

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

FORM 10-Q

- Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2020
- Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from _____ to _____

Commission File Number 1-10709

PS BUSINESS PARKS, INC.

(Exact name of registrant as specified in its charter)

California
(State or Other Jurisdiction
of Incorporation)

95-4300881
(I.R.S. Employer
Identification Number)

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

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

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

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
Depository Shares Each Representing 1/1,000 of a 5.200% Cum Pref Stock, Series W, \$0.01 par value	PSBPrW	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 5.250% Cum Pref Stock, Series X, \$0.01 par value	PSBPrX	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 5.200% Cum Pref Stock, Series Y, \$0.01 par value	PSBPrY	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 4.875% Cum Pref Stock, Series Z, \$0.01 par value	PSBPrZ	New York Stock Exchange

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 definition 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 October 26, 2020, the number of shares of the registrant's common stock, \$0.01 par value per share, outstanding was 27,488,547.

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PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS**

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

	September 30, 2020 (Unaudited)	December 31, 2019
ASSETS		
Cash and cash equivalents	\$ 117,881	\$ 62,786
Real estate facilities, at cost		
Land	855,542	844,419
Buildings and improvements	2,213,798	2,203,308
	3,069,340	3,047,727
Accumulated depreciation	(1,210,473)	(1,158,489)
	1,858,867	1,889,238
Properties held for sale, net	—	15,264
Land and building held for development, net	35,506	28,110
	1,894,373	1,932,612
Rent receivable	1,790	1,392
Deferred rent receivable	37,361	32,993
Other assets	13,348	16,660
Total assets	<u>\$ 2,064,753</u>	<u>\$ 2,046,443</u>
LIABILITIES AND EQUITY		
Accrued and other liabilities	\$ 87,808	\$ 84,632
Total liabilities	87,808	84,632
Commitments and contingencies		
Equity		
PS Business Parks, Inc.'s shareholders' equity		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized, 37,790 shares issued and outstanding at (\$944,750 aggregate liquidation preference) September 30, 2020 and December 31, 2019	944,750	944,750
Common stock, \$0.01 par value, 100,000,000 shares authorized, 27,486,788 and 27,440,953 shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively	274	274
Paid-in capital	737,065	736,986
Accumulated earnings	75,393	63,666
Total PS Business Parks, Inc.'s shareholders' equity	1,757,482	1,745,676
Noncontrolling interests	219,463	216,135
Total equity	1,976,945	1,961,811
Total liabilities and equity	<u>\$ 2,064,753</u>	<u>\$ 2,046,443</u>

See accompanying notes.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
Rental income	\$ 103,760	\$ 108,064	\$ 310,535	\$ 323,671
Expenses				
Cost of operations	32,096	32,468	93,490	97,521
Depreciation and amortization	23,064	26,220	72,646	75,863
General and administrative	5,047	4,051	11,374	10,111
Total operating expenses	<u>60,207</u>	<u>62,739</u>	<u>177,510</u>	<u>183,495</u>
Interest and other income	230	1,384	1,012	2,766
Interest and other expense	(536)	(199)	(900)	(484)
Gain on sale of real estate facilities	7,652	—	27,273	—
Net income	50,899	46,510	160,410	142,458
Allocation to noncontrolling interests	(8,124)	(7,020)	(26,011)	(21,670)
Net income allocable to PS Business Parks, Inc.	42,775	39,490	134,399	120,788
Allocation to preferred shareholders	(12,046)	(12,959)	(36,139)	(38,877)
Allocation to restricted stock unit holders	(149)	(219)	(543)	(699)
Net income allocable to common shareholders	<u>\$ 30,580</u>	<u>\$ 26,312</u>	<u>\$ 97,717</u>	<u>\$ 81,212</u>
Net income per common share				
Basic	\$ 1.11	\$ 0.96	\$ 3.56	\$ 2.96
Diluted	\$ 1.11	\$ 0.96	\$ 3.55	\$ 2.95
Weighted average common shares outstanding				
Basic	27,483	27,432	27,470	27,411
Diluted	27,565	27,543	27,560	27,512

See accompanying notes.

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

For the three months ended	Preferred Stock		Common Stock		Paid-in Capital	Accumulated Earnings	Total PS Business Parks, Inc.'s Shareholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Amount	Shares	Amount					
September 30, 2020									
Balances at June 30, 2020	37,790	\$ 944,750	27,481,486	\$ 274	\$ 735,129	\$ 73,524	\$ 1,753,677	\$ 218,618	\$ 1,972,295
Issuance of common stock in connection with stock-based compensation	—	—	5,302	—	—	—	—	—	—
Stock compensation, net	—	—	—	—	2,378	—	2,378	—	2,378
Cash paid for taxes in lieu of shares upon vesting of restricted stock units	—	—	—	—	(442)	—	(442)	—	(442)
Capital contribution to joint venture	—	—	—	—	—	—	—	438	438
Net income	—	—	—	—	—	42,775	42,775	8,124	50,899
Distributions									
Preferred stock (Note 9)	—	—	—	—	—	(12,046)	(12,046)	—	(12,046)
Common stock (\$1.05 per share)	—	—	—	—	—	(28,860)	(28,860)	—	(28,860)
Noncontrolling interests—									
Common Units	—	—	—	—	—	—	—	(7,671)	(7,671)
Joint venture	—	—	—	—	—	—	—	(46)	(46)
Balances at September 30, 2020	<u>37,790</u>	<u>\$ 944,750</u>	<u>27,486,788</u>	<u>\$ 274</u>	<u>\$ 737,065</u>	<u>\$ 75,393</u>	<u>\$ 1,757,482</u>	<u>\$ 219,463</u>	<u>\$ 1,976,945</u>
September 30, 2019									
Balances at June 30, 2019	38,390	\$ 959,750	27,429,756	\$ 274	\$ 733,777	\$ 67,049	\$ 1,760,850	\$ 216,327	\$ 1,977,177
Issuance of common stock in connection with stock-based compensation	—	—	5,383	—	—	—	—	—	—
Stock compensation, net	—	—	—	—	1,883	—	1,883	—	1,883
Cash paid for taxes in lieu of shares upon vesting of restricted stock units	—	—	—	—	(620)	—	(620)	—	(620)
Net income	—	—	—	—	—	39,490	39,490	7,020	46,510
Distributions									
Preferred stock (Note 9)	—	—	—	—	—	(12,959)	(12,959)	—	(12,959)
Common stock (\$1.05 per share)	—	—	—	—	—	(28,805)	(28,805)	—	(28,805)
Noncontrolling interests—									
Common Units	—	—	—	—	—	—	—	(7,671)	(7,671)
Joint venture	—	—	—	—	—	—	—	(33)	(33)
Adjustment to noncontrolling interests— common units in the OP	—	—	—	—	(280)	—	(280)	280	—
Balances at September 30, 2019	<u>38,390</u>	<u>\$ 959,750</u>	<u>27,435,139</u>	<u>\$ 274</u>	<u>\$ 734,760</u>	<u>\$ 64,775</u>	<u>\$ 1,759,559</u>	<u>\$ 215,923</u>	<u>\$ 1,975,482</u>

See accompanying notes.

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

For the nine months ended September 30, 2020	Preferred Stock		Common Stock		Paid-in Capital	Accumulated Earnings	Total PS Business Parks, Inc.'s Shareholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Amount	Shares	Amount					
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
Issuance of common stock in connection with stock-based compensation	—	—	45,835	—	259	—	259	—	259
Stock compensation, net	—	—	—	—	3,922	—	3,922	—	3,922
Cash paid for taxes in lieu of shares upon vesting of restricted stock units	—	—	—	—	(4,102)	—	(4,102)	—	(4,102)
Capital contribution to joint venture	—	—	—	—	—	—	—	438	438
Net income	—	—	—	—	—	134,399	134,399	26,011	160,410
Distributions									
Preferred stock (Note 9)	—	—	—	—	—	(36,139)	(36,139)	—	(36,139)
Common stock (\$3.15 per share)	—	—	—	—	—	(86,533)	(86,533)	—	(86,533)
Noncontrolling interests—									
Common Units	—	—	—	—	—	—	—	(23,012)	(23,012)
Joint venture	—	—	—	—	—	—	—	(109)	(109)
Balances at September 30, 2020	<u>37,790</u>	<u>\$ 944,750</u>	<u>27,486,788</u>	<u>\$ 274</u>	<u>\$ 737,065</u>	<u>\$ 75,393</u>	<u>\$ 1,757,482</u>	<u>\$ 219,463</u>	<u>\$ 1,976,945</u>
For the nine months ended September 30, 2019									
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 common stock in connection with stock-based compensation	—	—	73,038	—	709	—	709	—	709
Stock compensation, net	—	—	—	—	3,292	—	3,292	—	3,292
Cash paid for taxes in lieu of shares upon vesting of restricted stock units	—	—	—	—	(6,120)	—	(6,120)	—	(6,120)
Net income	—	—	—	—	—	120,788	120,788	21,670	142,458
Distributions									
Preferred stock (Note 9)	—	—	—	—	—	(38,877)	(38,877)	—	(38,877)
Common stock (\$3.15 per share)	—	—	—	—	—	(86,343)	(86,343)	—	(86,343)
Noncontrolling interests—									
Common Units	—	—	—	—	—	—	—	(23,012)	(23,012)
Joint venture	—	—	—	—	—	—	—	(78)	(78)
Adjustment to noncontrolling interests— common units in the OP	—	—	—	—	748	—	748	(748)	—
Balances at September 30, 2019	<u>38,390</u>	<u>\$ 959,750</u>	<u>27,435,139</u>	<u>\$ 274</u>	<u>\$ 734,760</u>	<u>\$ 64,775</u>	<u>\$ 1,759,559</u>	<u>\$ 215,923</u>	<u>\$ 1,975,482</u>

See accompanying notes.

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

	For the Nine Months Ended September 30,	
	2020	2019
Cash flows from operating activities		
Net income	\$ 160,410	\$ 142,458
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization expense	72,646	75,863
Tenant improvement reimbursement amortization, net of lease incentive amortization	(493)	(788)
Gain on sale of real estate facilities	(27,273)	—
Stock compensation expense	4,391	3,991
Amortization of financing costs	410	410
Other, net	1,466	(1,071)
Total adjustments	51,147	78,405
Net cash provided by operating activities	211,557	220,863
Cash flows from investing activities		
Capital expenditures to real estate facilities	(23,189)	(26,272)
Capital expenditures to land and building held for development	(10,602)	(2,873)
Acquisition of real estate facilities	(13,423)	(117,691)
Proceeds from sale of real estate facilities	40,674	—
Net cash used in investing activities	(6,540)	(146,836)
Cash flows from financing activities		
Borrowings on credit facility	—	70,000
Repayment of borrowings on credit facility	—	(20,000)
Payment of financing costs	(255)	(237)
Proceeds from the exercise of stock options	259	709
Cash paid for taxes in lieu of shares upon vesting of restricted stock units	(4,102)	(6,120)
Cash paid to restricted stock unit holders	(469)	(699)
Capital contribution to joint venture	438	—
Distributions paid to preferred shareholders	(36,139)	(38,877)
Distributions paid to common shareholders	(86,533)	(86,343)
Distributions paid to noncontrolling interests—common units	(23,012)	(23,012)
Distributions paid to noncontrolling interests—joint venture	(109)	(78)
Net cash used in financing activities	(149,922)	(104,657)
Net increase (decrease) in cash and cash equivalents	55,095	(30,630)
Cash, cash equivalents and restricted cash at the beginning of the period	63,874	38,467
Cash, cash equivalents and restricted cash at the end of the period	\$ 118,969	\$ 7,837
Supplemental schedule of non-cash investing and financing activities		
Adjustment to noncontrolling interests—common units in the OP		
Noncontrolling interests—common units	\$ —	\$ (748)
Paid-in capital	\$ —	\$ 748

See accompanying notes.

PS BUSINESS PARKS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2020

1. Organization and description of business

Organization

PS Business Parks, Inc. (“PSB”) was incorporated in the state of California in 1990. As of September 30, 2020, 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 ventures, 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 September 30, 2020, the Company owned and operated 27.5 million rentable square feet of commercial space in six states, comprised of 97 parks and 672 buildings. The Company also held a 95.0% interest in a joint venture entity which owns Highgate at The Mile, a 395-unit multifamily apartment complex located in Tysons, Virginia, and a 98.2% interest in a joint venture formed to develop Brentford at The Mile, a planned 411-unit multifamily apartment complex also located in Tysons, Virginia. The Company also manages for a fee approximately 0.4 million rentable square feet on behalf of PS.

2. Summary of significant accounting policies

Basis of presentation

The accompanying unaudited 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”) for interim financial information, instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for audited financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2020 are not necessarily indicative of the results that may be expected for the year ended December 31, 2020. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019.

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. We consolidate

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the joint venture that owns Highgate at The Mile and the joint venture that is developing Brentford at The Mile. See Note 3 and 4 for more information relating to these joint venture arrangements.

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, (ii) a third-party 5.0% interest in our consolidated joint venture that owns Highgate at The Mile, a 395-unit multifamily apartment complex, and (iii) a 1.8% interest in our consolidated joint venture formed to develop Brentford at The Mile, a planned 411-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:

- ① *Level 1*—quoted prices for identical instruments in active markets;
- ② *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
- ③ *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.

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.

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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 (*in thousands*):

	December 31,	
	2019	2018
Consolidated balance sheets		
Cash and cash equivalents	\$ 62,786	\$ 37,379
Restricted cash included in		
Land and building held for development, net	1,088	1,088
Cash and cash equivalents and restricted cash at the end of the period	<u>\$ 63,874</u>	<u>\$ 38,467</u>
	September 30,	
	2020	2019
Consolidated balance sheets		
Cash and cash equivalents	\$ 117,881	\$ 6,749
Restricted cash included in		
Land and building held for development, net	1,088	1,088
Cash and cash equivalents and restricted cash at the end of the period	<u>\$ 118,969</u>	<u>\$ 7,837</u>

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 or subject to an eminent domain process and we expect that a sale or taking 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 it will be developed to an alternate use. Property held for sale is not depreciated.

Intangible assets/liabilities

When we acquire real estate facilities, an intangible asset is recorded in other assets for leases where the in-place rent is higher than market rents, and an intangible liability is recorded in 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 September 30, 2020, the value of above-market in-place rents resulted in net intangible assets of \$0.8 million, net of \$10.9 million of accumulated amortization and the value of below-market in-place rents resulted in net intangible liabilities of \$1.8 million, net of \$12.0 million of accumulated amortization. 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.

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Additionally, when we acquire real estate facilities, the value of in-place leases (i.e., customer lease-up costs) is recorded in other assets and is amortized to depreciation and amortization expense over the respective remaining lease term. As of September 30, 2020, the value of acquired in-place leases resulted in net intangible assets of \$3.5 million, net of \$6.5 million of accumulated amortization. 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 September 30, 2020, the value of our right-of-use (“ROU”) assets relating to our existing ground lease arrangements and the related liability, included in “other assets” on our consolidated balance sheets and the corresponding liability under “accrued and other liabilities,” was \$1.5 million, net of \$0.2 million of accumulated amortization. As of December 31, 2019, the value of our ROU assets and related liability relating to our ground lease arrangements was \$1.6 million, net of \$0.1 million of accumulated amortization. These ground leases expire in 2029 and 2030 and do not have options to extend. As of September 30, 2020, the remaining lease terms were 9.0 years and 9.3 years. Lease expense for these ground leases is recognized in the period the applicable costs are incurred, and the monthly lease amount for these operating leases is constant and without contractual increases throughout the remaining terms.

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.

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 11.

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.

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

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

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, as a reduction to rental income in the period such balances are no longer probable of being collected. Therefore, recognition of rental income is limited to the amount of cash collected for those customer receivable balances deemed uncollectible. The Company wrote-off accounts receivable and deferred rent receivable of \$0.3 million and \$0.3 million, respectively, for the three months ended September 30, 2020, and \$1.5 million and \$2.7 million, respectively, for the nine months ended September 30, 2020.

The Company recognized revenue from our lease arrangements aggregating to \$103.8 million and \$108.1 million for the three months ended September 30, 2020 and 2019, respectively, and \$310.5 million and \$323.7 million for the nine months ended September 30, 2020 and 2019, respectively. This revenue consisted primarily of rental income from operating leases and the related variable lease payments resulting from reimbursements of property operating expenses. Base rental income was \$79.4 million and \$84.1 million for the three months ended September 30, 2020 and 2019, respectively, and \$238.3 million and \$250.7 million for the nine months ended September 30, 2020 and 2019, respectively. Variable lease payments were \$24.4 million and \$24.0 million for the three months ended September 30, 2020 and 2019, respectively, and \$72.2 million and \$73.0 million for the nine months ended September 30, 2020 and 2019, respectively.

In April 2020, the Financial Accounting Standard Board issued a Staff Question-and-Answer ("Lease Modification Q&A") to respond to frequently asked questions about accounting for lease concessions related to the novel coronavirus ("COVID-19") pandemic. Under existing lease guidance, an entity would have to determine, on a lease by lease basis, if a lease concession contained a lease which would be accounted for under the lease modification framework, or if a lease concession was an enforceable right or obligation that existed in the original lease, which would be accounted for outside the lease modification framework. The Lease Modification Q&A provides that, to the extent that cash flow after the lease concessions are substantially the same, or less than, the cash flow previously required by the existing lease, an entity is not required to evaluate each contract to determine whether a concession provided by a lessor to a lessee in response to the COVID-19 pandemic is a lease modification. Instead, an entity can account for such lease concessions either (i) as if they were part of the enforceable rights and obligations of the parties under the existing lease contract; or (ii) as a lease modification. Based on the Lease Modification Q&A, an entity is not required to account for all lease concessions in response to the COVID-19 pandemic under one elected option; however, the entity is required to apply the elected option consistently to leases with similar characteristics and in similar circumstances.

In accordance with the Lease Modification Q&A, the Company has elected to account for lease concessions in response to the COVID-19 pandemic as a lease modification as the cash flow after these lease concessions is substantially the same, or less than, the cash flow previously required by the existing lease. The Company records rent deferrals and abatements in deferred rent receivable in the accompanying consolidated balance sheets and will recognize these amounts over the remainder of the respective lease terms. For lease concessions in response to the COVID-19 pandemic that modified the terms and substantially changed the underlying cash flow of the existing lease for the remaining term, the Company accounts for such concession as a lease modification.

As a result of the COVID-19 pandemic, through the nine months ended September 30, 2020 the Company entered into rent relief agreements with 388 customers (representing 11.0% of total customers based on rental income). The Company agreed to defer \$1.7 million and abate \$0.3 million of billed rental income during the three months ended September 30, 2020, and defer \$5.5 million and abate \$1.2 million of billed rental income during the nine months ended September 30, 2020. As of October 26, 2020, of the \$5.5 million of COVID-19 related rent deferrals, the Company collected \$1.3 million, or 98.3%, of scheduled repayments billed through September 30, 2020. The duration and severity of the effects of the COVID-19 pandemic on the economy are uncertain and are likely to directly impact collectability of certain customers rent receivable balances in the future. The Company has taken into account the current financial condition of its tenants, including consideration of COVID-19 impacts, in its estimation of its

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uncollectible accounts and deferred rents receivable at September 30, 2020. The Company is closely monitoring the collectability of such rents and will adjust future estimations as further information is known.

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, 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 September 30, 2020 and December 31, 2019, we did not recognize any tax benefit for uncertain tax positions.

Accounting for preferred equity issuance costs

We record preferred equity 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, with such liabilities 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, (c) our joint venture partner in proportion to their percentage interest in the joint ventures, to the extent the consolidated joint ventures produce 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 (see Note 11) using the treasury stock method.

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The following table sets forth the components of our basic and diluted net 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 (*in thousands*):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
Calculation of net income allocable to common shareholders				
Net income	\$ 50,899	\$ 46,510	\$ 160,410	\$ 142,458
Net (income) loss allocated to				
Preferred shareholders based upon distributions	(12,046)	(12,959)	(36,139)	(38,877)
Noncontrolling interests—joint venture	4	(14)	(26)	(27)
Restricted stock unit holders	(149)	(219)	(543)	(699)
Net income allocable to common shareholders and noncontrolling interests—common units	38,708	33,318	123,702	102,855
Net income allocation to noncontrolling interests— common units	(8,128)	(7,006)	(25,985)	(21,643)
Net income allocable to common shareholders	<u>\$ 30,580</u>	<u>\$ 26,312</u>	<u>\$ 97,717</u>	<u>\$ 81,212</u>
Calculation of common partnership units as a percentage of common share equivalents				
Weighted average common shares outstanding	27,483	27,432	27,470	27,411
Weighted average common partnership units outstanding	7,305	7,305	7,305	7,305
Total common share equivalents	<u>34,788</u>	<u>34,737</u>	<u>34,775</u>	<u>34,716</u>
Common partnership units as a percentage of common share equivalents	21.0%	21.0%	21.0%	21.0%
Weighted average common shares outstanding				
Basic weighted average common shares outstanding	27,483	27,432	27,470	27,411
Net effect of dilutive stock compensation—based on treasury stock method using average market price	82	111	90	101
Diluted weighted average common shares outstanding	<u>27,565</u>	<u>27,543</u>	<u>27,560</u>	<u>27,512</u>

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

Certain reclassifications have been made to the consolidated financial statements for 2019 in order to conform to the 2020 presentation, including reclassifying assets held for sale during 2020 from “real estate facilities, at cost” totaling \$3.8 million as of December 31, 2019 into “properties held for sale, net” on our consolidated balance sheets.

