financial statements from the initial recognition of each lease liability or from the pattern of recognition subsequent to adoption.

3. Real estate facilities

The activity in real estate facilities for the years ended December 31, 2019, 2018 and 2017 is as follows *(in thousands)*:

	Land	Buildings and Improvements	Accumulated Depreciation	Total
Balances at December 31, 2016	$ 710,922	$ 1,893,520	$ (943,156)	$ 1,661,286
Capital expenditures	—	51,909	—	51,909
Disposals [1]	—	(13,919)	13,919	—
Depreciation and amortization expense	—	—	(94,270)	(94,270)
Transfer to properties held for sale	—	(7,351)	9,650	2,299
Balances at December 31, 2017	710,922	1,924,159	(1,013,857)	1,621,224
Acquisition of real estate facilities	25,806	112,230	—	138,036
Consolidation of joint venture	21,814	84,903	—	106,717
Capital expenditures	—	38,904	—	38,904
Disposals [1]	—	(17,345)	17,345	—
Depreciation and amortization expense	—	—	(96,732)	(96,732)
Transfer to properties held for sale	—	(4,192)	6,142	1,950
Balances at December 31, 2018	758,542	2,138,659	(1,087,102)	1,810,099
Acquisition of real estate facilities	88,093	44,313	—	132,406
Capital expenditures	—	40,092	—	40,092
Disposals [1]	—	(15,796)	15,796	—
Depreciation and amortization expense	—	—	(93,416)	(93,416)
Transfer to properties held for sale	—	(1,134)	4,953	3,819
Balances at December 31, 2019 [2]	$ 846,635	$ 2,206,134	$ (1,159,769)	$ 1,893,000

(1) Disposals primarily represent the book value of tenant improvements that have been removed upon the customer vacating their space.

(2) Land, building and improvements, and accumulated depreciation, respectively, totaling $58.1 million, $236.3 million and $154.0 million were reclassified as of December 31, 2018 to "properties held for sale, net" representing 1.3 million rentable square feet sold in 2019 and a 113,000 square foot building held for sale as of December 31, 2019.

The unaudited December 31, 2019 net federal tax basis of real estate facilities was approximately $1.8 billion.

As of December 31, 2019, we have commitments, pursuant to executed leases throughout our portfolio, to spend $9.6 million on transaction costs, which include tenant improvements and lease commissions.

The purchase price of acquired properties is allocated to land, buildings and improvements (including tenant improvements, unamortized lease commissions, acquired in-place lease values and customer relationships, if any), intangible assets and intangible liabilities (see Note 2), based upon the relative fair value of each component, which are evaluated independently.

The Company must make significant assumptions in determining the fair value of assets acquired and liabilities assumed, which can affect the recognition and timing of revenue and depreciation and amortization expense. The fair value of land is estimated based upon, among other considerations, comparable sales of land within the same region. The fair value of buildings and improvements is determined using a combination of the income and replacement cost approaches which both utilize available market information relevant to the acquired property. The fair value of other acquired assets including tenant improvements and unamortized lease commissions are determined using the replacement cost approach. The amount recorded to acquired in-place leases is also determined utilizing the income approach using market assumptions which are based on management's assessment of current market conditions and the estimated lease-up periods for the respective spaces. Transaction costs related to asset acquisitions are capitalized.

Subsequent to December 31, 2019, we acquired a multi-tenant industrial park comprised of approximately 73,000 rentable square feet in La Mirada, California, for a total purchase price of $13.5 million, inclusive of capitalized transaction costs.

On December 20, 2019, we acquired a multi-tenant flex park comprised of approximately 79,000 rentable square feet in Santa Clara, California, for a total purchase price of $16.8 million, inclusive of capitalized transaction costs.

On September 5, 2019, we acquired a multi-tenant industrial park comprised of approximately 543,000 rentable square feet in Santa Fe Springs, California, for a total purchase price of $104.3 million, inclusive of capitalized transaction costs.

On April 18, 2019, we acquired a multi-tenant industrial park comprised of approximately 74,000 rentable square feet in Signal Hill, California, for a total purchase price of $13.8 million, inclusive of capitalized transaction costs.

On June 8, 2018, we acquired two multi-tenant industrial parks aggregating 1.1 million rentable square feet in Springfield, Virginia, for a purchase price of $143.8 million, inclusive of capitalized transaction costs.

We did not acquire any properties during the year ended December 31, 2017.

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

	2019	2018	2017
Land	$ 88,093	$ 25,806	$ —
Buildings and improvements	44,313	112,230	—
Other assets (above-market in-place rents)	—	1,487	—
Accrued and other liabilities (below-market in-place rents)	(1,241)	(1,790)	—
Other assets (in-place lease value)	3,777	6,033	—
Total purchase price	134,942	143,766	—
Net operating assets acquired and liabilities assumed	(664)	(1,367)	—
Total cash paid	$ 134,278	$ 142,399	$ —

The following table summarizes the assets acquired and liabilities assumed related to the consolidation of the joint venture, which was accounted for as an asset acquisition, as of January 1, 2018 (see Note 4) *(in thousands)*:

Land	$ 21,814
Buildings and improvements	84,903
Other assets (in-place lease value)	1,199
Total consolidated joint venture	107,916
Noncontrolling interest in consolidated joint venture	(4,032)
Net book value of joint venture at consolidation	$ 103,884

On March 31, 2017, we sold development rights we held to build medical office buildings on land adjacent to our Westech Business Park in Silver Spring, Maryland for $6.5 million. We received net sale proceeds of $6.4 million, of which $4.9 million was received in 2017 and $1.5 million was received in prior years. We recorded a net gain of $6.4 million for the year ended December 31, 2017.

Properties Sold

Subsequent to December 31, 2019, we sold a 113,000 square foot office building located at Metro Park North in Rockville, Maryland, that was held for sale as of December 31, 2019, for a gross sales price of $30.0 million. On October 8, 2019, the Company also sold 1.3 million rentable square feet of flex and office business parks located in Rockville and Silver Spring, Maryland, for net sale proceeds of $144.6 million, which resulted in a gain of $16.6 million. We determined that these sales did not meet the criteria for discontinued operations presentation, as the sales of such assets did not represent a strategic shift that will have a major effect on our operations and financial results. As a result of this determination, the assets are separately presented as held for sale in the consolidated balance sheets as of December 31, 2019 and 2018.

On March 5, 2018, we sold Corporate Pointe Business Park, a park consisting of five multi-tenant office buildings totaling 161,000 square feet located in Orange County, California, for net sale proceeds of $41.7 million, which resulted in a gain of $26.8 million. On April 18, 2018, we sold Orange County Business Center, a park consisting of five multi-tenant office buildings totaling 437,000 square feet located in Orange County, California, for net sale proceeds of $73.3 million, which resulted in a gain of $50.6 million. On April 30, 2018, we sold Northgate Business Park, a park consisting of seven multi-tenant flex buildings totaling 194,000 square feet located in Dallas, Texas, for net sale proceeds of $11.8 million, which resulted in a gain of $7.9 million. On October 31, 2018, we sold Orangewood Office Park, a park consisting of two multi-tenant office buildings totaling 107,000 square feet located in Orange County, California, for net sale proceeds of $18.3 million, which resulted in a gain of $8.2 million. We determined that these sales also did not meet the criteria for discontinued operations presentation.

On May 1, 2017, we sold Empire Commerce, a two-building single-story office park comprising 44,000 square feet, located in Dallas, Texas, for net sale proceeds of $2.1 million, which resulted in a net gain of $1.2 million.

4. Investment in and advances to unconsolidated joint venture

The Company has a 95.0% interest in a 395-unit multifamily apartment complex on a five-acre site within the Company's 628,000 square foot office park located in Tysons, Virginia. An unrelated real estate development company (the "JV Partner") holds the remaining 5.0%. On January 1, 2018, the Company began to consolidate the joint venture due to changes to the joint venture agreement that gave the Company control of the joint venture.

Prior to January 1, 2018, the Company accounted its investment in the joint venture using the equity method. The Company reflected the aggregate cost of the contributed site and improvements, its equity contributions and loan advances, as well as capitalized third party interest incurred as investment in and advances to unconsolidated joint venture. For the year ended December 31, 2017, the Company made loan advances of $34.1 million and capitalized $506,000 of interest.

During the year ended December 31, 2017, the Company recorded an equity loss in the unconsolidated joint venture of $805,000, comprised of net operating income of $375,000 and depreciation expense of $1.2 million.

5. Leasing activity

The Company leases space in its commercial real estate facilities to customers primarily under non-cancelable leases generally ranging from one to 10 years. Future minimum rental income, excluding recovery of operating expenses that may be collectable under these leases, is as follows as of December 31, 2019 *(in thousands)*:

2020	$	285,207
2021		228,542
2022		162,259
2023		111,511
2024		76,000
Thereafter		109,991
Total [(1)]	$	973,510

(1) Excludes future minimum rental income from an asset held for sale.

In addition to minimum rental payments, certain customers reimburse the Company for their pro rata share of specified property operating expenses. Such reimbursements amounted to $96.5 million, $91.2 million and $90.8 million for the years ended December 31, 2019, 2018 and 2017, respectively. These variable lease payment amounts are included as rental income in the accompanying consolidated statements of income.

Leases accounting for 3.2% of total leased square footage are subject to termination options, of which 1.9% of total leased square footage have termination options exercisable through December 31, 2020 (unaudited). In general, these leases provide for termination payments to us should the termination options be exercised. Certain leases also have an option to extend the terms of the lease. The future minimum rental income in the above table assumes termination options and lease extension options are not exercised.

6. Bank loans

We have an unsecured revolving line of credit (the “Credit Facility”) with Wells Fargo Bank, National Association (“Wells Fargo”). The Credit Facility has a borrowing limit of $250.0 million and expires January 10, 2022. The rate of interest charged on borrowings is based on LIBOR plus 0.80% to LIBOR plus 1.55% depending on the Company’s credit ratings. Currently, the Company’s rate under the Credit Facility is LIBOR plus 0.825%. In addition, the Company is required to pay an annual facility fee ranging from 0.10% to 0.30% of the borrowing limit depending on the Company’s credit ratings (currently 0.125%). We had no balance outstanding on our Credit Facility at December 31, 2019 and 2018. The Company had $461,000 and $691,000 of total unamortized loan origination costs as of December 31, 2019 and 2018, respectively, which is included in other assets in the accompanying consolidated balance sheets. The Credit Facility requires us to meet certain covenants, all of which we were in compliance with at December 31, 2019. Interest on outstanding borrowings is payable monthly.

7. Noncontrolling interests

Noncontrolling interests represent (i) PS’s noncontrolling interest in the OP through its ownership of 7,305,355 common partnership units, totaling $213.2 million and $215.1 million at December 31, 2019 and 2018, respectively, and (ii) the JV Partner’s 5.0% interest in a joint venture owning a 395-unit multifamily apartment complex, totaling $2.9 million and $3.0 million at December 31, 2019 and 2018, respectively.

PS OP Interests

Each common partnership unit receives a cash distribution equal to the dividend paid on our common shares and is redeemable at PS’s option.

If PS exercises its right of redemption, at PSB’s option (a) PS will receive one common share from us for each common partnership unit redeemed, or (b) PS will receive cash from us for each common partnership unit redeemed generally equal to the market value of a common share (as defined in the Operating Partnership Agreement). We can prevent redemptions that we believe would violate either our articles of incorporation or securities laws, cause PSB to no longer qualify as a REIT, or could result in the OP no longer being treated as a partnership for federal tax purposes.

In allocating net income and presenting equity, we treat the common partnership units as if converted to common shares. Accordingly, they receive the same net income allocation per unit as a common share and are adjusted each period to have the same equity per unit as a common share, totaling $29.0 million, $46.2 million and $24.3 million for the years ended December 31, 2019, 2018 and 2017, respectively.

JV Partner

In conjunction with consolidating the joint venture on January 1, 2018, we recorded noncontrolling interest of $4.0 million related to the JV Partner's 5.0% interest in a joint venture owning a 395-unit multifamily apartment complex. A total of $44,000 in income and $1.0 million in loss was allocated to the JV Partner during the years ended December 31, 2019 and 2018, respectively. Distributions of $134,000 were paid to the JV during the year ended December 31, 2019 and none were paid during 2018.

8. Related party transactions

We manage certain industrial, office and retail facilities in the United States for PS under either the "Public Storage" or "PS Business Parks" names (the "PS Management Agreement"). Under PS's supervision, we coordinate and assist in rental and marketing activities, property maintenance and other operational activities, including the selection of vendors, suppliers, employees and independent contractors. We receive a management fee based upon a percentage of revenues, which is included in "interest and other income" on our consolidated statements of income. Management fee revenues were $287,000, $407,000 and $506,000 for the years ended December 31, 2019, 2018 and 2017, respectively. We allocate certain operating expenses to PS related to the management of these properties, including payroll and other business expenses, totaling $373,000, $472,000 and $537,000 for the years ended December 31, 2019, 2018 and 2017, respectively.

The PS Business Parks name and logo are owned by PS and licensed to us under a non-exclusive, royalty-free license agreement. The license can be terminated by either party for any reason with six months written notice.

PS provides us property management services for the self-storage component of two assets we own and operates them under the "Public Storage" name. Either the Company or PS can cancel the property management contract upon 60 days' notice. Under our supervision, PS coordinates and assists in rental and marketing activities, and property maintenance and other operational activities, including the selection of vendors, suppliers, employees and independent contractors. Management fee expenses were $98,000, $96,000 and $92,000 for the years ended December 31, 2019, 2018 and 2017, respectively. Additionally, PS allocated certain operating expenses to us related to the management of these properties totaling $75,000, $65,000 and $61,000 for the three years ended December 31, 2019, 2018 and 2017, respectively. These amounts are included under "cost of operations" on our consolidated statements of income.

Pursuant to a cost sharing agreement, we share certain administrative services, corporate office space, and certain other third party costs with PS which are allocated based upon fair and reasonable estimates of the cost of the services expected to be provided. We reimbursed PS $1.2 million, $1.2 million and $1.3 million, respectively, for costs PS incurred on our behalf for the years ended December 31, 2019, 2018 and 2017. PS reimbursed us $39,000, $38,000 and $31,000 costs we incurred on their behalf for the years ended December 31, 2019, 2018 and 2017, respectively.

The Company had net amounts due to PS of $106,000 at December 31, 2019 and due from PS of $43,000 at December 31, 2018 for these contracts, as well as certain operating expenses paid by the Company on behalf of PS.

9. Shareholders' equity

Preferred stock

As of December 31, 2019 and 2018, the Company had the following series of preferred stock outstanding:

				December 31, 2019		December 31, 2018	
Series	Issuance Date	Earliest Potential Redemption Date	Dividend Rate	Shares Outstanding	Amount (in thousands)	Shares Outstanding	Amount (in thousands)
Series W	October, 2016	October, 2021	5.200%	7,590	$ 189,750	7,590	$ 189,750
Series X	September, 2017	September, 2022	5.250%	9,200	230,000	9,200	230,000
Series Y	December, 2017	December, 2022	5.200%	8,000	200,000	8,000	200,000
Series Z	November, 2019	November, 2024	4.875%	13,000	325,000	—	—
Series U	September, 2012	September, 2017	5.750%	—	—	9,200	230,000
Series V	March, 2013	March, 2018	5.700%	—	—	4,400	110,000
Total				37,790	$ 944,750	38,390	$ 959,750

On December 30, 2019, the Company completed the redemption of its 5.75% Cumulative Preferred Stock, Series U, at par of $230.0 million as well as its 5.70% Cumulative Preferred Stock, Series V, at par of $110.0 million. The Company recorded a Preferred Redemption Allocation of $11.0 million for the year ended December 31, 2019.

On November 4, 2019, we issued $325.0 million or 13,000,000 depositary shares representing interests in our 4.875% Cumulative Preferred Stock, Series Z, at $25.00 per depositary share. The 4.875% Series Z Cumulative Redeemable Preferred Units are non-callable for five years and have no mandatory redemption. We received $316.0 million in net issuance proceeds.

On January 3, 2018, we completed the redemption of our remaining 6.00% Cumulative Preferred Stock, Series T, at par of $130.0 million. We recorded a Preferred Redemption Allocation of $4.1 million in the year ended December 31, 2017 and reclassified the shares from equity to "preferred stock called for redemption" on our consolidated balance sheets at December 31, 2017.

On December 7, 2017, we issued $200.0 million or 8,000,000 depositary shares representing interests in our 5.20% Cumulative Preferred Stock, Series Y, at $25.00 per depositary share. The 5.20% Series Y Cumulative Redeemable Preferred Units are non-callable for five years and have no mandatory redemption. We received $193.6 million in net issuance proceeds.

On October 30, 2017, we completed a partial redemption of 8,800,000 of our outstanding 14,000,000 depositary shares representing interests in our 6.0% Cumulative Preferred Stock, Series T, at par of $220.0 million. We recorded a Preferred Redemption Allocation of $6.9 million for the year ended December 31, 2017.

On September 21, 2017, we issued $230.0 million or 9,200,000 depositary shares representing interests in our 5.25% Cumulative Preferred Stock, Series X, at $25.00 per depositary share. The 5.25% Series X Cumulative Redeemable Preferred Units are non-callable for five years and have no mandatory redemption. We received $222.2 million in net issuance proceeds.

We paid $54.3 million, $52.6 million and $52.2 million in distributions to our preferred shareholders for the years ended December 31, 2019, 2018 and 2017, respectively.

