PS BUSINESS PARKS INC/CA
Form 10-K
February 23, 2016
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015.
or
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 1-10709

PS BUSINESS PARKS, INC.

(Exact name of registrant as specified in its charter)

California	95-4300881
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

701 Western Avenue, Glendale, California 91201-2349

(Address of principal executive offices) (Zip Code)

818-244-8080

(Registrant's telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value per share	New York Stock Exchange
Depositary Shares Each Representing 1/1,000 of a Share of 6.450% Cumulative Preferred Stock, Series S, $0.01 par value per share	New York Stock Exchange
Depositary Shares Each Representing 1/1,000 of a Share of 6.000% Cumulative Preferred Stock, Series T, $0.01 par value per share	New York Stock Exchange
Depositary Shares Each Representing 1/1,000 of a Share of 5.750% Cumulative Preferred Stock, Series U, $0.01 par value per share	New York Stock Exchange
Depositary Shares Each Representing 1/1,000 of a Share of 5.700% Cumulative Preferred Stock, Series V, $0.01 par value per share	New York Stock Exchange

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

None

(Title of class)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes   No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§232.405) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

As of June 30, 2015, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $1,408,830,193 based on the closing price as reported on that date.

Number of shares of the registrant's common stock, par value $0.01 per share, outstanding as of February 15, 2016 (the latest practicable date): 27,034,073.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement to be filed in connection with the Annual Meeting of Shareholders to be held in 2016 are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

ITEM 1. BUSINESS

Forward-Looking Statements

Forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, are made throughout this Annual Report on Form 10-K. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "may," "believes," "anticipates," "plans," "expects," "seeks," "estimates," "intends," and similar expressions are intende 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: (a) changes in general economic and business conditions; (b) decreases in rental rates or increases in vacancy rates/failure to renew or replace expiring leases; (c) tenant defaults; (d) the effect of the recent credit and financial market conditions; (e) our failure to maintain our status as a real estate investment trust ("REIT"); (f) the economic health of our tenants; (g) increases in operating costs; (h) casualties to our properties not covered by insurance; (i) the availability and cost of capital; (j) increases in interest rates and its effect on our stock price; (k) other factors discussed under the heading Item 1A, "Risk Factors". In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. Moreover, we assume no obligation to update these forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements, except as required by law.

The Company

PS Business Parks, Inc. ("PSB") is a fully-integrated, self-advised and self-managed REIT that owns, operates, acquires and develops commercial properties, primarily multi-tenant flex, office and industrial parks. PS Business Parks, L.P. (the "Operating Partnership") is a California limited partnership, which owns directly or indirectly substantially all of our assets and through which we conduct substantially all of our business. Unless otherwise indicated or unless the context requires otherwise, all references to "the Company," "we," "us," "our," and similar references mean PS Business Parks, Inc. and its subsidiaries, including the Operating Partnership. PSB is the sole general partner of the Operating Partnership and, as of December 31, 2015, owned 77.8% of the common partnership units. The remaining common partnership units are owned by Public Storage ("PS"). Assuming issuance of PSB common stock upon redemption of the common partnership units held by PS, PS would own 42.1% (or 14.5 million shares) of the outstanding shares of the Company's common stock. PSB, as the sole general partner of the Operating Partnership, has full, exclusive and complete responsibility and discretion in managing and controlling the Operating Partnership.

As of December 31, 2015, the Company owned and operated 28.0 million rentable square feet of commercial space, comprising 99 business parks, in the following states: California, Texas, Virginia, Florida, Maryland and Washington. The Company focuses on owning concentrated business parks which provide the Company with the greatest flexibility to meet the needs of its customers. The Company also manages 813,000 rentable square feet on behalf of PS.

History of the Company: The Company was formed in 1990 as a California corporation under the name Public Storage Properties XI, Inc. In a March 17, 1998 merger with American Office Park Properties, Inc. (“AOPP”) (the “Merger”), the Company acquired the commercial property business operated by AOPP and was renamed “PS Business Parks, Inc.” Prior to the Merger, in January, 1997, AOPP was reorganized to succeed to the commercial property business of PS, becoming a fully integrated, self-advised and self-managed REIT.

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The Company made no acquisitions in 2015. From January, 2013 through December, 2014, the Company acquired 2.2 million square feet of multi-tenant flex, office and industrial parks, which comprise the Non-Same Park portfolio as defined on page 29, for an aggregate purchase price of $161.1 million. The table below reflects the assets acquired during this period (in thousands):

Property	Date Acquired	Location	Purchase Price	Square Feet	Occupancy at December 31, 2015
Charcot Business Park II	December, 2014	San Jose, California	$ 16,000	119	100.0%
McNeil 1	November, 2014	Austin, Texas	10,550	246	100.0%
Springlake Business Center II	August, 2014	Dallas, Texas	5,148	145	88.2%
Arapaho Business Park 9	July, 2014	Dallas, Texas	1,134	19	100.0%
MICC — Center 23	July, 2014	Miami, Florida	12,725	149	100.0%
Total 2014 Acquisitions			45,557	678	97.5%
Bayshore Corporate Center	December, 2013	San Mateo, California	60,500	340	94.2%
Valwood Business Park	November, 2013	Dallas, Texas	12,425	245	90.0%
Dallas Flex Portfolio	October, 2013	Dallas, Texas	27,900	559	95.8%
Arapaho Business Park	July, 2013	Dallas, Texas	14,750	389	87.3%
Total 2013 Acquisitions			115,575	1,533	92.4%
Total			$ 161,132	2,211	93.9%

In 2013, the Company entered into a joint venture, in which it will maintain 95.0% economic interest, known as Amherst JV LLC, (the “Joint Venture”) with an unrelated real estate development company for the purpose of developing a 395-unit multi-family building on a five-acre site, to be known as Highgate, within its Westpark Business Park in Tysons, Virginia. The Company contributed the site, along with capitalized improvements, to the Joint Venture on October 5, 2015. Subsequent to the contribution date, demolition, site preparation and construction commenced and is expected to be completed in late 2017. The total development costs for the Joint Venture, including a land value of $27.0 million, are estimated to be $117.2 million. As of December 31, 2015, the Company’s investment in unconsolidated joint venture was $26.7 million.

During 2015, the Company sold four business parks aggregating 492,000 square feet in non-strategic markets for net proceeds of $41.2 million, which resulted in a gain of $23.4 million. Additionally, as part of an eminent domain process, the Company sold five buildings, aggregating 82,000 square feet, at the Company’s Overlake Business Park located in Redmond, Washington, for $13.9 million, which resulted in a gain of $4.8 million. With these sales the Company has completed its stated objective of exiting non-strategic markets in Sacramento, California, Oregon and Arizona.

During 2014, the Company sold five business parks aggregating 1.9 million square feet and 11.5 acres of land in non-strategic markets, including Portland, Oregon and Phoenix, Arizona, for net proceeds of $212.2 million, which resulted in a gain of $92.4 million.

From 1998 through 2012, the Company acquired 24.9 million square feet of commercial space, developed an additional 575,000 square feet and sold 2.3 million square feet along with some parcels of land.

The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the “Code”), commencing with its taxable year ended December 31, 1990. To the extent that the Company continues to qualify as a REIT, it will not be taxed, with certain limited exceptions, on the net income that is currently distributed to its shareholders.

The Company’s principal executive offices are located at 701 Western Avenue, Glendale, California 91201-2349. The Company’s telephone number is (818) 244-8080. The Company maintains a website with the address psbusinessparks.com. The information contained on the Company’s website is not a part of, or incorporated by reference into, this Annual Report on Form 10-K. The Company makes available free of charge through its website its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after the Company electronically files such material with, or furnishes such material to, the Securities and Exchange Commission (the “SEC”).

Business of the Company: The Company is in the commercial property business, with 99 business parks consisting of multi-tenant flex, industrial and office space. The Company owns 14.6 million square feet of flex space. The Company defines “flex” space as buildings that are configured with a combination of warehouse and office space and

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can be designed to fit a wide variety of uses. The warehouse component of the flex space has a number of uses including light manufacturing and assembly, storage and warehousing, showroom, laboratory, distribution and research and development activities. The office component of flex space is complementary to the warehouse component by enabling businesses to accommodate management and production staff in the same facility. The Company owns 8.8 million square feet of industrial space that has characteristics similar to the warehouse component of the flex space as well as ample dock access. In addition, the Company owns 4.6 million square feet of low-rise office space, generally either in business parks that combine office and flex space or in submarkets where the market demand is more office focused.

The Company's commercial properties typically consist of business parks with low-rise buildings, ranging from one to 49 buildings per park, located on parcels of various sizes which comprise from nearly 12,000 to 3.5 million aggregate square feet of rentable space. Facilities are managed through either on-site management or offices central to the facilities. Parking is generally open but in some instances is covered. The ratio of parking spaces to rentable square feet generally ranges from two to six per thousand square feet depending upon the use of the property and its location. Office space generally requires a greater parking ratio than most industrial uses.