3. Real estate facilities

The activity in real estate facilities for the nine months ended September 30, 2020 was as follows (in thousands):

	Land	Buildings and Improvements	Accumulated Depreciation	Total
Balances at December 31, 2019 ⁽¹⁾	\$ 844,419	\$ 2,203,308	\$ (1,158,489)	\$ 1,889,238
Acquisition of real estate facility	11,123	2,153	—	13,276
Capital expenditures	—	23,358	—	23,358
Disposals ⁽²⁾	—	(15,005)	15,005	—
Depreciation and amortization expense	—	—	(67,035)	(67,035)
Transfer to properties held for sale	—	(16)	46	30
Balances at September 30, 2020	<u>\$ 855,542</u>	<u>\$ 2,213,798</u>	<u>\$ (1,210,473)</u>	<u>\$ 1,858,867</u>

⁽¹⁾ Land, building and improvements, and accumulated depreciation, respectively, totaling \$2.2 million, \$2.8 million, and \$1.2 million were reclassified as of December 31, 2019 to “properties held for sale, net,” representing two industrial buildings totaling 40,000 square feet located in Redmond, Washington, which were subject to an eminent domain process.

⁽²⁾ Disposals primarily represent the book value of tenant improvements that have been removed upon the customer vacating their space.

We have a 95.0% interest in a joint venture that owns Highgate at The Mile, a 395-unit multifamily apartment complex on a five-acre site within the Company’s 44.5 acre office and multifamily park located in Tysons, Virginia (“The Mile”). An unrelated real estate development company (the “JV Partner”) holds the remaining 5.0%. We consolidate the joint venture that owns Highgate at The Mile and as such, the consolidated real estate assets and activities related to this joint venture are included in the table above.

As of September 30, 2020, we have commitments, pursuant to executed leases throughout our portfolio, to spend \$11.2 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.

On January 10, 2020, 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 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.

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The following table summarizes the assets acquired and liabilities assumed for the nine months ended September 30, *(in thousands)*:

	2020	2019
Land	\$ 11,123	\$ 75,160
Buildings and improvements	2,153	40,765
Accrued and other liabilities (below-market in-place rents)	—	(1,142)
Other assets (in-place lease value)	237	3,371
Total purchase price	13,513	118,154
Net operating assets acquired and liabilities assumed	(90)	(463)
Total cash paid	\$ 13,423	\$ 117,691

As of September 30, 2020, the Company was in the process of developing an approximately 83,000 square feet small-bay industrial building at its Freeport Business Park in Irving, Texas. As of September 30, 2020, \$6.1 million of the estimated \$8.1 million total development costs had been incurred and was reflected under land and building held for development, net on our consolidated balance sheets. This construction project is scheduled to be completed in the fourth quarter of 2020.

Properties Sold and Held for Sale

On September 16, 2020, the Company sold two industrial buildings totaling 40,000 square feet located in Redmond, Washington, which were subject to an eminent domain process for net proceeds of \$11.4 million and resulted in a gain of \$7.7 million. During 2020, the Company reclassified these two buildings as properties held for sale, net, in the consolidated balance sheet as of December 31, 2019.

On January 7, 2020, the Company sold a 113,000 square foot office building located at Metro Park North in Montgomery County, Maryland, for net sale proceeds of \$29.3 million, which resulted in a gain of \$19.6 million. The Company determined that the sale did not meet the criteria for discontinued operations presentation, as the sale 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 asset is separately presented as held for sale in the consolidated balance sheet as of December 31, 2019.

4. Multifamily developmental activity

In August 2020, the Company entered into a new joint venture agreement with the JV Partner for the purpose of developing Brentford at The Mile, a planned 411-unit multifamily apartment complex (the "Brentford Joint Venture"). Under the Brentford Joint Venture agreement, the Company has a 98.2% controlling interest and is the managing member with the JV Partner holding the remaining 1.8% limited partnership interest. We contributed a parcel of land to the Brentford Joint Venture (the "Brentford Parcel") at a value of \$18.5 million, for which we received equity contribution credit in the Brentford Joint Venture. Our cost basis in the Brentford Parcel was \$5.4 million as of September 30, 2020.

Construction of Brentford at The Mile commenced in August 2020 and is anticipated to be completed over a period of 24 to 36 months at an estimated development cost of \$110 million to \$115 million, excluding land cost. As of September 30, 2020, the development cost incurred was \$5.5 million, inclusive of our \$5.4 million cost basis in the Brentford Parcel, which is reflected in land and building held for development, net on our consolidated balance sheets. During the three months ended September 30, 2020, the Company also recorded non-capitalizable demolition costs of \$0.3 million in interest and other expense on our consolidated statements of income.

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, as of September 30, 2020 is as follows (*in thousands*):

Remainder of 2020	\$	77,067
2021		275,894
2022		203,546
2023		143,242
2024		97,952
Thereafter		167,260
Total	\$	<u>964,961</u>

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 \$24.4 million and \$24.0 million for the three months ended September 30, 2020 and 2019, respectively, and \$72.2 million and \$73.0 million for the nine months ended September 30, 2020 and 2019, respectively. These variable lease payment amounts are included as rental income in the accompanying consolidated statements of income.

Leases accounting for 3.0% of total leased square footage are subject to termination options, and 1.7% of total leased square footage have termination options exercisable through December 31, 2020. 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 term 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 zero balance outstanding on our Credit Facility at September 30, 2020 and December 31, 2019. The Company had \$0.3 million and \$0.5 million of total unamortized loan origination costs as of September 30, 2020 and December 31, 2019, 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 as of September 30, 2020. 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 \$216.2 million and \$213.2 million at September 30, 2020 and December 31, 2019, respectively, and (ii) the JV Partner's interests in our consolidated joint ventures, totaling \$3.3 million and \$2.9 million at September 30, 2020 and December 31, 2019, 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

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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 received the same net income allocation per unit as a common share totaling \$8.1 million and \$7.0 million for the three months ended September 30, 2020 and 2019, respectively, and \$26.0 million and \$21.6 million for the nine months ended September 30, 2020 and 2019, respectively.

JV Partner

As a result of the Company entering into the Brentford Joint Venture, the Company recorded noncontrolling interests of \$0.4 million related to the JV Partner's 1.8% interest during the three months ended September 30, 2020.

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 \$0.1 million for each of the three months ended September 30, 2020 and 2019 and \$0.2 million for each of the nine months ended September 30, 2020 and 2019. We allocate certain operating expenses to PS related to the management of these properties, including payroll and other business expenses, totaling \$0.1 million for each of the three months ended September 30, 2020 and 2019 and \$0.3 million for each of the nine months ended September 30, 2020 and 2019.

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 less than \$0.1 million for each of the three months ended September 30, 2020 and 2019 and \$0.1 million for each of the nine months ended September 30, 2020 and 2019. Additionally, PS allocated certain operating expenses to us related to the management of these properties totaling less than \$0.1 million for each of the three months ended September 30, 2020 and 2019 and \$0.1 million for each of the nine months ended September 30, 2020 and 2019. 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 \$0.4 million for costs PS incurred on our behalf for each of the three months ended September 30, 2020 and 2019 and \$0.8 million for each of the nine months ended September 30, 2020 and 2019. PS reimbursed us less than \$0.1 million for costs we incurred on their behalf for each of the three and nine months ended September 30, 2020 and 2019.

The Company had net amounts due to PS of \$0.1 million at September 30, 2020 and at December 31, 2019 for these contracts, as well as certain operating expenses paid by the Company on behalf of PS.

9. Shareholders' equity*Preferred stock*

As of September 30, 2020 and December 31, 2019, the Company had the following series of preferred stock outstanding:

Series	Issuance Date	Earliest Potential Redemption Date	Dividend Rate	Shares Outstanding	Amount (in thousands)
Series W	October 2016	October 2021	5.200%	7,590	\$ 189,750
Series X	September 2017	September 2022	5.250%	9,200	230,000
Series Y	December 2017	December 2022	5.200%	8,000	200,000
Series Z	November 2019	November 2024	4.875%	13,000	325,000
Total				37,790	\$ 944,750

We paid \$12.0 million and \$13.0 million in distributions to our preferred shareholders for the three months ended September 30, 2020 and 2019, respectively, and \$36.1 million and \$38.9 million in distributions to our preferred shareholders for the nine months ended September 30, 2020 and 2019, 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 our 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 September 30, 2020, 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 \$28.9 million (\$1.05 per common share) and \$28.8 million (\$1.05 per common share) in distributions to our common shareholders for the three months ended September 30, 2020 and 2019, respectively, and \$86.5 million (\$3.15 per common share) and \$86.3 million (\$3.15 per common share) in distributions to our common shareholders for the nine months ended September 30, 2020 and 2019, respectively.

We paid \$7.7 million (\$1.05 per common unit) in distributions to our common unit holders for each of the three months ended September 30, 2020 and 2019, and \$23.0 million (\$3.15 per common unit) in distributions to our common unit holders for each of the nine months ended September 30, 2020 and 2019.

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 September 30, 2020 and December 31, 2019, no equity stock had been issued.

10. Commitments and contingencies

We are a party to various legal proceedings and subject to various claims and complaints; however, we believe that the likelihood of these proceedings resulting in a material loss to the Company, either individually or in the aggregate, is remote.

11. 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 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.

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).

In August 2020, the Company announced that Maria Hawthorne was retiring from her role as President and Chief Executive Officer ("CEO") effective September 1, 2020 and would continue to serve as a Director of the Company. Due to Ms. Hawthorne's continued service as a Director of the Company, her unvested stock option and restricted stock units will continue to vest on their original vesting schedule in accordance with the Company's 2012 Equity and Performance-Based Incentive Compensation Plan and related award agreements. For financial reporting purposes, the end of the service periods for these stock option and restricted stock unit grants have changed from the various respective vesting dates to September 1, 2020, the date of her retirement as President and CEO. Accordingly, all remaining stock compensation expense for Ms. Hawthorne, which totaled \$1.7 million, was amortized and included in general and administrative expense during the three and nine months ended September 30, 2020.

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. Stock option holders 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.

For the three and nine months ended September 30, 2020, we recorded \$0.1 million and \$0.3 million, respectively, in compensation expense related to stock options as compared to \$0.1 million and \$0.2 million for the same periods in 2019, respectively.

During the nine months ended September 30, 2020, 18,000 stock options were granted, 4,136 options were exercised and no options were forfeited. A total of 171,694 and 157,830 options were outstanding at September 30, 2020 and December 31, 2019, respectively.

Restricted Stock Units

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.

In March 2020, the Compensation Committee of the Board approved an annual performance-based equity incentive plan (“2020 Incentive Program”). Under the Program, certain employees will be eligible to receive RSUs subject to the Company’s achievement of pre-established performance metrics based on growth in (i) net asset value per share, and (ii) Total Shareholder Value, each as computed pursuant to the terms of the 2020 Incentive Program. In the event the pre-established targets are achieved, eligible employees will receive the target award, except that the Compensation Committee of the Board may adjust the actual award to 75% to 125% of the target award based on the their assessment of whether certain strategic and operational goals were accomplished in the performance period. 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.

During the three and nine months ended September 30, 2020, management determined that it was not probable that the targets under the 2020 Incentive Program would be met due to the negative impact of the COVID-19 pandemic, and, as such, the Company did not record stock compensation expense related to the 2020 Incentive Program.

For the three and nine months ended September 30, 2020, respectively, we recorded \$2.2 million and \$3.5 million in compensation expense related to RSUs as compared to \$0.8 million and \$2.5 million for the same periods in 2019.

During the nine months ended September 30, 2020, 100 RSUs were granted, 70,576 RSUs vested and 1,920 RSUs were forfeited. Tax withholdings totaling \$4.1 million were made on behalf of employees in exchange for 28,877 common shares withheld upon vesting for the nine months ended September 30, 2020 resulting in the issuance of 41,699 common shares. Tax withholdings totaling \$6.1 million were made on behalf of employees in exchange for 38,961 common shares withheld upon vesting for the nine months ended September 30, 2019 resulting in the issuance of 53,859 common shares. A total of 78,452 and 150,848 RSUs were outstanding at September 30, 2020 and December 31, 2019, respectively.

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 three and nine months ended September 30, 2020, respectively, we recorded \$0.2 million and \$0.6 million in compensation expense related to these shares as compared to \$1.2 million and \$1.3 million for the same periods in 2019.

In April 2019, we issued 8,000 shares of common stock to a director upon retirement with an aggregate fair value of \$1.2 million. Compensation expense for these shares was previously expensed. No director retirement shares were issued during the nine months ended September 30, 2020.

12. Subsequent Events

Subsequent to September 30, 2020, we acquired a multi-tenant industrial park comprised of approximately 246,000 rentable square feet in Alexandria, Virginia, for a total purchase price of \$46.3 million.

Forward-Looking Statements: Forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, are made throughout this Quarterly Report on Form 10-Q. 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) the duration and severity of the COVID-19 pandemic and its impact on our business and our customers; (ii) changes in general economic and business conditions, including as a result of the economic fallout of the COVID-19 pandemic; (iii) potential regulatory actions to close our facilities or limit our ability to evict delinquent customers; (iv) decreases in rental rates or increases in vacancy rates/failure to renew or replace expiring leases; (v) tenant defaults; (vi) the effect of the recent credit and financial market conditions; (vii) our failure to maintain our status as a REIT under the Internal Revenue Code of 1986, as amended (the “Code”); (viii) the economic health of our customers; (ix) increases in operating costs; (x) casualties to our properties not covered by insurance; (xi) the availability and cost of capital; (xii) increases in interest rates and its effect on our stock price; and (xiii) other factors discussed under the heading “Part I, Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2019. 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.

Critical Accounting Policies and Estimates:

Our accounting policies are described in Note 2 to the consolidated financial statements included in this Form 10-Q. 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, inclusive of rent deferrals and abatements granted to our customers in response to the COVID-19 pandemic. 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 by the performance of our existing real estate facilities, which at September 30, 2020 were comprised of 27.5 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 is comprised of 97 parks and 672 buildings 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, which include incentivizing our personnel to maximize the return on investment for each lease transaction and provide a superior level of service to our customers, are described in more detail in our Annual Report on Form 10-K for the year ended December 31, 2019.

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 September 30, 2020, we acquired a multi-tenant industrial park comprised of approximately 246,000 rentable square feet in Alexandria, Virginia, for a total purchase price of \$46.3 million. The park consists of three buildings and was 100.0% occupied at acquisition with suites ranging from 7,000 to 75,000 square feet.

On January 10, 2020, 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

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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 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.

We continue to seek to acquire additional properties in our existing markets and generally in close proximity to our existing portfolio; 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: In certain instances, we may seek to redevelop our existing real estate. As of September 30, 2020, we were in the process of developing an approximately 83,000 square feet small-bay industrial building at our Freeport Business Park in Irving, Texas. As of September 30, 2020, \$6.1 million of the estimated \$8.1 million total development costs had been incurred and was reflected under land and building held for development, net on our consolidated balance sheets. This construction project is scheduled to be completed in the fourth quarter of 2020.

The Mile, a 628,000 square foot office and multifamily park that we own, sits on 44.5 contiguous acres of land located in Tysons, Virginia. In 2017, we completed Highgate at The Mile, a 395-unit multifamily apartment complex, through a joint venture with the JV Partner. In 2019, we successfully rezoned the remainder of The Mile allowing us to develop, at our election, up to 3,000 additional multifamily units and approximately 500,000 square feet of other commercial uses.

In August 2020, the Company entered into the Brentford Joint Venture with the JV Partner for the purpose of developing Brentford at The Mile, a planned 411-unit multifamily apartment complex. Under the Brentford Joint Venture agreement, the Company has a 98.2% controlling interest and is the managing member with the JV Partner holding the remaining 1.8% limited partnership interest. We contributed the Brentford Parcel to the Brentford Joint Venture at a value of \$18.5 million, for which we received equity contribution credit in the Brentford Joint Venture. Our cost basis in the Brentford Parcel was \$5.4 million as of September 30, 2020.

Construction of Brentford at The Mile commenced in August 2020 and is anticipated to be completed over a period of 24 to 36 months at an estimated development cost of \$110 million to \$115 million, excluding land cost. As of September 30, 2020, the development cost incurred was \$5.5 million, inclusive of our \$5.4 million cost basis in the Brentford Parcel, which is reflected in land and building held for development, net on our consolidated balance sheets. During the three months ended September 30, 2020, the Company also recorded non-capitalizable demolition costs of \$0.3 million in interest and other expense on our consolidated statements of income.

While multifamily real estate was not previously a core asset class for us, we determined that multifamily real estate represented a unique opportunity and the highest and best use of the Brentford Parcel. Through joint ventures we have partnered with a local developer and operator of multifamily properties in order to leverage their development and operational experience. 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 consolidate both the joint venture that owns Highgate at The Mile and the joint venture that is developing Brentford at The Mile.

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See “Analysis of Net Income – Multifamily” below and Note 3 and 4 to our consolidated financial statements for more information on Highgate at The Mile and Brentford at The Mile.

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.

On September 16, 2020, the Company sold two industrial buildings totaling 40,000 square feet located in Redmond, Washington, which were subject to an eminent domain process for net proceeds of \$11.4 million and resulted in a gain of \$7.7 million. During 2020, the Company reclassified these two buildings as properties held for sale, net, in the consolidated balance sheet as of December 31, 2019.

On January 7, 2020, the Company completed the sale of a single-tenant building totaling 113,000 square feet in Montgomery County, Maryland, for net sale proceeds of \$29.3 million, which resulted in a gain of \$19.6 million. This property was classified as held for sale as of December 31, 2019.

The operations of these facilities are presented under “assets sold.”

Certain Factors that May Impact Future Results

Impact of COVID-19 Pandemic: During the second and third quarters of 2020, the COVID-19 pandemic resulted in cessation, severe curtailment, or impairment of business activities in most sectors of the economy in virtually all markets we operate in, due to governmental “stay at home” orders, risk mitigation procedures, and closure of businesses not considered to be “essential.” This resulted in a rapid and dramatic increase in unemployment in the U.S. Since it remains unknown at this time how long the COVID-19 pandemic will continue, we cannot estimate how long these negative economic impacts will persist.

The COVID-19 pandemic has had a severe negative impact on many of our customers’ businesses. During the three months ended September 30, 2020, the Company granted \$1.7 million of rent deferrals and \$0.3 million of rent abatements. Through the nine months ended September 30, 2020, the Company had granted rent relief to 388 customers (representing 11.0% of total customers based on rental income), including \$5.5 million of rent deferrals and \$1.2 million of rent abatements. The Company also wrote off accounts receivable and deferred rent receivable of \$0.3 million and \$0.3 million, respectively, for the three months ended September 30, 2020, and \$1.5 million and \$2.7 million, respectively, for the nine months ended September 30, 2020.

The table below represents percentages of billed revenue that the Company has collected, deferred, and abated/written-off, by product type, for the respective periods presented (percentages shown are all as of October 26, 2020):

	Percentage of Rent			
	Collected	Outstanding	Deferred	Abated/Written-off
Q2 2020				
Industrial	93%	0%	5%	2%
Flex	94%	1%	3%	2%
Office	97%	0%	2%	1%
Total	94%	0%	4%	2%
Q3 2020				
Industrial	96%	1%	2%	1%
Flex	96%	2%	1%	1%
Office	97%	1%	2%	0%
Total	96%	1%	2%	1%
October 2020 ⁽¹⁾				
Industrial	96%	4%	0%	0%
Flex	95%	5%	0%	0%
Office	98%	2%	0%	0%
Total	96%	4%	0%	0%

⁽¹⁾ October 2020 rent billings and collections shown above include September 2020 rent billed on September 30, 2020 and collected in October 2020 for leases billed in arrears.