The holders of our preferred stock have general preference rights with respect to liquidation, quarterly distributions and any accumulated unpaid distributions. Holders of our preferred stock will not be entitled to vote on most matters, except under certain conditions. In the event of a cumulative arrearage equal to six quarterly dividends, the holders of the preferred stock will have the right to elect two additional members to serve on the Company's Board of Directors (the "Board") until all events of default have been cured. At December 31, 2019, there were no dividends in arrears.

Except under certain conditions relating to the Company's qualification as a REIT, the preferred stock is not redeemable prior to the redemption dates noted above. On or after the respective redemption dates, the respective series of preferred

stock will be redeemable, at the option of the Company, in whole or in part, at $25.00 per depositary share, plus any accrued and unpaid dividends.

Common stock and units

We paid $115.2 million ($4.20 per common share), $103.8 million ($3.80 per common share) and $92.5 million ($3.40 per common share) in distributions to our common shareholders for the years ended December 31, 2019, 2018 and 2017, respectively. We paid $30.7 million ($4.20 per common unit), $27.8 million ($3.80 per common unit), and $24.8 million ($3.40 per common unit) in distributions to our common unit holders for the years ended December 31, 2019, 2018 and 2017, respectively.

The portion of the distributions classified as ordinary income was 100.0%, 99.3% and 95.9% for the years ended December 31, 2019, 2018 and 2017, respectively. The portion of the distributions classified as long-term capital gain income was 0.0%, 0.7% and 4.1% for the years ended December 31, 2019, 2018 and 2017, respectively. The percentages in the two preceding sentences are unaudited.

During the three months ended June 30, 2018, the Board increased our quarterly dividend from $0.85 per common share to $1.05 per common share. During the three months ended March 31, 2017, the Board increased our quarterly dividend from $0.75 per common share to $0.85 per common share.

Equity stock

The Company is authorized to issue 100.0 million shares of Equity Stock. The Articles of Incorporation provide that Equity Stock may be issued from time to time in one or more series and give the Board broad authority to fix the dividend and distribution rights, conversion and voting rights, redemption provisions and liquidation rights of each series of Equity Stock. As of December 31, 2019 and 2018, no equity stock had been issued.

10. Stock compensation

Under various share-based compensation plans, PSB grants non-qualified options to purchase the Company’s common shares at a price not less than fair value on the date of grant, as well as RSUs, to certain directors, officers and key employees.

The service period for stock options and RSUs begins when (i) the Company and the recipient reach a mutual understanding of the key terms of the award, (ii) the award has been authorized, (iii) the recipient is affected by changes in the market price of our stock and (iv) it is probable that any performance conditions will be met, and ends when the stock options or RSUs vest.

We amortize the fair value of awards starting at the beginning of the service period as compensation expense. For awards that are earned solely upon the passage of time and continued service, the entire cost of the award is amortized on a straight-line basis over the service period. For awards with performance conditions, the individual cost of each vesting is amortized separately over each individual service period (the “accelerated attribution” method).

We account for forfeitures of share-based payments as they occur by reversing previously amortized share-based compensation expense with respect to grants that are forfeited in the period the employee terminates employment.

Stock Options

Stock options expire 10 years after the grant date and the exercise price is equal to the closing trading price of our common shares on the grant date. Employees cannot require the Company to settle their award in cash. We use the Black-Scholes option valuation model to estimate the fair value of our stock options on the date of grant.

	2019	2018	2017
Stock option expense for the year (in 000's)	$ 299	$ 236	$ 209
Aggregate exercise date intrinsic value of options exercised during the year (in 000's)	$ 1,567	$ 2,752	$ 5,177
Average assumptions used in valuing options with the Black-Scholes method:			
Expected life of options in years, based upon historical experience	5	5	5
Risk-free interest rate	2.0%	2.8%	1.9%
Expected volatility, based upon historical volatility	22.2%	20.8%	17.5%
Expected dividend yield	2.6%	2.9%	2.8%
Average estimated value of options granted during the year	$ 26.85	$ 18.11	$ 14.42

As of December 31, 2019, there was $1.2 million of unamortized compensation expense related to stock options expected to be recognized over a weighted average period of 3.9 years.

Cash received from 15,585 stock options exercised during the year ended December 31, 2019 was $969,000. Cash received from 44,994 stock options exercised during the year ended December 31, 2018 was $3.0 million. Cash received from 73,246 stock options exercised during the year ended December 31, 2017 was $4.2 million.

Information with respect to stock options during 2019, 2018 and 2017 is as follows:

Options:	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contract Life	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2016	229,655	$ 68.93		
Granted	16,000	$ 121.57		
Exercised	(73,246)	$ 57.59		
Forfeited	—	$ —		
Outstanding at December 31, 2017	172,409	$ 78.63		
Granted	16,000	$ 115.45		
Exercised	(44,994)	$ 66.88		
Forfeited	—	$ —		
Outstanding at December 31, 2018	143,415	$ 86.42		
Granted	34,000	$ 163.95		
Exercised	(15,585)	$ 62.15		
Forfeited	(4,000)	$ 110.04		
Outstanding at December 31, 2019	157,830	$ 104.92	5.90 Years	$ 9,652
Exercisable at December 31, 2019	87,030	$ 79.93	3.98 Years	$ 7,392

RSUs

RSUs granted prior to 2016 are subject to a six-year vesting, with 20% vesting after year two, and 20% vesting after each of the next four years. RSUs granted during and subsequent to 2016 are subject to a five-year vesting at the rate of 20% per year. The grantee receives dividends for each outstanding RSU equal to the per share dividend received by common shareholders. We expense any dividends previously paid upon forfeiture of the related RSU. Upon vesting, the grantee receives common shares equal to the number of vested RSUs, less common shares withheld in exchange for tax withholdings made by the Company to satisfy the grantee's statutory tax liabilities arising from the vesting. The fair value of our RSUs is determined based upon the applicable closing trading price of our common shares on the date of grant.

Effective March, 2014, the Company entered into a performance-based RSU program, the Senior Management Long-Term Equity Incentive Program for 2014-2017 ("LTEIP"), with certain employees of the Company. Under the LTEIP, the Company established three levels of targeted RSU awards, which would be earned only if the Company achieved one of three defined targets during 2014 to 2017. Under the LTEIP there was an annual award following the end of each of the four years in the program, with the award subject to and based on the achievement of total return targets during the previous year, as well as an award based on achieving total return targets during the cumulative four-year period 2014-2017. In the

event the minimum defined target was not achieved for an annual award, the RSUs allocated to be awarded for such year were added to the RSUs that may be received if the four-year target was achieved. All RSU awards under the LTEIP vest in four equal annual installments beginning from the date of award. Compensation expense is recognized based on the RSUs expected to be awarded based on the target level that is expected to be achieved. The compensation expense and RSU counts with respect to the LTEIP are included in the aggregate RSU amounts disclosed above. Senior management earned 145,350 shares of RSUs granted in March, 2018 as the maximum targets were achieved for both the year ended December 31, 2017 and for the cumulative four-year period.

Subsequent to December 31, 2019, the Company entered into an annual performance-based RSU program ("2020 Incentive Program") with certain employees of the Company. Under the Program, certain employees will be eligible to receive RSUs subject to achievement of a pre-established performance target based on growth in the Company's net asset value per share, as computed by the Company pursuant to the terms of the 2020 Incentive Program. In the event the pre-established target is achieved, the employees will receive the target award, except that the Company may adjust the actual award to 75%-125% of the target award based on the Company's assessment of whether certain strategic and operational goals were accomplished in the performance period. The implementation of the 2020 Incentive Program does not have an impact on our consolidated financial statements for all periods presented herein.

RSUs related to the 2020 Incentive Program will be awarded on or around March 1 of the subsequent year. RSUs awarded under the 2020 Incentive Program will vest in five equal installments, with the first installment vesting on the award date. RSU holders will earn dividend equivalent rights during the vesting period.

Information with respect to RSUs during 2019, 2018 and 2017 is as follows (dollar amounts in thousands):

Restricted Stock Units:	**Number of Units**		**Weighted Average Grant Date Fair Value**
Nonvested at December 31, 2016	144,693	$	12,346
Granted	113,750		10,748
Vested	(76,994)		(6,597)
Forfeited	(16,366)		(1,381)
Nonvested at December 31, 2017	165,083		15,116
Granted	194,450		18,431
Vested	(106,103)		(9,256)
Forfeited	(10,140)		(905)
Nonvested at December 31, 2018	243,290		23,386
Granted	6,400		1,137
Vested	(95,500)		(8,753)
Forfeited	(3,342)		(345)
Nonvested at December 31, 2019	150,848	$	15,425

As of December 31, 2019, there was $6.9 million of unamortized compensation expense related to RSUs expected to be recognized over a weighted average period of 3.1 years.

(In thousands, except number of shares)		**2019**		**2018**		**2017**
Restricted share unit expense	$	3,196	$	3,727	$	4,279
Common shares issued upon vesting		55,267		62,500		43,223
Fair value of vested shares on vesting date	$	15,078	$	12,127	$	8,816
Cash paid for taxes in lieu of shares upon vesting of RSUs	$	6,350	$	4,981	$	3,865

In July, 2019, the Company amended the Retirement Plan for Non-Employee Directors (the "Director Retirement Plan"), to increase the maximum shares issued upon retirement for each year served as a director from 8,000 shares to 10,000 shares of common stock. The Company recognizes compensation expense with regard to grants to be issued in the future under the Director Retirement Plan over the requisite service period. For the year ended December 31, 2019, the Company

recorded $1.5 million in compensation expense related to these shares compared to $212,000 and $290,000 for the same periods in 2018 and 2017, respectively.

In April, 2019, we issued 8,000 shares to a director upon retirement with an aggregate fair value of $1.2 million. No shares were issued during the years ended December 31, 2018 and 2017.

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

	Three Months Ended			
	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019
Rental income	$ 107,825	$ 107,782	$ 108,064	$ 106,175
Cost of operations	$ 33,593	$ 31,460	$ 32,468	$ 30,822
Net income allocable to common shareholders	$ 26,321	$ 28,579	$ 26,312	$ 27,491
Net income per share				
Basic	$ 0.96	$ 1.04	$ 0.96	$ 1.00
Diluted	$ 0.96	$ 1.04	$ 0.96	$ 1.00

	Three Months Ended			
	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018
Rental income	$ 103,759	$ 101,824	$ 103,808	$ 104,125
Cost of operations	$ 32,456	$ 30,796	$ 31,197	$ 30,181
Net income allocable to common shareholders	$ 46,048	$ 70,221	$ 25,131	$ 31,499
Net income per share				
Basic	$ 1.69	$ 2.57	$ 0.92	$ 1.15
Diluted	$ 1.69	$ 2.56	$ 0.92	$ 1.15

12. Commitments and contingencies

The Company currently is neither subject to any material litigation nor, to management's knowledge, is any material litigation currently threatened against the Company other than routine litigation and administrative proceedings arising in the ordinary course of business.

PS BUSINESS PARKS, INC.

SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2019
(IN THOUSANDS)

			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition	Gross Carrying Amount at December 31, 2019					
Description	Location	Square Feet	Land	Buildings and Improvements	Buildings and Improvements	Land	Buildings and Improvements	Total	Accumulated Depreciation	Year(s) Acquired	Depreciable Lives (Years)
Buena Park Industrial Center	Buena Park, CA	317	$ 3,245	$ 7,703	$ 3,327	$ 3,245	$ 11,030	$ 14,275	$ 8,053	1997	5 - 30
Carson	Carson, CA	77	990	2,496	1,628	990	4,124	5,114	3,255	1997	5 - 30
Cerritos Business Center	Cerritos, CA	395	4,218	10,273	4,604	4,218	14,877	19,095	11,444	1997	5 - 30
Cerritos/Edwards	Cerritos, CA	31	450	1,217	1,615	450	2,832	3,282	2,139	1997	5 - 30
Concord Business Park	Concord, CA	246	12,454	20,491	1,134	12,454	21,625	34,079	7,346	2011	5 - 30
Culver City	Culver City, CA	147	3,252	8,157	6,293	3,252	14,450	17,702	11,544	1997	5 - 30
Bayview Business Park	Fremont, CA	104	4,990	4,831	373	4,990	5,204	10,194	2,026	2011	5 - 30
Christy Business Park	Fremont, CA	334	11,451	16,254	1,457	11,451	17,711	29,162	6,758	2011	5 - 30
Industrial Drive Distribution Center	Fremont, CA	199	7,482	6,812	1,202	7,482	8,014	15,496	2,898	2011	5 - 30
Bay Center Business Park	Hayward, CA	463	19,052	50,501	3,754	19,052	54,255	73,307	18,715	2011	5 - 30
Cabot Distribution Center	Hayward, CA	249	5,859	10,811	532	5,859	11,343	17,202	3,307	2011	5 - 30
Diablo Business Park	Hayward, CA	271	9,102	15,721	1,008	9,102	16,729	25,831	5,710	2011	5 - 30
Eden Landing	Hayward, CA	83	3,275	6,174	168	3,275	6,342	9,617	2,196	2011	5 - 30
Hayward Business Park	Hayward, CA	1,091	28,256	54,418	3,365	28,256	57,783	86,039	18,976	2011	5 - 30
Huntwood Business Park	Hayward, CA	176	7,391	11,819	776	7,391	12,595	19,986	4,348	2011	5 - 30
Parkway Commerce	Hayward, CA	407	4,398	10,433	4,682	4,398	15,115	19,513	11,463	1997	5 - 30
Laguna Hills Commerce Center	Laguna Hills, CA	513	16,261	39,559	8,312	16,261	47,871	64,132	35,966	1997	5 - 30
Plaza Del Lago	Laguna Hills, CA	101	2,037	5,051	4,181	2,037	9,232	11,269	7,221	1997	5 - 30
Canada Business Center	Lake Forest, CA	297	5,508	13,785	6,680	5,508	20,465	25,973	15,657	1997	5 - 30
Dixon Landing Business Park	Milpitas, CA	505	26,301	21,121	3,907	26,301	25,028	51,329	10,154	2011	5 - 30
Monterey/Calle	Monterey, CA	12	288	706	396	288	1,102	1,390	845	1997	5 - 30
Monterey Park	Monterey Park, CA	199	3,078	7,862	1,810	3,078	9,672	12,750	7,516	1997	5 - 30
Port of Oakland	Oakland, CA	200	5,638	11,066	817	5,638	11,883	17,521	4,081	2011	5 - 30
Kearney Mesa	San Diego, CA	164	2,894	7,089	3,373	2,894	10,462	13,356	7,796	1997	5 - 30
Lusk	San Diego, CA	371	5,711	14,049	6,330	5,711	20,379	26,090	15,647	1997	5 - 30
Rose Canyon Business Park	San Diego, CA	233	15,129	20,054	2,716	15,129	22,770	37,899	14,099	2005	5 - 30
Charcot Business Park	San Jose, CA	283	18,654	17,580	1,956	18,654	19,536	38,190	7,531	2011/2014	5 - 30
Las Plumas	San Jose, CA	214	4,379	12,889	6,898	4,379	19,787	24,166	16,302	1998	5 - 30
Little Orchard Distribution Center	San Jose, CA	213	7,725	3,846	288	7,725	4,134	11,859	1,680	2011	5 - 30
Montague Industrial Park	San Jose, CA	316	14,476	12,807	635	14,476	13,442	27,918	5,555	2011	5 - 30
Oakland Road	San Jose, CA	177	3,458	8,765	3,358	3,458	12,123	15,581	9,413	1997	5 - 30
Rogers Ave	San Jose, CA	67	3,540	4,896	573	3,540	5,469	9,009	3,110	2006	5 - 30
Doolittle Business Park	San Leandro, CA	113	3,929	6,231	304	3,929	6,535	10,464	2,259	2011	5 - 30
Bayshore Corporate Center	San Mateo, CA	340	25,108	36,891	7,166	25,108	44,057	69,165	15,622	2013	5 - 30
San Ramon/Norris Canyon	San Ramon, CA	52	1,486	3,642	1,335	1,486	4,977	6,463	3,862	1997	5 - 30
Commerce Park	Santa Clara, CA	251	17,218	21,914	4,105	17,218	26,019	43,237	17,688	2007	5 - 30