The tenant base for the Company's facilities is diverse. The portfolio can be bifurcated into those facilities that service small to medium-sized businesses and those that service larger businesses. Approximately 35.2% of in-place rents from the portfolio are derived from facilities that generally serve small to medium-sized businesses. A property in this facility type is typically divided into units under 5,000 square feet and leases generally range from one to three years. The remaining 64.8% of in-place rents from the portfolio are generally derived from facilities that serve larger businesses, with units 5,000 square feet and larger. The Company also has several tenants that lease space in multiple buildings and locations. The U.S. Government is the largest tenant with multiple leases encompassing approximately 842,000 square feet, or 5.3%, of the Company's annualized rental income.

The Company owns operating properties in six states and it may expand its operations to other states or reduce the number of states in which it operates. Properties are acquired for both income and potential capital appreciation; there is no limitation on the amount that can be invested in any specific property.

The Company owns land which may be used for the development of commercial properties. The Company owns approximately 14.0 acres of such land in Dallas, Texas and 6.4 acres in Northern Virginia as of December 31, 2015.

Operating Partnership

The properties in which the Company has an equity interest generally are owned by the Operating Partnership. Through this organizational structure, the Company has the ability to acquire interests in additional properties in transactions that could defer the contributors' tax consequences by causing the Operating Partnership to issue equity interests in return for interests in properties.

The Company is the sole general partner of the Operating Partnership. As of December 31, 2015, the Company owned 77.8% of the common partnership units of the Operating Partnership, and the remainder of such common partnership units were owned by PS. The common units owned by PS may be redeemed by PS from time to time, subject to the provisions of our charter, for cash or, at our option, shares of our common stock on a one-for-one basis. Also as of December 31, 2015, in connection with the Company’s issuance of publicly traded Cumulative Preferred Stock, the Company owned 36.8 million preferred units of the Operating Partnership of various series with an aggregate redemption value of $920.0 million with terms substantially identical to the terms of the publicly traded depositary shares each representing 1/1,000 of a share of 5.70% to 6.45% Cumulative Preferred Stock of the Company.

As the general partner of the Operating Partnership, the Company has the exclusive responsibility under the Operating Partnership Agreement to manage and conduct the business of the Operating Partnership. The Board of Directors of the Company (the “Board”) directs the affairs of the Operating Partnership by managing the Company’s affairs. The Operating Partnership is responsible for, and pays when due, its share of all administrative and operating expenses of the properties it owns.

The Company’s interest in the Operating Partnership entitles it to share in cash distributions from, and the profits and losses of, the Operating Partnership in proportion to the Company’s economic interest in the Operating Partnership (apart from tax allocations of profits and losses to take into account pre-contribution property appreciation or depreciation). The Company, since 1998, has paid per share dividends on its common and preferred stock that track,

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on a one-for-one basis, the amount of per unit cash distributions the Company receives from the Operating Partnership in respect of the common and preferred partnership units in the Operating Partnership that are owned by the Company.

Common Officers and Directors with PS

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

Property Management Services

The Company manages commercial properties owned by PS, which are generally adjacent to self-storage facilities, for a management fee of 5% of the gross revenues of such properties in addition to reimbursement of certain costs. The property management contract with PS is for a seven-year term with the agreement automatically extending for an additional one-year period upon each one-year anniversary of its commencement (unless cancelled by either party). Either party can give notice of its intent to cancel the agreement upon expiration of its current term. Management fee revenue derived from this management contract with PS totaled $540,000, $660,000 and $639,000 for the years ended December 31, 2015, 2014 and 2013, respectively. As of December 31, 2015, the Company managed 813,000 rentable square feet on behalf of PS compared to 1.1 million rentable square feet as of December 31, 2014.

PS also provides property management services for the self-storage component of two assets owned by the Company. These self-storage facilities, located in Palm Beach County, Florida, operate under the “Public Storage” name. Either the Company or PS can cancel the property management contract upon 60 days’ notice. Management fee expenses under the contract were $79,000, $70,000 and $59,000 for the years ended December 31, 2015, 2014 and 2013, respectively.

Management

Joseph D. Russell, Jr. leads the Company’s senior management team. Mr. Russell is Chief Executive Officer of the Company. The Company’s senior management includes: Maria R. Hawthorne, President; John W. Petersen, Executive Vice President and Chief Operating Officer; Edward A. Stokx, Executive Vice President and Chief Financial Officer; Christopher M. Auth, Vice President (Washington Metro Division); Trenton A. Groves, Vice President and Corporate Controller; Coby A. Holley, Vice President, Investments; Robin E. Mather, Vice President (Southern California Division); Eddie F. Ruiz, Vice President and Director of Facilities; Richard E. Scott, Vice President (Northern California Division); Eugene Uhlman, Vice President, Construction Management; and David A. Vicars, Vice

President (Southeast Division).

REIT Structure

If certain detailed conditions imposed by the Code and the related Treasury Regulations are met, an entity, such as the Company, that invests principally in real estate and that otherwise would be taxed as a corporation may elect to be treated as a REIT. The most important consequence to the Company of being treated as a REIT for federal income tax purposes is that the Company can deduct dividend distributions (including distributions on preferred stock) to its shareholders, thus effectively eliminating the “double taxation” (at the corporate and shareholder levels) that typically results when a corporation earns income and distributes that income to shareholders in the form of dividends.

The Company believes that it has operated, and intends to continue to operate, in such a manner as to qualify as a REIT under the Code, but no assurance can be given that it will at all times so qualify. To the extent that the Company continues to qualify as a REIT, it will not be taxed, with certain limited exceptions, on the taxable income that is distributed to its shareholders.

Operating Strategy

The Company believes its operating, acquisition and finance strategies combined with its diversified portfolio produces a low risk, stable growth business model. The Company’s primary objective is to grow shareholder value. Key elements of the Company’s growth strategy include:

Maximize Net Cash Flow of Existing Properties: The Company seeks to maximize the net cash flow generated by its properties by (i) maximizing average occupancy rates, (ii) achieving the highest possible levels of realized rents

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per occupied square foot, (iii) controlling its operating cost structure by improving operating efficiencies and economies of scale and (iv) minimizing recurring capital expenditures required to maintain and improve occupancy. The Company believes that its experienced property management personnel and comprehensive systems combined with focused economies of scale enhance the Company's ability to meet these goals. The Company seeks to increase occupancy rates and realized rents per square foot by providing its field personnel with incentives to lease space to credit worthy tenants and to maximize the return on investment in each lease transaction.

Focus on Targeted Markets: The Company intends to continue investing in markets that have characteristics which enable them to be competitive economically. The Company believes that markets with a combination of above average population growth, job growth, higher education levels and personal income will produce better overall economic returns. The Company targets parks in high barrier to entry markets that are close to critical infrastructure, middle to high income housing or universities and have easy access to major transportation arteries.

Reduce Capital Expenditures and Increase Occupancy Rates by Providing Flexible Properties and Attracting a Diversified Tenant Base: By focusing on properties with easily reconfigurable space, the Company believes it can offer facilities that appeal to a wide range of potential tenants, which aids in reducing recurring capital expenditures associated with re-leasing space. The Company believes this property flexibility also allows it to better serve existing tenants by accommodating expansion and contraction needs. In addition, the Company believes that a diversified tenant base combined with flexible parks helps it maintain occupancy rates by enabling it to attract a greater number of potential users to its space.

Provide Superior Property Management: The Company seeks to provide a superior level of service to its tenants in order to maintain occupancy and increase rental rates, as well as minimize customer turnover. The Company's property management offices are located either on-site or regionally, providing tenants with convenient access to management and helping the Company maintain its properties and while conveying a sense of quality, order and security. The Company has significant experience in acquiring properties managed by others and thereafter improving tenant satisfaction, occupancy levels, retention rates and rental income by implementing established tenant service programs.

Financing Strategy

The Company's primary objective in its financing strategy is to maintain financial flexibility and a low risk capital structure. Key elements of this strategy are:

Retain Operating Cash Flow: The Company seeks to retain significant funds (after funding its distributions and capital improvements) for additional investments. During the years ended December 31, 2015 and 2014, the Company distributed 46.1% and 42.3%, respectively, of its funds from operations ("FFO") to common shareholders/unit holders. FFO is computed in accordance with the White Paper on FFO approved by the Board of Governors of the National

Association of Real Estate Investment Trusts ("NAREIT"). The White Paper defines FFO as net income, computed in accordance with U.S. generally accepted accounting principles ("GAAP"), before depreciation, amortization, gains or losses on asset dispositions, net income allocable to noncontrolling interests — common units, net income allocable to restricted stock unit holders, impairment charges and nonrecurring items. FFO is a non-GAAP financial measure and should be analyzed in conjunction with net income. However, FFO should not be viewed as a substitute for net income as a measure of operating performance as it does not reflect depreciation and amortization costs or the level of capital expenditure and leasing costs necessary to maintain the operating performance of the Company's properties, which are significant economic costs and could materially impact the Company's results of operations. Other REITs may use different methods for calculating FFO and, accordingly, the Company's FFO may not be comparable to other real estate companies' funds from operations. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Non-GAAP Supplemental Disclosure Measure: Funds from Operations," for a reconciliation of FFO and net income allocable to common shareholders and for additional information on why the Company presents FFO.