As of October 26, 2020, the Company had open rent relief requests from approximately 1% of customers. It is possible that additional rent relief requests will arise in future months as a result of continued effects of the COVID-19 pandemic and related responses from state and local governments, however the timing and magnitude of such future requests cannot be easily predicted due to the inherent uncertainty of the virus and its varying regional effects. All rent relief requests to date have been, and all future rent relief requests are expected to be evaluated on a case-by-case basis. To the extent we grant additional requests for abatement, or to the extent that our customers default on their lease obligations, it will have a negative effect on our rental income and net income.

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. Due to the uncertainty of the COVID-19 pandemic's impact on the Company's future ability to maintain existing occupancy levels, possible decreases in rental rates on new and renewal transactions, and the negative effect of rent deferrals, rent abatements, and customer defaults, we believe the COVID-19 pandemic will continue to adversely affect our Same Park rental income for the remainder of 2020.

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 September 30, 2020, leases from our top 10 customers comprised 10.1% of our annualized rental income, with three customers, the U.S. Government (3.2%), Amazon Inc. (1.5%), and Luminex Corporation (1.1%), representing more than 1%. In terms of industry concentration, 19.6% of our annualized rental income comes from business services, 12.9% from warehouse, distribution, transportation and logistics, and 11.3% from computer hardware, software and related services. No other industry group represents more than 10% of our annualized rental income.

Customer credit risk: Although we have historically experienced a low level of write-offs of uncollectible rents, with less than 0.4% of rental income written off in any year over the last nine years, we believe it is possible that the negative impact of the COVID-19 pandemic and its effect on our customers' ability to pay rent in the future will result in higher levels of write-offs during the remainder of 2020 compared to historic averages. During the three months ended September 30, 2020, we wrote-off \$0.3 million of accounts receivable, which was less than the \$1.2 million recorded in the prior quarter, and is in-line with the \$0.3 million written-off during the three months ended September 30, 2019. Also during the three months ended September 30, 2020, we wrote-off deferred rent receivables of \$0.3 million, which is well below the \$2.4 million written-off in the prior quarter and is roughly in-line with \$0.1 million written-off during the three months ended September 30, 2019.

For the three months ended September 30, 2020, we agreed to defer and abate a total of \$1.7 million and \$0.3 million, respectively, to customers whose businesses were disrupted by the COVID-19 pandemic, well below the \$3.8 million and \$0.9 million, respectively, which was granted in the prior quarter. We are closely monitoring the collectability of such deferred rents. As of October 26, 2020, the Company collected \$1.3 million, or 98.3%, of the scheduled repayments of COVID-19 related rent deferrals billed through September 30, 2020.

As of October 26, 2020, we had 30,000 square feet of leased space occupied by two customers that are protected by Chapter 11 of the U.S. Bankruptcy Code, which have an aggregate remaining lease value of \$0.4 million. From time to time, customers contact us, requesting early termination of their lease, reductions in space leased, or rent deferral or abatement, which we are not obligated to grant but will consider and grant under certain circumstances.

Proposition 15: As a result of Proposition 13, which limits increases in assessed property values to 2% per year, the assessed value of most of our properties and the property taxes we pay in California are less than they would be if the properties were assessed at current values. An initiative is on California's November 2020 statewide ballot ("Prop 15") that, if passed, would result in the reassessment of our California properties and would substantially increase our property tax expense likely starting in 2023. We believe we would be able to pass through substantially all of these increased expenses to our tenants. If Prop 15 does not pass, there can be no assurance that a similar initiative will not be proposed and passed in the future. If Prop 15 does pass, the timing and level of the reassessment and related property tax increases would be uncertain. See "Risk Factors – We have exposure to increased property tax in California" in our Annual Report on Form 10-K for the year ended December 31, 2019 for further information such as our aggregate net operating income and property tax expense in California.

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.

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 Overview: Three and Nine Months Ended September 30, 2020 and 2019

Net income and NOI for both the three and nine month periods ended September 30, 2020 was negatively affected by the COVID-19 pandemic and its impact on certain of the Company's customers.

For the three months ended September 30, 2020, net income allocable to common shareholders was \$30.6 million, or \$1.11 per diluted share, compared to \$26.3 million, or \$0.96 per diluted share, for the same period in 2019. The increase was mainly due to a \$7.7 million gain on sale of assets sold during the third quarter of 2020 that did not occur in 2019, partially offset by a \$4.2 million decrease in NOI generated from assets sold during the fourth quarter of 2019 and the first quarter of 2020.

For the nine months ended September 30, 2020, net income allocable to common shareholders was \$97.7 million, or \$3.55 per diluted share, compared to \$81.2 million, or \$2.95 per diluted share, for the same period in 2019. The increase was mainly due to a \$27.3 million gain on sale of assets sold during the first and third quarters of 2020 that did not occur in 2019 and increased NOI from our Non-Same Park portfolio, partially offset by a \$13.7 million decrease in NOI generated from assets sold.

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.

We segregate our real estate activities into (i) same park operations, representing all operating properties acquired prior to January 1, 2018, comprising 25.7 million rentable square feet of our total 27.5 million of rentable square feet at September 30, 2020 (the "Same Park" portfolio), (ii) non-same park operations, representing those facilities we own that were acquired after January 1, 2018 (the "Non-Same Park" portfolio), (iii) multifamily operations and (iv) assets sold, representing 1.3 million square feet of assets sold in October 2019, 113,000 square feet of assets sold in January 2020 and 40,000 square feet of assets sold in September 2020.

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

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
Rental income						
Same Park ⁽¹⁾	\$ 96,399	\$ 95,137	1.3%	\$ 286,791	\$ 284,535	0.8%
Non-Same Park	4,993	3,598	38.8%	15,809	9,508	66.3%
Multifamily	2,201	2,519	(12.6%)	7,249	7,492	(3.2%)
Assets sold ⁽²⁾	167	6,810	(97.5%)	686	22,136	(96.9%)
Total rental income	<u>103,760</u>	<u>108,064</u>	(4.0%)	<u>310,535</u>	<u>323,671</u>	(4.1%)
Cost of operations						
Adjusted Cost of Operations ⁽³⁾						
Same Park	28,903	27,452	5.3%	84,034	82,278	2.1%
Non-Same Park	1,843	1,137	62.1%	5,446	3,304	64.8%
Multifamily	1,066	1,045	2.0%	3,084	3,118	(1.1%)
Assets sold ⁽²⁾	41	2,525	(98.4%)	143	7,911	(98.2%)
Stock compensation expense ⁽⁴⁾	243	309	(21.4%)	783	910	(14.0%)
Total cost of operations	<u>32,096</u>	<u>32,468</u>	(1.1%)	<u>93,490</u>	<u>97,521</u>	(4.1%)
NOI ⁽⁵⁾						
Same Park	67,496	67,685	(0.3%)	202,757	202,257	0.2%
Non-Same Park	3,150	2,461	28.0%	10,363	6,204	67.0%
Multifamily	1,135	1,474	(23.0%)	4,165	4,374	(4.8%)
Assets sold ⁽²⁾	126	4,285	(97.1%)	543	14,225	(96.2%)
Stock compensation expense ⁽⁴⁾	(243)	(309)	(21.4%)	(783)	(910)	(14.0%)
Depreciation and amortization expense	(23,064)	(26,220)	(12.0%)	(72,646)	(75,863)	(4.2%)
General and administrative expense	(5,047)	(4,051)	24.6%	(11,374)	(10,111)	12.5%
Interest and other income	230	1,384	(83.4%)	1,012	2,766	(63.4%)
Interest and other expense	(536)	(199)	169.3%	(900)	(484)	86.0%
Gain on sale of real estate facilities	7,652	—	100.0%	27,273	—	100.0%
Net income	<u>\$ 50,899</u>	<u>\$ 46,510</u>	9.4%	<u>\$ 160,410</u>	<u>\$ 142,458</u>	12.6%

(1) Included in the calculation of Same Park rental income are (a) lease buyout income of \$0.3 million and \$0.2 million for the three months ended September 30, 2020 and 2019, respectively, and \$0.8 million and \$1.1 million for the nine months ended September 30, 2020 and 2019, respectively, (b) accounts receivable write-offs of \$0.2 million and \$0.3 million for the three months ended September 30, 2020 and 2019, respectively, and \$1.4 million and \$0.8 million for the nine months ended September 30, 2020 and 2019, respectively, and (c) deferred rent receivable write-offs of \$0.3 million and \$0.1 million for the three months ended September 30, 2020 and 2019, respectively, and \$2.6 million and \$0.4 million for the nine months ended September 30, 2020 and 2019, respectively.

(2) Amounts for the three months ended September 30, 2020 include results related to two industrial buildings totaling 40,000 square feet sold in September 2020; amounts for the nine months ended September 30, 2020 include the two industrial buildings totaling 40,000 square feet sold in September 2020, and a 113,000 square foot asset sold in January 2020; amounts shown for the three and nine months ended September 30, 2019 reflect the operating results related to the two industrial buildings totaling 40,000 square feet and the 113,000 square foot asset sold in 2020, and 1.3 million square feet of flex and office assets sold in October 2019.

(3) Adjusted Cost of Operations excludes the impact of stock compensation expense.

(4) 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.

(5) NOI represents rental income less Adjusted Cost of Operations.

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Rental income decreased \$4.3 million and \$13.1 million for the three and nine months ended September 30, 2020 as compared to the same periods in 2019 due primarily to reduced rental income generated from assets sold, lower occupancy, rent deferrals and abatements granted to certain customers, and write-offs of accounts receivable and deferred rent receivable partially offset by an increase in rental income from our Non-Same Park portfolio.

Cost of operations decreased \$0.4 million and \$4.0 million for the three and nine months ended September 30, 2020 as compared to the same periods in 2019 due primarily to reduced operating expenses from assets sold partially offset by a higher Adjusted Cost of Operations incurred by our Same Park portfolio, and higher Adjusted Cost of Operations incurred by our Non-Same Park portfolio.

Net income increased \$4.4 million and \$18.0 million for the three and nine months ended September 30, 2020 as compared to the same periods in 2019. The three month increase was due primarily to the gain on sale of an asset sold during the third quarter of 2020 and lower depreciation expense, partially offset by reduced NOI generated from assets sold and an increase in general and administrative expense. The nine month increase was due primarily to the gain on sale of assets sold during the first and third quarter of 2020, partially offset by reduced NOI from assets sold and lower NOI resulting from rent deferrals and abatements granted to certain customers as well as write-offs of accounts receivable and deferred rent receivable.

Same Park Portfolio

We believe that evaluation of the Same Park portfolio provides 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 our Same Park facilities and certain statistical information related to leasing activity in the three and nine months ended September 30, 2020 and 2019 (*in thousands, except per square foot data*):

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
Rental income ⁽¹⁾	\$ 96,399	\$ 95,137	1.3%	\$ 286,791	\$ 284,535	0.8%
Adjusted Cost of Operations ⁽²⁾						
Property taxes	10,811	10,224	5.7%	32,410	30,416	6.6%
Utilities	4,870	5,249	(7.2%)	14,106	14,610	(3.4%)
Repairs and maintenance	6,197	5,844	6.0%	17,277	17,394	(0.7%)
Payroll	4,090	3,622	12.9%	12,030	11,070	8.7%
Snow removal	—	—	—	78	1,033	(92.4%)
Property insurance	1,283	868	47.8%	3,009	2,346	28.3%
Other expenses	1,652	1,645	0.4%	5,124	5,409	(5.3%)
Total Adjusted Cost of Operations	28,903	27,452	5.3%	84,034	82,278	2.1%
NOI	\$ 67,496	\$ 67,685	(0.3%)	\$ 202,757	\$ 202,257	0.2%
Selected Statistical Data						
NOI margin ⁽³⁾	70.0%	71.1%	(1.5%)	70.7%	71.1%	(0.6%)
Weighted average square foot occupancy	92.3%	94.7%	(2.5%)	92.5%	94.5%	(2.1%)
Revenue per occupied square foot ⁽⁴⁾	\$ 16.29	\$ 15.66	4.0%	\$ 16.11	\$ 15.64	3.0%
Revenue per available foot (RevPAF) ⁽⁵⁾	\$ 15.03	\$ 14.83	1.3%	\$ 14.90	\$ 14.79	0.7%

⁽¹⁾ Included in the calculation of Same Park rental income are (a) lease buyout income of \$0.3 million and \$0.2 million for the three months ended September 30, 2020 and 2019, respectively, and \$0.8 million and \$1.1 million for the nine months ended September 30, 2020 and 2019, respectively, (b) accounts receivable write-offs of \$0.2 million and \$0.3 million for the three months ended September 30, 2020 and 2019, respectively, and \$1.4 million and \$0.8 million for the nine months ended

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September 30, 2020 and 2019, respectively, and (c) deferred rent receivable write-offs of \$0.3 million and \$0.1 million for the three months ended September 30, 2020 and 2019, respectively, and \$2.6 million and \$0.4 million for the nine months ended September 30, 2020 and 2019, respectively.

- (2) Adjusted Cost of Operations excludes the impact of stock compensation expense.
- (3) NOI margin is computed by dividing NOI by rental income.
- (4) Revenue per occupied square foot is computed by dividing rental income for the period by weighted average occupied square feet for the same period. Revenue per occupied square foot for the three and nine month periods is annualized.
- (5) Revenue per Available Square Foot (RevPAF) is computed by dividing rental income for the period by weighted average available square feet for the same period. RevPAF for the three and nine month periods is annualized.

Analysis of Same Park Rental Income

Rental income for our Same Park portfolio increased 1.3% and 0.8% for the three and nine months ended September 30, 2020 as compared to the same periods in 2019. The three and nine month increases were due primarily to higher rental rates charged to our customers, as revenue per occupied square foot increased 4.0% and 3.0%, respectively, in the three and nine months ended September 30, 2020 compared to the same periods in 2019, partially offset by a decrease in weighted average occupancy combined with rent deferrals and abatements. The nine month increase was also partially offset by write-offs of accounts receivable and deferred rent receivable.

The following table details the change in Same Park rental income for the three and nine months ended September 30, 2020 and 2019 (*in thousands*):

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
Rental income						
Base rental income	\$ 72,597	\$ 72,156	\$ 441	\$ 219,639	\$ 214,766	\$ 4,873
Expense recovery income	22,972	22,068	904	67,635	66,644	991
Lease buyout income	290	183	107	807	1,140	(333)
Rent receivable write-off	(237)	(320)	83	(1,370)	(843)	(527)
Deferrals and abatements	(1,955)	—	(1,955)	(6,458)	—	(6,458)
Repayment of rent deferrals	1,193	—	1,193	1,215	—	1,215
Fee Income	236	301	(65)	703	937	(234)
Non-Cash Rental Income ⁽¹⁾	1,303	749	554	4,620	1,891	2,729
Total rental income	<u>\$ 96,399</u>	<u>\$ 95,137</u>	<u>\$ 1,262</u>	<u>\$ 286,791</u>	<u>\$ 284,535</u>	<u>\$ 2,256</u>

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

Weighted average cash rental rate growth on leases executed during the three and nine months ended September 30, 2020, was 2.0% and 4.9%, respectively. Renewals of leases with existing customers represented 64.2% of our leasing activity for the nine months ended September 30, 2020. See “Analysis of Same Park Market Trends” below for further analysis of such data on a by market basis.

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.

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The following table sets forth the expirations of existing leases in our Same Park portfolio over the next five years based on lease data at September 30, 2020 (*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
Remainder of 2020	657	1,299	5.5%	\$ 22,181	5.4%
2021	1,576	5,205	21.9%	89,497	21.6%
2022	1,200	5,272	22.2%	94,133	22.7%
2023	629	4,219	17.8%	69,670	16.8%
2024	326	2,798	11.8%	49,869	12.0%
Thereafter	273	4,923	20.8%	89,075	21.5%
Total	4,661	23,716	100.0%	\$ 414,425	100.0%

Analysis of Same Park Adjusted Cost of Operations

Adjusted Cost of Operations for our Same Park portfolio increased 5.3% and 2.1% for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in the prior year. The three and nine month increases were due primarily to higher property taxes, higher payroll costs, and higher insurance costs partially offset by lower utility costs. The nine month increase was also partially offset by savings from snow removal costs.

Property taxes increased 5.7% and 6.6% for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in the prior year. These increases were due to higher assessed values. We expect potential further property tax growth in the future due 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 7.2% and 3.4% during the three and nine months ended September 30, 2020, respectively, as compared to the same periods in the prior year due to a rate reduction related to adopting a renewable energy program during the three months ended June 30, 2020 as well as reduced water and electricity usage due to the COVID-19 pandemic. It is difficult to estimate future utility costs, because weather, temperature and energy prices are volatile and not readily predictable. However, we expect that utility costs during the remainder of 2020 to be comparable to our results for the three months ended September 30, 2020 due to the seasonal nature of utility costs partially offset by increased traffic at our parks as our customers resume operations.

Repairs and maintenance expense increased 6.0% and decreased 0.7% for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in the prior year. The three month increase was due to higher security costs and property services as our customers resumed operations. The nine month decrease was primarily due to a reduction in general repairs and property services as a result of the COVID-19 pandemic partially offset by increased security costs and property services incurred during the third quarter of 2020. 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. We expect that repairs and maintenance costs during the remainder of 2020 to be comparable to our results for the three months ended September 30, 2020.

Payroll expense increased 12.9% and 8.7% for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in the prior year. Payroll expense is comprised of on site and supervisory personnel costs incurred in the operation of our properties. The three and nine month increases were primarily due to salary increases that took effect in October 2019. We expect payroll expenses during the remainder of 2020 to be similar to our results for the three months ended September 30, 2020.

Snow removal costs decreased 92.4% during the nine months ended September 30, 2020 as compared to the same period in the prior year. The nine month decrease was due to milder weather in 2020 in our Northern Virginia and Suburban Maryland markets compared to the same period in 2019. Snow removal costs are weather dependent and therefore not predictable.

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Property insurance expense increased 47.8% and 28.3% for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in the prior year. The three and nine month increases were primarily due to an increase in our property insurance premium for the policy period June 2019 to May 2020 and a further increase for the policy period June 2020 to May 2021 due to unfavorable market conditions pervasive throughout commercial real estate sectors. The three month increase was also due to insurance deductibles recorded during the third quarter of 2020. We expect property insurance expense for the remainder of 2020 to be similar to our results for the three months ended September 30, 2020.

Other expenses increased 0.4% and decreased 5.3% for the three and nine months ended September 30, 2020, respectively, as compared to the same periods in the prior year. Other expenses are comprised of general property expenses incurred in the operation of our properties. We expect other expenses for the remainder of 2020 to be similar to our results for the three months September 30, 2020.

Same Park Quarterly Trends

The following table sets forth historical quarterly data related to the operations of our Same Park portfolio for rental income, Adjusted Cost of Operations, weighted average occupancy, 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
Rental income ⁽¹⁾				
2020	\$ 97,735	\$ 92,657	\$ 96,399	\$ —
2019	\$ 94,604	\$ 94,794	\$ 95,137	\$ 97,415
Adjusted Cost of Operations ⁽²⁾				
2020	\$ 28,134	\$ 26,997	\$ 28,903	\$ —
2019	\$ 28,143	\$ 26,683	\$ 27,452	\$ 27,281
NOI ⁽³⁾				
2020	\$ 69,601	\$ 65,660	\$ 67,496	\$ —
2019	\$ 66,461	\$ 68,111	\$ 67,685	\$ 70,134
Weighted average square foot occupancy				
2020	92.9%	92.4%	92.3%	—
2019	94.7%	94.2%	94.7%	94.4%
Revenue per occupied square foot ⁽⁴⁾				
2020	\$ 16.40	\$ 15.64	\$ 16.29	\$ —
2019	\$ 15.57	\$ 15.68	\$ 15.66	\$ 16.09
RevPAF ⁽⁵⁾				
2020	\$ 15.24	\$ 14.45	\$ 15.03	\$ —
2019	\$ 14.75	\$ 14.78	\$ 14.83	\$ 15.19

(1) Included in the calculation of Same Park rental income are (a) lease buyout income of \$0.2 million, \$0.8 million, \$0.2 million, \$0.2 million, \$0.3 million, \$0.3 million, and \$0.3 million for the three months ended March 31, 2019, June 30, 2019, September 30, 2019, December 31, 2019, March 31, 2020, June 30, 2020, and September 30, 2020, respectively, (b) accounts receivable write-offs of \$0.2 million, \$0.3 million, \$0.3 million, \$0.2 million, \$0.1 million, \$1.1 million, and \$0.2 million for the three months ended March 31, 2019, June 30, 2019, September 30, 2019, December 31, 2019, March 31, 2020, June 30, 2020, and September 30, 2020, respectively, and (c) deferred rent receivable write-offs of \$0.1 million, \$0.1 million, \$0.1 million, \$0.1 million, \$0, \$2.3 million, and \$0.3 million for the three months ended March 31, 2019, June 30, 2019, September 30, 2019, December 31, 2019, March 31, 2020, June 30, 2020, and September 30, 2020, respectively.