			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition	Gross Carrying Amount at December 31, 2019					
Description	Location	Square Feet	Land	Buildings and Improvements	Buildings and Improvements	Land	Buildings and Improvements	Total	Accumulated Depreciation	Year(s) Acquired	Depreciable Lives (Years)
Santa Clara Tech Park	Santa Clara, CA	178	7,673	15,645	4,638	7,673	20,283	27,956	15,504	2000	5 - 30
San Tomas Business Center	Santa Clara, CA	79	12,932	3,549	-	12,932	3,549	16,481	—	2019	5 - 30
Walsh at Lafayette	Santa Clara, CA	321	13,439	17,890	966	13,439	18,856	32,295	7,316	2011	5 - 30
Hathaway Industrial Park	Santa Fe Springs, CA	543	65,494	36,786	20	65,494	36,806	102,300	541	2019	5 - 30
Signal Hill	Signal Hill, CA	343	16,360	16,678	3,363	16,360	20,041	36,401	10,962	1997/2006/2019	5 - 30
Airport Boulevard	So San Francisco, CA	52	899	2,387	809	899	3,196	4,095	2,488	1997	5 - 30
South San Francisco/Produce	So San Francisco, CA	41	776	1,886	527	776	2,413	3,189	1,863	1997	5 - 30
Studio City/Ventura	Studio City, CA	22	621	1,530	552	621	2,082	2,703	1,650	1997	5 - 30
Kifer Industrial Park	Sunnyvale, CA	287	13,227	37,874	1,618	13,227	39,492	52,719	13,038	2011	5 - 30
Torrance	Torrance, CA	147	2,318	6,069	3,584	2,318	9,653	11,971	7,520	1997	5 - 30
Boca Commerce	Boca Raton, FL	135	7,795	9,258	3,198	7,795	12,456	20,251	6,814	2006	5 - 30
MICC	Miami, FL	3,468	95,115	112,583	42,757	95,115	155,340	250,455	100,845	2003/2011/2014	5 - 30
Wellington	Wellington, FL	263	10,845	18,560	2,567	10,845	21,127	31,972	10,789	2006	5 - 30
Ammendale	Beltsville, MD	308	4,278	18,380	11,208	4,278	29,588	33,866	24,289	1998	5 - 30
Gaithersburg/Christopher	Gaithersburg, MD	29	475	1,203	890	475	2,093	2,568	1,550	1997	5 - 30
Gude Drive (Land)	Rockville, MD	—	1,142	—	328	1,142	328	1,470	210	2001	5 - 30
Parklawn Business Park	Rockville, MD	231	3,387	19,628	5,469	3,387	25,097	28,484	11,671	2010	5 - 30
The Grove 270	Rockville, MD	577	11,010	58,364	21,912	11,010	80,276	91,286	31,888	2010/2016	5 - 30
Ben White	Austin, TX	108	1,550	7,015	3,154	1,550	10,169	11,719	6,390	1998	5 - 30
Lamar Business Park	Austin, TX	198	2,528	6,596	7,575	2,528	14,171	16,699	10,732	1997	5 - 30
McKalla	Austin, TX	236	1,945	13,212	2,529	1,945	15,741	17,686	9,036	1998/2012	5 - 30
McNeil	Austin, TX	525	5,477	24,495	5,896	5,477	30,391	35,868	14,055	1999/2010/2012/2014	5 - 30
Rutland	Austin, TX	235	2,022	9,397	2,094	2,022	11,491	13,513	8,819	1998/1999	5 - 30
Waterford	Austin, TX	106	2,108	9,649	4,031	2,108	13,680	15,788	10,553	1999	5 - 30
Braker Business Park	Austin, TX	257	1,874	13,990	2,899	1,874	16,889	18,763	8,118	2010	5 - 30
Mopac Business Park	Austin, TX	117	719	3,579	627	719	4,206	4,925	2,002	2010	5 - 30
Southpark Business Park	Austin, TX	181	1,266	9,882	2,658	1,266	12,540	13,806	6,209	2010	5 - 30
Valwood Business Center	Carrollton, TX	356	2,510	13,859	3,127	2,510	16,986	19,496	6,377	2013	5 - 30
Northway Plaza	Farmers Branch, TX	131	1,742	4,503	1,313	1,742	5,816	7,558	2,075	2013	5 - 30
Springlake Business Center	Farmers Branch, TX	206	2,607	5,715	2,083	2,607	7,798	10,405	3,382	2013/2014	5 - 30
Westwood Business Park	Farmers Branch, TX	112	941	6,884	2,509	941	9,393	10,334	6,287	2003	5 - 30
Eastgate	Garland, TX	36	480	1,203	467	480	1,670	2,150	1,339	1997	5 - 30
Freeport Business Park	Irving, TX	256	4,564	9,506	3,014	4,564	12,520	17,084	5,158	2013	5 - 30
NFTZ [(1)]	Irving, TX	231	1,517	6,499	3,741	1,517	10,240	11,757	8,309	1998	5 - 30
Royal Tech	Irving, TX	794	13,989	54,113	27,362	13,989	81,475	95,464	58,427	1998-2000/2011	5 - 30
La Prada	Mesquite, TX	56	495	1,235	752	495	1,987	2,482	1,540	1997	5 - 30
The Summit	Plano, TX	184	1,536	6,654	4,523	1,536	11,177	12,713	8,859	1998	5 - 30
Arapaho Business Park	Richardson, TX	408	5,226	10,661	4,716	5,226	15,377	20,603	6,805	2013/2014	5 - 30
Richardson Business Park	Richardson, TX	117	799	3,568	3,101	799	6,669	7,468	5,485	1998	5 - 30
Bren Mar	Alexandria, VA	113	2,197	5,380	4,106	2,197	9,486	11,683	7,522	1997	5 - 30
Eisenhower	Alexandria, VA	95	1,440	3,635	2,745	1,440	6,380	7,820	5,203	1997	5 - 30
Beaumont	Chantilly, VA	107	4,736	11,051	2,066	4,736	13,117	17,853	8,498	2006	5 - 30
Dulles South	Chantilly, VA	99	1,373	6,810	3,498	1,373	10,308	11,681	7,850	1999	5 - 30
Lafayette	Chantilly, VA	197	1,680	13,398	6,593	1,680	19,991	21,671	14,658	1999/2000	5 - 30

			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition	Gross Carrying Amount at December 31, 2019					
Description	Location	Square Feet	Land	Buildings and Improvements	Buildings and Improvements	Land	Buildings and Improvements	Total	Accumulated Depreciation	Year(s) Acquired	Depreciable Lives (Years)
Park East	Chantilly, VA	198	3,851	18,029	10,826	3,851	28,855	32,706	22,490	1999	5 - 30
Fair Oaks Business Park	Fairfax, VA	290	13,598	36,232	10,081	13,598	46,313	59,911	29,269	2004/2007	5 - 30
Monroe	Herndon, VA	244	6,737	18,911	11,856	6,737	30,767	37,504	23,706	1997/1999	5 - 30
Gunston	Lorton, VA	247	4,146	17,872	12,248	4,146	30,120	34,266	21,080	1998	5 - 30
The Mile	McLean, VA	628	38,279	83,596	26,716	38,279	110,312	148,591	52,389	2010/2011	5 - 30
Prosperity at Merrifield	Merrifield, VA	659	23,147	67,575	37,585	23,147	105,160	128,307	71,749	2001	5 - 30
Alban Road	Springfield, VA	150	1,935	4,736	5,177	1,935	9,913	11,848	8,083	1997	5 - 30
I-95	Springfield, VA	210	3,535	15,672	14,466	3,535	30,138	33,673	23,247	2000	5 - 30
Fullterton Road Industrial Park	Springfield, VA	243	7,438	24,971	702	7,438	25,673	33,111	1,764	2018	5 - 30
Northern Virginia Industrial Park	Springfield, VA	814	18,369	87,258	5,253	18,369	92,511	110,880	5,696	2018	5 - 30
Northpointe	Sterling, VA	147	2,767	8,778	4,900	2,767	13,678	16,445	11,174	1997/1998	5 - 30
Shaw Road	Sterling, VA	149	2,969	10,008	4,863	2,969	14,871	17,840	12,164	1998	5 - 30
Tysons Corporate Center	Vienna, VA	270	9,885	25,302	10,423	9,885	35,725	45,610	16,573	2010	5 - 30
Woodbridge	Woodbridge, VA	114	1,350	3,398	2,195	1,350	5,593	6,943	4,446	1997	5 - 30
212th Business Park	Kent, WA	951	19,573	17,695	12,090	19,573	29,785	49,358	12,914	2012	5 - 30
Overlake	Redmond, WA	411	23,122	41,106	7,760	23,122	48,866	71,988	31,722	2007	5 - 30
Renton	Renton, WA	28	330	889	713	330	1,602	1,932	1,208	1997	5 - 30
Total before properties held for sale		27,449	824,821	1,630,701	490,497	824,821	2,121,198	2,946,019	1,154,482		
Metro Park North	Rockville, MD	113	4,188	12,035	6,822	4,188	18,857	23,045	11,543	2001	5 - 30
Total commercial real estate		27,562	829,009	1,642,736	497,319	829,009	2,140,055	2,969,064	1,166,025		
Highgate at the Mile	McLean, VA	395 units	21,814	84,903	33	21,814	84,936	106,750	5,287	2018	5 - 40
Total multifamily			21,814	84,903	33	21,814	84,936	106,750	5,287		
Total		27,562	$ 850,823	$ 1,727,639	$ 497,352	$ 850,823	$ 2,224,991	$ 3,075,814	$ 1,171,312		

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(1) The Company owns two properties that are subject to ground leases in Irving, Texas. These leases expire in 2029 and 2030.

PS BUSINESS PARKS, INC.

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

3.1		Restated Articles of Incorporation. Filed as exhibit 3.1 to the Registrant's Registration Statement on Form S- 3 (SEC File No. 333-78627) and incorporated herein by reference.
3.2		Restated Bylaws, as amended. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 (SEC File No. 001-10709) and incorporated herein by reference.
3.3		Certificate of Determination of Preferences of 5.20% Series W Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Field with Registrant's Current Report on Form 8- K dated October 11, 2016 (SEC File No. 001-10709) and incorporated herein by reference.
3.4		Certificate of Determination of Preferences of 5.25% Series X Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8- K dated September 12, 2017 (SEC File No. 001-10709) and incorporated herein by reference.
3.5		Certificate of Determination of Preferences of 5.20% Series Y Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8- K dated November 30, 2017 (SEC File No. 001-10709) and incorporated herein by reference.
3.6		Certificate of Determination of Preferences of 4.875% Series Z Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8- K dated October 24, 2019 (SEC File No. 001-10709) and incorporated herein by reference.
4.1		Deposit Agreement Relating to 5.20% Cumulative Preferred Stock, Series W of PS Business Parks, Inc. dated as of October 11, 2016. Filed with Registrant's Current Report on Form 8-K dated October 11, 2016 (SEC File No. 001-10709) and incorporated herein by reference.
4.2		Deposit Agreement Relating to 5.25% Cumulative Preferred Stock, Series X of PS Business Parks, Inc. dated as of September 12, 2017. Filed with Registrant's Current Report on Form 8-K dated September 12, 2017 (SEC File No. 001-10709) and incorporated herein by reference.
4.3		Deposit Agreement Relating to 5.20% Cumulative Preferred Stock, Series Y of PS Business Parks, Inc. dated as of November 30, 2017. Filed with Registrant's Current Report on Form 8-K dated November 30, 2017 (SEC File No. 001-10709) and incorporated herein by reference.
4.4		Deposit Agreement Relating to 4.875% Cumulative Preferred Stock, Series Z of PS Business Parks, Inc. dated as of October 24, 2019. Filed with Registrant's Current Report on Form 8-K dated October 25, 2019 (SEC File No. 001-10709) and incorporated herein by reference.
4.5	†	Description of Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934. Filed herewith.
10.1		Amended Management Agreement between Storage Equities, Inc. and Public Storage Commercial Properties Group, Inc. dated as of February 21, 1995. Filed as exhibit 10.8 to PS's Annual Report on Form 10-K for the year ended December 31, 1994 (SEC File No. 001-08389) and incorporated herein by reference.
10.2		Agreement of Limited Partnership of PS Business Parks, L.P. Filed as exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 (SEC File No. 001-10709) and incorporated herein by reference.
10.3	*	Form of Indemnity Agreement. Filed as exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 (SEC File No. 001-10709) and incorporated herein by reference.
10.4	*	Form of Indemnification Agreement for Executive Officers. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2004 (SEC File No. 001-10709) and incorporated herein by reference.
10.5		Cost Sharing and Administrative Services Agreement dated as of November 16, 1995 by and among PSCC, Inc. and the owners listed therein. Filed as exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 (SEC File No. 001-10709) and incorporated herein by reference.
10.6		Amendment to Cost Sharing and Administrative Services Agreement dated as of January 2, 1997 by and among PSCC, Inc. and the owners listed therein. Filed as exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 (SEC File No. 001-10709) and incorporated herein by reference.
10.7		Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. relating to 5.20% Series W Cumulative Preferred Units, dated as of October 20, 2016. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 (SEC File No. 001- 10709) and incorporated herein by reference.
10.8		Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. relating to 5.25% Series X Cumulative Preferred Units, dated as of September 21, 2017. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 (SEC File No. 001- 10709) and incorporated herein by reference.
10.9		Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. relating to 5.20% Series Y Cumulative Preferred Units, dated as of December 7, 2017. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2017 (SEC File No. 001- 10709) and incorporated herein by reference.
10.10	†	Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. relating to 4.875% Series Z Cumulative Preferred Units, dated as of November 4, 2019. Filed herewith.
10.11		Third Amended and Restated Revolving Credit Agreement dated as of January 10, 2017 by and among PS Business Parks, L.P., a California limited partnership, as borrower, and Wells Fargo Bank, National Association, as Administrative Agent for the Lenders. Filed with the Registrant's Current Report on Form 8-K dated January 10, 2017 (SEC File No. 001-10709) and incorporated herein by reference.
10.12		Third Amended and Restated Repayment Guaranty dated as of January 10, 2017. Filed with Registrant's Current Report on Form 8-K dated January 10, 2017 (SEC File No. 001-10709) and incorporated herein by reference.
10.13		Amendment to Amended Agreement of Limited Partnership of PS Business Parks, L.P. to Authorize Special Allocations, dated as of January 1, 2017. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 (SEC File No. 001-10709) and incorporated herein by reference.
10.14	*	Registrant's 2003 Stock Option and Incentive Plan. Filed with Registrant's Registration Statement on Form S-8 (SEC File No. 333-104604) and incorporated herein by reference.
10.15	*	Form of PS Business Parks, Inc. Restricted Stock Unit Agreement. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (SEC File No. 001- 10709) and incorporated herein by reference.
10.16	*	Form of PS Business Parks, Inc. 2003 Stock Option and Incentive Plan Non-Qualified Stock Option Agreement. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (SEC File No. 001-10709) and incorporated herein by reference.
10.17	*	Form of PS Business Parks, Inc. 2003 Stock Option and Incentive Plan Stock Option Agreement. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (SEC File No. 001-10709) and incorporated herein by reference.
10.18	*	Revised Form of Director Stock Option Agreement. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2010 (SEC File No. 001-10709) and incorporated herein by reference.
10.19	*	Amendment to Form of Director Stock Option Agreement. Filed with Registrant's Annual Report on Form 10-K for the year ended December 31, 2010 (SEC File No. 001-10709) and incorporated herein by reference.
10.20	*	Registrant's 2012 Equity and Performance-Based Incentive Compensation Plan (2012 Plan). Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 (SEC File No. 001-10709) and incorporated herein by reference.
10.21	*	Form of Registrant's 2012 Plan Non-Qualified Stock Option Agreement. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 (SEC File No. 001-10709) and incorporated herein by reference.

10.22	*	Form of Registrant's 2012 Plan Restricted Stock Unit Agreement. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 (SEC File No. 001- 10709) and incorporated herein by reference.
10.23	*†	Amended and Restated Retirement Plan For Non-Employee Directors, as amended. Filed herewith.
10.24	*	Form of 2012 Plan Restricted Share Unit Agreement. Filed with Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 (SEC File No. 001-10709) and incorporated herein by reference.
10.25	*†	Form of Registrant's 2012 Plan Stock Unit Agreement. Filed herewith.
21	†	List of Subsidiaries. Filed herewith.
23	†	Consent of Independent Registered Public Accounting Firm. Filed herewith.
31.1	†	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
31.2	†	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
32.1	†	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith.
	101 .INS	XBRL Instance Document. Filed herewith.
	101 .SCH	XBRL Taxonomy Extension Schema. Filed herewith.
	101 .CAL	XBRL Taxonomy Extension Calculation Linkbase. Filed herewith.
	101 .DEF	XBRL Taxonomy Extension Definition Linkbase. Filed herewith.
	101 .LAB	XBRL Taxonomy Extension Label Linkbase. Filed herewith.
	101 .PRE	XBRL Taxonomy Extension Presentation Linkbase. Filed herewith.
	104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Denotes management contract or compensatory plan agreement or arrangement.
† Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 19, 2020

PS Business Parks, Inc.

By: /s/ Maria R. Hawthorne
Maria R. Hawthorne
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Ronald L. Havner, Jr. Ronald L. Havner, Jr.	Chairman of the Board	February 19, 2020
/s/ Maria R. Hawthorne Maria R. Hawthorne	Director and Chief Executive Officer (principal executive officer)	February 19, 2020
/s/ Jeffrey D. Hedges Jeffrey D. Hedges	Chief Financial Officer (principal financial and accounting officer)	February 19, 2020
/s/ Jennifer Holden Dunbar Jennifer Holden Dunbar	Director	February 19, 2020
/s/ James H. Kropp James H. Kropp	Director	February 19, 2020
/s/Kristy M. Pipes Kristy M. Pipes	Director	February 19, 2020
/s/ Gary E. Pruitt Gary E. Pruitt	Director	February 19, 2020
/s/ Robert S. Rollo Robert S. Rollo	Director	February 19, 2020
/s/ Joseph D. Russell, Jr. Joseph D. Russell, Jr.	Director	February 19, 2020
/s/ Peter Schultz Peter Schultz	Director	February 19, 2020
/s/ Stephen W. Wilson Stephen W. Wilson	Director	February 19, 2020

Exhibit 4.5

DESCRIPTION OF COMMON STOCK

Unless the context otherwise requires, the terms “we,” “our,” “us,” and the “Company” refer to PS Business Parks, Inc., a California corporation, and the term “Operating Partnership” refers to PS Business Parks L.P., a California limited partnership.

We are authorized to issue 100,000,000 shares of common stock, par value $0.01 per share.

Common Stock

The following description of our common stock sets forth certain general terms and provisions of the common stock. The statements below describing our common stock are in all respects subject to and qualified in their entirety by reference to the applicable provisions of our articles of incorporation and bylaws.