Perpetual Preferred Stock/Units: The primary source of leverage in the Company's capital structure is perpetual preferred stock or equivalent preferred units in the Operating Partnership. This method of financing eliminates interest rate and refinancing risks as the dividend rate is fixed and the stated value or capital contribution is not required to be repaid. In addition, the consequences of defaulting on required preferred distributions are less severe than with debt. The preferred shareholders may elect two additional directors if six quarterly distributions go unpaid, whether or not consecutive.

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Throughout this Form 10-K, we use the term “preferred equity” to mean both the preferred stock issued by the Company (including the depositary shares representing interests in that preferred stock) and the preferred partnership units issued by the Operating Partnership and the term “preferred distributions” to mean dividends and distributions on the preferred stock and preferred partnership units.

Debt Financing: The Company, from time to time, has used debt financing to facilitate real estate acquisitions and other capital allocations. The primary source of debt the Company has historically relied upon to provide short-term capital is its $250.0 million unsecured line of credit (the “Credit Facility”). In addition, during 2011, in connection with its $520.0 million portfolio acquisition in Northern California, the Company obtained a $250.0 million unsecured three-year term loan and assumed a $250.0 million mortgage note. During 2013, the unsecured three-year term loan was repaid in full. The $250.0 million mortgage note is an interest only mortgage that matures December 1, 2016.

Access to Capital: The Company targets a minimum ratio of FFO to combined fixed charges and preferred distributions paid of 3.0 to 1.0. Fixed charges include interest expense and capitalized interest while preferred distributions include amounts paid to preferred shareholders and preferred Operating Partnership unit holders. For the year ended December 31, 2015, the FFO to combined fixed charges and preferred distributions paid ratio was 3.2 to 1.0, excluding the non-cash charge for the issuance costs related to the redemption of preferred equity. The Company believes that its financial position enables it to access capital to finance future growth. Subject to market conditions, the Company may add leverage to its capital structure.

Competition

Competition in the market areas in which many of the Company’s properties are located is significant and has from time to time negatively impacted occupancy levels and rental rates of, and increased the operating expenses of, certain of these properties. Competition may be accelerated by any increase in availability of funds for investment in real estate. Barriers to entry are relatively low for those with the necessary capital and the Company competes for property acquisitions and tenants with entities that have greater financial resources than the Company. Sublease space and unleased developments continue to create competition among operators in certain markets in which the Company operates. While the Company will have to respond to market demands, management believes that the combination of its ability to offer a variety of options within its business parks and the Company’s financial stability provide it with an opportunity to compete favorably in its markets.

The Company’s properties compete for tenants with similar properties located in its markets primarily on the basis of location, rent charged, services provided and the design and condition of improvements. The Company believes it possesses several distinguishing characteristics that enable it to compete effectively in the flex, office and industrial space markets. The Company believes its personnel are among the most experienced in these real estate markets. The Company’s facilities are part of a comprehensive system encompassing standardized procedures and integrated reporting and information networks. The Company believes that the significant operating and financial experience of its executive officers and directors combined with the Company's capital structure, national investment scope, geographic diversity and economies of scale should enable the Company to compete effectively.

Investments in Real Estate Facilities

As of December 31, 2015, the Company owned and operated 28.0 million rentable square feet comprised of 99 business parks in six states compared to 28.6 million rentable square feet at December 31, 2014.

Investment in and Advances to Unconsolidated Joint Venture

As of December 31, 2015, the Company's investment in unconsolidated joint venture was $26.7 million. In addition to the equity capital the Company has committed to the Joint Venture, the Company has also agreed to provide the Joint Venture with a construction loan in the amount of $75.0 million. The Joint Venture will pay interest under the construction loan at a rate equal to the London Interbank Offered Rate ("LIBOR") plus 2.25%. Interest on outstanding borrowings is payable monthly and the loan will mature on April 5, 2019. The Company had no loan advances to the Joint Venture as of December 31, 2015.

Summary of Business Model

The Company has a geographically diversified portfolio in six states across the country with a diversified customer mix by both size and industry concentration. The Company believes that this diversification combined with a

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conservative financing strategy, a focus on markets with strong demographics for growth and a decentralized operating strategy gives the Company a business model that mitigates risk and provides strong long-term growth opportunities.

Restrictions on Transactions with Affiliates

The Company's Bylaws provide that the Company may engage in transactions with affiliates provided that a purchase or sale transaction with an affiliate is (i) approved by a majority of the Company's independent directors and (ii) fair to the Company based on an independent appraisal or fairness opinion.

Borrowings

The Company had an outstanding mortgage note payable of $250.0 million at December 31, 2015 and 2014. See Notes 6 and 7 to the consolidated financial statements included in this Form 10-K for a summary of the Company's outstanding borrowings as of December 31, 2015.

The Company's Credit Facility is with Wells Fargo Bank, National Association ("Wells Fargo"). The Credit Facility has a borrowing limit of $250.0 million and expires May 1, 2019. The rate of interest charged on borrowings is based on LIBOR plus 0.875% to LIBOR plus 1.70% depending on the Company's credit ratings. Currently, the Company's rate under the Credit Facility is LIBOR plus 0.875%. In addition, the Company is required to pay an annual facility fee ranging from 0.125% to 0.30% of the borrowing limit depending on the Company's credit ratings (currently 0.125%). The Company had no balance outstanding on the Credit Facility at December 31, 2015 and 2014. The Company had $769,000 and $1.0 million of unamortized commitment fees as of December 31, 2015 and 2014, respectively. The Credit Facility requires the Company to meet certain covenants, all of which the Company was in compliance at December 31, 2015. Interest on outstanding borrowings is payable monthly.

The Company had a term loan with Wells Fargo (the "Term Loan") in the amount of $250.0 million that was scheduled to mature on December 31, 2014. The Term Loan was repaid in full in November, 2013. Interest under the Term Loan was accrued based on an applicable rate ranging from LIBOR plus 1.15% to LIBOR plus 2.25% depending on the Company's credit ratings. During 2013, the Company's rate under the Term Loan was LIBOR plus 1.20%.

The Company has broad powers to borrow in furtherance of the Company's objectives. The Company has incurred in the past, and may incur in the future, both short-term and long-term indebtedness to facilitate real estate acquisitions and other capital allocations.

Employees

As of December 31, 2015, the Company employed 142 individuals, primarily personnel engaged in property operations.

Insurance

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

Environmental Matters

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

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

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ITEM 1A. RISK FACTORS

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

Since our business consists primarily of acquiring and operating real estate, we are subject to the risks related to the ownership and operation of real estate that can adversely impact our business and financial condition.

The value of our investments may be reduced by general risks of real estate ownership: Since we derive substantially all of our income from real estate operations, we are subject to the general risks of acquiring and owning real estate-related assets, including:

· changes in the national, state and local economic climate and real estate conditions, such as oversupply of or reduced demand for commercial real estate space and changes in market rental rates;

· how prospective tenants perceive the attractiveness, convenience and safety of our properties;

· difficulties in consummating and financing acquisitions and developments on advantageous terms and the failure of acquisitions and developments to perform as expected;

· our ability to provide adequate management, maintenance and insurance;

· natural disasters, such as earthquakes, hurricanes and floods, which could exceed the aggregate limits of our insurance coverage;

· the expense of periodically renovating, repairing and re-letting spaces;

· the impact of environmental protection laws;

· compliance with federal, state, and local laws and regulations;

· increasing operating and maintenance costs, including property taxes, insurance and utilities, if these increased costs cannot be passed through to tenants;

· adverse changes in tax, real estate and zoning laws and regulations;

· increasing competition from other commercial properties in our market;

· tenant defaults and bankruptcies;

· tenants' right to sublease space; and

· concentration of properties leased to non-rated private companies with uncertain financial strength.

Certain significant costs, such as mortgage payments, real estate taxes, insurance and maintenance, generally are not reduced even when a property's rental income is reduced. In addition, environmental and tax laws, interest rate levels, the availability of financing and other factors may affect real estate values and property income. Furthermore, the supply of commercial space fluctuates with market conditions.

If our properties do not generate sufficient income to meet operating expenses, including any debt service, tenant improvements, lease commissions and other capital expenditures, we may have to borrow additional amounts to cover fixed costs, and we may have to reduce our distributions to shareholders.

There is significant competition among commercial properties: Other commercial properties compete with our properties for tenants. Some of the competing properties may be newer and better located than our properties. Competition in the market areas in which many of our properties are located is significant and has affected our occupancy levels, rental rates and operating expenses. We also expect that new properties will be built in our markets.

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In addition, we compete with other buyers, some of which are larger than us, for attractive commercial properties. Therefore, we may not be able to grow as rapidly as we would like.