(2) Adjusted Cost of Operations excludes stock compensation expense for employees whose compensation expense is recorded in cost of operations, which can vary significantly period to period based upon the performance of the Company.

(3) NOI represents rental income less Adjusted Cost of Operations.

(4) Revenue per occupied square foot is computed by dividing rental income for the period by weighted average occupied square feet for the same period. Revenue per occupied square foot for the three and nine month periods is annualized.

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(5) RevPAF is computed by dividing rental income for the period by weighted average available square feet for the same period. RevPAF for the three and nine month periods is annualized.

Analysis of Same Park Market Trends

The following tables set forth historical data by region related to the operations of our Same Park portfolio for rental income, Adjusted Cost of Operations, weighted average occupancy, annualized revenue per occupied square foot, and RevPAF data in our Same Park portfolio (*in thousands, except per square foot data*):

Region	For the Three Months Ended September 30,			Change	For the Nine Months Ended September 30,			Change
	2020	2019			2020	2019		
Geographic Data on Same Park								
Rental income								
Northern California (7.2 million feet)	\$ 27,315	\$ 26,570	2.8%	\$ 80,946	\$ 79,409	1.9%		
Southern California (3.3 million feet)	13,773	13,864	(0.7%)	40,694	41,013	(0.8%)		
Dallas (2.9 million feet)	8,288	8,466	(2.1%)	25,119	25,467	(1.4%)		
Austin (2.0 million feet)	8,341	7,688	8.5%	24,809	23,102	7.4%		
Northern Virginia (3.9 million feet)	17,867	18,321	(2.5%)	53,493	55,453	(3.5%)		
South Florida (3.9 million feet)	11,014	10,999	0.1%	32,478	32,615	(0.4%)		
Seattle (1.4 million feet)	4,860	4,282	13.5%	14,386	12,645	13.8%		
Suburban Maryland (1.1 million feet)	4,941	4,947	(0.1%)	14,866	14,831	0.2%		
Total Same Park (25.7 million feet)	96,399	95,137	1.3%	286,791	284,535	0.8%		
Adjusted Cost of Operations								
Northern California	6,488	6,337	2.4%	18,706	18,167	3.0%		
Southern California	3,928	3,632	8.1%	11,002	10,669	3.1%		
Dallas	2,859	2,980	(4.1%)	9,100	8,818	3.2%		
Austin	3,120	2,844	9.7%	9,042	8,454	7.0%		
Northern Virginia	6,007	5,944	1.1%	17,971	18,930	(5.1%)		
South Florida	3,317	2,914	13.8%	9,269	8,799	5.3%		
Seattle	1,358	1,036	31.1%	3,806	3,060	24.4%		
Suburban Maryland	1,826	1,765	3.5%	5,138	5,381	(4.5%)		
Total Same Park	28,903	27,452	5.3%	84,034	82,278	2.1%		
Net operating income								
Northern California	20,827	20,233	2.9%	62,240	61,242	1.6%		
Southern California	9,845	10,232	(3.8%)	29,692	30,344	(2.1%)		
Dallas	5,429	5,486	(1.0%)	16,019	16,649	(3.8%)		
Austin	5,221	4,844	7.8%	15,767	14,648	7.6%		
Northern Virginia	11,860	12,377	(4.2%)	35,522	36,523	(2.7%)		
South Florida	7,697	8,085	(4.8%)	23,209	23,816	(2.5%)		
Seattle	3,502	3,246	7.9%	10,580	9,585	10.4%		
Suburban Maryland	3,115	3,182	(2.1%)	9,728	9,450	2.9%		
Total Same Park	\$ 67,496	\$ 67,685	(0.3%)	\$ 202,757	\$ 202,257	0.2%		
Weighted average square foot occupancy								
Northern California	91.8%	97.1%	(5.5%)	91.4%	96.5%	(5.3%)		
Southern California	94.7%	95.1%	(0.4%)	94.9%	95.1%	(0.2%)		
Dallas	88.0%	91.5%	(3.8%)	89.3%	92.2%	(3.1%)		
Austin	94.5%	91.3%	3.5%	94.6%	91.1%	3.8%		
Northern Virginia	92.8%	94.3%	(1.6%)	92.6%	94.2%	(1.7%)		
South Florida	92.8%	95.6%	(2.9%)	93.1%	95.5%	(2.5%)		
Seattle	93.8%	95.3%	(1.6%)	96.7%	95.4%	1.4%		
Suburban Maryland	89.5%	89.1%	0.4%	90.0%	88.9%	1.2%		
Total Same Park	92.3%	94.7%	(2.5%)	92.5%	94.5%	(2.1%)		
Revenue per occupied square foot ⁽¹⁾								
Northern California	\$ 16.43	\$ 15.11	8.7%	\$ 16.30	\$ 15.15	7.6%		
Southern California	17.73	17.77	(0.2%)	17.42	17.52	(0.6%)		
Dallas	13.04	12.81	1.8%	12.98	12.75	1.8%		
Austin	17.99	17.14	5.0%	17.79	17.22	3.3%		
Northern Virginia	19.66	19.83	(0.9%)	19.66	20.02	(1.8%)		
South Florida	12.28	11.90	3.2%	12.04	11.78	2.2%		
Seattle	15.34	13.31	15.3%	14.69	13.09	12.2%		
Suburban Maryland	19.24	19.34	(0.5%)	19.19	19.39	(1.0%)		
Total Same Park	\$ 16.29	\$ 15.66	4.0%	\$ 16.11	\$ 15.64	3.0%		
RevPAF ⁽²⁾								
Northern California	\$ 15.08	\$ 14.67	2.8%	\$ 14.90	\$ 14.61	2.0%		
Southern California	16.78	16.89	(0.7%)	16.53	16.66	(0.8%)		
Dallas	11.48	11.73	(2.1%)	11.60	11.76	(1.4%)		
Austin	17.00	15.67	8.5%	16.85	15.69	7.4%		
Northern Virginia	18.25	18.71	(2.5%)	18.21	18.88	(3.5%)		
South Florida	11.40	11.38	0.2%	11.20	11.25	(0.4%)		
Seattle	14.40	12.69	13.5%	14.21	12.49	13.8%		
Suburban Maryland	17.26	17.28	(0.1%)	17.31	17.27	0.2%		
Total Same Park	\$ 15.03	\$ 14.83	1.3%	\$ 14.90	\$ 14.79	0.7%		

(1) Revenue per occupied square foot is computed by dividing rental income for the period by weighted average occupied square feet for the same period. Revenue per occupied square foot for the three and nine month periods is annualized.

(2) RevPAF is computed by dividing rental income for the period by weighted average available square feet for the same period. RevPAF for the three and nine month periods is annualized.

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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 tables summarize the Cash Rental Rate Change and other key statistical information with respect to the Company’s leasing production for its Same Park portfolio, on a regional basis, for the three and nine months ended September 30, 2020 (square feet in thousands):

Regions	For the Three Months Ended September 30, 2020			
	Square Footage	Customer	Transaction	Cash Rental
	Leased	Retention	Costs per Executed Foot	Rate Change ⁽¹⁾
Northern California	303	63.4%	\$ 1.14	6.9%
Southern California	307	76.8%	\$ 1.73	2.5%
Dallas	186	46.4%	\$ 1.68	0.9%
Austin	138	94.0%	\$ 2.93	3.1%
Northern Virginia	220	66.9%	\$ 4.06	(4.0%)
South Florida	279	57.5%	\$ 1.46	0.3%
Seattle	46	51.9%	\$ 1.33	5.4%
Suburban Maryland	42	27.8%	\$ 6.40	(2.0%)
Total	1,521	62.2%	\$ 2.12	2.0%

Regions	For the Nine Months Ended September 30, 2020			
	Square Footage	Customer	Transaction	Cash Rental
	Leased	Retention	Costs per Executed Foot	Rate Change ⁽¹⁾
Northern California	1,203	67.2%	\$ 2.17	12.6%
Southern California	899	68.8%	\$ 2.13	3.0%
Dallas	560	50.8%	\$ 2.57	2.4%
Austin	312	71.3%	\$ 3.44	1.7%
Northern Virginia	769	71.6%	\$ 5.20	(1.9%)
South Florida	827	52.6%	\$ 1.16	0.8%
Seattle	354	74.9%	\$ 0.82	20.6%
Suburban Maryland	126	43.3%	\$ 7.16	(0.2%)
Total	5,050	63.5%	\$ 2.61	4.9%

⁽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.

The COVID-19 pandemic has negatively affected occupancy levels as well as rent growth on leasing production across our portfolio subsequent to March 31, 2020. For the three months ended September 30, 2020, weighted average occupancy was 92.3% and weighted average cash rental rate growth was 2.0%, a decrease from weighted average occupancy of 92.9% and weighted average cash rental rate growth of 9.5% for the three months ended March 31, 2020. Average lease term of the leases executed during the three months ended September 30, 2020 was 3.3 years, with associated average transaction costs (tenant improvements and leasing commissions) of \$2.12 per square foot. For comparative purposes, average lease term and transaction costs on leases executed in the same period of 2019 were 3.9 years and \$3.78 per square foot, respectively. Due to the uncertainty of the COVID-19 pandemic’s impact on the Company’s future ability to maintain existing occupancy levels, possible decreases in rental rates on new and renewal transactions, and the negative effect of rent deferrals, rent abatements, and customer defaults, we believe it is likely we will experience comparable quarterly Same Park rental income for the remainder of 2020 when compared to our results for the three months ended September 30, 2020.

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

Property	Date Acquired	Location	Purchase Price	Square Feet	Occupancy at Acquisition	Occupancy at September 30, 2020
La Mirada Commerce Center	January 2020	La Mirada, CA	\$ 13,513	73	100.0%	93.7%
San Tomas Business Center	December 2019	Santa Clara, CA	16,787	79	95.6%	88.2%
Hathaway Industrial Park	September 2019	Santa Fe Springs, CA	104,330	543	100.0%	39.3%
Walnut Avenue Business Park	April 2019	Signal Hill, CA	13,824	74	98.4%	100.0%
Northern Virginia and Fullerton Road Industrial Parks	June 2018	Lorton and Springfield, VA	143,766	1,057	76.1%	93.9%
Total			<u>\$ 292,220</u>	<u>1,826</u>	85.9%	77.7%

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 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. Due to the uncertainty of the COVID-19 pandemic's impact on the Company's ability to generate higher NOI from these newly acquired real estate facilities in the future, there can be no assurance that we will achieve our expectations with respect to newly acquired real estate facilities.

Multifamily: As of September 30, 2020, we held a 95.0% controlling interest in a joint venture that owns Highgate at The Mile, a 395-unit apartment complex. The following table summarizes the historical operating results of Highgate at The Mile and certain statistical information (*in thousands, except per unit data*):

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
Rental income	\$ 2,201	\$ 2,519	(12.6%)	\$ 7,249	\$ 7,492	(3.2%)
Cost of operations	1,066	1,045	2.0%	3,084	3,118	(1.1%)
NOI	<u>\$ 1,135</u>	<u>\$ 1,474</u>	<u>(23.0%)</u>	<u>\$ 4,165</u>	<u>\$ 4,374</u>	<u>(4.8%)</u>
Selected Statistical Data						
Weighted average square foot occupancy	91.1%	95.6%	(4.7%)	92.6%	95.3%	(2.9%)
As of September 30, 2020						
Total costs ⁽¹⁾						\$ 115,426
Physical occupancy						94.4%
Average rent per unit ⁽²⁾						\$ 2,084

(1) The cost for Highgate at The Mile 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 income (actual rent for occupied apartment units plus market rent for vacant apartment units) divided by the total number of rentable apartment units.

The three and nine month decreases in NOI were primarily due to accounts receivable write-offs of \$0.2 million for both the three and nine months ended September 30, 2020. Due to the uncertainty of the COVID-19 pandemic's impact on the Company's future ability to maintain existing occupancy levels and rental rates at Highgate at The Mile, we believe it is likely we will experience comparable quarterly NOI for Highgate at The Mile for the remainder of 2020 when compared to our results for the three months ended September 30, 2020.

Assets Sold: These amounts include historical operating results with respect to properties that we sold. Amounts for the three months ended September 30, 2020 reflect the operating results related to two industrial buildings totaling 40,000 square feet sold during September 2020; amounts for the nine months ended September 30, 2020 reflect the operating results related to the two industrial buildings totaling 40,000 square feet sold in September 2020 and a 113,000 square foot asset sold in January 2020; amounts for the three and nine months ended September 30, 2019

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reflect the operating results related to the two industrial buildings totaling 40,000 square feet and the 113,000 square foot asset sold in 2020, and 1.3 million square feet of flex and office sold in October 2019.

Depreciation and Amortization Expense: Depreciation and amortization expense was \$23.1 million and \$72.6 million for the three and nine months ended September 30, 2020, respectively, compared to \$26.2 million and \$75.9 million for the same periods in 2019, respectively.

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. For the three and nine months ended September 30, 2020, general and administrative expense increased \$1.0 million, or 24.6%, and \$1.3 million, or 12.5%, respectively, compared to the same periods in 2019. The three and nine month increases were primarily due to higher stock compensation expense due to accelerated stock compensation expense related to our President and CEO retiring during September 2020 (discussed below), an increase in compensation expense, and an increase in professional fees related to various corporate service projects. These increases were partially offset by stock compensation expense incurred during the third quarter of 2019 tied to a modification of the Director Retirement Plan which did not recur in the current year.

In August 2020, the Company announced that Maria Hawthorne was retiring from her role as President and CEO effective September 1, 2020 and would continue to serve as a Director of the Company. Due to Ms. Hawthorne's continued service as a Director of the Company, her unvested stock option and restricted stock units will continue to vest on their original vesting schedule in accordance with the Company's 2012 Equity and Performance-Based Incentive Compensation Plan and related award agreements. For financial reporting purposes, the end of the service periods for these stock option and restricted stock unit grants have changed from the various respective vesting dates to September 1, 2020, the date of her retirement as President and CEO. Accordingly, all remaining stock compensation expense for Ms. Hawthorne, which totaled \$1.7 million, was amortized and included in general and administrative expense during the three and nine months ended September 30, 2020.

Gain on Sale of Real Estate Facilities: On September 16, 2020, we sold two industrial buildings totaling 40,000 square feet located in Redmond, Washington, which were subject to an eminent domain process for net proceeds of \$11.4 million and resulted in a gain of \$7.7 million.

On January 7, 2020, we sold a 113,000 square foot office building located at Metro Park North in Montgomery County, Maryland, for net sale proceeds of \$29.3 million, which resulted in a gain of \$19.6 million.

Liquidity and Capital Resources

This section should be read in conjunction with our consolidated statements of cash flows for the nine months ended September 30, 2020 and 2019 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 efficient 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. Ratio of FFO to fixed charges and preferred distributions is calculated by dividing FFO excluding fixed charges and preferred distributions by fixed charges and

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preferred distributions. Fixed charges include interest expense, capitalized interest and preferred distributions paid to preferred shareholders. For the nine months ended September 30, 2020, the ratio of FFO to combined fixed charges and preferred distributions was 5.6 to 1.0.

We have a \$250.0 million revolving Credit Facility that can be expanded to \$400.0 million and 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.

The COVID-19 pandemic has impacted the cost and availability of debt and equity capital and may have intensified negative impacts if resurgent outbreaks of the virus occur. Based upon our substantial current liquidity relative to our capital requirements noted below, and our strong financial profile and credit ratings, we do not expect such capital market turbulence to have a material impact upon our capital and growth plans over the next 12 months. However, there can be no assurance that it would not in the future, if the COVID-19 pandemic were to persist for a long period of time or intensify.

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 September 30, 2020, we had \$117.9 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 from operations less shareholder and unit holder distributions and capital expenditures.

Required Debt Repayment: As of September 30, 2020, 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 reconfigurations and expenditures related to repositioning asset acquisitions. The following table sets forth our commercial capital expenditures paid for in the nine months ended September 30, 2020 and 2019, respectively, on an aggregate and per square foot basis:

	For the Nine Months Ended September 30,			
	2020		2019	
	(in thousands)		(per square foot)	
Commercial Real Estate				
Recurring capital expenditures				
Capital improvements ⁽¹⁾	\$ 6,413	\$ 6,316	\$ 0.23	\$ 0.22
Tenant improvements	11,039	11,898	0.40	0.42
Lease commissions	5,225	6,027	0.19	0.21
Total commercial recurring capital expenditures ⁽¹⁾	22,677	24,241	0.82	0.85
Nonrecurring capital improvements	512	2,011	0.02	0.07
Total commercial capital expenditures	<u>\$ 23,189</u>	<u>\$ 26,252</u>	<u>\$ 0.84</u>	<u>\$ 0.92</u>

⁽¹⁾ Excludes \$20,000 of recurring capital improvements on our multifamily asset in 2019.

The following table summarizes the recurring capital expenditures paid and the related percentage of NOI for Same Park, Non-Same Park, multifamily and assets sold by region for the nine months ended September 30, 2020 and 2019 (*in thousands*):

For the Nine Months Ended September 30,

Region	Recurring Capital Expenditures		Change	Recurring Capital Expenditures as a Percentage of NOI	
	2020	2019		2020	2019
Same Park					
Northern California	\$ 4,696	\$ 3,164	48.4%	7.5%	5.2%
Southern California	2,230	2,788	(20.0%)	7.5%	9.2%
Dallas	2,848	3,211	(11.3%)	17.8%	19.3%
Austin	1,251	2,470	(49.4%)	7.9%	16.9%
Northern Virginia	7,401	6,456	14.6%	20.8%	17.7%
South Florida	1,698	1,833	(7.4%)	7.3%	7.7%
Seattle	745	446	67.0%	7.0%	4.7%
Suburban Maryland	1,090	1,292	(15.6%)	11.2%	13.7%
Total Same Park	21,959	21,660	1.4%	10.8%	10.7%
Non-Same Park					
Northern California	45	—	100.0%		
Southern California	169	26	550.0%		
Northern Virginia	488	1,743	(72.0%)		
Total Non-Same Park	702	1,769	(60.3%)		
Assets sold	16	812	(98.0%)		
Total	\$ 22,677	\$ 24,241	(6.5%)		

In the last five years, our annual recurring capital expenditures have ranged between 11.5% and 16.3% as a percentage of NOI, and we expected full year 2020 recurring capital expenditures to be within or near the low end of this range. While what we disclose herein with respect to capital expenditures represents our best estimates at this time, there can be no assurance that these amounts will not change substantially in the future for various reasons, including the potential impact of the COVID-19 pandemic on capital projects and leasing volume.

Redemption of Preferred Stock: Historically, we have reduced our cost of capital by refinancing higher coupon preferred securities with lower coupon preferred securities. Redemption of such preferred shares will depend upon many factors, including our cost of capital. None of our preferred securities are redeemable at the option of the holders. See Note 9 to the consolidated financial statements included in this Quarterly Report on Form 10-Q for additional information on the earliest redemption date of our outstanding preferred securities.

Acquisitions of real estate facilities: Subsequent to September 30, 2020, we acquired a multi-tenant industrial park comprised of approximately 246,000 rentable square feet in Alexandria, Virginia, for a total purchase price of \$46.3 million. On January 10, 2020, 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. 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: On September 16, 2020, we sold two industrial buildings totaling 40,000 square feet located in Redmond, Washington, which were subject to an eminent domain process for net proceeds of \$11.4 million and resulted in a gain of \$7.7 million. On January 7, 2020, we sold an 113,000 square foot office building located at Metro Park North in Montgomery County, Maryland, for net sale proceeds of \$29.3 million, which resulted in a gain of \$19.6 million.

Development of real estate facilities: As noted above, as of September 30, 2020 we were in the process of developing an approximately 83,000 square feet small-bay industrial building at our Freeport Business Park in Irving, Texas. As of September 30, 2020, \$6.1 million of the estimated \$8.1 million total development costs had been incurred and was reflected under land and building held for development, net on our consolidated balance sheets. This construction project is scheduled to be completed in the fourth quarter of 2020.

In August 2020, we entered into the Brentford Joint Venture with the JV Partner for the purpose of developing Brentford at The Mile, a planned 411-unit multifamily apartment complex. We contributed the Brentford Parcel to the Brentford Joint Venture at a value of \$18.5 million, for which we received equity contribution credit in the Brentford Joint Venture. Our cost basis in the Brentford Parcel was \$5.4 million as of September 30, 2020.