Subject to any preference with respect to our preferred stock or equity stock, holders of our common stock will be entitled to receive distributions when, as and if declared by our board of directors, out of funds legally available therefor. Payment and declaration of dividends on our common stock and purchases of shares of common stock by us will be subject to certain restrictions if we fail to pay dividends on outstanding preferred stock. See “Description of Preferred Stock.” Upon any liquidation, dissolution or winding up of our company, holders of common stock will be entitled to share ratably in any assets available for distribution to them, after payment or provision for payment of the debts and our other liabilities and the preferential amounts owing with respect to any of our outstanding preferred stock. Holders of our common stock have no preemptive rights, except such as have been provided to certain of our shareholders by contract, which means public shareholders have no right to acquire any additional shares of common stock that we may issue at a later date.

Each outstanding share of our common stock entitles the holder to one vote on all matters presented to our shareholders for a vote, with the exception that they have cumulative voting rights with respect to the election of our board of directors, in accordance with California law. Cumulative voting means that each holder of our common stock is entitled to cast as many votes as there are directors to be elected multiplied by the number of shares registered in his or her name. A holder of our common stock may cumulate the votes for directors by casting all of the votes for one candidate or by distributing the votes among as many candidates as he or she chooses. Cumulative voting is intended to provide holders of smaller blocks of stock with more meaningful influence in the election of directors than they would have without cumulative voting. The outstanding shares of our common stock are, and additional shares of common stock will be, when issued, fully paid and nonassessable.

The partnership agreement of our Operating Partnership provides that we may not consummate a business combination in which we must have a vote of our shareholders unless the matter is also approved by the vote of the partners of the Operating Partnership. For this purpose, a business combination is any merger, consolidation or other combination with or into another person or sale of all or substantially all of our assets, or any reclassification, recapitalization or change of our existing common stock. These provisions have the effect of increasing Public Storage’s influence over us, due to its ownership of operating partnership units, and also make it more difficult for us to consummate a business combination.

Our common stock is traded on the New York Stock Exchange under the symbol “PSB.” The transfer agent and registrar of our common stock is American Stock Transfer & Trust Company.

The rights, preferences and privileges of holders of our common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of our preferred stock or our equity stock which we may designate and issue in the future. See “Description of Preferred Stock.”

Ownership Limitations

For us to qualify as a REIT under the Internal Revenue Code (the “Code”) no more than 50% in value of our outstanding shares of capital stock may be owned, directly or constructively under the applicable attribution rules of the Code, by five or fewer individuals (as defined in the Code to include certain entities) during the last half of a

taxable year. In order to maintain our qualification as a REIT, our articles of incorporation provide certain restrictions on the shares of capital stock that any shareholder may own.

Our articles of incorporation provide that, subject to certain exceptions, no holder may own, or be deemed to own by virtue of the attribution provisions of the Code, more than (A) 7.0% of the outstanding shares of our common stock and (B) 9.9% of the outstanding shares of each class or series of shares of our preferred stock or equity stock and that all shares of stock be imprinted with a legend setting forth that restriction. Our articles of incorporation provide, however, that no person shall be deemed to exceed the ownership limit solely by reason of the beneficial ownership of shares of any class of stock to the extent that such shares of stock were beneficially owned by such person (including Public Storage) upon completion of, and after giving effect to, the merger with American Office Park Properties. Thus, this limitation does not affect the ownership of common stock held by Public Storage and certain other shareholders at the time of the merger. Furthermore, the limitation does not apply with respect to shares of stock deemed to be owned by a person as a result of such person's ownership of shares of Public Storage (however, such ownership will be taken into account in determining whether a subsequent acquisition or transfer of our shares (but not Public Storage) violates the ownership limit). The ownership limitation is intended to assist in preserving our REIT status in view of Public Storage's substantial ownership interest in us and the Hughes family's substantial ownership interest in Public Storage. There can be no assurance, however, that such ownership limit will enable us to satisfy the requirement that a REIT not be "closely held" within the meaning of Section 856(h) of the Code for any given taxable year, in part as a result of the provision described above providing that the ownership limitation generally does not apply to our shares deemed to be owned as a result of a person's ownership of shares of Public Storage.

Our articles of incorporation provide that our board of directors, in its sole and absolute discretion, may grant exceptions to the ownership limits, so long as (A) our board has determined that we would not be "closely held" within the meaning of Section 856(h) of the Code (without regard to whether the event in question takes place during the second half of a taxable year) and would not otherwise fail to qualify as a REIT, after giving effect to an acquisition by an excepted person of beneficial ownership of the maximum amount of capital stock permitted as a result of the exception to be granted, and taking into account the existing and permitted ownership by other persons of stock (taking into account any other exceptions granted) and (B) the excepted persons provide to our board such representations and undertakings as our board may require. In any case, no holder may own or acquire, either directly, indirectly or constructively under the applicable attribution rules of the Code, any shares of any class of capital stock if such ownership or acquisition (i) would cause more than 50% in value of outstanding capital stock to be owned, either directly or constructively, under the applicable attribution rules of the Code, by five or fewer individuals (as defined in the Code to include certain tax-exempt entities, other than, in general, qualified domestic pension funds), (ii) would result in our stock being beneficially owned by less than 100 persons (determined without reference to any rules of attribution) or (iii) would otherwise result in our failing to qualify as a REIT.

Our articles of incorporation generally provide that if any holder of capital stock purports to transfer shares to a person or there is a change in our capital structure, and either the transfer or the change in capital structure would result in our failing to qualify as a REIT, or such transfer or the change in capital structure would cause the transferee to hold shares in excess of the applicable ownership limit, then the shares causing the violation will be automatically transferred to a trust for the benefit of a designated charitable beneficiary. The purported transferee of those shares will have no right to receive dividends or other distributions with respect to them and will have no right to vote the shares. Any dividends or other distributions paid to such purported transferee prior to the discovery by us that the shares have been transferred to a trust will be paid to the trustee of the trust for the benefit of the charitable beneficiary upon demand. The trustee will designate a transferee of those shares so long as the shares would not violate the restrictions on ownership in the articles of incorporation in the hands of the designated transferee. Upon the sale of such shares, the purported transferee will receive out of any proceeds remaining after payment of expenses of the charitable trust and us the lesser of (A)(i) the price per share such purported transferee paid for the stock in the purported transfer that resulted in the transfer of the shares to the trust, or (ii) if the transfer or other event that resulted in the transfer of the shares to the trust was not a transaction in which the purported transferee gave full value for such shares, a price per share equal to the market price on the date of the purported transfer or other event that resulted in the transfer of the shares to the trust and (B) the price per share received by the trustee from the sale or other disposition of the shares held in the trust. Each purported transferee shall be deemed to have waived any claims such purported transferee may have against the trustee and us arising from the disposition of the

shares, except for claims arising from the trustee's or our gross negligence, willful misconduct, or failure to make payments when required by the articles of incorporation.

DESCRIPTION OF PREFERRED STOCK

We are authorized to issue 50,000,000 shares of preferred stock, par value $0.01 per share. Our articles of incorporation provide that the preferred stock may be issued from time to time in one or more series and give our board of directors broad authority to fix the dividend and distribution rights, conversion and voting rights, if any, redemption provisions and liquidation preferences of each series of preferred stock. Holders of preferred stock have no preemptive rights. The preferred stock will be, when issued, fully paid and nonassessable.

The issuance of preferred stock with special voting rights could be used to deter attempts to obtain control of us in transactions not approved by our board of directors. We have no present intention to issue stock for that purpose. For a discussion of provisions in the partnership agreement of the Operating Partnership that restrict our ability to enter into business combinations, see "Description of Common Stock."

Description of 5.20% Cumulative Preferred Stock, Series W

General

The following is a brief description of the terms of our 5.20% Cumulative Preferred Stock, Series W ("Series W Preferred Stock"), which does not purport to be complete and is subject to and qualified in its entirety by reference to the Certificate of Determination of the Series W Preferred Stock, which is included as an exhibit to the Annual Report on Form 10-K of which this Exhibit 4.5 is a part. Our Series W Preferred Stock is listed on the NYSE under the symbol "PSBPrW."

Ranking

With respect to the payment of dividends and amounts upon liquidation, the Series W Preferred Stock will rank pari passu with any other shares of preferred stock issued by us, whether now or hereafter issued, ranking pari passu with the Senior Preferred Stock (collectively, with the Series W Preferred Stock, the "Senior Preferred Stock"), and will rank senior to our common stock and any other capital stock of the Company ranking junior to the Series W Preferred Stock.

Dividends

Holders of shares of Series W Preferred Stock, in preference to the holders of shares of our common stock, and of any other capital stock issued by us ranking junior to the Series W Preferred Stock as to payment of dividends, will be entitled to receive, when, as and if declared by the Board of Directors out of assets of the Company legally available for payment, cash dividends payable quarterly at the rate of 5.20% of the liquidation preference per year ($1,300.00 per year per share of Series W Preferred Stock, equivalent to $1.30 per year per Series W Depositary Share (as defined below)). Dividends on the shares of Series W Preferred Stock will be cumulative from, and including, the date of issuance and will be payable, when, as and if declared by the board of directors, quarterly on or before March 31, June 30, September 30 and December 31, commencing on or before December 31, 2016, to holders of record as they appear on the stock register of the Company on such record dates, not less than 15 or more than 45 days preceding the payment dates thereof, as shall be fixed by the board of directors. After full dividends on the Series W Preferred Stock have been paid or declared and funds set aside for payment for all past dividend periods and for the then current quarter, the holders of shares of Series W Preferred Stock will not be entitled to any further dividends with respect to that quarter.

When dividends are not paid in full upon the Series W Preferred Stock and any other shares of preferred stock of the Company ranking on a parity as to dividends with the Series W Preferred Stock (including the other series of Senior Preferred Stock), all dividends declared upon the Series W Preferred Stock and any other preferred shares of the Company ranking on a parity as to dividends with the Series W Preferred Stock shall be declared pro rata so that the amount of dividends declared per share on such Series W Preferred Stock and such other shares shall in all cases bear to each other the same ratio that the accrued dividends per share on the Series W Preferred Stock and such other preferred shares bear to each other. Except as set forth in the preceding sentence, unless full dividends on the Series W Preferred Stock have been paid for all past dividend periods, no dividends (other than in common stock or other

shares of capital stock issued by us ranking junior to the Series W Preferred Stock as to dividends and upon liquidation) shall be declared or paid or set aside for payment, nor shall any other distribution be made on the common stock or on any other shares of capital stock issued by us ranking junior to or on a parity with the Series W Preferred Stock as to dividends or upon liquidation.

Unless full dividends on the Series W Preferred Stock have been paid for all past dividend periods, we and our subsidiaries may not redeem, repurchase or otherwise acquire for any consideration (nor may we or they pay or make available any moneys for a sinking fund for the redemption of) any shares of common stock or any other shares of capital stock issued by us ranking junior to or on a parity with the Series W Preferred Stock as to dividends or upon liquidation except by conversion into or exchange for shares of capital stock issued by us ranking junior to the Series W Preferred Stock as to dividends and upon liquidation.

If for any taxable year, we elect to designate as "capital gain dividends" (as defined in the Code) any portion of the dividends paid or made available for the year to the holders of all classes and series of our stock, then the portion of the dividends designated as capital gain dividends that will be allocable to the holders of Series W Preferred Stock will be an amount equal to the total capital gain dividends multiplied by a fraction, the numerator of which will be the total dividends paid or made available to the holders of Series W Preferred Stock for the year (determined for U.S. federal income tax purposes), and the denominator of which will be the total dividends paid or made available to holders of all classes and series of our outstanding stock for that year (determined for U.S. federal income tax purposes).

Our credit facility restricts our ability to pay distributions in excess of 95% of our "Funds from Operations" for the prior four fiscal quarters. Funds from operations is defined generally as net income before gain on sale of real estate, gain or loss from debt restructuring, and deductions for depreciation and amortization. Our management believes that this restriction will not impede our ability to pay the dividends on the Series W Preferred Stock in full.

Distributions that are treated as dividends for U.S. federal income tax purposes paid by regular C corporations to persons or entities that are taxed as individuals are generally taxed at the rate applicable to long-term capital gains, which is a maximum of 20%, subject to certain limitations. Because we are a REIT, however, our dividends, including dividends paid on the Series W Preferred Shares, generally are taxed at regular ordinary income tax rates, except to the extent that the special rules relating to qualified dividend income or capital gains dividends paid by a REIT apply.

No Conversion Rights

The Series W Preferred Stock will not be convertible into shares of any other class or series of capital stock of the Company.

Liquidation Rights

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, the holders of the Series W Preferred Stock will be entitled to receive out of our assets available for distribution to stockholders, before any distribution of assets is made to holders of common stock or of any other shares of capital stock issued by us ranking as to such distribution junior to the Series W Preferred Stock, liquidating distributions in the amount of $25,000 per share (equivalent to $25.00 per Depositary Share), plus all accrued and unpaid dividends (whether or not earned or declared) for the then current, and all prior, dividend periods. If upon any voluntary or involuntary liquidation, dissolution or winding up of the Company, the amounts payable with respect to the Series W Preferred Stock and any other shares of stock issued by us ranking as to any such distribution on a parity with the Series W Preferred Stock are not paid in full, the holders of the Series W Preferred Stock and of such other shares will share ratably in any such distribution of assets of the Company in proportion to the full respective preferential amounts to which they are entitled. After payment of the full amount of the liquidating distribution to which they are entitled, the holders of the Series W Preferred Stock will not be entitled to any further participation in any distribution of assets by us.

For purposes of liquidation rights, a consolidation or merger of the Company with or into any other corporation or corporations or a sale of all or substantially all of the assets of the Company is not a liquidation, dissolution or winding up of the Company.

Redemption

Except in certain circumstances relating to our qualification as a REIT, we may not redeem the shares of Series W Preferred Stock prior to October 20, 2021. On and after October 20, 2021, at any time or from time to time, we may redeem the shares of Series W Preferred Stock in whole or in part at our option at a cash redemption price of $25,000 per share of Series W Preferred Stock (equivalent to $25.00 per Depositary Share), plus all accrued and unpaid dividends to the date of redemption. If fewer than all the outstanding shares of Series W Preferred Stock are to be redeemed, the shares to be redeemed will be determined by the board of directors of the Company, and such shares shall be redeemed pro rata from the holders of record of such shares in proportion to the number of such shares held by such holders (with adjustments to avoid redemption of fractional shares) or by lot in a manner determined by the board of directors of the Company.

Notwithstanding the foregoing, if any dividends, including any accumulated dividends, on the Series W Preferred Stock are in arrears, we may not redeem any Series W Preferred Stock unless we redeem simultaneously all outstanding Series W Preferred Stock, and we may not purchase or otherwise acquire, directly or indirectly, any Series W Preferred Stock; provided, however, that this shall not prevent the purchase or acquisition of the Series W Preferred Stock pursuant to a purchase or exchange offer if such offer is made on the same terms to all holders of the Series W Preferred Stock.

Notice of redemption of the Series W Preferred Stock will be given by publication in a newspaper of general circulation in the County of Los Angeles and the City of New York, such publication to be made once a week for two successive weeks commencing not less than 30 nor more than 60 days prior to the redemption date. A similar notice will be mailed by us, postage prepaid, not less than 30 or more than 60 days prior to the redemption date, addressed to the respective holders of record of shares of Series W Preferred Stock to be redeemed at their respective addresses as they appear on the stock transfer records of the Company. Each notice shall state: (1) the redemption date; (2) the number of shares of Series W Preferred Stock to be redeemed; (3) the redemption price per share of Series W Preferred Stock; (4) the place or places where certificates for the Series W Preferred Stock are to be surrendered for payment of the redemption price; and (5) that dividends on the shares of Series W Preferred Stock to be redeemed will cease to accrue on such redemption date. If fewer than all the shares of Series W Preferred Stock held by any holder are to be redeemed, the notice mailed to such holder shall also specify the number of shares of Series W Preferred Stock to be redeemed from such holder. In order to facilitate the redemption of shares of Series W Preferred Stock, the board of directors may fix a record date for the determination of shares of Series W Preferred Stock to be redeemed, such record date to be not less than 30 nor more than 60 days prior to the date fixed for such redemption.

Notice having been given as provided above, from and after the date specified therein as the date of redemption, unless we default in providing funds for the payment of the redemption price on such date, all dividends on the Series W Preferred Stock called for redemption will cease. From and after the redemption date, unless we so default, all rights of the holders of the Series W Preferred Stock as shareholders of the Company, except the right to receive the redemption price (but without interest), will cease. Upon surrender in accordance with such notice of the certificates representing any such shares (properly endorsed or assigned for transfer, if the Company shall so require and the notice shall so state), the redemption price set forth above shall be paid out of the funds provided by the Company. If fewer than all the shares represented by any such certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without cost to the holder thereof.

Subject to applicable law and the limitation on purchases when dividends on the Series W Preferred Stock are in arrears, we may, at any time and from time to time, purchase any shares of Series W Preferred Stock in the open market, by tender or by private agreement.

Voting Rights

Except as indicated below, or except as expressly required by applicable law, holders of the Series W Preferred Stock will not be entitled to vote.

If the equivalent of six quarterly dividends payable on the Series W Preferred Stock or any other series of preferred stock are in default (whether or not declared or consecutive), holders of the Series W Preferred Stock (voting as a class with all other shares of preferred stock that are similarly entitled to this right, without regard to series) will be entitled to elect two additional directors until all dividends in default have been paid or declared and set apart for payment.