We may encounter significant delays and expense in re-letting vacant space, or we may not be able to re-let space at existing rates, in each case resulting in losses of income: When leases expire, we may incur expenses in retrofitting space and we may not be able to re-lease the space on the same terms. Certain leases provide tenants with the right to terminate early if they pay a fee. As of December 31, 2015, 2,186 leases representing 22.0% of the leased square footage of our total portfolio, or 21.3% of annualized rental income, are scheduled to expire in 2016. While we have estimated our cost of renewing leases that expire in 2016, our estimates could be wrong. If we are unable to re-lease space promptly, if the terms are significantly less favorable than anticipated or if the costs are higher, we may have to reduce our distributions to shareholders.

Tenant defaults and bankruptcies may reduce our cash flow and distributions: We may have difficulty collecting from tenants in default, particularly if they declare bankruptcy. This could affect our cash flow and our ability to fund distributions to shareholders. Since many of our tenants are non-rated private companies, this risk may be enhanced. There is inherent uncertainty in a tenant’s ability to continue paying rent if they are in bankruptcy.

We may be adversely affected if casualties to our properties are not covered by insurance: While we maintain insurance coverage for the losses caused by earthquakes or hurricanes, we could suffer uninsured losses or losses in excess of our insurance policy limits for such occurrences. Approximately 40.2% of our properties are located in California and are generally in areas that are subject to risks of earthquake-related damage. In the event of an earthquake, hurricane or other natural disaster, we would remain liable on any mortgage debt or other unsatisfied obligations related to that property.

The illiquidity of our real estate investments may prevent us from adjusting our portfolio to respond to market changes: There may be delays and difficulties in selling real estate. Therefore, we cannot easily change our portfolio when economic conditions change. Also, REIT tax laws may impose negative consequences if we sell properties held for less than two years.

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

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

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

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

Property taxes can increase and cause a decline in yields on investments: Each of our properties is subject to real property taxes, which could increase in the future as property tax rates change and as our properties are assessed or reassessed by tax authorities. Recent local government shortfalls in tax revenue may cause pressure to increase tax rates or assessment levels or impose new taxes. Such increases could adversely impact our profitability.

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

We incur liability from tenant and employment-related claims: From time to time we have to make monetary settlements or defend actions or arbitration to resolve tenant or employment-related claims and disputes.

Development of properties can subject us to risks: As of December 31, 2015, we have a joint venture development for the purpose of developing a 395 unit multi-family project. Developments of this nature are subject to a number of risks, including construction delays, complications in obtaining necessary zoning, occupancy and other governmental permits, cost overruns, problems with our joint venture partner, financing risks, and the possible inability to meet expected occupancy and rent levels. If any of these problems occur, development costs for a project may increase, and there may be costs incurred for projects that are not completed. As a result of the foregoing, some properties may be worth less or may generate less revenue than, or simply not perform as well as, we believed at the time of development, negatively affecting our operating results. Any of the foregoing risks could adversely affect our financial condition, operating results and cash flow, and our ability to pay dividends on, and the market price of, our stock. In addition, we may be unable to successfully integrate and effectively manage the properties we develop, which could adversely affect our results of operations.

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

While there continues to be global economic uncertainty, United States unemployment levels have moderated and economic activity has modestly improved. Economic conditions in the markets where we operate facilities, and other events or factors could adversely affect demand for commercial real estate, which could adversely affect our business. To the extent that turmoil in the financial markets returns or intensifies, it has the potential to materially affect the value of our properties, the availability or the terms of financing and may impact the ability of our customers to enter into new leasing transactions or satisfy rental payments under existing leases. The volatility and duration of an economic recovery could also affect our operating results and financial condition as follows:

Debt and Equity Markets: Our results of operations and share price are sensitive to volatility in the credit markets. From time to time, the commercial real estate debt markets experience volatility as a result of various factors, including changing underwriting standards by lenders and credit rating agencies. This may result in lenders increasing the cost for debt financing. Should the overall cost of borrowings increase, either by increases in the index rates or by increases in lender spreads, we will need to factor such increases into the economics of our acquisitions. In addition, the state of the debt markets could have an effect on the overall amount of capital being invested in real estate, which may result in price or value decreases of real estate assets and affect our ability to raise capital.

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Our ability to issue preferred shares or obtain other sources of capital, such as borrowing, has been in the past, and may in the future, be adversely affected by challenging credit market conditions. The issuance of perpetual preferred securities historically has been a significant source of capital to grow our business. We believe that we have sufficient working capital and capacity under our credit facilities and our retained cash flow from operations to continue to operate our business as usual and meet our current obligations. However, if we were unable to issue preferred shares or borrow at reasonable rates, that could limit the earnings growth that might otherwise result from the acquisition and development of real estate facilities.

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

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

We acquire existing properties, either in individual transactions or portfolios offered by other commercial real estate owners. In addition to the general risks related to real estate described above, we are also subject to the following risks which may jeopardize our realization of benefits from acquisitions.

Any failure to manage acquisitions and other significant transactions to achieve anticipated results and to successfully integrate acquired operations into our existing business could negatively impact our financial results: To fully realize anticipated earnings from an acquisition, we must successfully integrate the property into our operating platform. Failures or unexpected circumstances in the integration process, such as a failure to maintain existing relationships with tenants and employees due to changes in processes, standards, or compensation arrangements, or circumstances we did not detect during due diligence, could jeopardize realization of the anticipated earnings.

While we did not acquire property during 2015, we will continue to seek to acquire additional multi-tenant flex, industrial and office properties where they meet our criteria. Our belief, however, is subject to risks, uncertainties and other factors, many of which are forward-looking and are uncertain in nature or are beyond our control, including the risks that our acquisitions and developments may not perform as expected, we may be unable to quickly integrate new acquisitions and developments into our existing operations, and any costs to develop projects or redevelop acquired properties may exceed estimates. Further, we face significant competition for suitable acquisition properties from other real estate investors, including other publicly traded real estate investment trusts and private institutional investors. As a result, we may be unable to acquire additional properties we desire or the purchase price for desirable properties may be significantly increased.

In addition, some of these properties may have unknown characteristics or deficiencies or may not complement our portfolio of existing properties. We may also finance future acquisitions and developments through a combination of borrowings, proceeds from equity or debt offerings by us or the Operating Partnership, and proceeds from property divestitures. These financing options may not be available when desired or required or may be more costly than anticipated, which could adversely affect our cash flow. Real property development is subject to a number of risks, including construction delays, complications in obtaining necessary zoning, occupancy and other governmental permits, cost overruns, financing risks, and the possible inability to meet expected occupancy and rent levels. If any of these problems occur, development costs for a project may increase, and there may be costs incurred for projects that are not completed. As a result of the foregoing, some properties may be worth less or may generate less revenue than, or simply not perform as well as, we believed at the time of acquisition or development, negatively affecting our operating results. Any of the foregoing risks could adversely affect our financial condition, operating results and cash flow, and our ability to pay dividends on, and the market price of, our stock. In addition, we may be unable to successfully integrate and effectively manage the properties we do acquire and develop, which could adversely affect our results of operations.

Acquired properties are subject to property tax reappraisals which may increase our property tax expense: Facilities that we acquire are subject to property tax reappraisal which can result in substantial increases to the ongoing property taxes paid by the seller. The reappraisal process is subject to judgment of governmental agencies regarding estimated real estate values and other factors, and as a result there is a significant degree of uncertainty in estimating

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the property tax expense of an acquired property. In connection with future or recent acquisitions of properties, if our estimates of property taxes following reappraisal are too low, we may not realize anticipated earnings from an acquisition.

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

Our cash flow would be reduced if we fail to qualify as a REIT: While we believe that we have qualified since 1990 to be taxed as a REIT, and will continue to be so qualified, we cannot be certain. To continue to qualify as a REIT, we need to satisfy certain requirements under the federal income tax laws relating to our income, assets, distributions to shareholders and shareholder base. In this regard, the share ownership limits in our articles of incorporation do not necessarily ensure that our shareholder base is sufficiently diverse for us to qualify as a REIT. For any year we fail to qualify as a REIT, we would be taxed at regular corporate tax rates on our taxable income unless certain relief provisions apply. Taxes would reduce our cash available for distributions to shareholders or for reinvestment, which could adversely affect us and our shareholders. Also we would not be allowed to elect REIT status for five years after we fail to qualify unless certain relief provisions apply.

We may need to borrow funds to meet our REIT distribution requirements: To qualify as a REIT, we must generally distribute to our shareholders 90% of our taxable income. Our income consists primarily of our share of our Operating Partnership's income. We intend to make sufficient distributions to qualify as a REIT and otherwise avoid corporate tax. However, differences in timing between income and expenses and the need to make nondeductible expenditures such as capital improvements and principal payments on debt could force us to borrow funds to make necessary shareholder distributions.

Subsequent to December 31, 2015, the Board increased its quarterly dividend from $0.60 per common share to $0.75 per common share, increasing quarterly distributions by $5.2 million per quarter.