Construction of Brentford at The Mile commenced in August 2020 and is anticipated to be completed over a period of 24 to 36 months at an estimated development cost of \$110 million to \$115 million, excluding land cost. As of September 30, 2020, the development cost incurred was \$5.5 million, inclusive of our \$5.4 million cost basis in the Brentford Parcel, which is reflected in land and building held for development, net on our consolidated balance sheets. During the three months ended September 30, 2020, the Company also recorded non-capitalizable demolition costs of \$0.3 million in interest and other expense on our consolidated statements of income.

Repurchase of Common Stock: No shares of common stock were repurchased under the board-approved common stock repurchase program during the nine months ended September 30, 2020 or the year ended December 31, 2019. As of September 30, 2020, 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 \$122.6 million (\$36.1 million to preferred shareholders and \$86.5 million to common shareholders) during the nine months ended September 30, 2020.

We estimate the annual distribution requirements with respect to our preferred shares outstanding at September 30, 2020 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 preferred shareholders, we expect will be funded with cash provided by operating activities.

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

Funds from Operations ("FFO") is a non-GAAP measure defined by the National Association of Real Estate Investment Trusts 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") which are both also non-GAAP measures. Core FFO is defined by the Company as FFO excluding the net impact of (i) income allocated to preferred shareholders to the extent redemption value exceeds the related carrying value and (ii) other nonrecurring income or expense items as appropriate. FAD 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 expense items such as amortization of deferred rent receivable and stock compensation expense.

FFO for the three and nine months ended September 30, 2020 was \$1.55 per share and \$4.85 per share, respectively, representing decreases of 9.2% and 5.5% from the same periods in 2019.

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Core FFO was \$1.61 and \$4.91 per share for the three and nine months ended September 30, 2020, respectively. For the three and nine months ended September 30, 2020, Core FFO excludes the impact of the (i) accelerated amortization of stock compensation expense of \$1.7 million related to the retirement of our former President and CEO and (ii) non-capitalizable demolition costs of \$0.3 million. For the three and nine months ended September 30, 2019, Core FFO was equal to FFO as the Company did not incur any preferred share redemption charges or any nonrecurring income or expenses in either period.

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 Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income allocable to common shareholders	\$ 30,580	\$ 26,312	\$ 97,717	\$ 81,212
Adjustments				
Gain on sale of real estate facilities	(7,652)	—	(27,273)	—
Depreciation and amortization expense	23,064	26,220	72,646	75,863
Net income allocated to noncontrolling interests	8,124	7,020	26,011	21,670
Net income allocated to restricted stock unit holders	149	219	543	699
FFO allocated to JV partner	(21)	(39)	(102)	(105)
FFO allocable to diluted common shares and units	54,244	59,732	169,542	179,339
Non-capitalizable demolition costs	335	—	335	—
Acceleration of stock compensation expense due to President and CEO retirement	1,687	—	1,687	—
Core FFO allocable to diluted common shares and units	56,266	59,732	171,564	179,339
Adjustments				
Recurring capital improvements	(1,625)	(2,728)	(6,413)	(6,336)
Tenant improvements	(3,338)	(3,331)	(11,039)	(11,898)
Capitalized lease commissions	(1,889)	(2,654)	(5,225)	(6,027)
Non-cash rental income ⁽¹⁾	(1,530)	(1,122)	(5,340)	(3,069)
Non-cash stock compensation expense ⁽²⁾	831	2,102	2,704	3,991
Cash paid for taxes in lieu of shares upon vesting of restricted stock units	(442)	(620)	(4,102)	(6,120)
FAD allocable to diluted common shares and units	\$ 48,273	\$ 51,379	\$ 142,149	\$ 149,880
Weighted average outstanding				
Common shares	27,483	27,432	27,470	27,411
Common operating partnership units	7,305	7,305	7,305	7,305
Restricted stock units	49	113	65	126
Common share equivalents	82	111	90	101
Total common and dilutive shares	34,919	34,961	34,930	34,943
Reconciliation of Earnings per Share to FFO per Share				
Net income per common share—diluted	\$ 1.11	\$ 0.96	\$ 3.55	\$ 2.95
Gain on sale of real estate facilities	(0.22)	—	(0.78)	—
Depreciation and amortization expense	0.66	0.75	2.08	2.18
FFO per share	1.55	1.71	4.85	5.13
Non-capitalizable demolition costs	0.01	—	0.01	—
Acceleration of stock compensation expense due to President and CEO retirement	0.05	—	0.05	—
Core FFO per share	\$ 1.61	\$ 1.71	\$ 4.91	\$ 5.13

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

(2) Amounts shown are net of accelerated stock compensation expense related to the President and CEO retirement, which is also excluded from the computation of Core FFO.

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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: We paid \$36.1 million in distributions to our preferred shareholders for the nine months ended September 30, 2020 and expect to continue 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 September 30, 2020 and their impact on our cash flow and liquidity are summarized below (*in thousands*):

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Transaction costs ⁽¹⁾	\$ 11,233	\$ 11,233	\$ —	\$ —	\$ —
Ground lease obligations ⁽²⁾	1,819	50	596	397	776
Total	\$ 13,052	\$ 11,283	\$ 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 3. 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 September 30, 2020.

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 Quarterly Report on Form 10-Q for additional information regarding the terms, valuations and approximate principal maturities of the Company's indebtedness, including the Credit Facility.

ITEM 4. 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 September 30, 2020. 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 September 30, 2020, 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.

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 fiscal quarter ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company currently is not subject to any material legal proceedings other than ordinary routine litigation and administrative proceedings incidental to its business.

ITEM 1A. RISK FACTORS

In addition to the other information in this Quarterly Report on Form 10-Q, you should carefully consider the risks described in our Annual Report on Form 10-K for the year ended December 31, 2019, in Part I, Item 1A, Risk Factors, and in our other filings with the SEC. These factors may materially affect our business, financial condition and operating results and could cause our actual results to differ materially from expectations. Except as described below, there have been no material changes to the risk factors relating to the Company disclosed in our Form 10-K for the year ended December 31, 2019.

In addition, in considering the forward-looking statements contained in this Form 10-Q and elsewhere, you should refer to the qualifications and limitations on our forward-looking statements that are described in Forward Looking Statements at the beginning of Part I, Item 2 of this Form 10-Q.

We are subject to risks from the COVID-19 pandemic and we may in the future be subject to risks from other public health crises.

Since being reported in December 2019, the COVID-19 pandemic has spread globally, including to every state in the United States, adversely affecting public health and economic activity. Our business is subject to risks from the COVID-19 pandemic, including, among others:

- ⌚ risks associated with the COVID-19 pandemic, including but not limited to illness or death of our employees or customers, negative impacts to the economic environment and to our customers which could reduce the demand for commercial property space or reduce our ability to collect rent, or potential regulatory action to close certain of our facilities that were determined not to be an "essential business" or for other reasons, limit our ability to complete development and redevelopment projects;
- ⌚ risk that even after the initial restrictions due to the COVID-19 pandemic ease, they could be reinstated in case of future waves of infection or if additional pandemics occur;
- ⌚ risk that the economic effects of the COVID-19 pandemic could reduce consumer confidence and result in an elevated level of move-outs of our long-term customers, resulting in a reduction in rental income due to occupancy reductions and increased "rent roll down" due to new customers having lower rental rates than departing customers; and
- ⌚ risk of negative impacts on the cost and availability of debt and equity capital as a result of the COVID-19 pandemic, which could have a material impact upon our capital and growth plans.

We believe that the degree to which the COVID-19 pandemic adversely impacts our business, operating results, cash flows and/or financial condition will be driven primarily by the duration, spread and severity of the pandemic itself, as well as the duration of indirect economic impacts such as recession, dislocation in capital markets, and job loss, as well as potential longer term changes in consumer behavior, all of which are uncertain and difficult to predict. As a result, we are not able at this time to estimate the effect of these factors on our business, but the adverse impact

on our business, results of operations, financial condition and cash flows could be material. Future public health crises could have similar impacts.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The Company's Board of Directors 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. The authorization has no expiration date. Purchases will be made subject to market conditions and other investment opportunities available to the Company.

During the three months ended September 30, 2020, there were no shares of the Company's common stock repurchased. As of September 30, 2020, 1,614,721 shares remain available for purchase under the program.

See Note 9 to the consolidated financial statements for additional information on repurchases of equity securities.

Exhibits Number	Description
Exhibit 3.2	<u>Amended and Restated Bylaws. Filed with Registrant's Form 8-K dated August 4, 2020 and incorporated herein by reference.</u>
Exhibit 10.1	*† <u>Form of PS Business Parks, Inc. 2012 Equity and Performance-Based Incentive Compensation Plan Restricted Stock Unit Agreement (Restated). Filed herewith.</u>
Exhibit 10.2	*† <u>Form of PS Business Parks, Inc. 2012 Equity and Performance-Based Incentive Compensation Plan Restricted Stock Unit Agreement (Future). Filed herewith.</u>
Exhibit 10.3	*† <u>Form of PS Business Parks, Inc. 2012 Equity and Performance-Based Incentive Compensation Plan Non-Qualified Stock Option Agreement (Restated). Filed herewith.</u>
Exhibit 10.4	*† <u>Form of PS Business Parks, Inc. 2012 Equity and Performance-Based Incentive Compensation Plan Non-Qualified Stock Option Agreement (Future). Filed herewith.</u>
Exhibit 10.5	*† <u>Form of PS Business Parks, Inc. 2012 Equity and Performance-Based Incentive Compensation Plan Stock Unit Agreement. Filed herewith.</u>
Exhibit 31.1	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.</u>
Exhibit 31.2	<u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.</u>
Exhibit 32.1	<u>Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith.</u>
Exhibit 101.INS	Inline XBRL Instance Document. Filed herewith.
Exhibit 101.SCH	Inline XBRL Taxonomy Extension Schema. Filed herewith.
Exhibit 101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase. Filed herewith.
Exhibit 101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase. Filed herewith.
Exhibit 101.LAB	Inline XBRL Taxonomy Extension Label Linkbase. Filed herewith.
Exhibit 101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase. Filed herewith.
Exhibit 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 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: October 28, 2020

PS BUSINESS PARKS, INC.

BY: /s/ Jeffrey D. Hedges
Jeffrey D. Hedges
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

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

RESTATED RESTRICTED STOCK UNIT AGREEMENT

THIS RESTATED RESTRICTED STOCK UNIT AGREEMENT (the “**Agreement**”) is made as of [Restatement Date] (the “**Restatement Date**”), by and between PS Business Parks, Inc., acting on its own behalf (the “**Company**”), and on behalf of PS Business Parks, L.P. as its sole general partner (the “**Partnership**”) (as appropriate in context below, references to the Company shall also include the Partnership), and [Name of Grantee], an employee of the Company, a Subsidiary or a Service Provider (the “**Grantee**”).

WHEREAS, the PS Business Parks, Inc. 2012 Equity and Performance-Based Incentive Compensation Plan (the “**Plan**”) has been duly approved by the Board of Directors of the Company and the shareholders of the Company;

WHEREAS, under the Plan the Company is authorized to issue, inter alia, Restricted Stock Units relating to shares of common stock, par value \$.01 per share, of the company (the “**Stock**”);

WHEREAS, the Company has previously determined that it was desirable to grant Restricted Stock Units to the Grantee under the terms and conditions set forth below; and

WHEREAS, the Company and the Grantee have now determined to amend and restate certain terms of the Grantee’s grant.

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 RESTRICTED STOCK UNITS.

On [Grant Date] (the “**Grant Date**”), the Company granted to the Grantee [No. of] Restricted Stock Units, subject to the terms of this Restricted Stock Unit Agreement and the Plan. All terms and conditions of the Plan are hereby incorporated into this Agreement by reference and shall be deemed to be part of this Agreement, without regard to whether such terms and conditions are not otherwise set forth in this Agreement. To the extent that any capitalized words used in this Agreement are not defined, they shall have the definitions stated for them in the Plan. In the event that there is any inconsistency between the provisions of this Agreement and the provisions of the Plan, the provisions of the Plan shall govern.

2. VESTING OF RESTRICTED STOCK UNITS.

2.1. Service Requirement.

Rights in respect of [Percentage]% of the number of Restricted Stock Units specified in Section 1 above shall vest on each of the first [No.] anniversary[ies] of the Grant Date [or insert vesting schedule], provided that the Grantee is in service on the applicable vesting date. As used herein, “service” shall mean service to the Company or a Subsidiary as an employee, director, consultant, Service Provider or independent contractor. For purposes of this Agreement, termination of service would not be deemed to occur if the Grantee, after terminating service in one capacity, continues to provide service to the Company, any Subsidiary or any Affiliate in another capacity. Termination of service is sometimes referred to below as termination of employment or other relationship with the Company. As used herein, references to the “Company” shall be deemed to include its Subsidiaries and Affiliates. The period during which the Restricted 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. Special Vesting Provisions. Notwithstanding anything to the contrary in Section 2.1:

2.2.1. **Death or Disability.** Upon the Grantee's death or Disability, all Restricted Stock Units granted to the Grantee pursuant to this Agreement that have not previously vested shall immediately become vested.

2.2.2. **Retirement.** If the Grantee's Service is terminated by reason of such Grantee's Retirement, all Restricted Stock Units granted to the Grantee pursuant to this Agreement that have not previously vested shall immediately become vested as of the Grantee's Retirement Date (defined below). For purposes of this Agreement, "**Retirement**" means the Grantee's termination of Service other than due to death, Disability, or Cause if:

- (a) by the Retirement Date the Grantee is at least 55 years old and has provided at least 10 years of Service as defined in the Plan (generally including service with the Company, Public Storage, and their Affiliates);
- (b) by the Retirement Date the sum of the Grantee's age and total years of Service equals at least 80;
- (c) the Grantee has provided the Company at least 12 months' prior written notice of the Grantee's intention to retire;
- (d) on or prior to the Retirement Date the Grantee has entered into a separation agreement, in a form acceptable to the Company, which includes a full release of claims and certain restrictive covenants as of the date of Retirement; and
- (e) subject to the Grantee's continued Service through both the Certification Date and the Retirement Date, the Chairman of the Compensation Committee (the "**Chairman**") has taken separate action to establish a date of termination of Service for the Grantee (the "**Retirement Date**") and to approve such accelerated vesting for such Grantee (the date of such action by the Chairman, the "**Certification Date**"); provided, however, that (i) the Grantee shall have no right to such accelerated vesting if the Chairman does not take action to approve such accelerated vesting for such Grantee or revokes its approval before the Retirement Date; and (ii) if the Grantee's Service is terminated for any reason other than death or Disability prior to such Retirement Date, any Restricted Stock Units held by the Grantee that have not vested shall terminate immediately, and the Grantee shall forfeit any rights with respect to such unvested Restricted Stock Units as of such termination of Service.

2.3. Restrictions on Transfer.

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

2.4. Delivery of Shares.

Consistent with Section 4.2(c) of the Partnership's Agreement of Limited Partnership, delivery of shares of Stock represented by the Grantee's vested Restricted Stock Units shall be made in the following fashion: (a) on behalf of the Grantee, the Partnership will purchase from the Company for fair market value the number of shares of Stock represented by the Grantee's vested Restricted Stock Units, (b) the shares will be transferred by the Company, on behalf of the Partnership, to the Grantee, as soon as administratively practicable following the date on which such Restricted Stock Units vest; provided, however, that such delivery shall occur no later than March 15th of the calendar year following the calendar year in which such Restricted Stock Units vested, and (c) the Company will contribute to the Partnership the proceeds received from the Partnership for the shares in exchange for a number of Partnership Units equal to the number of shares being delivered to the Grantee.

3. TERMINATION OF EMPLOYMENT OR OTHER RELATIONSHIP.

Upon the termination of the Grantee's employment or other relationship with the Company other than by reason of death, Disability, or Retirement (pursuant to Section 2.2.2), any Restricted Stock Units held by the Grantee that have not vested shall terminate immediately, and the Grantee shall forfeit any rights with respect to such Restricted Stock Units.

4. DIVIDEND AND VOTING RIGHTS.

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

5. REQUIREMENTS OF LAW.

The Company shall not be required to deliver any shares under this Restricted Stock Unit Agreement if the delivery of such shares would constitute a violation by the Grantee or by the Company of any provision of any law or regulation of any governmental authority, including without limitation any federal or state securities laws or regulations. If at any time the Company shall determine, in its discretion, that the listing, registration or qualification of any shares upon any securities exchange or under any state or federal law, or the consent or approval of any government regulatory body, is necessary or desirable as a condition of, or in connection with, the delivery of shares hereunder, the Restricted Stock Units shall not vest in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company. Specifically in connection with the Securities Act of 1933 (as now in effect or as hereafter amended), unless a registration statement under such Act is in effect with respect to the shares, the Company shall not be required to deliver such shares unless the Company has received evidence satisfactory to it that the Grantee may acquire such shares pursuant to an exemption from registration under such Act. Any determination in this connection by the Company shall be final, binding, and conclusive. The Company may, but shall in no event be obligated to, register any securities covered hereby pursuant to the Securities Act of 1933 (as now in effect or as hereafter amended). The Company shall not be obligated to take any affirmative action in order to cause the delivery of shares pursuant thereto to comply with any law or regulation of any governmental authority. As to any jurisdiction that expressly imposes the requirement that the Restricted Stock Units shall not vest unless and until the shares are registered or are subject to an available exemption from registration, the vesting of the Restricted Stock Units (under circumstances in which the laws of such jurisdiction apply) shall be deemed conditioned upon the effectiveness of such registration or the availability of such an exemption.

6. WITHHOLDING OF TAXES.

The Company and any Subsidiary 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 with respect to the Restricted Stock Units. At the termination of the Restricted Period, the Grantee shall pay to the Company or the Subsidiary, as applicable, any amount that the Company or the Subsidiary may reasonably determine to be necessary to satisfy such withholding obligation. Subject to the prior approval of the Company or the Subsidiary, as applicable, which may be withheld by the Company or the Subsidiary in its sole discretion, the Grantee may elect to satisfy such obligations, in whole or in part, (i) by causing the Company or the Subsidiary to withhold shares otherwise deliverable or (ii) by delivering to the Company or the Subsidiary Stock already owned by the Grantee. The shares so delivered or withheld shall have a fair market value not exceeding the minimum amount of tax required to be withheld by applicable law. The Fair Market Value of the shares used to satisfy such withholding obligation shall be determined by the Company or the Subsidiary 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 that are not subject to any repurchase, forfeiture, unfulfilled vesting, or other similar requirements.

7. PARACHUTE LIMITATIONS.

Notwithstanding any other provision of this Agreement or of any other agreement, contract, or understanding heretofore or hereafter entered into by the Grantee and the Company or any Subsidiary, except an agreement, contract, or understanding hereafter entered into that expressly modifies or excludes application of this Section 7 (the "Other Agreements"), and notwithstanding any formal or informal plan or other arrangement heretofore or hereafter adopted by the Company (or any Subsidiary) for the direct or indirect compensation of the Grantee (including groups or classes of participants or beneficiaries of which the Grantee is a member), whether or not such compensation is deferred, is in cash, or is in the form of a benefit to or for the Grantee (a "Benefit Arrangement"), if the Grantee is a "disqualified individual," as defined in Section 280G(c) of the Code, the Restricted Stock Units and any right to receive any payment or other benefit under this Agreement shall be reduced (i) to the extent that such right to payment or benefit, taking into account all other rights, payments, or benefits to or for Grantee under the Plan, all Other Agreements, and all Benefit Arrangements, would cause any payment or benefit to the Grantee under this Agreement to be considered a "parachute payment" within the meaning of Section 280G(b)(2) of the Code as then in effect (a "Parachute Payment"), but only (ii) if, as a result of receiving a Parachute Payment, the aggregate after-tax amounts received by the Grantee from the Company under this Agreement, the Plan, all Other Agreements, and all Benefit Arrangements would be less than the maximum after-tax amount that could be received by Grantee without causing any such payment or benefit to be considered a Parachute Payment. In the event that the receipt of any such right to exercise, payment, or benefit under this Agreement, in conjunction with all other rights, payments, or benefits to or for the Grantee under the Plan, any Other Agreement or any Benefit Arrangement would cause the Grantee to be considered to have received a Parachute Payment under this Agreement that would have the effect of decreasing the after-tax amount received by the Grantee as described in clause (ii) of the preceding sentence, then those rights, payments, or benefits under this Agreement, the Plan, any Other Agreements, and any Benefit Arrangements that should be reduced or eliminated so as to avoid having the payment or benefit to the Grantee under this Agreement be deemed to be a Parachute Payment shall be reduced in the following order: (x) cash payments that do not constitute deferred compensation within the meaning of Section 409A of the Code, (y) welfare or in-kind benefits and (z) cash payments that constitute deferred compensation, in each case, beginning with payments or benefits that are to be paid the farthest in time from the date of such reduction.