Such right to vote separately to elect directors shall, when vested, be subject, always, to the same provisions for vesting of such right to elect directors separately in the case of future dividend defaults. At any time when such right to elect directors separately shall have so vested, we may, and upon the written request of the holders of record of not less than 10% of the total number of shares of preferred stock of the Company then outstanding shall, call a special meeting of shareholders for the election of directors. In the case of such a written request, such special meeting shall be held within 90 days after the delivery of such request and, in either case, at the place and upon the notice provided by law and in our bylaws, provided that we shall not be required to call such a special meeting if such request is received less than 120 days before the date fixed for the next ensuing annual meeting of shareholders, and the holders of all classes of outstanding preferred stock (in the case of dividend defaults) are offered the opportunity to elect such directors (or fill any vacancy) at such annual meeting of shareholders. Directors so elected shall serve until the next annual meeting of our shareholders or until their respective successors are elected and qualify.

The affirmative vote or consent of the holders of at least 66 2/3% of the outstanding shares of the Series W Preferred Stock will be required to amend any provision of the Articles of Incorporation, including the Certificate of Determination for the Series W Preferred Stock, if such action would adversely alter or change the powers, preferences, privileges or rights of the Series W Preferred Stock, except as set forth below. The affirmative vote or consent of the holders of at least 66 2/3% of the outstanding shares of the Series W Preferred Stock and any other series of preferred stock similarly entitled to this right and ranking on a parity with the Series W Preferred Stock as to dividends and upon liquidation, voting as a single class, will be required to authorize another class or series of shares senior to the Series W Preferred Stock with respect to the payment of dividends or the distribution of assets on liquidation.

No consent or approval of the holders of shares of the Series W Preferred Stock will be required for the issuance from our authorized but unissued preferred stock of other shares of any series of preferred stock ranking on a parity with or junior to the Series W Preferred Stock as to payment of dividends and distribution of assets, including other shares of Series W Preferred Stock.

Description of 5.25% Cumulative Preferred Stock, Series X

The following is a brief description of the terms of our 5.25% Series X Cumulative Preferred Stock ("Series X Preferred Stock"), which does not purport to be complete and is subject to and qualified in its entirety by reference to the Certificate of Determination of the Series X Preferred Stock, which is included as an exhibit to the Annual Report on Form 10-K of which this Exhibit 4.5 is a part. The terms and provisions of our Series X Preferred Stock are substantially the same as those of our Series W Preferred Stock as described in "—Description of 5.20% Cumulative Preferred Stock, Series W" above, except that cash dividends are payable quarterly at the rate of 5.25% of the liquidation preference per year ($1,312.50 per year per share of Series X Preferred Stock, equivalent to $1.3125 per Series X Depositary Share (as defined below)), dividends on the shares of Series X Preferred Stock commenced on December 28, 2017 and, except in certain circumstances, we may not redeem the shares of Series X Preferred Stock prior to September 21, 2022. Our Series X Preferred Stock is listed on the NYSE under the symbol "PSBPrX."

Description of 5.20% Cumulative Preferred Stock, Series Y

The following is a brief description of the terms of our 5.20% Series Y Cumulative Preferred Stock ("Series Y Preferred Stock"), which does not purport to be complete and is subject to and qualified in its entirety by reference to the Certificate of Determination of the Series Y Preferred Stock, which is included as an exhibit to the Annual Report on Form 10-K of which this Exhibit 4.5 is a part. The terms and provisions of our Series Y Preferred Stock are substantially the same as those of our Series W Preferred Stock as described in "—Description of 5.20% Cumulative Preferred Stock, Series W" above, except that dividends on the shares of Series Y Preferred Stock commenced on March 29, 2018 and, except in certain circumstances, we may not redeem the shares of Series Y Preferred Stock prior to December 7, 2022. Our Series Y Preferred Stock is listed on the NYSE under the symbol "PSBPrY."

Description of 4.875% Cumulative Preferred Stock, Series Z

The following is a brief description of the terms of our 4.875% Series Z Cumulative Preferred Stock ("Series Z Preferred Stock"), which does not purport to be complete and is subject to and qualified in its entirety by reference to the Certificate of Determination of the Series Z Preferred Stock, which is included as an exhibit to the Annual Report on Form 10-K of which this Exhibit 4.5 is a part. The terms and provisions of our Series Z Preferred Stock are substantially the same as those of our Series W Preferred Stock as described in "—Description of 5.20% Cumulative Preferred Stock, Series W" above, except that cash dividends are payable quarterly at the rate of 4.875% of the liquidation preference per year ($1,218.75 per year per share of Series Z Preferred Stock, equivalent to $1.21875 per Series Z Depositary Share (as defined below)), dividends on the shares of Series Z Preferred Stock commenced on December 31, 2019 and, except in certain circumstances, we may not redeem the shares of Series Z Preferred Stock prior to November 4, 2024. Our Series Z Preferred Stock is listed on the NYSE under the symbol "PSBPrZ."

DESCRIPTION OF DEPOSITARY SHARES

Description of Depositary Shares, each Representing 1/1,000 of a Share of Series W Preferred Stock

General

The following is a brief description of the terms of our depositary shares, each representing 1/1,000 of a share of Series W Preferred Stock ("Series W Depositary Shares") which does not purport to be complete and is subject to and qualified in its entirety by reference to the provisions of the Deposit Agreement relating to the Series W Preferred Stock (the "Deposit Agreement"), which is included as an exhibit to the Annual Report on Form 10-K of which this Exhibit 4.5 is a part.

The shares of the Series W Preferred Stock are deposited with American Stock Transfer & Trust Company, as Depositary (the "Preferred Stock Depositary"), under a Deposit Agreement among the Company, the Preferred Stock Depositary and the holders from time to time of the depositary receipts (the "Depositary Receipts") issued by the Preferred Stock Depositary under the Deposit Agreement. The Depositary Receipts evidence the Series W Depositary Shares. Each holder of a Depositary Receipt evidencing a Series W Depositary Share is entitled, proportionately, to all the rights and preferences of, and subject to all of the limitations of, the interest in the Series W Preferred Stock represented by the Depositary Share (including dividend, voting, redemption and liquidation rights and preferences).

Dividends

The Depositary will distribute all cash dividends or other cash distributions received in respect of the Series W Preferred Stock to the record holders of Depositary Receipts in proportion to the number of Series W Depositary Shares owned by such holders on the relevant record date, which will be the same date as the record date fixed by us for the Series W Preferred Stock. In the event that the calculation of such amount to be paid results in an amount which is a fraction of one cent, the amount the Depositary shall distribute to such record holder shall be rounded to the next highest whole cent if such fraction of one cent is equal to or greater than $0.005. Otherwise, the fractional interest shall be disregarded.

In the event of a distribution other than in cash, the Depositary will distribute property received by it to the record holders of Depositary Receipts entitled thereto, in proportion, as nearly as may be practicable, to the number of Series W Depositary Shares owned by such holders on the relevant record date, unless the Depositary determines (after consultation with us) that it is not feasible to make such distribution, in which case the Depositary may (with our approval) adopt any other method for such distribution as it deems equitable and appropriate, including the sale of such property (at such place or places and upon such terms as it may deem equitable and appropriate) and distribution of the net proceeds from such sale to such holders.

Liquidation Preference

In the event of the liquidation, dissolution or winding up of the affairs of the Company, whether voluntary or involuntary, the holders of each Depositary Share will be entitled to 1/1000th of the liquidation preference accorded to each share of the Series W Preferred Stock.

Redemption

Whenever we redeem any Series W Preferred Stock held by the Depositary, the Depositary will redeem as of the same redemption date the number of Series W Depositary Shares representing the Series W Preferred Stock so redeemed. The Depositary will publish a notice of redemption of the Series W Depositary Shares containing the same type of information and in the same manner as our notice of redemption and will mail the notice of redemption promptly upon receipt of such notice from us and not less than 30 nor more than 60 days prior to the date fixed for redemption of the Series W Preferred Stock and the Series W Depositary Shares to the record holders of the Depositary Receipts. In case less than all the outstanding Series W Depositary Shares are to be redeemed, the Series W Depositary Shares to be so redeemed shall be determined pro rata or by lot in a manner determined by the Board of Directors.

Voting

Promptly upon receipt of notice of any meeting at which the holders of theSeries W Preferred Stock are entitled to vote, the Depositary will mail the information contained in such notice of meeting to the record holders of the Depositary Receipts as of the record date for such meeting. Each such record holder of Depositary Receipts will be entitled to instruct the Depositary as to the exercise of the voting rights pertaining to the number of shares of Series W Preferred Stock represented by such record holder's Series W Depositary Shares. The Depositary will endeavor, insofar as practicable, to vote such Series W Preferred Stock represented by such Series W Depositary Shares in accordance with such instructions, and we will agree to take all action which may be deemed necessary by the Depositary in order to enable the Depositary to do so. The Depositary will abstain from voting any of the Series W Preferred Stock to the extent that it does not receive specific instructions from the holders of Depositary Receipts.

Withdrawal of Series W Preferred Stock

Upon surrender of Depositary Receipts at the principal office of the Depositary, upon payment of any unpaid amount due the Depositary, and subject to the terms of the Deposit Agreement, the owner of the Series W Depositary Shares evidenced thereby is entitled to delivery of the number of whole shares of Series W Preferred Stock and all money and other property, if any, represented by suchSeries W Depositary Shares. Partial shares of Series W Preferred Stock will not be issued. If the Depositary Receipts delivered by the holder evidence a number of Series W Depositary Shares in excess of the number of Series W Depositary Shares representing the number of whole shares of Series W Preferred Stock to be withdrawn, the Depositary will deliver to such holder at the same time a new Depositary Receipt evidencing such excess number of Series W Depositary Shares. Holders of Series W Preferred Stock thus withdrawn will not thereafter be entitled to deposit such shares under the Deposit Agreement or to receive Depositary Receipts evidencing Series W Depositary Shares therefor.

Amendment and Termination of Deposit Agreement

The form of Depositary Receipt evidencing the Series W Depositary Shares and any provision of the Deposit Agreement may at any time and from time to time be amended by agreement between us and the Depositary. However, any amendment which materially and adversely alters the rights of the holders (other than any change in fees) of Series W Depositary Shares will not be effective unless such amendment has been approved by the holders of at least a majority of the Series W Depositary Shares then outstanding. No such amendment may impair the right, subject to the terms of the Deposit Agreement, of any owner of any Series W Depositary Shares to surrender the Depositary Receipt evidencing such Series W Depositary Shares with instructions to the Depositary to deliver to the holder theSeries W Preferred Stock and all money and other property, if any, represented thereby, except in order to comply with mandatory provisions of applicable law. The Deposit Agreement may be terminated by us or the Depositary only if (1) all outstanding Series W Depositary Shares have been redeemed or (2) there has been a final distribution in respect of the Series W Preferred Stock in connection with any liquidation, dissolution or winding up of the Company and such distribution has been made to all the holders of Series W Depositary Shares.

Charges of Depositary

We will pay all transfer and other taxes and governmental charges arising solely from the existence of the depositary arrangements. We will pay charges of the Depositary in connection with the initial deposit of the Series W Preferred Stock and the initial issuance of the Series W Depositary Shares, and redemption of the Series W Preferred Stock and all withdrawals of Series W Preferred Stock by owners of Series W Depositary Shares. Holders of Depositary Receipts will pay transfer and other taxes and governmental charges and certain other charges as are provided in the Deposit Agreement to be for their accounts. In certain circumstances, the Depositary may refuse to transfer Series W Depositary Shares, may withhold dividends and distributions and sell the Series W Depositary Shares evidenced by such Depositary Receipt if such charges are not paid.

Miscellaneous

The Depositary will forward to the holders of Depositary Receipts all reports and communications from us which are delivered to the Depositary and which we are required to furnish to the holders of the Series W Preferred Stock.

In addition, the Depositary will make available for inspection by holders of Depositary Receipts at the principal office of the Depositary, and at such other places as it may from time to time deem advisable, any reports and communications received from the Company which are received by the Depositary as the holder of Series W Preferred Stock.

Neither the Depositary nor any Depositary's Agent (as defined in the Deposit Agreement), nor the Registrar (as defined in the Deposit Agreement) nor the Company assumes any obligation or will be subject to any liability under the Deposit Agreement to holders of Depositary Receipts other than for its gross negligence, willful misconduct or bad faith. Neither the Depositary, any Depositary's Agent, the Registrar nor the Company will be liable if it is prevented or delayed by law or, in the case of the Depositary, any Depositary's Agent or the Registrar, any circumstance beyond its control, in performing its obligations under the Deposit Agreement. The Company and the Depositary are not obligated to prosecute or defend any legal proceeding in respect of any Series W Depositary Shares, Depositary Receipts or Series W Preferred Stock unless reasonably satisfactory indemnity is furnished. The Company and the Depositary may rely on written advice of counsel or accountants, on information provided by holders of Depositary Receipts or other persons believed in good faith to be competent to give such information and on documents believed to be genuine and to have been signed or presented by the proper party or parties.

Holders of Depositary Receipts may inspect the Depositary's transfer records for the Depositary Receipts at the Depositary's office during normal business hours, provided that such inspection is for a proper purpose.

Registration of Transfer of Receipts

The Depositary will register on its books transfers of Depositary Receipts upon surrender of the receipt by the holder, properly endorsed or accompanied by appropriate instruments of transfer, subject to certain restrictions and conditions set forth in the Deposit Agreement. Title to Series W Depositary Shares represented by a Depositary Receipt, which is properly endorsed or accompanied by appropriate instruments of transfer, will be transferable by delivery with the same effect as in the case of a negotiable instrument.

Resignation and Removal of Depositary

The Depositary may resign at any time by delivering to us notice of its election to do so, and we may at any time remove the Depositary, any such resignation or removal to take effect upon the appointment of a successor Depositary and its acceptance of such appointment. Such successor Depositary must be appointed within 60 days after delivery of the notice for resignation or removal and must be a bank or trust company having its principal office in the United States of America and having a combined capital and surplus of at least $150,000,000.

Description of Depositary Shares, each Representing 1/1,000 of a Share of Series X Preferred Stock

The following is a brief description of the terms of our depositary shares, each representing 1/1,000 of a share of Series X Preferred Stock ("Series X Depositary Shares"), which does not purport to be complete and is subject to and qualified in its entirety by reference to the Deposit Agreement relating to the Series X Preferred Stock, which is included as an exhibit to the Annual Report on Form 10-K of which this Exhibit 4.5 is a part. The terms and provisions of our Series X Depositary Shares are substantially the same as those of our Series W Depositary Shares as described in "—Description of Depositary Shares, each Representing 1/1,000 of a Share of Series W Preferred Stock" above.

Description of Depositary Shares, each Representing 1/1,000 of a Share of Series Y Preferred Stock

The following is a brief description of the terms of our depositary shares, each representing 1/1,000 of a share of Series Y Preferred Stock ("Series Y Depositary Shares"), which does not purport to be complete and is subject to and qualified in its entirety by reference to the Deposit Agreement relating to the Series Y Preferred Stock, which is included as an exhibit to the Annual Report on Form 10-K of which this Exhibit 4.5 is a part. The terms and provisions of our Series Y Depositary Shares are substantially the same as those of our Series W Depositary Shares as described in "—Description of Depositary Shares, each Representing 1/1,000 of a Share of Series W Preferred Stock" above.

Description of Depositary Shares, each Representing 1/1,000 of a Share of Series Z Preferred Stock

The following is a brief description of the terms of our depositary shares, each representing 1/1,000 of a share of Series Z Preferred Stock ("Series Z Depositary Shares"), which does not purport to be complete and is subject to and qualified in its entirety by reference to the Deposit Agreement relating to the Series Z Preferred Stock, which is included as an exhibit to the Annual Report on Form 10-K of which this Exhibit 4.5 is a part. The terms and provisions of our Series Z Depositary Shares are substantially the same as those of our Series W Depositary Shares as described in "—Description of Depositary Shares, each Representing 1/1,000 of a Share of Series W Preferred Stock" above.

Exhibit 10.10

PS BUSINESS PARKS, L.P.

AMENDMENT TO AGREEMENT OF LIMITED
PARTNERSHIP RELATING TO
4.875% SERIES Z CUMULATIVE REDEEMABLE
PREFERRED UNITS

This Amendment to the Agreement of Limited Partnership of PS Business Parks, L.P., a California limited partnership (the "**Partnership**"), dated as of November 4, 2019 (this **"Amendment"**), amends the Agreement of Limited Partnership of the Partnership, dated as of March 17, 1998, as amended, by and among PS Business Parks, Inc. (the "**General Partner**") and each of the limited partners described on Exhibit A to that partnership agreement (the "**Partnership Agreement**"). Section references are (unless otherwise specified) references to sections in this Amendment.