During the three months ended September 30, 2015, the Board increased its quarterly dividend from $0.50 per common share to $0.60 per common share, increasing quarterly distributions by $3.5 million per quarter.

During 2014, the Company sold a combined total of 1.9 million square feet along with some parcels of land in Beaverton, Oregon and Phoenix, Arizona. Absent a special distribution in excess of our normal, recurring quarterly dividend, the Company would have had taxable income in excess of distributions resulting in federal income tax at the corporate level. To qualify for the dividends paid deduction for tax purposes and minimize this potential tax, on December 30, 2014, the Company paid a one-time special cash dividend of $2.75 per common share ("Special Cash Dividend") along with the fourth quarter 2014 regular dividend of $0.50 per common share. Holders of common partnership units of the Operating Partnership also received the same distribution on December 30, 2014.

The Board will continue to evaluate our dividend rate in light of our actual and projected taxable income, liquidity requirements and other circumstances, and there can be no assurance that the future dividends declared by our Board will not differ materially.

PS has significant influence over us.

As of December 31, 2015, PS owned 7.2 million shares of the Company's common stock and 7.3 million common units of the Operating Partnership (100.0% of the common units not owned by the Company). Assuming issuance of the Company's common stock upon redemption of its partnership units, PS would own 42.1% (or 14.5 million shares) of the outstanding shares of the Company's common stock at December 31, 2015. In addition, the PS Business Parks name and logo are owned by PS and licensed to the Company under a non-exclusive, royalty-free license agreement. The license can be terminated by either party for any reason with six months written notice. Ronald L. Havner, Jr., the Company's chairman, is also Chairman of the Board, Chief Executive Officer and President of PS. Gary E. Pruitt, an independent director of the Company is also a trustee of PS. Consequently, PS has the ability to significantly influence all matters submitted to a vote of our shareholders, including electing directors, changing our articles of incorporation, dissolving and approving other extraordinary transactions such as mergers, and all matters requiring the consent of the limited partners of the Operating Partnership. PS's interest in such matters may differ from other shareholders. In addition, PS's ownership may make it more difficult for another party to take over our Company without PS's approval.

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Provisions in our organizational documents may prevent changes in control.

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

Our Board can set the terms of certain securities without shareholder approval: Our Board is authorized, without shareholder approval, to issue up to 50.0 million shares of preferred stock and up to 100.0 million shares of equity stock, in each case in one or more series. Our Board has the right to set the terms of each of these series of stock. Consequently, the Board could set the terms of a series of stock that could make it difficult (if not impossible) for another party to take over our Company even if it might be favorable to our public shareholders. Our articles of incorporation also contain other provisions that could have the same effect. We can also cause our Operating Partnership to issue additional interests for cash or in exchange for property.

The partnership agreement of our Operating Partnership restricts mergers: The partnership agreement of our Operating Partnership generally provides that we may not merge or engage in a similar transaction unless the limited partners of our Operating Partnership are entitled to receive the same proportionate payments as our shareholders. In addition, we have agreed not to merge unless the merger would have been approved had the limited partners been able to vote together with our shareholders, which has the effect of increasing PS's influence over us due to PS's ownership of operating partnership units. These provisions may make it more difficult for us to merge with another entity.

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

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

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

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

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

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

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There can also be no assurance that, in response to current economic conditions or the current political environment or otherwise, laws and regulations will not be implemented or changed in ways that adversely affect our operating results and financial condition, such as recently adopted legislation that expands health care coverage costs or facilitates union activity or federal legislative proposals to otherwise increase operating costs.

Terrorist attacks and the possibility of wider armed conflict may have an adverse impact on our business and operating results and could decrease the value of our assets.

Terrorist attacks and other acts of violence or war could have a material adverse impact on our business and operating results. There can be no assurance that there will not be further terrorist attacks against the U.S. Attacks or armed conflicts that directly impact one or more of our properties could significantly affect our ability to operate those properties and thereby impair our operating results. Further, we may not have insurance coverage for losses caused by a terrorist attack. Such insurance may not be available, or if it is available and we decide to obtain such terrorist coverage, the cost for the insurance may be significant in relationship to the risk overall. In addition, the adverse effects that such violent acts and threats of future attacks could have on the U.S. economy could similarly have a material adverse effect on our business and results of operations. Finally, further terrorist acts could cause the U.S. to enter into a wider armed conflict, which could further impact our business and operating results.

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

Our shares of preferred stock are entitled to cumulative dividends before any dividends may be declared or set aside on our common stock. Upon our voluntary or involuntary liquidation, dissolution or winding up, before any payment is made to holders of our common stock, shares of our preferred stock are entitled to receive a liquidation preference of $25,000 per share (or $25.00 per depositary share) plus any accrued and unpaid distributions. This will reduce the remaining amount of our assets, if any, available to distribute to holders of our common stock. In addition, our preferred stockholders have the right to elect two additional directors to our Board whenever dividends are in arrears in an aggregate amount equivalent to six or more quarterly dividends, whether or not consecutive.

Future issuances by us of shares of our common stock may be dilutive to existing stockholders, and future sales of shares of our common stock may adversely affect the market price of our common stock.

Sales of substantial amounts of shares of our common stock in the public market (either by us or by PS), or issuances of shares of common stock in connection with redemptions of common units of our Operating Partnership, could adversely affect the market price of our common stock. During the year ended December 31, 2013, the Company completed a public offering of its common stock and may seek to engage in such offerings in the future. Offerings of common stock, including by us in connection with portfolio or other property acquisitions or by PS in secondary offerings, and the issuance of common units of the Operating Partnership in exchange for shares of common stock, could have an adverse effect on the market price of the shares of our common stock.

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

The execution of our business strategy is heavily dependent on the use of technologies and systems, including the Internet, to access, store, transmit, deliver and manage information and processes. Although we believe we have taken commercially reasonable steps to protect the security of our systems, there can be no assurance that such security measures will prevent failures, inadequacies or interruptions in system services, or that system security will not be breached. Disruptions in service, system shutdowns and security breaches could have a material adverse effect on our business.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

As of December 31, 2015, the Company owned 99 business parks consisting of a geographically diverse portfolio of 28.0 million rentable square feet of commercial real estate which consists of 14.6 million square feet of flex space, 8.8 million square feet of industrial space and 4.6 million square feet of office space. The weighted average occupancy rate throughout 2015 was 92.8% and the realized rent per square foot was $14.27.

The following table reflects the geographical diversification of the 99 business parks owned by the Company as of December 31, 2015, the type of the rentable square footage and the weighted average occupancy rates throughout 2015 (except as set forth below, all of the properties are held in fee simple interest) (in thousands, except number of business parks):

	Number of Business	Rentable Square Footage				Weighted Average Occupancy
State	Parks	Flex	Industrial	Office	Total	Rate
California (1)	47	5,539	4,618	1,076	11,233	95.1%
Texas (2)	23	4,611	477	—	5,088	88.4%
Virginia	17	1,947	—	2,093	4,040	91.6%
Florida	3	1,074	2,780	12	3,866	93.9%
Maryland	6	970	—	1,382	2,352	89.6%
Washington	3	411	951	28	1,390	96.8%
Total	99	14,552	8,826	4,591	27,969	92.8%

(1) The Company has 4.8 million square feet in California that serves as collateral to a mortgage note payable. For more information, see Note 7 to the consolidated financial statements included in this Form 10-K.

(2) The Company owns two properties comprising of 232,000 square feet that are subject to ground leases in Las Colinas, Texas, expiring in 2019 and 2020, each with one 10-year extension option.

While we currently anticipate that each of the properties listed above will continue to be used for its current purpose. Management will from time to time evaluate its properties from a highest and best use perspective. Competition exists in each of the market areas in which these properties are located.

The Company renovates its properties in connection with the re-leasing of space to tenants and expects that it will fund the costs of such renovations from rental income. From time to time the Company may identify higher and better use of its assets. The Company has risks that tenants will default on leases and declare bankruptcy. Management believes these risks are mitigated through the Company's geographic diversity and diverse tenant base.

The Company evaluates the performance of its business parks primarily based on net operating income ("NOI"). NOI is defined by the Company as rental income as defined by GAAP less cost of operations as defined by GAAP, excluding depreciation and amortization. The Company uses NOI and its components as a measurement of the performance of its commercial real estate. Management believes that these financial measures provide them, as well as the investor, the most consistent measurement on a comparative basis of the performance of the commercial real estate and its contribution to the value of the Company. Depreciation and amortization have been excluded from NOI as they are generally not used in determining the value of commercial real estate by management or the investment community. Depreciation and amortization are generally not used in determining value as they consider the historical costs of an asset compared to its current value; therefore, to understand the effect of the assets' historical cost on the Company's results, investors should look at GAAP financial measures, such as total operating costs including depreciation and amortization. The Company's calculation of NOI may not be comparable to those of other companies and should not be used as an alternative to measures of performance calculated in accordance with GAAP. Following the table below, we have reconciled total NOI to net income, which we consider the most directly comparable financial measure calculated in accordance with GAAP. The following information illustrates rental income, cost of operations and NOI generated by the Company's total portfolio in 2015, 2014 and 2013 by state and by property classifications. As a result of acquisitions and dispositions, certain properties were not held for the full year and are reflected as sold assets.