8. DISCLAIMER OF RIGHTS.

No provision of this Agreement shall be construed to confer upon the Grantee the right to be employed by the Company, any Subsidiary or any Affiliate, or to interfere in any way with the right and authority of the Company, any Subsidiary or any Affiliate either to increase or decrease the compensation of the Grantee at any time, or to terminate any employment or other relationship between the Grantee and the Company, any Subsidiary, any Service Provider or any Affiliate of any of the foregoing.

9. DATA PRIVACY.

To administer the Plan, the Company and its Affiliates 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 and its Affiliates to process any such personal data. The 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.

10. 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, the Grantee agrees that the Company may deliver the Plan's prospectus and any annual reports to the Grantee in an electronic format. If at any time the Grantee would prefer to receive paper copies of these documents, as the Grantee is entitled to, the Company would be pleased to provide copies. The Grantee may contact the Company's Legal Department to request paper copies of these documents.

11. INTERPRETATION OF THE AGREEMENT.

All decisions and interpretations made by the Chairman 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.

12. SECTION 409A.

The grant of Restricted Stock Units under this Agreement is intended to comply with Section 409A of the Code ("**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 the Grantee. With respect to payments under this Agreement, for purposes of Section 409A, each payment (if there is more than one payment) will be considered one of a series of separate payments. If at the time of the Grantee's separation from service, (a) the Grantee is a "specified employee" (as defined in Section 409A and using the identification methodology selected by the Company from time to time), and (b) the Company makes a good faith determination that an amount payable on account of such separation from service to the Grantee constitutes "deferred compensation" (within the meaning of 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).

With respect to any amount payable under this Agreement to the Grantee that constitutes "deferred compensation" (within the meaning of Section 409A), 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), such payment shall be made on the next payment date permitted by Section 409A.

13. CLAWBACK.

The Restricted 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 (a) any Company "clawback" or recoupment policy, or (b) any applicable laws which impose mandatory recoupment, under circumstances set forth in such applicable laws.

14. ENTIRE AGREEMENT.

This Agreement and the Plan constitute the entire agreement regarding this grant 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 amend, waive, discharge, or terminate any provision hereof to the extent that such amendment, waiver, discharge, or termination 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.

15. GOVERNING LAW.

This Agreement shall be governed by the laws of the State of California (but not including the choice of law rules thereof).

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

GRANTEE:

[Grantee Name]

ADDRESS FOR NOTICE TO GRANTEE:

[Grantee Address]

COMPANY:

PS BUSINESS PARKS, INC.

By: _____
Name: [Officer Name]
Title: [Officer Title]

PARTNERSHIP:

PS BUSINESS PARKS, L.P.

By: PS Business Parks, Inc., General Partner

By: _____
Name: [Officer Name]
Title: [Officer Title]

Signature Page to the Restated Restricted Stock Unit Agreement

**PS BUSINESS PARKS, INC.
2012 EQUITY AND PERFORMANCE-BASED INCENTIVE COMPENSATION PLAN**

FORM OF RESTRICTED STOCK UNIT AGREEMENT

THIS RESTRICTED STOCK UNIT AGREEMENT (the “**Agreement**”) is made as of [Grant Date] by and between PS Business Parks, Inc., acting on its own behalf (the “**Company**”), and on behalf of PS Business Parks, L.P. as its sole general partner (the “**Partnership**”) (as appropriate in context below, references to the Company shall also include the Partnership), and [Name of Grantee], an employee of the Company, a Subsidiary or a Service Provider (the “**Grantee**”).

WHEREAS, the PS Business Parks, Inc. 2012 Equity and Performance-Based Incentive Compensation Plan (the “**Plan**”) has been duly approved by the Board of Directors of the Company and the shareholders of the Company;

WHEREAS, under the Plan the Company is authorized to issue, inter alia, Restricted Stock Units relating to shares of common stock, par value \$.01 per share, of the company (the “**Stock**”); and

WHEREAS, the Company desires to grant Restricted Stock Units to the Grantee under the terms and conditions set forth below.

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 RESTRICTED STOCK UNITS.

The Company hereby grants to the Grantee [No. of] Restricted Stock Units, subject to the terms of this Restricted Stock Unit Agreement and the Plan. The “**Grant Date**” of the Restricted Stock Units is [Grant Date]. All terms and conditions of the Plan are hereby incorporated into this Agreement by reference and shall be deemed to be part of this Agreement, without regard to whether such terms and conditions are not otherwise set forth in this Agreement. To the extent that any capitalized words used in this Agreement are not defined, they shall have the definitions stated for them in the Plan. In the event that there is any inconsistency between the provisions of this Agreement and the provisions of the Plan, the provisions of the Plan shall govern.

2. VESTING OF RESTRICTED STOCK UNITS.

2.1. Service Requirement.

Rights in respect of [Percentage]% of the number of Restricted Stock Units specified in Section 1 above shall vest on each of the first [No.] anniversary[ies] of the Grant Date [or insert vesting schedule], provided that the Grantee is in service on the applicable vesting date. As used herein, “service” shall mean service to the Company or a Subsidiary as an employee, director, consultant, Service Provider or independent contractor. For purposes of this Agreement, termination of service would not be deemed to occur if the Grantee, after terminating service in one capacity, continues to provide service to the Company, any Subsidiary or any Affiliate in another capacity. Termination of service is sometimes referred to below as termination of employment or other relationship with the Company. As used herein, references to the “Company” shall be deemed to include its Subsidiaries and Affiliates. The period during which the Restricted 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. Special Vesting Provisions. Notwithstanding anything to the contrary in Section 2.1:

2.2.1. Death or Disability. Upon the Grantee’s death or Disability, all Restricted Stock Units granted to the Grantee pursuant to this Agreement that have not previously vested shall immediately become vested.

2.2.2. **Retirement.** If the Grantee's Service is terminated by reason of such Grantee's Retirement, all Restricted Stock Units granted to the Grantee pursuant to this Agreement that have not previously vested shall immediately become vested as of the Grantee's Retirement Date (defined below). For purposes of this Agreement, "**Retirement**" means the Grantee's termination of Service other than due to death, Disability, or Cause if:

- (a) by the Retirement Date the Grantee is at least 55 years old and has provided at least 10 years of Service as defined in the Plan (generally including service with the Company, Public Storage, and their Affiliates);
- (b) by the Retirement Date the sum of the Grantee's age and total years of Service equals at least 80;
- (c) the Grantee has provided the Company at least 12 months' prior written notice of the Grantee's intention to retire;
- (d) on or prior to the Retirement Date the Grantee has entered into a separation agreement, in a form acceptable to the Company, which includes a full release of claims and certain restrictive covenants as of the date of Retirement; and
- (e) subject to the Grantee's continued Service through both the Certification Date and the Retirement Date, the Chairman of the Compensation Committee (the "**Chairman**") has taken separate action to establish a date of termination of Service for the Grantee (the "**Retirement Date**") and to approve such accelerated vesting for such Grantee (the date of such action by the Chairman, the "**Certification Date**"); provided, however, that (i) the Grantee shall have no right to such accelerated vesting if the Chairman does not take action to approve such accelerated vesting for such Grantee or revokes its approval before the Retirement Date; and (ii) if the Grantee's Service is terminated for any reason other than death or Disability prior to such Retirement Date, any Restricted Stock Units held by the Grantee that have not vested shall terminate immediately, and the Grantee shall forfeit any rights with respect to such unvested Restricted Stock Units as of such termination of Service.

2.3. Restrictions on Transfer.

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

2.4. Delivery of Shares.

Consistent with Section 4.2(c) of the Partnership's Agreement of Limited Partnership, delivery of shares of Stock represented by the Grantee's vested Restricted Stock Units shall be made in the following fashion: (a) on behalf of the Grantee, the Partnership will purchase from the Company for fair market value the number of shares of Stock represented by the Grantee's vested Restricted Stock Units, (b) the shares will be transferred by the Company, on behalf of the Partnership, to the Grantee, as soon as administratively practicable following the date on which such Restricted Stock Units vest; provided, however, that such delivery shall occur no later than March 15th of the calendar year following the calendar year in which such Restricted Stock Units vested, and (c) the Company will contribute to the Partnership the proceeds received from the Partnership for the shares in exchange for a number of Partnership Units equal to the number of shares being delivered to the Grantee.

3. TERMINATION OF EMPLOYMENT OR OTHER RELATIONSHIP.

Upon the termination of the Grantee's employment or other relationship with the Company other than by reason of death, Disability, or Retirement (pursuant to Section 2.2.2), any Restricted Stock Units held by the Grantee that have not vested shall terminate immediately, and the Grantee shall forfeit any rights with respect to such Restricted Stock Units.

4. DIVIDEND AND VOTING RIGHTS.

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

5. REQUIREMENTS OF LAW.

The Company shall not be required to deliver any shares under this Restricted Stock Unit Agreement if the delivery of such shares would constitute a violation by the Grantee or by the Company of any provision of any law or regulation of any governmental authority, including without limitation any federal or state securities laws or regulations. If at any time the Company shall determine, in its discretion, that the listing, registration or qualification of any shares upon any securities exchange or under any state or federal law, or the consent or approval of any government regulatory body, is necessary or desirable as a condition of, or in connection with, the delivery of shares hereunder, the Restricted Stock Units shall not vest in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company. Specifically in connection with the Securities Act of 1933 (as now in effect or as hereafter amended), unless a registration statement under such Act is in effect with respect to the shares, the Company shall not be required to deliver such shares unless the Company has received evidence satisfactory to it that the Grantee may acquire such shares pursuant to an exemption from registration under such Act. Any determination in this connection by the Company shall be final, binding, and conclusive. The Company may, but shall in no event be obligated to, register any securities covered hereby pursuant to the Securities Act of 1933 (as now in effect or as hereafter amended). The Company shall not be obligated to take any affirmative action in order to cause the delivery of shares pursuant thereto to comply with any law or regulation of any governmental authority. As to any jurisdiction that expressly imposes the requirement that the Restricted Stock Units shall not vest unless and until the shares are registered or are subject to an available exemption from registration, the vesting of the Restricted Stock Units (under circumstances in which the laws of such jurisdiction apply) shall be deemed conditioned upon the effectiveness of such registration or the availability of such an exemption.

6. WITHHOLDING OF TAXES.

The Company and any Subsidiary 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 with respect to the Restricted Stock Units. At the termination of the Restricted Period, the Grantee shall pay to the Company or the Subsidiary, as applicable, any amount that the Company or the Subsidiary may reasonably determine to be necessary to satisfy such withholding obligation. Subject to the prior approval of the Company or the Subsidiary, as applicable, which may be withheld by the Company or the Subsidiary in its sole discretion, the Grantee may elect to satisfy such obligations, in whole or in part, (i) by causing the Company or the Subsidiary to withhold shares otherwise deliverable or (ii) by delivering to the Company or the Subsidiary Stock already owned by the Grantee. The shares so delivered or withheld shall have a fair market value not exceeding the minimum amount of tax required to be withheld by applicable law. The Fair Market Value of the shares used to satisfy such withholding obligation shall be determined by the Company or the Subsidiary 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 that are not subject to any repurchase, forfeiture, unfulfilled vesting, or other similar requirements.

7. PARACHUTE LIMITATIONS.

Notwithstanding any other provision of this Agreement or of any other agreement, contract, or understanding heretofore or hereafter entered into by the Grantee and the Company or any Subsidiary,

except an agreement, contract, or understanding hereafter entered into that expressly modifies or excludes application of this Section 7 (the “Other Agreements”), and notwithstanding any formal or informal plan or other arrangement heretofore or hereafter adopted by the Company (or any Subsidiary) for the direct or indirect compensation of the Grantee (including groups or classes of participants or beneficiaries of which the Grantee is a member), whether or not such compensation is deferred, is in cash, or is in the form of a benefit to or for the Grantee (a “Benefit Arrangement”), if the Grantee is a “disqualified individual,” as defined in Section 280G(c) of the Code, the Restricted Stock Units and any right to receive any payment or other benefit under this Agreement shall be reduced (i) to the extent that such right to payment or benefit, taking into account all other rights, payments, or benefits to or for Grantee under the Plan, all Other Agreements, and all Benefit Arrangements, would cause any payment or benefit to the Grantee under this Agreement to be considered a “parachute payment” within the meaning of Section 280G(b)(2) of the Code as then in effect (a “Parachute Payment”), but only (ii) if, as a result of receiving a Parachute Payment, the aggregate after-tax amounts received by the Grantee from the Company under this Agreement, the Plan, all Other Agreements, and all Benefit Arrangements would be less than the maximum after-tax amount that could be received by Grantee without causing any such payment or benefit to be considered a Parachute Payment. In the event that the receipt of any such right to exercise, payment, or benefit under this Agreement, in conjunction with all other rights, payments, or benefits to or for the Grantee under the Plan, any Other Agreement or any Benefit Arrangement would cause the Grantee to be considered to have received a Parachute Payment under this Agreement that would have the effect of decreasing the after-tax amount received by the Grantee as described in clause (ii) of the preceding sentence, then those rights, payments, or benefits under this Agreement, the Plan, any Other Agreements, and any Benefit Arrangements that should be reduced or eliminated so as to avoid having the payment or benefit to the Grantee under this Agreement be deemed to be a Parachute Payment shall be reduced in the following order: (x) cash payments that do not constitute deferred compensation within the meaning of Section 409A of the Code, (y) welfare or in-kind benefits and (z) cash payments that constitute deferred compensation, in each case, beginning with payments or benefits that are to be paid the farthest in time from the date of such reduction.

8. DISCLAIMER OF RIGHTS.

No provision of this Agreement shall be construed to confer upon the Grantee the right to be employed by the Company, any Subsidiary or any Affiliate, or to interfere in any way with the right and authority of the Company, any Subsidiary or any Affiliate either to increase or decrease the compensation of the Grantee at any time, or to terminate any employment or other relationship between the Grantee and the Company, any Subsidiary, any Service Provider or any Affiliate of any of the foregoing.

9. DATA PRIVACY.

To administer the Plan, the Company and its Affiliates 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 and its Affiliates to process any such personal data. The 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.

10. 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, the Grantee agrees that the Company may deliver the Plan’s prospectus and any annual reports to the Grantee in an electronic format. If at any time the Grantee would prefer to receive

paper copies of these documents, as the Grantee is entitled to, the Company would be pleased to provide copies. The Grantee may contact the Company's Legal Department to request paper copies of these documents.

11. INTERPRETATION OF THE AGREEMENT.

All decisions and interpretations made by the Chairman 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.

12. SECTION 409A.

The grant of Restricted Stock Units under this Agreement is intended to comply with Section 409A of the Code ("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 the Grantee. With respect to payments under this Agreement, for purposes of Section 409A, each payment (if there is more than one payment) will be considered one of a series of separate payments. If at the time of the Grantee's separation from service, (a) the Grantee is a "specified employee" (as defined in Section 409A and using the identification methodology selected by the Company from time to time), and (b) the Company makes a good faith determination that an amount payable on account of such separation from service to the Grantee constitutes "deferred compensation" (within the meaning of 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).

With respect to any amount payable under this Agreement to the Grantee that constitutes "deferred compensation" (within the meaning of Section 409A), 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), such payment shall be made on the next payment date permitted by Section 409A.

13. CLAWBACK.

The Restricted 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 (a) any Company "clawback" or recoupment policy, or (b) any applicable laws which impose mandatory recoupment, under circumstances set forth in such applicable laws.

14. ENTIRE AGREEMENT.

This Agreement and the Plan constitute the entire agreement regarding this grant 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 amend, waive, discharge, or terminate any provision hereof to the extent that such amendment, waiver, discharge, or termination 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.

15. GOVERNING LAW.

This Agreement shall be governed by the laws of the State of California (but not including the choice of law rules thereof).

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

GRANTEE:

COMPANY:

PS BUSINESS PARKS, INC.

[Grantee Name]

By: _____

Name: [Officer Name]

Title: [Officer Title]

ADDRESS FOR NOTICE TO GRANTEE:

PARTNERSHIP:

PS BUSINESS PARKS, L.P.

[Grantee Address]

By: PS Business Parks, Inc., General

Partner

By: _____

Name: [Officer Name]

Title: [Officer Title]

Signature Page to the Restricted Stock Unit Agreement

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

RESTATED NON-QUALIFIED STOCK OPTION AGREEMENT

THIS RESTATED NON-QUALIFIED STOCK OPTION AGREEMENT (the “**Option Agreement**”) is made as of [Restatement Date], (the “**Restatement Date**”), by and between PS Business Parks, Inc., acting on its own behalf (the “**Company**”), and on behalf of PS Business Parks, L.P. as its sole general partner (the “**Partnership**”) (as appropriate in context below, references to the Company shall also include the Partnership) and [Optionee Name], an employee of the Company, one of its Subsidiaries or a Service Provider (the “**Optionee**”). 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 (the “**Plan**”).

WHEREAS, the Board of Directors of the Company (the “**Board**”) has duly adopted, and the shareholders of the Company have duly approved, the Plan, which provides for the grant to employees of the Company and its Subsidiaries and Service Providers of options for the purchase of shares of the Company’s common stock, par value \$.01 per share (the “**Common Stock**”), which may be granted from time to time as the Committee so determines;

WHEREAS, the Company has previously determined that it was desirable and in its best interests to grant to the Optionee, pursuant to the Plan, options to purchase a certain amount of Common Stock as compensation for services rendered to the Company, and/or in order to provide the Optionee with an incentive to advance the interests of the Company, all according to the terms and conditions set forth herein; and

WHEREAS, the Company and the Optionee have now determined to amend and restate certain terms of the Optionee’s grant;

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

1. GRANT OF OPTION.

Subject to the terms of the Plan (the terms of which are incorporated by reference herein), on [Grant Date] (the “**Grant Date**”), the Company granted to the Optionee the right and option (the “**Option**”) to purchase, on the terms and subject to the conditions hereinafter set forth, [Number] shares of Common Stock. This Option shall not constitute an incentive stock option within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended.

2. PRICE.

The purchase price (the “**Option Price**”) of the Common Stock subject to the Option evidenced by this Option Agreement is \$[Amount] per share (the Fair Market Value on the Grant Date).

3. VESTING AND EXERCISE OF OPTION.

Except as otherwise provided herein, the Option granted pursuant to this Option Agreement shall be subject to exercise as follows:

3.1. Vesting and Time of Exercise of Option.

The Optionee may exercise the Option (subject to the limitations on exercise set forth in the Plan or in this Option Agreement), in installments as determined by the Committee as follows: [Installments]. The foregoing installments, to the extent not exercised, shall accumulate and be exercisable, in whole or in part, at any time and from time to time, after becoming exercisable and prior to the termination of the Option; provided, that no single exercise of the Option shall be for less than 100 shares, unless the number of shares purchased is the total number at the time available for purchase under this Option. The Option is exercisable only before it expires and then only with respect to the vested portion of the Option.

3.2. Exercise by Optionee

During the lifetime of the Optionee, only the Optionee (or, in the event of the Optionee's legal incapacity or incompetency, the Optionee's guardian or legal representative) or a person or entity to whom the Optionee has transferred the Option in accordance with Section 6 hereof may exercise the Option. The Optionee agrees to comply with any trading blackout periods and securities trading policies implemented by the Company.

3.3. Term of Option.

The Option shall have a term of [Term] years, subject to earlier termination in accordance with this Option Agreement or the terms of the Plan as determined by the Committee.

3.4. Limitations on Exercise of Option.

In no event may the Option be exercised, in whole or in part, after ten years following the Grant Date, or after the occurrence of an event referred to in Section 8 below which results in termination of the Option. In no event may the Option be exercised for a fractional share.

3.5. Termination of Employment or Other Relationship.

Subject to Sections 3.6, 3.7 and 3.8 hereof, upon the termination of (i) the employment of the Optionee by the Company or any Subsidiary or Service Provider, or (ii) a Service Provider's relationship with the Company, the Optionee shall have the right at any time within 30 days after such termination and prior to termination of the Option pursuant to Section 3.4 above, to exercise, in whole or in part, any Option held by such Optionee at the date of such termination, to the extent such Option was exercisable immediately prior to such termination.

3.6. Rights in the Event of Death.

If the Optionee dies while employed by the Company, a Subsidiary or a Service Provider, or while serving as a Service Provider, the executors or administrators or legatees or distributees of the Optionee's estate shall have the right, at any time within one year after the date of the Optionee's death and prior to termination of the Option pursuant to Section 3.4 above, to exercise the Option with respect to all shares subject to the Option, whether or not the Option was exercisable immediately prior to the Optionee's death.