WHEREAS, the General Partner agreed to issue up to 13,000,000 Depositary Shares each representing 1/1000th of a share of the General Partner's preferred stock designated as the "4.875% Cumulative Preferred Stock, Series Z" (the "**Depositary Shares**") for a price of $25.00 per Depositary Share;

WHEREAS, Section 4.1(b)(2) of the Partnership Agreement requires the General Partner to contribute to the Partnership the funds raised through the issuance of additional shares of the General Partner in return for additional Partnership Units, and provides that the General Partner's capital contribution shall be deemed to equal the amount of the gross proceeds of that share issuance (i.e., the net proceeds actually contributed, plus any underwriter's discount or other expenses incurred, with any such discount or expense deemed to have been incurred on behalf of the Partnership);

WHEREAS, Section 4.2(a) of the Partnership Agreement provides generally for the creation and issuance of Partnership Units with such designations, preferences and relative, participating, optional or other special rights, powers and duties, including rights, powers and duties senior to other Partnership Interests, all as shall be determined by the General Partner, without the consent of the Limited Partners, and Section 4.2(b) of the Partnership Agreement specifically contemplates the issuance of Units to the General Partner having designations, preferences and other rights, all such that the economic interests are substantially similar to the designations, preferences and other rights of shares issued by the General Partner, such as the Depositary Shares;

WHEREAS, the General Partner desires to cause the Partnership to issue additional Units of a new class and series, with the designations, preferences and relative, participating, optional or other special rights, powers and duties set forth herein; and

WHEREAS, the General Partner desires by this Amendment to so amend the Partnership Agreement as of the date first set forth above to provide for the designation and issuance of such new class and series of Units.

NOW, THEREFORE, the Partnership Agreement is hereby amended by establishing and fixing the rights, limitations and preferences of a new class and series of Units as follows:

Section 1. Definitions. Capitalized terms not otherwise defined herein shall have their respective meanings set forth in the Partnership Agreement. Capitalized terms that are used in this Amendment shall have the meanings set forth below:

(a) **"Liquidation Preference"** means, with respect to the Series Z Preferred Units (as defined below), $25.00 per Series Z Preferred Unit, plus the amount of any accumulated and unpaid Priority Return (as defined below) with respect to such Series Z Preferred Unit, whether or not declared, minus any distributions in excess of the Priority Return that has accrued with respect to such Series Z Preferred Units, to the date of payment.

(b) **"Parity Preferred Units"** means any class or series of Partnership Interests (as such term is defined in the Partnership Agreement) of the Partnership now or hereafter authorized, issued or outstanding and expressly designated by the Partnership to rank on a parity with the Series Z Preferred Units with respect to distributions and rights upon voluntary or involuntary liquidation, winding-up or dissolution of the Partnership, including the 5.75% Series U Cumulative Redeemable Preferred Units (the "**Series U Preferred Units**"), the 5.70% Series V Cumulative

Redeemable Preferred Units (the "**Series V Preferred Units**"), the 5.20% Series W Cumulative Redeemable Preferred Units (the "**Series W Preferred Units**"), the 5.25% Series X Cumulative Redeemable Preferred Units (the "**Series X Preferred Units**") and the 5.20% Series Y Cumulative Redeemable Preferred Units (the "**Series Y Preferred Units**"). Notwithstanding the differing allocation rights set forth in Section 4 below that apply to the Series U, V, W, X and Y Preferred Units.

(c) "**Priority Return**" means an amount equal to 4.875% per annum, of the Liquidation Preference per Series Z Preferred Unit, commencing on the date of issuance of such Series Z Preferred Unit, determined on the basis of a 360-day year (and twelve 30-day months), cumulative to the extent not distributed on any Series Z Preferred Unit Distribution Payment Date (as defined below).

Section 2. Creation of Series Z Preferred Units. (a) **Designation and Number.** Pursuant to Section 4.2(a) of the Partnership Agreement, a series of Partnership Units (as such term is defined in the Partnership Agreement) in the Partnership designated as the "4.875% Series Z Cumulative Redeemable Preferred Units" (the "**Series Z Preferred Units**") is hereby established effective as of November 4, 2019. The number of Series Z Preferred Units shall be 13,000,000. The Holders of Series Z Preferred Units shall not have any Percentage Interest (as such term is defined in the Partnership Agreement) in the Partnership.

(b) **Capital Contribution**. In return for the issuance to the General Partner of the Series Z Preferred Units set forth on Exhibit C to this Amendment, the General Partner has contributed to the Partnership the funds raised through the General Partner's issuance of the Depositary Shares (the General Partner's capital contribution shall be deemed to equal the amount of the gross proceeds of that share issuance, *i.e.*, the net proceeds actually contributed, plus any underwriter's discount or other expenses incurred, with any such discount or expense deemed to have been incurred by the General Partner on behalf of the Partnership).

(c) **Construction**. The Series Z Preferred Units have been created and are being issued in conjunction with the General Partner's issuance of the Depositary Shares relating to the General Partner's 4.875% Cumulative Preferred Stock, Series Z, and as such, the Series Z Preferred Units are intended to have designations, preferences and other rights, all such that the economic interests are substantially similar to the designations, preferences and other rights of the Depositary Shares, and the terms of this Amendment shall be interpreted in a fashion consistent with this intent.

Section 3. Distributions. (a) **Payment of Distributions**. Subject to the rights of holders of Parity Preferred Units as to the payment of distributions, pursuant to Section 5.1 of the Partnership Agreement, holders of Series Z Preferred Units shall be entitled to receive, when, as and if declared by the Partnership acting through the General Partner, the Priority Return. Such distributions shall be cumulative, shall accrue from the original date of issuance of the Series Z Preferred Units and, notwithstanding Section 5.1 of the Partnership Agreement, will be payable (i) quarterly in arrears on March 31, June 30, September 30 and December 31 of each year, commencing on December 31, 2019 (with the payment on that date being based pro rata on the number of days from the original issuance of the Series Z Preferred Units) and (ii) in the event of a redemption of Series Z Preferred Units (each a "**Series Z Preferred Unit Distribution Payment Date**"). If any date on which distributions are to be made on the Series Z Preferred Units is not a Business Day (as defined below), then payment of the distribution to be made on such date will be made on the Business Day immediately preceding such date with the same force and effect as if made on such date. Distributions on the Series Z Preferred Units will be made to the holders of record of the Series Z Preferred Units on the relevant record dates to be fixed by the Partnership acting through the General Partner, which record dates shall in no event exceed fifteen (15) Business Days prior to the relevant Series Z Preferred Unit Distribution Payment Date. Business Day shall be any day other than a Saturday, Sunday or day on which banking institutions in the State of New York or the State of California are authorized or obligated by law to close, or a day which is or is declared a national or a New York or California state holiday.

(b) **Prohibition on Distribution**. No distributions on Series Z Preferred Units shall be authorized by the General Partner or paid or set apart for payment by the Partnership at any such time as the terms and provisions of any agreement of the Partnership or the General Partner, including any agreement relating to their indebtedness, prohibits such authorization, payment or setting apart for payment or provides that such authorization, payment or setting apart for payment would constitute a breach thereof or a default thereunder, or to the extent that such authorization or payment shall be restricted or prohibited by law.

(c) **Distributions Cumulative**. Distributions on the Series Z Preferred Units will accrue whether or not the terms and provisions of any agreement of the Partnership, including any agreement relating to its indebtedness, at any time prohibit the current payment of distributions, whether or not the Partnership has earnings, whether or not there are funds legally available for the payment of such distributions and whether or not such distributions are authorized. Accrued but unpaid distributions on the Series Z Preferred Units will accumulate as of the Series Z Preferred Unit Distribution Payment Date on which they first become payable. Distributions on account of arrears for any past distribution periods may be declared and paid at any time, without reference to a regular Series Z Preferred Unit Distribution Payment Date, to holders of record of the Series Z Preferred Units on the record date fixed by the Partnership acting through the General Partner which date shall not exceed fifteen (15) Business Days prior to the payment date. Accumulated and unpaid distributions will not bear interest.

(d) **Priority as to Distributions**. Subject to the provisions of Article 13 of the Partnership Agreement:

(i) So long as any Series Z Preferred Units are outstanding, no distribution of cash or other property shall be authorized, declared, paid or set apart for payment on or with respect to any class or series of Partnership Interests ranking junior as to the payment of distributions or rights upon a voluntary or involuntary liquidation, dissolution or winding-up of the Partnership to the Series Z Preferred Units (collectively, "**Junior Units**"), nor shall any cash or other property be set aside for or applied to the purchase, redemption or other acquisition for consideration of any Series Z Preferred Units, any Parity Preferred Units or any Junior Units, unless, in each case, all distributions accumulated on all Series Z Preferred Units and all classes and series of outstanding Parity Preferred Units have been paid in full. The foregoing sentence shall not prohibit (x) distributions payable solely in Junior Units, or (y) the conversion of Junior Units or Parity Preferred Units into Partnership Interests ranking junior to the Series Z Preferred Units.

(ii) So long as distributions have not been paid in full (or a sum sufficient for such full payment is not irrevocably deposited in trust for payment) upon the Series Z Preferred Units, all distributions authorized and declared on theSeries Z Preferred Units and all classes or series of outstanding Parity Preferred Units shall be authorized and declared so that the amount of distributions authorized and declared per Series Z Preferred Unit and such other classes or series of Parity Preferred Units shall in all cases bear to each other the same ratio that accrued distributions per Series Z Preferred Unit and such other classes or series of Parity Preferred Units (which shall not include any accumulation in respect of unpaid distributions for prior distribution periods if such class or series of Parity Preferred Units do not have cumulative distribution rights) bear to each other.

(e) **No Further Rights**. Holders of Series Z Preferred Units shall not be entitled to any distributions, whether payable in cash, other property or otherwise, in excess of the full cumulative distributions described herein.

Section 4. Allocations. Section 6.1(a)(ii) of the Partnership Agreement is amended to read, in its entirety, as follows:

"(ii) (A) Notwithstanding anything to the contrary contained in this Agreement, in any taxable year: (1) the holders of Series U, V, W, X, Y and Z Preferred Units shall be allocated an amount of gross income equal to the Priority Return distributed to such holders in such taxable year.

(B) After the Capital Account balances of all Partners other than holders of any series of Preferred Units have been reduced to zero, Losses of the Partnership that otherwise would be allocated so as to cause deficit Capital Account balances for those other Partners shall be allocated to the holders of the Series U, V, W, X, Y and Z Preferred Units in proportion to the positive balances of their Capital Accounts until those Capital Account balances have been reduced to zero. If Losses have been allocated to the holders of the Series U, V, W, X, Y and Z Preferred Units pursuant to the preceding sentence, the first subsequent Profits shall be allocated to those preferred partners so as to recoup, in reverse order, the effects of the loss allocations.

(C) Upon liquidation of the Partnership or the interest of the holders of SeriesU, V, W, X, Y, and Z Preferred Units in the Partnership, items of gross income or deduction shall be allocated to the holders of Series U, V, W, X, Y and Z Preferred Units in a manner such that, immediately prior to such liquidation, the Capital Account balances of such holders shall equal the amount of their Liquidation Preferences."

Section 5. Optional Redemption. The Series Z Preferred Units shall be redeemed at the same time, to the same extent, and applying, except as set forth below, similar procedures, as any redemption by the General Partner

of the Depositary Shares. The redemption price, payable in cash, shall equal the Liquidation Preference (the "**Series Z Redemption Price**"). Unless otherwise agreed, the Partnership will deliver into escrow with an escrow agent acceptable to the Partnership and the holders of the Series Z Preferred Units being redeemed (the "**Escrow Agent**") the Series Z Redemption Price and an executed Redemption Agreement, in substantially the form attached as Exhibit A (the "**Redemption Agreement**"), and an Amendment to the Agreement of Limited Partnership evidencing the Redemption, in substantially the form attached as Exhibit B. The holders of the Series Z Preferred Units to be redeemed will also deliver into escrow with the Escrow Agent an executed Redemption Agreement and an executed Amendment to the Agreement of Limited Partnership evidencing the redemption. Upon delivery of all of the above-described items by both parties, on the redemption date the Escrow Agent shall release the Series Z Redemption Price to the holders of the Series Z Preferred Units and the fully-executed Redemption Agreement and Amendment to Agreement of Limited Partnership to both parties. On and after the date of redemption, distributions will cease to accumulate on the Series Z Preferred Units called for redemption, unless the Partnership defaults in the payment of the Series Z Redemption Price. The Redemption Right (as such term is defined in the Partnership Agreement) given to Limited Partners (as such term is defined in the Partnership Agreement) in Section 8.6 of the Partnership Agreement shall not be available to the holders of the Series Z Preferred Units and all references to Limited Partners in said Section 8.6 (and related provisions of the Partnership Agreement) shall not include holders of the Series Z Preferred Units.

Section 6. Voting Rights. Holders of the Series Z Preferred Units will not have any voting rights or right to consent to any matter requiring the consent or approval of the Limited Partners, except as set forth in Section 14.1 of the Partnership Agreement and in this Section 6. Solely for purposes of Section 14.1 of the Partnership Agreement, each Series Z Preferred Unit shall be treated as one Partnership Unit.

Section 7. Transfer Restrictions. The holders of Series Z Preferred Units shall be subject to all of the provisions of Section 11 of the Partnership Agreement.

Section 8. No Conversion Rights. The holders of the Series Z Preferred Units shall not have any rights to convert such units into shares of any other class or series of stock or into any other securities of, or interest in, the Partnership.

Section 9. No Sinking Fund. No sinking fund shall be established for the retirement or redemption of Series Z Preferred Units.

Section 10. Exhibit A to Partnership Agreement In order to duly reflect the issuance of the Series Z Preferred Units provided for herein, the Partnership Agreement is hereby further amended pursuant to Section 12.3 of the Partnership Agreement by replacing the current form of Exhibit A to the Partnership Agreement with the form of Exhibit A that is attached to this Amendment as Exhibit C.

Section 11. Inconsistent Provisions. Nothing to the contrary contained in the Partnership Agreement shall limit any of the rights or obligations set forth in this Amendment.

[The remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF, this Amendment has been executed as of the date first above written.

PS BUSINESS PARKS, INC.

By: /s/ Maria R. Hawthorne
Name: Maria R. Hawthorne
Title: President and Chief Executive Officer

[Signature Page to Amendment to Agreement of Limited Partnership]

Exhibit A

FORM OF
REDEMPTION AGREEMENT

THIS REDEMPTION AGREEMENT (the "Agreement") is entered into effective as of the day of , , by and between (the "Retiring Partner"), and PS Business Parks, L.P., a California limited partnership (the "Partnership").

RECITALS:

WHEREAS, the Agreement of Limited Partnership of the Partnership, dated as of March 17, 1998, as amended, was amended by an Amendment to Agreement of Limited Partnership Relating to 4.875% Series Z Cumulative Redeemable Preferred Units (the "Amendment"), as further amended from time to time;

WHEREAS, the Retiring Partner owns of the 4.875% Series Z Cumulative Redeemable Preferred Units in the Partnership (the "Series Z Preferred Units"); and

WHEREAS, the Partnership desires to redeem the Series Z Preferred Units of the Retiring Partner, and the Retiring Partner desires to liquidate its Series Z Preferred Units (the "Redemption") pursuant to the Amendment and based on the representations and under the terms and conditions set forth below;

NOW, THEREFORE, in consideration of the mutual covenants, representations and agreements herein contained, the parties hereto, intending to be legally bound, do covenant and agree as follows:

1. **Liquidation of Retiring Partner**. In satisfaction of the terms and conditions set forth herein and in the Amendment, the Retiring Partner's Series Z Preferred Units are hereby completely liquidated and the Retiring Partner immediately and automatically ceases to be a limited partner in the Partnership in exchange for the payment of the Series Z Redemption Price (as defined in the Amendment and in accordance with the provisions set forth in the Amendment) and for other good and valuable consideration.

2. **Representations of Retiring Partner**. The Retiring Partner represents and warrants to the Partnership that:

(a) The Retiring Partner is duly organized and validly existing under the laws of the State of and has been duly authorized by all necessary and appropriate [limited liability company] [corporate] [partnership] action to enter into this Agreement and to consummate the transactions contemplated herein. This Agreement is a valid and binding obligation of the Retiring Partner, enforceable against the Retiring Partner in accordance with its terms, except insofar as such enforceability may be affected by bankruptcy, insolvency or similar laws affecting creditor's rights generally and the availability of any particular equitable remedy.

(b) The Retiring Partner has not sold, assigned or otherwise disposed of all or any portion of the Series Z Preferred Units and the Series Z Preferred Units are free of any liens, security interests, encumbrances or other restrictions, whether existing of record or otherwise.

(c) The execution of this Agreement by the Retiring Partner and the performance of its obligations hereunder will not violate any contract, mortgage, indenture, or other similar restriction to which the Retiring Partner is a party or by which its assets are bound.

(d) Neither the execution nor the delivery of this Agreement nor the consummation of the transactions contemplated herein nor fulfillment of or compliance with the terms and conditions hereof (a) conflict with or will result in a breach of any of the terms, conditions or provisions of (i) the organizational and governing documents of the Retiring Partner or (ii) any agreement, order, judgment, decree, arbitration award, statute, regulation or instrument to which the Retiring Partner is a party or by which it or its assets are bound, or (b) constitutes or will constitute a breach, violation or default under any of the foregoing. No consent or approval, authorization, order, regulation or qualification of any governmental entity or any other person is required for the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby by the Retiring Partner.

3. **Representations and Warranties of the Partnership**. The Partnership represents and warrants to the Retiring Partner as follows:

(a) The Partnership is duly organized and validly existing under the laws of the State of California and has been duly authorized by all necessary and appropriate partnership action to enter into this Agreement and to consummate the transactions contemplated herein. This Agreement is a valid and binding obligation of the Partnership enforceable in accordance with its terms, except as such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally.

(b) The execution of this Agreement by the Partnership and the performance of its obligations hereunder will not violate any contract, mortgage, indenture, or other similar restriction to which the Partnership is a party or by which the Partnership is bound.