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The Company’s calculation of NOI may not be comparable to those of other companies and should not be used as an alternative to measures of performance in accordance with GAAP. In order to provide a meaningful period-to-period comparison, the tables below exclude certain material lease buyout payments noted below and amortization of the Senior Management Long-Term Equity Incentive Plan (“LTEIP”) related to field leadership. The tables below also include a reconciliation of NOI to the most comparable amounts based on GAAP (in thousands):

	For the Year Ended December 31, 2015				For the Year Ended December 31, 2014				For the Year E	
	Flex	Office	Industrial	Total	Flex	Office	Industrial	Total	Flex	O
Rental Income:										
California	$ 76,883	$ 21,658	$ 38,917	$ 137,458	$ 69,606	$ 19,890	$ 37,291	$ 126,787	$ 66,305	$
Texas	50,699	—	2,684	53,383	45,881	—	1,564	47,445	37,783	
Virginia	32,249	48,578	—	80,827	32,108	49,204	—	81,312	33,373	
Florida	12,677	169	22,553	35,399	12,180	285	21,538	34,003	11,414	
Maryland	15,390	33,494	—	48,884	15,667	33,585	—	49,252	15,299	
Washington	7,516	586	6,371	14,473	6,875	568	5,052	12,495	6,675	
Sold assets	2,711	—	—	2,711	22,223	2,738	—	24,961	26,378	
Total	198,125	104,485	70,525	373,135	204,540	106,270	65,445	376,255	197,227	
Cost of Operations:										
California	22,368	9,234	9,523	41,125	21,701	9,094	9,118	39,913	21,430	
Texas	18,657	—	967	19,624	16,977	—	431	17,408	13,034	
Virginia	9,615	16,199	—	25,814	9,483	16,164	—	25,647	9,191	
Florida	4,016	95	6,774	10,885	3,895	120	6,491	10,506	3,810	
Maryland	5,328	10,806	—	16,134	5,709	11,765	—	17,474	4,916	
Washington	2,059	200	1,671	3,930	1,983	202	1,652	3,837	2,048	
Sold assets	1,242	—	—	1,242	8,823	1,140	—	9,963	10,132	
Total	63,285	36,534	18,935	118,754	68,571	38,485	17,692	124,748	64,561	
NOI:										
California	54,515	12,424	29,394	96,333	47,905	10,796	28,173	86,874	44,875	
Texas	32,042	—	1,717	33,759	28,904	—	1,133	30,037	24,749	
Virginia	22,634	32,379	—	55,013	22,625	33,040	—	55,665	24,182	
Florida	8,661	74	15,779	24,514	8,285	165	15,047	23,497	7,604	
Maryland	10,062	22,688	—	32,750	9,958	21,820	—	31,778	10,383	
Washington	5,457	386	4,700	10,543	4,892	366	3,400	8,658	4,627	
Sold assets	1,469	—	—	1,469	13,400	1,598	—	14,998	16,246	
Total	$ 134,840	$ 67,951	$ 51,590	$ 254,381	$ 135,969	$ 67,785	$ 47,753	$ 251,507	$ 132,666	$

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The following table reconciles NOI to consolidated net income as determined by GAAP (in thousands):

	For The Years Ended December 31,		
	2015	2014	2013
Total NOI	$ 254,381	$ 251,507	$ 240,922
Other income and (expenses):			
Lease buyout payments	—	—	2,252
LTEIP amortization:			
Cost of operations	(2,470)	(2,623)	1,241
General and administrative	(5,766)	(4,802)	2,652
Facility management fees	540	660	639
Other income and expenses	(12,740)	(13,221)	(14,681)
Depreciation and amortization	(105,394)	(110,357)	(108,917)
General and administrative	(7,816)	(8,487)	(7,110)
Acquisition transaction costs	—	(350)	(854)
Gain on sale of real estate facilities	28,235	92,373	—
Net income	$ 148,970	$ 204,700	$ 116,144

Portfolio Information

The table below sets forth information with respect to occupancy and rental rates of the Company’s total portfolio for each of the last five years, including discontinued operations:

	2015	2014	2013 (1)	2012 (1)	2011(1)
Weighted average occupancy rate	92.8%	91.3%	89.9%	89.4%	89.8%
Realized rent per square foot	$ 14.27	$ 14.00	$ 13.91	$ 14.05	$ 15.11

(1) Excludes certain material lease buyout payments of $2.3 million, $1.8 million and $2.9 million for the years ended December 31, 2013, 2012 and 2011, respectively.

The following table sets forth the lease expirations for all operating assets as of December 31, 2015 (in thousands):

Lease Expirations as of December 31, 2015

Year of Lease Expiration	Number of Tenants	Rentable Square Footage Subject to Expiring Leases	Annualized Rental Income Under Expiring Leases	Percent of Annualized Rental Income Represented by Expiring Leases
2016	2,186	5,800	$ 83,573	21.3%
2017	1,400	6,318	89,582	22.9%
2018	685	4,497	67,325	17.2%
2019	265	3,613	51,350	13.1%
2020	270	2,908	42,458	10.8%
2021	36	1,210	17,616	4.5%
2022	33	649	12,301	3.1%
2023	13	403	5,945	1.5%
2024	9	330	6,054	1.6%
2025	16	400	9,834	2.5%
Thereafter	7	218	5,938	1.5%
Total	4,920	26,346	$ 391,976	100.0%

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ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Price of the Registrant's Common Equity:

The common stock of the Company trades on the NYSE under the symbol PSB. The following table sets forth the high and low sales prices of the common stock on the NYSE for the applicable periods:

	Range		Dividends	
Three Months Ended	High	Low	Declared	
March 31, 2014	$87.54	$74.85	$ 0.50	
June 30, 2014	$87.15	$80.78	$ 0.50	
September 30, 2014	$85.01	$74.97	$ 0.50	
December 31, 2014	$84.76	$75.02	$ 3.25	(1)
March 31, 2015	$88.92	$76.93	$ 0.50	
June 30, 2015	$84.25	$71.14	$ 0.50	

September 30, 2015	$79.95	$70.15	$ 0.60
December 31, 2015	$90.25	$77.00	$ 0.60

(1) Amount includes a $2.75 per common share special cash dividend.

Holders:

As of February 15, 2016, there were 331 holders of record of the common stock.

Dividends:

Holders of common stock are entitled to receive distributions when, as and if declared by our Board out of any funds legally available for that purpose. The Company is required to distribute at least 90% of its taxable income prior to the filing of the Company's tax return to maintain its REIT status for federal income tax purposes. It is management's intention to pay distributions of not less than these required amounts.

Effective September, 2015, the Board increased its quarterly dividend from $0.50 per common share to $0.60 per common share. Subsequent to December 31, 2015, the Board increased its quarterly dividend from $0.60 per common share to $0.75 per common share, increasing quarterly distributions by $5.2 million per quarter.

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

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Issuer Repurchases of Equity Securities:

The Board previously authorized the repurchase, from time to time, of up to 6.5 million shares of the Company's common stock on the open market or in privately negotiated transactions. During the three months ended December 31, 2015, there were no shares of the Company's common stock repurchased. As of December 31, 2015, the Company has 1,614,721 shares available for repurchase under the program. The program does not expire. Purchases will be made subject to market conditions and other investment opportunities available to the Company.

Securities Authorized for Issuance Under Equity Compensation Plans:

The equity compensation plan information is provided in Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters".