3.7. Rights in the Event of Disability.

If the Optionee terminates employment with the Company, a Subsidiary, or a Service Provider, or if the Optionee ceases to be a Service Provider, by reason of the Disability of the Optionee, then the Optionee shall have the right, for a period of one year after such termination and prior to termination of the

Option pursuant to Section 3.4 above, to exercise the Option with respect to all shares subject to the Option, whether or not the Option was exercisable immediately prior to the Optionee's termination by reason of Disability of the Optionee. Whether termination of employment or service is to be considered by reason of Disability for purposes of this Option Agreement shall be determined by the Committee, which determination shall be final and conclusive.

3.8. Rights in the Event of Retirement.

If the Optionee's Service terminates by reason of the Optionee's Retirement, then (a) all Options granted to the Optionee pursuant to this Option Agreement that have not previously vested shall immediately become vested as of such Optionee's Retirement Date (defined below), and (b) the Optionee shall have the right, at any time within one year after the date of such termination (but before the Option terminates pursuant to Sections 3.3 and 3.4 above), to exercise the vested portion of the Option (after taking into account the vesting acceleration pursuant to this Option Agreement). Any vested portion of the Option not exercised during such post-termination exercise window shall immediately terminate as of the end of such post-termination exercise window. For purposes of this Option Agreement, "**Retirement**" means the Optionee's termination of Service other than due to death, Disability, or Cause if:

- (a) by the Retirement Date the Optionee is at least 55 years old and has provided at least 10 years of Service as defined in the Plan (generally including service with the Company, Public Storage, and their Affiliates);
- (b) by the Retirement Date the sum of the Optionee's age and total years of Service equals at least 80;
- (c) the Optionee has provided the Company at least 12 months' prior written notice of the Optionee's intention to retire;
- (d) on or prior to the Retirement Date the Optionee has entered into a separation agreement, in a form acceptable to the Company, which includes a full release of claims and certain restrictive covenants as of the date of Retirement; and
- (e) subject to the Optionee's continued Service through both the Certification Date and the Retirement Date, the Chairman of the Compensation Committee (the "**Chairman**") has taken separate action to establish a date of termination of Service for the Optionee (the "**Retirement Date**") and to approve such accelerated vesting for such Optionee (the date of such action by the Chairman, the "**Certification Date**"); provided, however, that (i) the Optionee shall have no right to such accelerated vesting if the Chairman does not take action to approve such accelerated vesting for such Optionee or revokes the Chairman's approval before the Retirement Date; and (ii) if the Optionee's Service is terminated for any reason other than death or Disability prior to such Retirement Date, any unvested portion of the Option on the date of such termination of Service shall immediately terminate as of such termination, and any vested portion of the Option shall be subject to Section 3.5.

3.9. Reduction in Number of Shares Subject to Option.

The number of shares which may be purchased upon exercise of the Option pursuant to this Section 3 shall be reduced by the number of shares previously purchased upon exercise of the Option pursuant to this Section 3.

4. METHOD OF EXERCISE OF OPTION.

Any exercise will take place in a fashion consistent with Section 4.2(e)(1) of the Partnership's Agreement of Limited Partnership, taking into account the provisions below. Accordingly, (a) Optionee will provide the exercise price of the Option to the Partnership, (b) on behalf of the Optionee, the Partnership

will purchase from the Company for fair market value the number of shares for which the Option is being exercised by the Optionee, (c) the shares will be transferred by the Company, on behalf of the Partnership, to the Optionee, and (d) the Company will contribute to the Partnership the proceeds received from the Partnership for the shares underlying the Option in exchange for a number of Partnership Units equal to the number of shares for which the Option is being exercised.

The Option may be exercised to the extent that it has become exercisable hereunder by (a) exercise through the Company's approved broker for such exercises, or (b) delivery to the Company on any business day, at its principal office addressed to the attention of the Committee, of written notice of exercise, which notice shall specify the number of shares for which the Option is being exercised, and shall be accompanied by payment in full of the Option Price of the shares for which the Option is being exercised. Payment of the Option Price for the Common Stock purchased pursuant to the exercise of the Option shall be made (a) in cash or by check payable to the order of the Partnership; (b) through the tender to the Company on behalf of the Partnership of Common Stock, which stock shall be valued, for purposes of determining the extent to which the Option Price has been paid thereby, at its Fair Market Value on the date of exercise; (c) by a combination of the methods described in (a) and (b); or (d) with the consent of the Company, by withholding delivery to the Optionee of the number of shares of Common Stock that would otherwise be issuable in an amount equal in value to the Option Price.

Payment in full of the Option Price need not accompany the written notice of exercise provided the notice directs that the Common Stock certificate or certificates for the shares for which the Option is exercised be delivered to the Company approved broker for such exercises as the agent for the Optionee and, at the time such Common Stock is delivered, the broker tenders to the Company cash (or cash equivalents acceptable to the Company) equal to the Option Price plus the amount, if any, of federal and/or other taxes which the Company may, in its judgment, be required to withhold with respect to the exercise of the Option.

An attempt to exercise the Option granted other than as set forth above shall be invalid and of no force or effect. Promptly after the exercise of the Option and the payment in full of the Option Price of the Common Stock covered thereby, the Optionee shall be entitled to, as applicable, (a) the issuance of a certificate for Common Stock or certificates evidencing the Optionee's ownership of such stock or (b) direct registration for such stock or (c) electronic transfer of such stock to a Company-approved broker.

5. PARACHUTE LIMITATIONS.

Notwithstanding any other provision of this Option Agreement or of any other agreement, contract, or understanding heretofore or hereafter entered into by a Optionee with the Company or any Subsidiary, except an agreement, contract or understanding hereafter entered into that expressly modifies or excludes application of this paragraph (an "**Other Agreement**"), and notwithstanding any formal or informal plan or other arrangement for the direct or indirect provision of compensation to the Optionee (including groups or classes of participants or beneficiaries of which the Optionee is a member), whether or not such compensation is deferred, is in cash, or is in the form of a benefit to or for the Optionee (a "**Benefit Arrangement**"), if the Optionee is a "disqualified individual," as defined in Section 280G(c) of the Code, any Option held by that Optionee and any right to receive any payment or other benefit under this Option Agreement shall not become exercisable or vested (i) to the extent that such right to exercise, vesting, payment, or benefit, taking into account all other rights, payments, or benefits to or for the Optionee under this Option Agreement, all Other Agreements, and all Benefit Arrangements, would cause any payment or benefit to the Optionee under this Option Agreement to be considered a "parachute payment" within the meaning of Section 280G(b)(2) of the Code as then in effect (a "**Parachute Payment**") and (ii) if, as a result of receiving a Parachute Payment, the aggregate after-tax amounts received by the Optionee from the Company under this Option Agreement, all Other Agreements, and all Benefit Arrangements would be less

than the maximum after-tax amount that could be received by the Optionee without causing any such payment or benefit to be considered a Parachute Payment. In the event that the receipt of any such right to exercise, vesting, payment, or benefit under this Option Agreement, in conjunction with all other rights, payments, or benefits to or for the Optionee under any Other Agreement or any Benefit Arrangement would cause the Optionee to be considered to have received a Parachute Payment under this Option Agreement that would have the effect of decreasing the after-tax amount received by the Optionee as described in clause (ii) of the preceding sentence, then the Optionee shall have the right, in the Optionee's sole discretion, to designate those rights, payments, or benefits under this Option Agreement, any Other Agreements, and any Benefit Arrangements that should be reduced or eliminated so as to avoid having the payment or benefit to the Optionee under this Option Agreement be deemed to be a Parachute Payment.

6. LIMITATIONS ON TRANSFER.

The Option is not transferable by the Optionee, other than by will or the laws of descent and distribution in the event of death of the Optionee, and except that the Optionee may transfer the Option in whole or in part, for no consideration, to (i) the spouse, children (including step-children and adopted children) or grandchildren of the Optionee ("Family Members"), (ii) a trust for the exclusive benefit of one or more Family Members including the Optionee, or (iii) a partnership of which the Optionee and/or one or more Family Members are the only partners, provided that the transferee, in connection with the transfer, agrees in writing to be bound by all of the terms of this Option Agreement and the Plan and further agrees not to transfer the Option other than by will or the laws of descent and distribution in the event of the death of the transferee. Following any transfer permitted by this Section 6, the transferee shall have all of the rights of the Optionee hereunder, and the Option shall be exercisable by the transferee only to the extent that the Option would have been exercisable by the Optionee had the Option not been transferred. The Option shall not be pledged or hypothecated (by operation of law or otherwise) or subject to execution, attachment or similar processes.

7. RIGHTS AS SHAREHOLDER.

Neither the Optionee, nor any executor, administrator, distributee or legatee of the Optionee's estate, nor any transferee hereof shall be, or have any of the rights or privileges of, a shareholder of the Company in respect of any Common Stock issuable hereunder unless and until such shares have been fully paid and certificates representing such shares have been endorsed, transferred and delivered, and the name of the Optionee (or of such personal representative, administrator, distributee or legatee of the Optionee's estate, or of such transferee) has been entered as the shareholder of record on the books of the Company.

8. EFFECT OF CHANGES IN CAPITALIZATION.

8.1. Changes in Stock.

If the number of shares of outstanding Common Stock is increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Company by reason of any recapitalization, reclassification, stock split, reverse split, combination of stock, exchange of stock, stock dividend or other distribution payable in capital stock, or other increase or decrease in such stock effected without receipt of consideration by the Company occurring after the date the Option is granted, a proportionate and appropriate adjustment shall be made by the Company in the number and kind of stock subject to the Option, so that the proportionate interest of the Optionee immediately following such event shall, to the extent practicable, be the same as immediately prior to such event. Any such adjustment in the Option shall not change the total Option Price with respect to stock subject to the unexercised portion of the Option but shall include a corresponding proportionate adjustment in the Option Price per share. In the event of a spin-off by the Company of the stock of a subsidiary, a stock dividend for which the Company

will claim a dividends paid deduction under Section 561 of the Code (or any successor provision), or a pro rata distribution to all shareholders of other assets of the Company, the Committee may, but shall not be required to, make appropriate adjustments to (i) the number and kind of stock or other assets for which the Option is exercisable and (ii) the per-share exercise price of the Option.

8.2. Reorganization in Which the Company Is the Surviving Entity and in Which No Change of Control Occurs.

Subject to Section 8.3 hereof, if the Company shall be the surviving entity in any reorganization, merger or consolidation of the Company with one or more other entities, the Option shall pertain to and apply to the securities to which a holder of the number of shares subject to the Option would have been entitled immediately following such reorganization, merger or consolidation, with a corresponding proportionate adjustment of the Option Price per share so that the aggregate Option Price thereafter shall be the same as the aggregate Option Price immediately prior to such reorganization, merger or consolidation.

8.3. Reorganization, Sale of Assets or Sale of Shares Which Involves a Change of Control

Subject to the exceptions set forth in the last sentence of this Section 8.3, fifteen days prior to the scheduled consummation of a Change of Control, the Option shall become immediately exercisable with respect to all shares subject to the Option and shall remain exercisable for a period of fifteen days. Any exercise of the Option during such fifteen-day period shall be conditioned upon the consummation of the Change of Control and shall be effective only immediately before the consummation of the Change of Control. Upon consummation of any Change of Control, unless exercised the Option shall terminate. The Committee shall send written notice of an event that will result in such a termination to the Optionee not later than the time at which the Company gives notice thereof to its shareholders. For purposes of this Section 8.3, a "Change of Control" shall be deemed to occur upon (i) the dissolution or liquidation of the Company or upon a merger, consolidation, or reorganization of the Company with one or more other entities in which the Company is not the surviving entity, (ii) a sale of substantially all of the assets of the Company to another entity, or (iii) any transaction (including without limitation a merger or reorganization in which the Company is the surviving corporation) which results in any person or entity (other than B. Wayne Hughes and members of his family and their affiliates) owning 50% or more of the combined voting power of all classes of stock of the Company. This Section 8.3 shall not apply to any Change of Control to the extent that (A) provision is made in writing in connection with such Change of Control for the assumption of the Option, or for the substitution for the Option of a new option covering the stock of a successor corporation, or a parent, subsidiary or affiliate thereof, with appropriate adjustments as to the number and kind of stock and exercise prices, in which event the Option shall continue in the manner and under the terms so provided or (B) a majority of the full Board determines that such Change of Control shall not trigger application of the provisions of this Section 8.3.

8.4. Adjustments.

Adjustments specified in this Section 8 relating to shares of Common Stock or securities of the Company shall be made by the Committee, whose determination in that respect shall be final, binding and conclusive. No fractional shares 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.

9. GENERAL RESTRICTIONS.

The Company shall not be required to sell or issue any shares of Common Stock under the Option if the sale or issuance of such shares would constitute a violation by the individual exercising the Option or by the Company of any provision of any law or regulation of any governmental authority, including without limitation any federal or state securities laws or regulations. If at any time the Company shall determine, in its discretion, that the listing, registration or qualification of any shares of Common Stock subject to the Option upon any securities exchange or under any state or federal law, or the consent or approval of any government regulatory body, is necessary or desirable as a condition of, or in connection with, the issuance or purchase of shares hereunder, the Option may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company, and any delay caused thereby shall in no way affect the date of termination of the Option. Specifically, in connection with the Securities Act of 1933, upon notice of exercise of the Option, unless a registration statement under such Act is in effect with respect to the shares covered by the Option, the Company shall not be required to sell or issue such shares unless the Committee has received evidence satisfactory to the Committee that the holder of the Option may acquire such shares pursuant to an exemption from registration under such Act. Any determination in this connection by the Committee shall be final, binding, and conclusive. The Company shall not be obligated to take any affirmative action in order to cause the exercise of the Option or the issuance of Common Stock pursuant thereto to comply with any law or regulation of any governmental authority. As to any jurisdiction that expressly imposes the requirement that the Option shall not be exercisable unless and until the shares covered by the Option are registered or are subject to an available exemption from registration, the exercise of the Option (under circumstances in which the laws of such jurisdiction apply) shall be deemed conditioned upon the effectiveness of such registration or the availability of such an exemption.

10. DISCLAIMER OF RIGHTS.

No provision in this Option Agreement shall be construed to confer upon the Optionee the right to be employed by the Company or any Subsidiary or Service Provider or to provide services to the Company, or to interfere in any way with the right and authority of the Company or any Subsidiary or Service Provider either to increase or decrease the compensation of the Optionee at any time, or to terminate any employment or other relationship between the Optionee and the Company or any Subsidiary or Service Provider.

11. WITHHOLDING TAXES.

Upon the request of the Company, a Subsidiary or a Service Provider, the Optionee shall promptly pay to the Company, Subsidiary or Service Provider, or make arrangements satisfactory to the Company, Subsidiary or Service Provider regarding payment of, any federal, state or local taxes of any kind required by law to be withheld as a result of the Optionee's exercise of the Option. The Company, a Subsidiary or a Service Provider shall have the right to deduct from payments of any kind otherwise due to the Optionee any such taxes. The Optionee shall make any such payments in cash or cash equivalents or, subject to the prior approval of the Committee, which may be withheld in the Committee's sole discretion, the Optionee may elect to satisfy the withholding obligation, in whole or in part, (i) by causing the Company, the Subsidiary or the Service Provider to withhold shares of Common Stock otherwise issuable to the Optionee pursuant to the Option or (ii) by delivering to the Company, the Subsidiary or the Service Provider Common Stock already owned by the Optionee. The Common Stock so delivered or withheld shall have an aggregate Fair Market Value not exceeding the minimum amount of tax required to be withheld by applicable law. The Optionee may deliver or have withheld only shares of Common Stock that are not subject to any repurchase, forfeiture, unfulfilled vesting, or other similar requirements.

12. DATA PRIVACY.

To administer the Plan, the Company and its Affiliates may process personal data about the Optionee. Such data includes, but is not limited to, the information provided in this Option Agreement and any changes thereto, other appropriate personal and financial data about the Optionee 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 Optionee hereby gives express consent to the Company and its Affiliates to process any such personal data. Optionee also gives express consent to the Company to transfer any such personal data outside the country in which Optionee works, including, with respect to non-U.S. resident Optionees, to the United States, to transferees who will include the Company and other persons who are designated by the Company to administer the Plan.

13. 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, the Optionee agrees that the Company may deliver the Plan prospectus and any annual reports to the Optionee in an electronic format. If at any time the Optionee would prefer to receive paper copies of these documents, as Optionee is entitled to, the Company would be pleased to provide copies. The Optionee may contact the Company's Legal Department to request paper copies of these documents.

14. CLAWBACK.

The Option shall be subject to mandatory repayment by the Optionee to the Company to the extent the Optionee is, or in the future becomes, subject to (a) any Company "clawback" or recoupment policy, or (b) any applicable laws which impose mandatory recoupment, under circumstances set forth in such applicable laws.

15. INTERPRETATION OF THIS OPTION AGREEMENT.

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

16. GOVERNING LAW.

This Option Agreement is executed pursuant to and shall be governed by the laws of the State of California (but not including the choice of law rules thereof).

17. BINDING EFFECT.

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

18. NOTICE.

Any notice hereunder by the Optionee to the Company shall be in writing and shall be deemed duly given if mailed or delivered to the Company at its principal office, addressed to the attention of the Corporate Secretary, or if so mailed or delivered to such other address as the Company may hereafter designate by notice to the Optionee. Any notice hereunder by the Company to the Optionee shall be in writing and shall be deemed duly given if mailed or delivered to the Optionee at the address specified below by the Optionee for such purpose, or if so mailed or delivered to such other address as the Optionee may hereafter designate by written notice given to the Company.

19. ENTIRE AGREEMENT.

This Option Agreement constitutes the entire agreement and supersedes all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. Neither this Option Agreement nor any term hereof may be amended, waived, discharged or terminated except by a written instrument signed by the Company and the Optionee; 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 Optionee 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 duly executed this Restated Option Agreement, or caused this Option Agreement to be duly executed on their behalf, as of the day and year first above written.

OPTIONEE:

[Optionee Name]

ADDRESS FOR NOTICE TO OPTIONEE:

[Optionee Address]

COMPANY:

PS BUSINESS PARKS, INC.

By: _____

Name: [Officer Name]

Title: [Officer Title]

PARTNERSHIP:

PS BUSINESS PARKS, L.P.

By: PS Business Parks, Inc., General Partner

By: _____

Name: [Officer Name]

Title: [Officer Title]

Signature Page to the Restated Non-Qualified Stock Option Agreement

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

FORM OF NON-QUALIFIED STOCK OPTION AGREEMENT

THIS NON-QUALIFIED STOCK OPTION AGREEMENT (the “**Option Agreement**”) is made as of [Grant Date], (the “**Grant Date**”), by and between PS Business Parks, Inc., acting on its own behalf (the “**Company**”), and on behalf of PS Business Parks, L.P. as its sole general partner (the “**Partnership**”) (as appropriate in context below, references to the Company shall also include the Partnership) and [Optionee Name], an employee of the Company, one of its Subsidiaries or a Service Provider (the “**Optionee**”). 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 (the “**Plan**”).

WHEREAS, the Board of Directors of the Company (the “**Board**”) has duly adopted, and the shareholders of the Company have duly approved, the Plan, which provides for the grant to employees of the Company and its Subsidiaries and Service Providers of options for the purchase of shares of the Company’s common stock, par value \$.01 per share (the “**Common Stock**”), which may be granted from time to time as the Committee so determines;

WHEREAS, the Company has determined that it is desirable and in its best interests to grant to the Optionee, pursuant to the Plan, options to purchase a certain amount of Common Stock as compensation for services rendered to the Company, and/or in order to provide the Optionee 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 promises and covenants contained herein, the parties hereto do hereby agree as follows:

1. GRANT OF OPTION.

Subject to the terms of the Plan (the terms of which are incorporated by reference herein), as of the Grant Date, the Company hereby grants to the Optionee the right and option (the “**Option**”) to purchase, on the terms and subject to the conditions hereinafter set forth, [Number] shares of Common Stock. This Option shall not constitute an incentive stock option within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended.

2. PRICE.

The purchase price (the “**Option Price**”) of the Common Stock subject to the Option evidenced by this Option Agreement is \$[Amount] per share (the Fair Market Value on the Grant Date).

3. VESTING AND EXERCISE OF OPTION.

Except as otherwise provided herein, the Option granted pursuant to this Option Agreement shall be subject to exercise as follows:

3.1. Vesting and Time of Exercise of Option.

The Optionee may exercise the Option (subject to the limitations on exercise set forth in the Plan or in this Option Agreement), in installments as determined by the Committee as follows: [Installments]. The foregoing installments, to the extent not exercised, shall accumulate and be exercisable, in whole or in part, at any time and from time to time, after becoming exercisable and prior to the termination of the Option; provided, that no single exercise of the Option shall be for less than 100 shares, unless the number of shares purchased is the total number at the time available for purchase under this Option. The Option is exercisable only before it expires and then only with respect to the vested portion of the Option.