(c) Neither the execution nor the delivery of this Agreement nor the consummation of the transactions contemplated herein nor fulfillment of or compliance with the terms and conditions hereof (a) conflict with or will result in a breach of any of the terms, conditions or provisions of (i) the organizational and governing documents of the Partnership or (ii) any agreement, order, judgment, decree, arbitration award, statute, regulation or instrument to which the Partnership is a party or by which it or its assets are bound, or (b) constitutes or will constitute a breach, violation or default under any of the foregoing. No consent or approval, authorization, order, regulation or qualification of any governmental entity or any other person is required for the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby by the Partnership.

(d) Consummation of the Redemption by the Partnership will not render the Partnership insolvent under California partnership law.

4. **Indemnification**.

(a) The Retiring Partner covenants and agrees to indemnify the Partnership and hold it harmless against and with respect to any and all damage, loss, liability, deficiency, cost and expense, including reasonable attorneys' fees, (i) resulting from any misrepresentation, breach of warranty or non-fulfillment of any agreement or covenant on the part of the Retiring Partner under this Agreement, and (ii) from any and all actions, suits, proceedings, demands, assessments, judgments, costs and legal and other expenses incident to any of the foregoing.

(b) The Partnership covenants and agrees to indemnify the Retiring Partner and hold it harmless against and with respect to any and all damage, loss, liability, deficiency, cost and expense, including reasonable attorneys' fees, (i) resulting from any misrepresentation, breach of warranty or non-fulfillment of any agreement or covenant on the part of such Partnership under this Agreement and (ii) from any and all actions, suits, proceedings, demands, assessments, judgments, costs and legal and other expenses incident to any of the foregoing.

5. **Survival of Representations and Warranties**. All representations, warranties, covenants and agreements of any of the parties hereto made in this Agreement shall survive the execution and delivery hereof, the closing hereunder, and the execution and delivery of all instruments and documents executed in connection therewith.

6. **Integration, Interpretation and Miscellaneous**. This Agreement sets forth the entire understanding of the parties hereto with respect to the subject matter herein and it shall not be changed or terminated orally. This Agreement shall be construed in accordance with the laws of the State of California. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives, and successors, or successors and assigns, as the case may be. The headings in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

RETIRING PARTNER:

By: ________________________________
Name:
Title:

PARTNERSHIP:
PS Business Parks, L.P.
By: PS Business Parks, Inc., its
General Partner

By: _____________________________
Name:
Title:

Exhibit B

FORM OF
AMENDMENT TO
AGREEMENT OF LIMITED PARTNERSHIP
OF
PS BUSINESS PARKS, L.P.

This Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. (the **"Partnership"**), dated as of (this **"Amendment"**) is entered into by the General Partner of the Partnership, PS Business Parks, Inc., and , as a withdrawing Limited Partner of the Partnership (the **"Withdrawing Partner"**).

RECITALS:

WHEREAS, capitalized terms used herein, unless otherwise defined, have the meanings assigned to such terms in the Agreement of Limited Partnership of the Partnership entered into as of March 17, 1998, as amended (the **"Partnership Agreement"**).

WHEREAS, pursuant to the redemption by the Partnership of the 4.875% Series Z Cumulative Redeemable Preferred Units pursuant to the terms and conditions set forth in that certain Redemption Agreement by and between the Partnership and the Withdrawing Partner, dated as of , 20 , 4.875% Series Z Cumulative Redeemable Preferred Units of the Withdrawing Partner have been redeemed by the Partnership and the General Partner desires to amend the Partnership Agreement to (a) set forth a revised list of all Partners of the Partnership as of the date hereof and (b) reflect the withdrawal of the Withdrawing Partner from the Partnership.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, the parties hereby agree as follows:

1. This Amendment shall be deemed effective as of the date first above written. Except as amended hereby, the Partnership Agreement shall remain in full force and effect and shall be otherwise unaffected hereby.

2. To evidence the redemption of the 4.875% Series Z Cumulative Redeemable Preferred Units of the Withdrawing Partner and the withdrawal of the Withdrawing Partner as a Limited Partner of the Partnership, attached as **Schedule A** is a current list of Partners of the Partnership as of the date hereof.

3. The Withdrawing Partner is entering into this Amendment to evidence its withdrawal as a Limited Partner of the Partnership.

4. This Amendment shall be deemed to be a contract made under the laws of the State of California and for all purposes shall be governed by and construed in accordance with the laws of such state.

IN WITNESS WHEREOF, the undersigned has caused this Amendment to be executed and delivered as of the date first above written.

GENERAL PARTNER
PS Business Parks, Inc.

By: ________________________________
Name:
Title:

WITHDRAWING LIMITED PARTNER

By: ________________________________
Name:
Title:

Exhibit C

Revised Exhibit A to the Partnership Agreement

Please see attached.

[Attach revised Exhibit A to the Partnership Agreement]

EXHIBIT C (November 4, 2019)

Name of Partner (Date of Admission)	Address	Agreed Value of Contributed Property (1)	Partnership Units	Percentage Interest
General Partner:				
Total Common Shares		$ 799,809,000	27,436,547	78.97%
Total Common Units		$ 121,890,000	7,305,355	21.03%
TOTAL (General & Limited Partners; not Preferred Units)		$ 921,699,000	34,741,902	100.00%
Limited Partners (Series U Preferred Units):				
PS Business Parks, Inc. (September 14, 2012)	701 Western Avenue Glendale, CA 91201	230,000,000	9,200,000	17.90%
Limited Partners (Series V Preferred Units):				
PS Business Parks, Inc. (March 14, 2013)	701 Western Avenue Glendale, CA 91201	110,000,000	4,400,000	8.56%
Limited Partners (Series W Preferred Units):				
PS Business Parks, Inc. (October 20, 2016)	701 Western Avenue Glendale, CA 91201	189,750,000	7,590,000	14.77%
Limited Partners (Series X Preferred Units):				
PS Business Parks, Inc. (September 21, 2017)	701 Western Avenue Glendale, CA 91201	230,000,000	9,200,000	17.90%
Limited Partners (Series Y Preferred Units):				
PS Business Parks, Inc. (December 7, 2017)	701 Western Avenue Glendale, CA 91201	200,000,000	8,000,000	15.57%
Limited Partners (Series Z Preferred Units):				
PS Business Parks, Inc. (November 4, 2019)	701 Western Avenue Glendale, CA 91201	325,000,000	13,000,000	25.30%
TOTAL (Preferred Stock & Units)		$ 1,284,750,000	51,390,000	100.00%

(1) Agreed value is the agreed gross value of the property at the time of contribution less any liabilities to which the property is subject at that time.

Exhibit 10.23

PS BUSINESS PARKS, INC.
RETIREMENT PLAN FOR NON-EMPLOYEE DIRECTORS, as amended

1. PURPOSE.

The Plan is intended to promote the best interests of the Corporation by enhancing the Corporation's ability to attract and retain highly qualified non-employee directors and by rewarding the Corporation's non-employee directors for their services to the Corporation.

2. DEFINITIONS.

Whenever the following terms are used in this Plan, they shall have the meaning specified below:

(a) "Act" means the Securities Act of 1933, as amended.

(b) "Administrator" means the Board or the Committee, whichever shall be administering the Plan from time to time in the discretion of the Board, as described in Section 4(a) of the Plan.

(c) "Board" means the Board of Directors of the Corporation.

(d) "Code" means the Internal Revenue Code of 1986, as amended.

(e) "Committee" means the committee appointed by the Board in accordance with Section 4(a) of the Plan.

(f) "Common Stock" means the common stock, par value $.01 per share, of the Corporation.

(g) "Corporation" means PS Business Parks, Inc., a California corporation.

(h) "Director" means a director of the Board (i) who is not employed as an officer, employee or consultant of the Corporation or any of its affiliates while serving as a director and (ii) who is duly elected to the Board by the Corporation's stockholders or otherwise in accordance with the Corporation's Bylaws.

(i) "Deferred Stock Unit" means a bookkeeping entry representing the right to receive the equivalent of one Share granted pursuant to the Plan.

(j) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(k) "Fair Market Value" shall mean the value of one (1) Share, determined as follows, without regard to any restriction other than a restriction which, by its terms, will never lapse:

(i) If the Shares are traded on an exchange, the closing price per Share on the principal exchange on which Shares are listed on the date of valuation or, if no sales occurred

on that date, then the average of the highest bid and lowest asked prices on such exchange at the end of the day on such date;

(ii) If the Shares are not traded on an exchange but are otherwise traded over-the- counter, the average of the highest bid and lowest asked prices quoted in the National Association of Securities Dealers, Inc. Automated Quotation System (NASDAQ) as of the close of business on the date of valuation, or, if on such day such security is not quoted in the NASDAQ system, the average of the representative bid and asked prices on such date in the domestic over-the-counter market as reported by the National Quotation Bureau, Inc., or any similar successor organization; and

(iii) If neither (i) nor (ii) applies, the fair market value as determined by the Administrator in good faith. Such determination shall be conclusive and binding on all persons.

(l) "Grant" means any award of Deferred Stock Units granted pursuant to the Plan.

(m) "Grantee" means a Director who has received a Grant pursuant to the Plan.

(n) "Plan" means the PS Business Parks, Inc. Retirement Plan for Non-Employee Directors as it may be amended from time to time.

(o) "Retirement" means a Director's termination from service as a member of the Board, provided that no Director removed for cause from the Board shall be deemed to have retired from the Board, and provided further that such termination is a "separation from service" within the meaning of Code Section 409A.

(p) "Service" means service as a Director of the Corporation, including service prior to the adoption of the Plan.

(q) "Share" means one (1) share of Common Stock, adjusted in accordance with Section 7 of the Plan (if applicable).

3. EFFECTIVE DATE.

The Plan was originally adopted by the Board and subsequently approved by stockholders of the Corporation on May 4, 2004 and is effective as of such date (the "Effective Date"). The Plan has no termination date.

4. ADMINISTRATION AND ELIGIBILITY.

(a) Administrator. The Plan shall be administered, in the discretion of the Board from time to time, by the Board or by the Compensation Committee of the Board or such other committee appointed by the Board that shall consist of not less than two (2) members of the Board each of whom is a "non-employee director" within the meaning of Rule 16b-3

under the Exchange Act. Subject to the express provisions of the Plan, the Administrator shall have the authority (i) to construe and interpret the Plan and to define the terms used in the Plan, (ii) to prescribe, amend and rescind rules and regulations relating to the administration of the Plan, and (iii) to make all other determinations necessary or advisable for the administration of the Plan. The interpretation and construction by the Administrator of any provisions of the Plan and all other decisions of the Administrator shall be made in the Administrator's sole discretion and shall be final and binding on all persons having or claiming any interest in the Plan or in any Grant. No director or person acting pursuant to authority delegated by the Board shall be liable for any action or determination relating to or under the Plan or any Grant made in good faith.

(b) Participation. The Grantees shall consist exclusively of Directors of the Corporation and prior service as an employee of the Corporation shall not disqualify such Director from receiving a Grant under the Plan.

5. STOCK.

The stock subject to Grants awarded under the Plan shall be shares of the Corporation's authorized but unissued or reacquired Common Stock. The aggregate maximum number of Shares which may be issued pursuant to the Plan shall be two hundred thousand (200,000) Shares, subject to any adjustment pursuant to Section 7 hereof.

6. TERMS AND CONDITIONS OF GRANTS.

(a) Grant and Vesting of Deferred Stock Unit Awards . Each Director who joins the Board on or after July 23, 2019 shall be awarded a Grant of 10,000 Deferred Stock Units, which shall vest in ten (10) equal annual installments on each of the first ten (10) anniversaries of the date the Director commenced Service on the Board, provided the Director continues in Service on each such date and subject to the availability of Shares as specified in Section 5 of the Plan. Further, each Director who was a member of the Board prior to July 23, 2019 shall be granted additional Deferred Stock Units in an amount and subject to a vesting schedule such that the total amount of Deferred Stock Units granted to such Director pursuant to the Plan and the applicable vesting schedule will replicate the amount and schedule that would have existed if the terms of this Section 6(a) had been in effect when such Director initially joined the Board. For the avoidance of doubt, nothing in this Section 6(a) shall operate to result in a duplication of Deferred Stock Unit or Share awards for any Director who was a member of the Board prior to the effective date of this amendment. Upon the termination of the Grantee's Service for any reason, any Deferred Stock Units held by the Grantee that have not yet vested shall terminate immediately as of such termination, and the Grantee shall forfeit any rights with respect to such Deferred Stock Units.

(b) Settlement of Deferred Stock Unit Awards. With respect to a Director who holds Deferred Stock Units, such Deferred Stock Units shall be settled as soon as practicable following (but in no event later than 30 days following) the earlier of (i) such Director's Retirement

or (ii) such Director's death, by the delivery to the Director (or, if applicable, to the Director's estate) of a number of Shares equal to the number of vested Deferred Stock Units then held by such Director.

(c) Grant of Dividend Equivalent Rights. Each Director will be entitled to receive, upon the Corporation's payment of a cash dividend on outstanding Shares, a cash payment for each of the Director's Deferred Stock Units that is vested as of the record date for such dividend equal to the per-share dividend paid on Shares.

(d) Payment of Taxes; Related Matters. In the event the Corporation determines it is required to withhold state, local or Federal income tax in connection with a Grant, the Corporation may require a Grantee to make arrangements satisfactory to the Corporation to enable it to satisfy such withholding requirements. Payment of such withholding requirements may be made, in the discretion of the Administrator, (i) in cash, (ii) by delivery of Shares registered in the name of the Grantee, or by the Corporation not issuing such number of Shares subject to the Grant having a Fair Market Value as of such date equal to the amount to be withheld, or (iii) any combination of (i) and (ii) above. An election under the preceding sentence may only be made during the period beginning on the third business day following the date of release of quarterly and annual summary statements of sales and earnings and ending on the twelfth business day following such date and only if such period occurs before the date the Corporation requires payment of the withholding tax. The election need not be made during such trading window if (a) it is made at least six (6) months prior to the date of the Grant or (b) counsel to the Corporation determines that compliance with such requirement is unnecessary. In addition, counsel to the Corporation may impose additional restrictions on the Grantee's ability to satisfy tax withholding with Shares if counsel determines such restrictions are in the best interests of the Corporation.

7. EFFECT OF CHANGES IN CAPITALIZATION.

7.1 Changes in Stock. If the number of outstanding Shares is increased or decreased or the Shares are changed into or exchanged for a different number or kind of shares or other securities of the Corporation on account of any recapitalization, reclassification, stock split, reverse stock split, combination of shares, exchange of shares, stock dividend or other distribution payable in capital stock, or other increase or decrease in such shares effected without receipt of consideration by the Corporation occurring after the effective date, the number and class of securities subject to outstanding Grants and for which Grants may be made under the Plan shall be appropriately adjusted by the Administrator to the extent determined by the Administrator. In the event of a spin-off by the Corporation of the shares of a subsidiary, a stock dividend for which the Corporation will claim a dividends paid deduction under Section 561 of the Code (or any successor provision), a pro rata distribution to all shareholders of other assets of the Corporation, or any distribution to holders of Shares other than an ordinary cash dividend, the Administrator may, but shall not be required to, make appropriate adjustments to the number and class of securities subject to outstanding Grants and for which Grants may be made.

7.2 [Reserved].

7.3 Adjustments. Adjustments under this Section 7 related to shares of Stock or securities of the Corporation shall be made by the Administrator, whose determination in that respect shall be final, binding and conclusive. No fractional shares or other securities shall be issued pursuant to any such adjustment, and any fractions resulting from any such adjustment shall be eliminated in each case by rounding downward to the nearest whole share.

7.4 No Limitations on the Corporation. The making of Grants pursuant to the Plan shall not affect or limit in any way the right or power of the Corporation to make adjustments, reclassifications, reorganizations, or changes of its capital or business structure or to merge, consolidate, dissolve, or liquidate, or to sell or transfer all or any part of its business or assets.

8. SECURITIES LAW REQUIREMENTS.

(a) Legality of Issuance. No Shares shall be issued upon the settlement of any Grant unless and until the Corporation has determined that:

(i) it and the Grantee have taken all actions required to register the Shares under the Act, or to perfect an exemption from the registration requirements thereof;

(ii) any applicable listing requirement of any stock exchange on which the Common Stock is listed has been satisfied; and

(iii) any other applicable provision of state or Federal law has been satisfied.

(b) Restrictions on Transfer. The Grantee may not sell, transfer, assign, pledge or otherwise encumber or dispose of the Deferred Stock Units. Regardless of whether the Shares under the Plan has been registered under the Act or has been registered or qualified under the securities laws of any state, the Corporation may impose additional restrictions upon the sale, pledge or other transfer of such Shares (including the placement of appropriate legends on stock certificates) if, in the judgment of the Corporation and its counsel, such restrictions are necessary or desirable in order to achieve compliance with the provisions of the Act, the securities laws of any state or any other law. In the event that the Shares under the Plan are not registered under the Act but an exemption is available which requires an investment representation or other representation, each Grantee shall be required to represent that such Shares are being acquired for investment, and not with a view to the sale or distribution thereof, and to make such other representations as are deemed necessary or appropriate by the Corporation and its counsel. Stock certificates evidencing Shares acquired under the Plan pursuant to an unregistered transaction shall bear the following restrictive legend (or similar legend in the discretion of the Administrator) and such other restrictive legends as are required or deemed advisable under the provisions of any applicable law:

“THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. THESE SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO DISTRIBUTION AND MAY NOT BE OFFERED FOR

SALE, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR SUCH SECURITIES UNDER THE SECURITIES ACT OF 1933 OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY IN FORM AND CONTENT TO THE ISSUER THAT SUCH REGISTRATION IS NOT REQUIRED UNDER SUCH ACT."