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ITEM 6. SELECTED FINANCIAL DATA

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

	For The Years Ended December 31,				
	2015	2014	2013	2012	2011
	(In thousands, except per share data)				
Revenues:					
Rental income	$ 373,135	$ 376,255	$ 359,246	$ 346,548	$ 297,457
Facility management fees	540	660	639	649	684
Total operating revenues	373,675	376,915	359,885	347,197	298,141
Expenses:					
Cost of operations	121,224	127,371	114,831	114,108	99,917
Depreciation and amortization	105,394	110,357	108,917	109,398	84,391
General and administrative	13,582	13,639	5,312	8,919	9,036
Total operating expenses	240,200	251,367	229,060	232,425	193,344
Other income and (expenses):					
Interest and other income	590	372	1,485	241	221
Interest and other expenses	(13,330)	(13,593)	(16,166)	(20,618)	(5,455)
Total other income and (expenses)	(12,740)	(13,221)	(14,681)	(20,377)	(5,234)
Gain on sale of real estate facilities	28,235	92,373	—	—	—
Income from continuing operations	148,970	204,700	116,144	94,395	99,563
Discontinued operations:					
Income from discontinued operations (1)	—	—	—	42	360
Gain on sale of real estate facilities	—	—	—	935	2,717
Total discontinued operations	—	—	—	977	3,077
Net income	$ 148,970	$ 204,700	$ 116,144	$ 95,372	$ 102,640
Net income allocation:					
Net income allocable to noncontrolling interests:					
Noncontrolling interests — common units	$ 18,495	$ 30,729	$ 12,952	$ 5,970	$ 15,543
Noncontrolling interests — preferred units	—	—	—	323	(6,991)
Total net income allocable to noncontrolling interests	18,495	30,729	12,952	6,293	8,552
Net income allocable to PS Business Parks, Inc.:					
Preferred shareholders	61,885	60,488	59,216	69,136	41,799
Restricted stock unit holders	299	329	125	138	127
Common shareholders	68,291	113,154	43,851	19,805	52,162
Total net income allocable to PS Business Parks, Inc.	130,475	173,971	103,192	89,079	94,088
Net income	$ 148,970	$ 204,700	$ 116,144	$ 95,372	$ 102,640

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	For The Years Ended December 31,				
	2015	2014	2013	2012	2011
	(In thousands, except per share data)				
Per Common Share:					
Cash Distributions (2)	$ 2.20	$ 4.75	$ 1.76	$ 1.76	$ 1.76
Net income — basic	$ 2.53	$ 4.21	$ 1.77	$ 0.82	$ 2.13
Net income — diluted	$ 2.52	$ 4.19	$ 1.77	$ 0.81	$ 2.12
Weighted average common shares — basic	26,973	26,899	24,732	24,234	24,516
Weighted average common shares — diluted	27,051	27,000	24,833	24,323	24,599
Balance Sheet Data:					
Total assets	$ 2,186,658	$ 2,227,114	$ 2,238,559	$ 2,151,817	$ 2,138,619
Total debt	$ 250,000	$ 250,000	$ 250,000	$ 468,102	$ 717,084
Equity:					
PS Business Parks, Inc.'s shareholders' equity:					
Preferred stock	$ 920,000	$ 995,000	$ 995,000	$ 885,000	$ 598,546
Common stock	$ 740,496	$ 718,281	$ 722,941	$ 560,689	$ 580,659
Noncontrolling interests:					
Preferred units	$ —	$ —	$ —	$ —	$ 5,583
Common units	$ 200,103	$ 194,928	$ 196,699	$ 168,572	$ 175,807
Other Data:					
Net cash provided by operating activities	$ 238,072	$ 227,771	$ 222,294	$ 209,127	$ 180,620
Net cash provided by (used in) investing activities	$ 3,131	$ 113,188	$ (172,872)	$ (105,729)	$ (337,106)
Net cash (used in) provided by financing activities	$ (204,758)	$ (219,973)	$ (30,824)	$ (95,495)	$ 156,400
Square footage owned at the end of period	27,969	28,550	29,740	28,208	27,090

(1) Prior to the adoption of the new guidance for reporting discontinued operations and disposal of components of an entity, the operating results from assets classified as properties held for disposition prior to December 31, 2013 are included in discontinued operations for the years ended December 31, 2011 through 2013. Subsequent to the adoption, the operating results from assets sold after January 1, 2014 are included in income from continuing operations.

(2) Amount includes a $2.75 per common share special cash dividend for the year ended December 31, 2014.

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

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

Overview

All operating metrics discussed in this section as of and for the years ended December 31, 2015, 2014 and 2013 exclude sold assets. Management believes excluding the results of such assets provides the most relevant perspective on the ongoing operations of the Company. Please refer to "Item 15, "Exhibits and Financial Statements Schedules"" for financial metrics that include results from sold assets.

The Company focuses on increasing profitability and cash flow aimed at maximizing shareholder value. The Company strives 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. The Company also acquires properties it believes will create long-term value, and from time to time disposes of properties which no longer fit within the Company's strategic objectives. Operating results are driven primarily by income from rental operations and are therefore substantially influenced by demand for rental space within our properties and our markets, which impacts occupancy, rental rates and capital requirements.

During 2015, the Company executed leases comprising 9.5 million square feet of space including 5.9 million square feet of renewals of existing leases and 3.6 million square feet of new leases. Overall, the change in rental rates for the Company continued to improve. See further discussion of operating results below.

Critical Accounting Policies and Estimates:

Our accounting policies are described in Note 2 to the consolidated financial statements included in this Form 10-K. We believe our most critical accounting policies relate to revenue recognition, property acquisitions, allowance for doubtful accounts, impairment of long-lived assets, depreciation, accruals of operating expenses and accruals for contingencies, each of which we discuss below.

Revenue Recognition: The Company must meet four basic criteria before revenue can be recognized: persuasive evidence of an arrangement exists; the delivery has occurred or services have been rendered; the fee is fixed or determinable; and collectability is reasonably assured. All leases are classified as operating leases. Rental income is recognized on a straight-line basis over the terms of the leases. Straight-line rent is recognized for all tenants with contractual fixed increases in rent that are not included on the Company’s credit watch list. Deferred rent receivable represents rental revenue recognized on a straight-line basis in excess of billed rents. Reimbursements from tenants for real estate taxes and other recoverable operating expenses are recognized as rental income in the period the applicable costs are incurred. Property management fees are recognized in the period earned.

Property Acquisitions: The purchase price of acquired properties is recorded to land, buildings and improvements (including tenant improvements, unamortized lease commissions, acquired in-place lease values, and tenant relationships, if any) and intangible assets and liabilities associated with the value of above-market and below-market leases based on their respective estimated fair values. Acquisition related costs are expensed as incurred.

In determining the fair value of the tangible assets of the acquired properties, management considers the value of the properties as if vacant as of the acquisition date. Management must make significant assumptions in determining the value of assets acquired and liabilities assumed. Using different assumptions in the recording of the purchase cost of the acquired properties would affect the timing of recognition of the related revenue and expenses. Amounts recorded to land are derived from comparable sales of land within the same region. Amounts recorded to buildings and improvements, tenant improvements and unamortized lease commissions are based on current market replacement costs and other market information.

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The value recorded to the above-market or below-market in-place lease values of acquired properties is determined based upon the present value (using a discount rate which reflects the risks associated with the acquired leases) of the difference between (i) the contractual rents to be paid pursuant to the in-place leases, and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease. The amounts recorded to above-market or below-market leases are included in other assets or other liabilities in the accompanying consolidated balance sheets and are amortized on a straight-line basis as an increase or reduction of rental income over the remaining non-cancelable term of the respective leases.

Allowance for Doubtful Accounts: Rental revenue from our tenants is our principal source of revenue. Tenant receivables consist primarily of amounts due for contractual lease payments, reimbursements of common area maintenance expenses, property taxes and other expenses recoverable from tenants. Deferred rent receivable represents the amount that the cumulative straight-line rental income recorded to date exceeds cash rents billed to date under the lease agreement. We monitor the collectability of our receivable balances including the deferred rent receivable on an ongoing basis. Based on these reviews, we maintain an allowance for doubtful accounts for estimated losses resulting from the possible inability of our tenants to make required rent payments to us. Tenant receivables and deferred rent receivable are carried net of the allowances for uncollectible tenant receivables and deferred rent. Determination of the adequacy of these allowances requires significant judgments and estimates, and our evaluation of the adequacy of the allowance for uncollectible current tenant receivables and deferred rent receivable are performed using a methodology that incorporates specific identification, aging analysis, an overall evaluation of the historical loss trends and the current economic and business environment.

Impairment of Long-Lived Assets: The Company evaluates a property for potential impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. On a quarterly basis, we evaluate our entire portfolio for impairment based on current operating information. In the event that these periodic assessments reflect that the carrying amount of a property exceeds the sum of the undiscounted cash flows (excluding interest) that are expected to result from the use and eventual disposition of the property, the Company would recognize an impairment loss to the extent the carrying amount exceeded the estimated fair value of the property. The estimation of expected future net cash flows is inherently uncertain and relies on subjective assumptions dependent upon future and current market conditions and events that affect the ultimate value of the property. Management must make assumptions related to the property such as future rental rates, tenant allowances, operating expenditures, property taxes, capital improvements, occupancy levels and the estimated proceeds generated from the future sale of the property. These assumptions could differ materially from actual results in future periods. Our intent to hold properties over the long-term directly decreases the likelihood of recording an impairment loss. If our strategy changes or if market conditions otherwise dictate an earlier sale date, an impairment loss could be recognized, and such loss could be material.

Depreciation: We compute depreciation on our buildings and improvements using the straight-line method based on estimated useful lives generally ranging from five to 30 years. A significant portion of the acquisition cost of each property is recorded to building and building components. The recording of the acquisition cost to building and building components, as well as the determination of their useful lives, are based on estimates. If we do not appropriately record to these components or we incorrectly estimate the useful lives of these components, our computation of depreciation expense may not appropriately reflect the actual impact of these costs over future periods, which will affect net income. In addition, the net book value of real estate assets could be overstated or understated.

The statement of cash flows, however, would not be affected.