3.2. Exercise by Optionee

During the lifetime of the Optionee, only the Optionee (or, in the event of the Optionee's legal incapacity or incompetency, the Optionee's guardian or legal representative) or a person or entity to whom the Optionee has transferred the Option in accordance with Section 6 hereof may exercise the Option. The Optionee agrees to comply with any trading blackout periods and securities trading policies implemented by the Company.

3.3. Term of Option.

The Option shall have a term of [Term] years, subject to earlier termination in accordance with this Option Agreement or the terms of the Plan as determined by the Committee.

3.4. Limitations on Exercise of Option.

In no event may the Option be exercised, in whole or in part, after ten years following the Grant Date, or after the occurrence of an event referred to in Section 8 below which results in termination of the Option. In no event may the Option be exercised for a fractional share.

3.5. Termination of Employment or Other Relationship.

Subject to Sections 3.6, 3.7 and 3.8 hereof, upon the termination of (i) the employment of the Optionee by the Company or any Subsidiary or Service Provider, or (ii) a Service Provider's relationship with the Company, the Optionee shall have the right at any time within 30 days after such termination and prior to termination of the Option pursuant to Section 3.4 above, to exercise, in whole or in part, any Option held by such Optionee at the date of such termination, to the extent such Option was exercisable immediately prior to such termination.

3.6. Rights in the Event of Death.

If the Optionee dies while employed by the Company, a Subsidiary or a Service Provider, or while serving as a Service Provider, the executors or administrators or legatees or distributees of the Optionee's estate shall have the right, at any time within one year after the date of the Optionee's death and prior to termination of the Option pursuant to Section 3.4 above, to exercise the Option with respect to all shares subject to the Option, whether or not the Option was exercisable immediately prior to the Optionee's death.

3.7. Rights in the Event of Disability.

If the Optionee terminates employment with the Company, a Subsidiary, or a Service Provider, or if the Optionee ceases to be a Service Provider, by reason of the Disability of the Optionee, then the Optionee shall have the right, for a period of one year after such termination and prior to termination of the

Option pursuant to Section 3.4 above, to exercise the Option with respect to all shares subject to the Option, whether or not the Option was exercisable immediately prior to the Optionee's termination by reason of Disability of the Optionee. Whether termination of employment or service is to be considered by reason of Disability for purposes of this Option Agreement shall be determined by the Committee, which determination shall be final and conclusive.

3.8. Rights in the Event of Retirement.

If the Optionee's Service terminates by reason of the Optionee's Retirement, then (a) all Options granted to the Optionee pursuant to this Option Agreement that have not previously vested shall immediately become vested as of such Optionee's Retirement Date (defined below), and (b) the Optionee shall have the right, at any time within one year after the date of such termination (but before the Option terminates pursuant to Sections 3.3 and 3.4 above), to exercise the vested portion of the Option (after taking into account the vesting acceleration pursuant to this Option Agreement). Any vested portion of the Option not exercised during such post-termination exercise window shall immediately terminate as of the end of such post-termination exercise window. For purposes of this Option Agreement, "**Retirement**" means the Optionee's termination of Service other than due to death, Disability, or Cause if:

- (a) by the Retirement Date the Optionee is at least 55 years old and has provided at least 10 years of Service as defined in the Plan (generally including service with the Company, Public Storage, and their Affiliates);
- (b) by the Retirement Date the sum of the Optionee's age and total years of Service equals at least 80;
- (c) the Optionee has provided the Company at least 12 months' prior written notice of the Optionee's intention to retire;
- (d) on or prior to the Retirement Date the Optionee has entered into a separation agreement, in a form acceptable to the Company, which includes a full release of claims and certain restrictive covenants as of the date of Retirement; and
- (e) subject to the Optionee's continued Service through both the Certification Date and the Retirement Date, the Chairman of the Compensation Committee (the "**Chairman**") has taken separate action to establish a date of termination of Service for the Optionee (the "**Retirement Date**") and to approve such accelerated vesting for such Optionee (the date of such action by the Chairman, the "**Certification Date**"); provided, however, that (i) the Optionee shall have no right to such accelerated vesting if the Chairman does not take action to approve such accelerated vesting for such Optionee or revokes the Chairman's approval before the Retirement Date; and (ii) if the Optionee's Service is terminated for any reason other than death or Disability prior to such Retirement Date, any unvested portion of the Option on the date of such termination of Service shall immediately terminate as of such termination, and any vested portion of the Option shall be subject to Section 3.5.

3.9. Reduction in Number of Shares Subject to Option.

The number of shares which may be purchased upon exercise of the Option pursuant to this Section 3 shall be reduced by the number of shares previously purchased upon exercise of the Option pursuant to this Section 3.

4. METHOD OF EXERCISE OF OPTION.

Any exercise will take place in a fashion consistent with Section 4.2(e)(1) of the Partnership's Agreement of Limited Partnership, taking into account the provisions below. Accordingly, (a) Optionee will provide the exercise price of the Option to the Partnership, (b) on behalf of the Optionee, the Partnership

will purchase from the Company for fair market value the number of shares for which the Option is being exercised by the Optionee, (c) the shares will be transferred by the Company, on behalf of the Partnership, to the Optionee, and (d) the Company will contribute to the Partnership the proceeds received from the Partnership for the shares underlying the Option in exchange for a number of Partnership Units equal to the number of shares for which the Option is being exercised.

The Option may be exercised to the extent that it has become exercisable hereunder by (a) exercise through the Company's approved broker for such exercises, or (b) delivery to the Company on any business day, at its principal office addressed to the attention of the Committee, of written notice of exercise, which notice shall specify the number of shares for which the Option is being exercised, and shall be accompanied by payment in full of the Option Price of the shares for which the Option is being exercised. Payment of the Option Price for the Common Stock purchased pursuant to the exercise of the Option shall be made (a) in cash or by check payable to the order of the Partnership; (b) through the tender to the Company on behalf of the Partnership of Common Stock, which stock shall be valued, for purposes of determining the extent to which the Option Price has been paid thereby, at its Fair Market Value on the date of exercise; (c) by a combination of the methods described in (a) and (b); or (d) with the consent of the Company, by withholding delivery to the Optionee of the number of shares of Common Stock that would otherwise be issuable in an amount equal in value to the Option Price.

Payment in full of the Option Price need not accompany the written notice of exercise provided the notice directs that the Common Stock certificate or certificates for the shares for which the Option is exercised be delivered to the Company approved broker for such exercises as the agent for the Optionee and, at the time such Common Stock is delivered, the broker tenders to the Company cash (or cash equivalents acceptable to the Company) equal to the Option Price plus the amount, if any, of federal and/or other taxes which the Company may, in its judgment, be required to withhold with respect to the exercise of the Option.

An attempt to exercise the Option granted other than as set forth above shall be invalid and of no force or effect. Promptly after the exercise of the Option and the payment in full of the Option Price of the Common Stock covered thereby, the Optionee shall be entitled to, as applicable, (a) the issuance of a certificate for Common Stock or certificates evidencing the Optionee's ownership of such stock or (b) direct registration for such stock or (c) electronic transfer of such stock to a Company-approved broker.

5. PARACHUTE LIMITATIONS.

Notwithstanding any other provision of this Option Agreement or of any other agreement, contract, or understanding heretofore or hereafter entered into by a Optionee with the Company or any Subsidiary, except an agreement, contract or understanding hereafter entered into that expressly modifies or excludes application of this paragraph (an "**Other Agreement**"), and notwithstanding any formal or informal plan or other arrangement for the direct or indirect provision of compensation to the Optionee (including groups or classes of participants or beneficiaries of which the Optionee is a member), whether or not such compensation is deferred, is in cash, or is in the form of a benefit to or for the Optionee (a "**Benefit Arrangement**"), if the Optionee is a "disqualified individual," as defined in Section 280G(c) of the Code, any Option held by that Optionee and any right to receive any payment or other benefit under this Option Agreement shall not become exercisable or vested (i) to the extent that such right to exercise, vesting, payment, or benefit, taking into account all other rights, payments, or benefits to or for the Optionee under this Option Agreement, all Other Agreements, and all Benefit Arrangements, would cause any payment or benefit to the Optionee under this Option Agreement to be considered a "parachute payment" within the meaning of Section 280G(b)(2) of the Code as then in effect (a "**Parachute Payment**") and (ii) if, as a result of receiving a Parachute Payment, the aggregate after-tax amounts received by the Optionee from the Company under this Option Agreement, all Other Agreements, and all Benefit Arrangements would be less

than the maximum after-tax amount that could be received by the Optionee without causing any such payment or benefit to be considered a Parachute Payment. In the event that the receipt of any such right to exercise, vesting, payment, or benefit under this Option Agreement, in conjunction with all other rights, payments, or benefits to or for the Optionee under any Other Agreement or any Benefit Arrangement would cause the Optionee to be considered to have received a Parachute Payment under this Option Agreement that would have the effect of decreasing the after-tax amount received by the Optionee as described in clause (ii) of the preceding sentence, then the Optionee shall have the right, in the Optionee's sole discretion, to designate those rights, payments, or benefits under this Option Agreement, any Other Agreements, and any Benefit Arrangements that should be reduced or eliminated so as to avoid having the payment or benefit to the Optionee under this Option Agreement be deemed to be a Parachute Payment.

6. LIMITATIONS ON TRANSFER.

The Option is not transferable by the Optionee, other than by will or the laws of descent and distribution in the event of death of the Optionee, and except that the Optionee may transfer the Option in whole or in part, for no consideration, to (i) the spouse, children (including step-children and adopted children) or grandchildren of the Optionee ("Family Members"), (ii) a trust for the exclusive benefit of one or more Family Members including the Optionee, or (iii) a partnership of which the Optionee and/or one or more Family Members are the only partners, provided that the transferee, in connection with the transfer, agrees in writing to be bound by all of the terms of this Option Agreement and the Plan and further agrees not to transfer the Option other than by will or the laws of descent and distribution in the event of the death of the transferee. Following any transfer permitted by this Section 6, the transferee shall have all of the rights of the Optionee hereunder, and the Option shall be exercisable by the transferee only to the extent that the Option would have been exercisable by the Optionee had the Option not been transferred. The Option shall not be pledged or hypothecated (by operation of law or otherwise) or subject to execution, attachment or similar processes.

7. RIGHTS AS SHAREHOLDER.

Neither the Optionee, nor any executor, administrator, distributee or legatee of the Optionee's estate, nor any transferee hereof shall be, or have any of the rights or privileges of, a shareholder of the Company in respect of any Common Stock issuable hereunder unless and until such shares have been fully paid and certificates representing such shares have been endorsed, transferred and delivered, and the name of the Optionee (or of such personal representative, administrator, distributee or legatee of the Optionee's estate, or of such transferee) has been entered as the shareholder of record on the books of the Company.

8. EFFECT OF CHANGES IN CAPITALIZATION.

8.1. Changes in Stock.

If the number of shares of outstanding Common Stock is increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Company by reason of any recapitalization, reclassification, stock split, reverse split, combination of stock, exchange of stock, stock dividend or other distribution payable in capital stock, or other increase or decrease in such stock effected without receipt of consideration by the Company occurring after the date the Option is granted, a proportionate and appropriate adjustment shall be made by the Company in the number and kind of stock subject to the Option, so that the proportionate interest of the Optionee immediately following such event shall, to the extent practicable, be the same as immediately prior to such event. Any such adjustment in the Option shall not change the total Option Price with respect to stock subject to the unexercised portion of the Option but shall include a corresponding proportionate adjustment in the Option Price per share. In the event of a spin-off by the Company of the stock of a subsidiary, a stock dividend for which the Company

will claim a dividends paid deduction under Section 561 of the Code (or any successor provision), or a pro rata distribution to all shareholders of other assets of the Company, the Committee may, but shall not be required to, make appropriate adjustments to (i) the number and kind of stock or other assets for which the Option is exercisable and (ii) the per-share exercise price of the Option.

8.2. Reorganization in Which the Company Is the Surviving Entity and in Which No Change of Control Occurs.

Subject to Section 8.3 hereof, if the Company shall be the surviving entity in any reorganization, merger or consolidation of the Company with one or more other entities, the Option shall pertain to and apply to the securities to which a holder of the number of shares subject to the Option would have been entitled immediately following such reorganization, merger or consolidation, with a corresponding proportionate adjustment of the Option Price per share so that the aggregate Option Price thereafter shall be the same as the aggregate Option Price immediately prior to such reorganization, merger or consolidation.

8.3. Reorganization, Sale of Assets or Sale of Shares Which Involves a Change of Control

Subject to the exceptions set forth in the last sentence of this Section 8.3, fifteen days prior to the scheduled consummation of a Change of Control, the Option shall become immediately exercisable with respect to all shares subject to the Option and shall remain exercisable for a period of fifteen days. Any exercise of the Option during such fifteen-day period shall be conditioned upon the consummation of the Change of Control and shall be effective only immediately before the consummation of the Change of Control. Upon consummation of any Change of Control, unless exercised the Option shall terminate. The Committee shall send written notice of an event that will result in such a termination to the Optionee not later than the time at which the Company gives notice thereof to its shareholders. For purposes of this Section 8.3, a "Change of Control" shall be deemed to occur upon (i) the dissolution or liquidation of the Company or upon a merger, consolidation, or reorganization of the Company with one or more other entities in which the Company is not the surviving entity, (ii) a sale of substantially all of the assets of the Company to another entity, or (iii) any transaction (including without limitation a merger or reorganization in which the Company is the surviving corporation) which results in any person or entity (other than B. Wayne Hughes and members of his family and their affiliates) owning 50% or more of the combined voting power of all classes of stock of the Company. This Section 8.3 shall not apply to any Change of Control to the extent that (A) provision is made in writing in connection with such Change of Control for the assumption of the Option, or for the substitution for the Option of a new option covering the stock of a successor corporation, or a parent, subsidiary or affiliate thereof, with appropriate adjustments as to the number and kind of stock and exercise prices, in which event the Option shall continue in the manner and under the terms so provided or (B) a majority of the full Board determines that such Change of Control shall not trigger application of the provisions of this Section 8.3.

8.4. Adjustments.

Adjustments specified in this Section 8 relating to shares of Common Stock or securities of the Company shall be made by the Committee, whose determination in that respect shall be final, binding and conclusive. No fractional shares 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.

9. GENERAL RESTRICTIONS.

The Company shall not be required to sell or issue any shares of Common Stock under the Option if the sale or issuance of such shares would constitute a violation by the individual exercising the Option or by the Company of any provision of any law or regulation of any governmental authority, including without limitation any federal or state securities laws or regulations. If at any time the Company shall determine, in its discretion, that the listing, registration or qualification of any shares of Common Stock subject to the Option upon any securities exchange or under any state or federal law, or the consent or approval of any government regulatory body, is necessary or desirable as a condition of, or in connection with, the issuance or purchase of shares hereunder, the Option may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company, and any delay caused thereby shall in no way affect the date of termination of the Option. Specifically, in connection with the Securities Act of 1933, upon notice of exercise of the Option, unless a registration statement under such Act is in effect with respect to the shares covered by the Option, the Company shall not be required to sell or issue such shares unless the Committee has received evidence satisfactory to the Committee that the holder of the Option may acquire such shares pursuant to an exemption from registration under such Act. Any determination in this connection by the Committee shall be final, binding, and conclusive. The Company shall not be obligated to take any affirmative action in order to cause the exercise of the Option or the issuance of Common Stock pursuant thereto to comply with any law or regulation of any governmental authority. As to any jurisdiction that expressly imposes the requirement that the Option shall not be exercisable unless and until the shares covered by the Option are registered or are subject to an available exemption from registration, the exercise of the Option (under circumstances in which the laws of such jurisdiction apply) shall be deemed conditioned upon the effectiveness of such registration or the availability of such an exemption.

10. DISCLAIMER OF RIGHTS.

No provision in this Option Agreement shall be construed to confer upon the Optionee the right to be employed by the Company or any Subsidiary or Service Provider or to provide services to the Company, or to interfere in any way with the right and authority of the Company or any Subsidiary or Service Provider either to increase or decrease the compensation of the Optionee at any time, or to terminate any employment or other relationship between the Optionee and the Company or any Subsidiary or Service Provider.

11. WITHHOLDING TAXES.

Upon the request of the Company, a Subsidiary or a Service Provider, the Optionee shall promptly pay to the Company, Subsidiary or Service Provider, or make arrangements satisfactory to the Company, Subsidiary or Service Provider regarding payment of, any federal, state or local taxes of any kind required by law to be withheld as a result of the Optionee's exercise of the Option. The Company, a Subsidiary or a Service Provider shall have the right to deduct from payments of any kind otherwise due to the Optionee any such taxes. The Optionee shall make any such payments in cash or cash equivalents or, subject to the prior approval of the Committee, which may be withheld in the Committee's sole discretion, the Optionee may elect to satisfy the withholding obligation, in whole or in part, (i) by causing the Company, the Subsidiary or the Service Provider to withhold shares of Common Stock otherwise issuable to the Optionee pursuant to the Option or (ii) by delivering to the Company, the Subsidiary or the Service Provider Common Stock already owned by the Optionee. The Common Stock so delivered or withheld shall have an aggregate Fair Market Value not exceeding the minimum amount of tax required to be withheld by applicable law. The Optionee may deliver or have withheld only shares of Common Stock that are not subject to any repurchase, forfeiture, unfulfilled vesting, or other similar requirements.

12. DATA PRIVACY.

To administer the Plan, the Company and its Affiliates may process personal data about the Optionee. Such data includes, but is not limited to, the information provided in this Option Agreement and any changes thereto, other appropriate personal and financial data about the Optionee 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 Optionee hereby gives express consent to the Company and its Affiliates to process any such personal data. Optionee also gives express consent to the Company to transfer any such personal data outside the country in which Optionee works, including, with respect to non-U.S. resident Optionees, to the United States, to transferees who will include the Company and other persons who are designated by the Company to administer the Plan.

13. 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, the Optionee agrees that the Company may deliver the Plan prospectus and any annual reports to the Optionee in an electronic format. If at any time the Optionee would prefer to receive paper copies of these documents, as Optionee is entitled to, the Company would be pleased to provide copies. The Optionee may contact the Company's Legal Department to request paper copies of these documents.

14. CLAWBACK.

The Option shall be subject to mandatory repayment by the Optionee to the Company to the extent the Optionee is, or in the future becomes, subject to (a) any Company "clawback" or recoupment policy, or (b) any applicable laws which impose mandatory recoupment, under circumstances set forth in such applicable laws.

15. INTERPRETATION OF THIS OPTION AGREEMENT.

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

16. GOVERNING LAW.

This Option Agreement is executed pursuant to and shall be governed by the laws of the State of California (but not including the choice of law rules thereof).

17. BINDING EFFECT.

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

18. NOTICE.

Any notice hereunder by the Optionee to the Company shall be in writing and shall be deemed duly given if mailed or delivered to the Company at its principal office, addressed to the attention of the Corporate Secretary, or if so mailed or delivered to such other address as the Company may hereafter designate by notice to the Optionee. Any notice hereunder by the Company to the Optionee shall be in writing and shall be deemed duly given if mailed or delivered to the Optionee at the address specified below by the Optionee for such purpose, or if so mailed or delivered to such other address as the Optionee may hereafter designate by written notice given to the Company.

19. ENTIRE AGREEMENT.

This Option Agreement constitutes the entire agreement and supersedes all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. Neither this Option Agreement nor any term hereof may be amended, waived, discharged or terminated except by a written instrument signed by the Company and the Optionee; 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 Optionee 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 duly executed this Option Agreement, or caused this Option Agreement to be duly executed on their behalf, as of the day and year first above written.

OPTIONEE:

[Optionee Name]

ADDRESS FOR NOTICE TO OPTIONEE:

[Optionee Address]

COMPANY:

PS BUSINESS PARKS, INC.

By: _____

Name: [Officer Name]

Title: [Officer Title]

PARTNERSHIP:

PS BUSINESS PARKS, L.P.

By: PS Business Parks, Inc., General Partner

By: _____

Name: [Officer Name]

Title: [Officer Title]

Signature Page to the Restated Non-Qualified Stock Option Agreement

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:

Signature Page to the Stock Unit Agreement

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

I, John W. Petersen, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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/ John W. Petersen

Name: John W. Petersen

Title: Interim Chief Executive Officer

Date: October 28, 2020

**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 quarterly report on Form 10-Q 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: October 28, 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 Quarterly Report on Form 10-Q of PS Business Parks, Inc. (the "Company") for the period ending September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), John W. Petersen, as Interim 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 his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John W. Petersen

Name: John W. Petersen
Title: Interim Chief Executive Officer
Date: October 28, 2020

/s/ Jeffrey D. Hedges

Name: Jeffrey D. Hedges
Title: Chief Financial Officer
Date: October 28, 2020