Any determination by the Corporation and its counsel in connection with any of the matters set forth in this Section shall be conclusive and binding on all persons.

(c) Registration or Qualification of Securities. The Corporation may, but shall not be obligated to, register or qualify the Grants pursuant to the Plan under the Act or any other applicable law. The Corporation shall not be obligated to take any affirmative action in order to cause the Grants under the Plan to comply with any law.

9. CODE SECTION 409A.

The Plan is intended to comply with Code Section 409A to the extent subject thereto, and, accordingly, to the maximum extent permitted, the Plan will be interpreted and administered to be in compliance with Code Section 409A. Notwithstanding any provision of the Plan to the contrary, to the extent required to avoid accelerated taxation and tax penalties under Code Section 409A, amounts that would otherwise be payable and benefits that would otherwise be provided pursuant to the Plan during the six (6)-month period immediately following the Grantee's "separation from service" will instead be paid on the first payroll date after the six (6)-month anniversary of the Grantee's "separation from service" (or the Grantee's death, if earlier).

10. AMENDMENT OF THE PLAN.

The Board may, from time to time, suspend or discontinue the Plan or revise or amend it in any respect whatsoever, provided that no amendment or revision shall adversely affect, without the affected Grantee's written consent, the rights under any then outstanding Grant under the Plan.

11. GOVERNING LAW.

The validity and construction of this Plan and Grants hereunder shall be governed by the laws of the State of California, other than any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan and the instruments evidencing the Awards granted hereunder to the substantive laws of any other jurisdiction.

12. APPROVAL OF STOCKHOLDERS.

The Plan was approved by the affirmative vote of the holders of a majority of the outstanding shares present or represented and entitled to vote at the 2015 annual meeting of stockholders of the Corporation.

13. EXECUTION.

After adoption and approval of the Plan, as amended, by the Board, the Corporation has caused its authorized officer to affix the corporate name and seal hereto effective as of July 23, 2019.

PS BUSINESS PARKS, INC,

By: ________________________________

Name: Maria R. Hawthorne

Title: President and Chief Executive Officer

Exhibit 10.25

PS BUSINESS PARKS, INC.
2012 EQUITY AND PERFORMANCE-BASED INCENTIVE COMPENSATION PLAN STOCK UNIT AGREEMENT

THIS STOCK UNIT AGREEMENT (the "Agreement") is made as of (the "Grant Date"), by and between PS Business Parks, Inc. (the "Company"), and (the "Grantee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Company's 2012 Equity and Performance-Based Incentive Compensation Plan (as amended from time to time, the "Plan").

WHEREAS, the Board of Directors of the Company has duly adopted, and the shareholders of the Company have duly approved, the Plan, which provides for the grant to Service Providers of Stock Units relating to common stock, par value $0.01 per share, of the Company (the "Stock"), which may be granted from time to time as the Committee so determines; and

WHEREAS, the Company has determined that it is desirable and in its best interests to grant to the Grantee, pursuant to the Plan, Stock Units relating to a certain number of shares of Stock as compensation for services rendered to the Company, and/or in order to provide the Grantee with an incentive to advance the interests of the Company, all according to the terms and conditions set forth herein.

NOW, **THEREFORE**, in consideration of the mutual benefits hereinafter provided, and each intending to be legally bound, the Company and the Grantee hereby agree as follows:

1. GRANT OF STOCK UNITS.

1.1 Units Granted.

Subject to the terms of the Plan (the terms of which are incorporated by reference herein), the Company hereby grants to the Grantee _ Stock Units, on the terms and subject to the conditions hereinafter set forth.

1.2 Separate Grants.

For purposes of vesting and the right to defer provided for in this Agreement, the portion of the Stock Units that vest on each separate vesting date pursuant to Section 2 shall be treated as a separate grant (a "Separate Grant"), and the Grantee may make a separate deferral election with respect to each Separate Grant.

2. VESTING OF STOCK UNITS.

2.1. Service Requirement.

Rights in respect of [ ]% of the number of Stock Units specified in Section 1 above shall vest on each of the first [ ] anniversary[ies] of the Grant Date [or insert vesting schedule], provided that the Grantee is in Service on the applicable vesting date. The period during which the Stock Units have not vested and therefore are subject to a substantial risk of forfeiture is referred to below as the "Restricted Period."

2.2. Restrictions on Transfer.

The Grantee may not sell, transfer, assign, pledge or otherwise encumber or dispose of the Stock Units.

2.3. Delivery of Shares.

When any shares are paid to the Grantee (either upon vesting pursuant to Section 2.1 or 4 or later delivery if Grantee defers payment pursuant to Section 3), the Company shall deliver to the Grantee a certificate or electronic confirmation of ownership, as applicable, for the number of shares of Stock represented by the Stock Units which have been delivered to Grantee. If the Grantee does not defer payment of a Separate Grant pursuant to Section 3,

such delivery shall occur no later than March 15th of the calendar year following the calendar year in which such Separate Grant vested. Upon the issuance of the shares, Grantee's payment of the aggregate par value of the shares delivered to Grantee will be deemed paid by Grantee's past services to the Company or its Affiliates.

3. RIGHT TO DEFER PAYMENT.

The Grantee may elect to defer the payment of the shares of Stock that would otherwise be paid upon the vesting of Stock Units granted hereunder on the following terms and conditions:

3.1 Election Form.

An election to defer shall be made on a form provided to the Grantee by the Company.

3.2 Election Requirements.

The Grantee may elect initially to defer the payment of the shares of Stock with respect to each Separate Grant of Stock Units either in advance of the Grant Date or within 30 days of the Grant Date, in each case in accordance with Section 409A of the Code and the related Treasury Regulations ("Section 409A"). The Grantee may elect subsequently to defer the payment of the shares of Stock with respect to each Separate Grant of Stock Units that has not vested on the following conditions:

(a) The election to defer is made not less than 12 months prior to the vesting date of the Separate Grant to which it relates;
(b) The deferral is for a period of not less than five (5) years from the original vesting date of such Separate Grant; and
(c) Such election does not go into effect for at least 12 months from the date of the election.

To the extent the foregoing conditions are satisfied, the issuance of the shares of Stock relating to vested Stock Units for a Separate Grant shall be made in accordance with Section 2.3 at the time and in accordance with the Grantee's deferral election.

3.3 Specified Employee and Separation from Service.

If the Grantee is a "specified employee" (as defined in Section 409A) and the Grantee's deferral election calls for the payment to be made on a "separation from service" (as defined in Section 409A), payment to the specified employee may not be made before the date that is six months after the date of the Grantee's separation from service from the Company or its Affiliates (or, if earlier, the date of the Grantee's death).

3.4 Acceleration.

The issuance of the shares of Stock for deferred Separate Grants shall be accelerated upon the Grantee's death and upon the Grantee's "disability" or a "change in control" of the Company (as such terms are defined in Section 409A) and may be accelerated by the Grantee in the event of an "unforeseeable emergency" (as defined in Section 409A) experienced by the Grantee to the extent payment of the shares of Stock is needed to satisfy the emergency.

4. TERMINATION OF SERVICE.

Upon the termination of the Grantee's Service other than by reason of death or Disability, any Stock Units held by the Grantee that have not vested shall terminate immediately, and the Grantee shall forfeit any rights with respect to such Stock Units. (Stock Units that have vested and for which a deferral election has been made will continue to be outstanding in accordance with the terms of this Agreement.) If the Grantee's Service is terminated because of his or her death or Disability, all Stock Units granted to Grantee pursuant to this Agreement that have not previously vested shall immediately become vested.

5. DIVIDEND AND VOTING RIGHTS.

The Grantee shall have none of the rights of a shareholder with respect to the Stock Units. Notwithstanding the foregoing, the Grantee shall be entitled to receive, upon the Company's payment of a cash dividend on its outstanding shares of Stock, a cash payment for each Stock Unit held as of the record date for such dividend equal to the per-share dividend paid on the shares of Stock, which cash payment shall be made at the same time as the Company's payment of a cash dividend on its outstanding shares of Stock.

6. WITHHOLDING OF TAXES.

The Company and any Affiliates shall have the right to deduct from payments of any kind otherwise due to the Grantee any federal, state, or local taxes of any kind required by law to be withheld with respect to the termination of the Restricted Period or the issuance of shares with respect to the Stock Units. At the termination of the Restricted Period and/or the issuance of shares, the Grantee shall pay to the Company any amount that the Company may reasonably determine to be necessary to satisfy such withholding obligation. The Grantee acknowledges that at the termination of the Restricted Period with respect to Stock Units for which a deferral election has been made pursuant to Section 3, the Grantee will be obligated to pay at that time applicable FICA and Medicare taxes, even though federal and state income taxes may be postponed until the deferral period ends. Subject to the prior approval of the Company, which may be withheld by the Company in its sole discretion, the Grantee may elect to satisfy such obligations, in whole or in part, (i) by causing the Company to withhold shares of Stock otherwise deliverable or (ii) by delivering to the Company shares of Stock already owned by the Grantee. The shares of Stock so delivered or withheld shall have a Fair Market Value equal to such withholding obligations. The Fair Market Value of the shares of Stock used to satisfy such withholding obligation shall be determined by the Company as of the date that the amount of tax to be withheld is to be determined. A Grantee who has made an election pursuant to this Section 6 may satisfy his or her withholding obligation only with shares of Stock that are not subject to any repurchase, forfeiture, unfulfilled vesting, or other similar requirements.

7. DISCLAIMER OF RIGHTS.

No provision of this Agreement shall be construed to confer upon the Grantee the right to continue in Service, or to interfere in any way with the right and authority of the Company or any Affiliate either to increase or decrease the compensation of the Grantee at any time, or to terminate the Grantee's Service.

8. DATA PRIVACY.

To administer the Plan, the Company may process personal data about the Grantee. Such data includes, but is not limited to, the information provided in this Agreement and any changes thereto, other appropriate personal and financial data about the Grantee such as home address and business addresses and other contact information, and any other information that might be deemed appropriate by the Company to facilitate the administration of the Plan. By accepting this grant, the Grantee hereby gives express consent to the Company to process any such personal data. Grantee also gives express consent to the Company to transfer any such personal data outside the country in which Grantee works, including, with respect to non-U.S. resident Grantees, to the United States, to transferees who will include the Company and other persons who are designated by the Company to administer the Plan.

9. CONSENT TO ELECTRONIC DELIVERY OF MATERIALS.

The Company may choose to deliver certain statutory materials relating to the Plan in electronic form. By accepting this grant, Grantee agrees that the Company may deliver the Plan prospectus and any annual reports to Grantee in an electronic format. If at any time Grantee would prefer to receive paper copies of these documents, as Grantee is entitled to, the Company would be pleased to provide copies. Grantee will contact the Company's Legal Department to request paper copies of these documents.

10. INTERPRETATION OF THE AGREEMENT.

All decisions and interpretations made by the Committee with regard to any question arising under the Plan or this Agreement shall be binding and conclusive on the Company and the Grantee and any other person. In the event that there is any inconsistency between the provisions of this Agreement and of the Plan, the provisions of the Plan shall govern.

The grant of Stock Units under this Agreement is intended to comply with Section 409A to the extent subject thereto, and, accordingly, to the maximum extent permitted, this Agreement will be interpreted and administered to be in compliance with Section 409A. The Company, however, will have no liability to the Grantee if Section 409A is determined to apply and adversely affects Grantee.

Payment under this Agreement may not be accelerated upon a Change in Control under the Plan, unless such Change in Control is also a “change in control” (as defined in Section 409A) or unless otherwise permitted by Section 409A. Upon a Change in Control under the Plan that is not a “change in control” (as defined in Section 409A), payment shall be made on the next payment date permitted by Section 409A.

11. GOVERNING LAW.

Except to the extent governed by provisions of the Code, this Agreement shall be governed by the laws of the State of California (but not including the choice of law rules thereof).

12. BINDING EFFECT.

Subject to all restrictions provided for in this Agreement and by applicable law, this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, executors, administrators, successors, transferees and assigns.

13. CLAWBACK.

The Stock Units shall be subject to mandatory repayment by the Grantee to the Company to the extent the Grantee is, or in the future becomes, subject to (i) any Company “clawback” or recoupment policy that is adopted to comply with the requirements of any applicable laws, or (ii) any applicable laws which impose mandatory recoupment, under circumstances set forth in such applicable laws.

14. ENTIRE AGREEMENT.

This Agreement, the deferral elections made under Section 3 (if any), and the Plan constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. Neither this Agreement nor any term hereof may be amended, waived, discharged or terminated except by a written instrument signed by the Company and the Grantee; provided, however, that the Company unilaterally may waive any provision hereof in writing to the extent that such waiver does not adversely affect the interests of the Grantee hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

GRANTEE:	**PS BUSINESS PARKS, INC.**
______________________________	______________________________
Name:	**Name:** **Title:**

Exhibit 21

List of Subsidiaries

The following sets forth the subsidiaries of the Registrant and their respective states of incorporation or organization:

Name	State
Amherst JV LLC	Delaware
Amherst Property, LLC	Delaware
American Office Park Properties, TPGP, Inc.	California
AOPP Acquisition Corp. Two	California
Arapaho Investors, LLC	Delaware
Brentford JV, LLC	Delaware
Brentford Property, LLC	Delaware
Charlton JV, LLC	Delaware
Charlton Property, LLC	Delaware
GB, LLC	Maryland
Hernmore Corporation	Maryland
KF Amherst LLC	Virginia
Metro Park I, LLC	Delaware
Metro Park II, LLC	Delaware
Metro Park III, LLC	Delaware
Metro Park IV, LLC	Delaware
Metro Park V, LLC	Delaware
Miami International Commerce Center Association, Inc.	Florida
PS Business Parks, L.P.	California
PS Metro Park, LLC	Maryland
PSB Amherst Investors, L.L.C.	Delaware
PSB Amherst L.L.C.	Delaware
PSB Amherst Finance LLC	Delaware
PSB Boca Commerce Park, LLC	Delaware
PSB Brentford, LLC	Delaware
PSB Charlton, LLC	Delaware
PSB Hathaway I & II LLC	Delaware
PSB Meadows LLC	Delaware
PSB Meadows Member LLC	Delaware
PSB MICC 2323 LLC	Delaware
PSB Northern California Industrial Portfolio, LLC	Delaware
PSB San Tomas BC, LLC	California
PSB Shady Grove LLC	Maryland
PSB Walnut BP, LLC	California
PSB Wellington Commerce Park I, LLC	Delaware
PSB Wellington Commerce Park II, LLC	Delaware
PSB Wellington Commerce Park III, LLC	Delaware
PSBP Industrial, LLC	Delaware
PSBP Northpointe D LLC	Virginia
PSBP QRS, Inc.	California
PSBP Springing Member LLC	Delaware
PSBP Westwood GP, LLC	Delaware
REVX-098, LLC	Delaware
Tenant Advantage, Inc.	California
The Mile, LLC	Delaware

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-8 No. 333-48313) of PS Business Parks, Inc. pertaining to the PS Business Parks, Inc. 1997 Stock Option and Incentive Plan,

(2) Registration Statement (Form S-8 No. 333-50274) of PS Business Parks, Inc. pertaining to the PS 401(k)/Profit Sharing Plan,

(3) Registration Statement (Form S-8 No. 333-104604) of PS Business Parks, Inc. pertaining to the PS Business Parks, Inc. 2003 Stock Option and Incentive Plan,

(4) Registration Statement (Form S-8 No. 333-129463) of PS Business Parks, Inc. pertaining to the PS Business Parks, Inc. Retirement Plan for Non-Employee Directors,

(5) Registration Statement (Form S-8 No. 333-184316) of PS Business Parks, Inc. pertaining to the PS Business Parks, Inc. 2012 Equity and Performance-Based Incentive Compensation Plan,

(6) Registration Statement (Form S-8 No. 333-203771) of PS Business Parks, Inc. pertaining to the PS Business Parks, Inc. Retirement Plan for Non-Employee Directors, and

(7) Registration Statement (Form S-3ASR No. 333-223450) and related Prospectus of PS Business Parks, Inc.;

of our reports dated February 19, 2020 with respect to the consolidated financial statements and schedule of PS Business Parks, Inc., and the effectiveness of internal control over financial reporting of PS Business Parks, Inc., included in this Annual Report (Form 10-K) of PS Business Parks, Inc. for the year ended December 31, 2019.

/s/ Ernst & Young, LLP

Los Angeles, California
February 19, 2020

Exhibit 31.1

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

I, Maria R. Hawthorne, certify that:

1. I have reviewed this annual report on Form 10-K of PS Business Parks, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed underour supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this reportour conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Maria R. Hawthorne
Name: Maria R. Hawthorne
Title: Chief Executive Officer
Date: February 19, 2020

Exhibit 31.2

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

I, Jeffrey D. Hedges, certify that:

1. I have reviewed this annual report on Form 10-K of PS Business Parks, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Jeffrey D. Hedges
Name: Jeffrey D. Hedges
Title: Chief Financial Officer
Date: February 19, 2020

Certification of CEO and CFO Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report on Form 10-K of PS Business Parks, Inc. (the "Company") for theperiod ending December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Maria R. Hawthorne, as Chief Executive Officer of the Company, and Jeffrey D. Hedges, as Chief Financial Officer of the Company, each hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to their knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Maria R. Hawthorne
Name: Maria R. Hawthorne
Title: Chief Executive Officer
Date: February 19, 2020

/s/ Jeffrey D. Hedges
Name: Jeffrey D. Hedges
Title: Chief Financial Officer
Date: February 19, 2020