Accruals of Operating Expenses: The Company accrues for property tax expenses, performance bonuses and other operating expenses each quarter based on historical trends and anticipated disbursements. If these estimates are incorrect, the timing and amount of expense recognized will be affected.

Accruals for Contingencies: The Company is exposed to business and legal liability risks with respect to events that may have occurred, but in accordance with GAAP has not accrued for such potential liabilities because the loss is either not probable or not estimable. Future events could result in such potential losses becoming probable and estimable, which could have a material adverse impact on our financial condition or results of operations.

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Effect of Economic Conditions on the Company's Operations: During 2015, most markets continued to reflect favorable conditions allowing for improving occupancy and rental rates. With the exception of the Virginia and Maryland markets, new rental rates for the Company improved over expiring rental rates on executed leases as economic conditions remained healthy. The Virginia and Maryland markets continue to experience soft market conditions as evidenced by continued pressure on rental rates. In these markets, rental rates on new and renewed leases declined 6.2% and 9.6%, respectively, over expiring rents for the year ended December 31, 2015. Given lease expirations of 1.0 million square feet in Virginia and 590,000 square feet in Maryland through December 31, 2016, the Company may continue to experience a decrease in rental income in these markets.

Tenant Credit Risk: The Company historically has experienced a low level of write-offs of uncollectable rents, but there is inherent uncertainty in a tenant's ability to continue paying rent and meet its full lease obligation. The table below summarizes the impact to the Company from tenants' inability to pay rent or continue to meet their lease obligations (in thousands):

	For The Years Ended December 31,		
	2015	2014	2013
Annual write-offs of uncollectible rent	$ 919	$ 1,101	$ 955
Annual write-offs as a percentage of rental income	0.2%	0.3%	0.3%
Square footage of leases terminated prior to their scheduled expiration due to business failures/bankruptcies	473	362	431
Accelerated depreciation and amortization related to unamortized tenant improvements and lease commissions associated with early terminations	$ 539	$ 460	$ 2,071

As of February 15, 2016, the Company had 54,000 square feet of leased space occupied by six tenants that are protected by Chapter 11 of the U.S. Bankruptcy Code. From time to time, tenants contact us, requesting early termination of their lease, reductions in space under lease, or rent deferment or abatement. At this time, the Company cannot anticipate what impact, if any, the ultimate outcome of these discussions will have on our future operating results.

Company Performance and Effect of Economic Conditions on Primary Markets: During the year ended December 31, 2015, initial rental rates on new and renewed leases within the Company's total portfolio increased 4.4% over expiring rents, a significant improvement from the year ended December 31, 2014, in which initial rental rates on new and renewed leases increased by 0.5%. The Company's Same Park (defined below) occupancy rate at December 31, 2015 was 94.9%, compared to 93.5% at December 31, 2014. The Company's total portfolio occupancy rate at December 31, 2015 was 94.8%, compared to 92.4% at December 31, 2014. The Company's operations are concentrated in eight regions. Each of the eight regions in which the Company owns assets is subject to its own unique market influences. See "Supplemental Property Data and Trends" below for more information on regional operating data.

Effect of Acquisitions, Development and Dispositions of Properties on the Company's Operations: The Company is focused on growing its operations by looking for opportunities to expand its presence in existing and new markets through strategic acquisitions that meet the Company's focus on multi-tenant flex, industrial and office parks in markets where it has or may obtain a substantial market presence. The Company may also from time to time dispose of assets based on market conditions.

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The Company made no acquisitions in 2015. As of December 31, 2015, the blended occupancy rate of the nine assets comprising 2.2 million square feet acquired during 2013 and 2014, Non-Same Park (defined below) was 93.9% compared to a blended occupancy rate of 66.1% at the time of acquisition. As of December 31, 2015, the Company had 135,000 square feet of vacant space spread over these acquisitions, which we believe provides the Company with the opportunity to generate additional rental income given that the Company's Same Park assets in these same submarkets have a weighted average occupancy of 95.5% at December 31, 2015. The table below contains the assets acquired from 2013 to 2014 (dollars and square feet in thousands):

Property	Date Acquired	Location	Purchase Price	Square Feet	Occupancy at Acquisition	Occupancy at December 31, 2015
Charcot Business Park II	December, 2014	San Jose, California	$ 16,000	119	96.7%	100.0%
McNeil 1	November, 2014	Austin, Texas	10,550	246	53.3%	100.0%
Springlake Business Center II	August, 2014	Dallas, Texas	5,148	145	35.4%	88.2%
Arapaho Business Park 9	July, 2014	Dallas, Texas	1,134	19	100.0%	100.0%
MICC — Center 23	July, 2014	Miami, Florida	12,725	149	0.0%	100.0%
Bayshore Corporate Center	December, 2013	San Mateo, California	60,500	340	81.8%	94.2%
Valwood Business Park	November, 2013	Dallas, Texas	12,425	245	83.5%	90.0%
Dallas Flex Portfolio	October, 2013	Dallas, Texas	27,900	559	72.1%	95.8%
Arapaho Business Park	July, 2013	Dallas, Texas	14,750	389	66.5%	87.3%
Total			$ 161,132	2,211	66.1%	93.9%

During 2015, the Company sold four business parks aggregating 492,000 square feet in non-strategic markets for net proceeds of $41.2 million, which resulted in a gain of $23.4 million. Additionally, as part of an eminent domain process, the Company sold five buildings, aggregating 82,000 square feet, at the Company's Overlake Business Park located in Redmond, Washington, for $13.9 million, which resulted in a gain of $4.8 million. With these sales the Company has completed its stated objective of exiting non-strategic markets in Sacramento, California, Oregon and Arizona.

During 2014, the Company sold five business parks aggregating 1.9 million square feet and 11.5 acres of land in non-strategic markets, including Portland, Oregon and Phoenix, Arizona, for net proceeds of $212.2 million, which resulted in a gain of $92.4 million.

In 2013, the Company entered into a joint venture, in which it will maintain a 95.0% economic interest, with an unrelated real estate development company for the purpose of developing a 395-unit multi-family building, to be known as Highgate, located within the Company's Westpark Business Park in Tysons, Virginia. The Company contributed a five-acre site on which the multi-family project will be developed, along with capitalized improvements, to the Joint Venture on October 5, 2015. Subsequent to the contribution date, demolition, site preparation and construction commenced and is expected to be completed in late 2017. The total development costs for the Joint Venture, including a land value of $27.0 million, are estimated to be $117.2 million. As of December 31, 2015, the Company's investment in unconsolidated joint venture was $26.7 million.

Scheduled Lease Expirations: In addition to the 1.4 million square feet, or 5.2%, of space available in our total portfolio as of December 31, 2015, 2,186 leases representing 22.0% of the leased square footage of our total portfolio, or 21.3% of annualized rental income, are scheduled to expire in 2016. Our ability to re-lease available space will depend upon market conditions in the specific submarkets in which our properties are located. As a result, we cannot predict with certainty the rate at which expiring leases will be re-leased.

Impact of Inflation: Although inflation has not been significant in recent years, it remains a potential factor in our economy, and the Company continues to seek ways to mitigate its potential impact. A substantial portion of the Company's leases require tenants 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.

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Concentration of Portfolio by Region: The table below reflects the Company’s square footage based on regional concentration as of December 31, 2015. As part of the table below, we have reconciled total NOI to net income (in thousands):

Region	Square Footage	Percent of Square Footage	2015 NOI	Percent of NOI
California				
Northern California	7,245	25.9%	$ 56,509	22.3%
Southern California	3,988	14.3%	39,824	15.7%
Texas				
Northern Texas	3,125	11.2%	19,490	7.7%
Southern Texas	1,963	7.0%	14,269	5.6%
Virginia	4,040	14.4%	55,013	21.8%
Florida	3,866	13.8%	24,514	9.7%
Maryland	2,352	8.4%	32,750	13.0%
Washington	1,390	5.0%	10,543	4.2%
Total	27,969	100.0%	$ 252,912	100.0%

Reconciliation of NOI to net income

Total NOI	$ 252,912
Other income and (expenses):	
NOI from sold assets	1,469
2014 LTEIP amortization:	
Cost of operations	(2,470)
General and administrative	(5,766)
Facility management fees	540
Interest and other income	590
Interest and other expenses	(13,330)
Depreciation and amortization	(105,394)
General and administrative	(7,816)
Gain on sale of real estate facilities	28,235
Net income	$ 148,970

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Concentration of Credit Risk by Industry: The information below depicts the industry concentration of our tenant base as of December 31, 2015. The Company analyzes this concentration to minimize significant industry exposure risk.

Industry	Percent of Annualized Rental Income
Business services	17.9%
Computer hardware, software and related services	10.6%
Warehouse, distribution, transportation and logistics	10.0%
Government	9.8%
Health services	9.5%
Retail, food, and automotive	7.5%
Engineering and construction	6.7%
Insurance and financial services	4.4%
Home furnishings	3.1%
Electronics	2.9%
Aerospace/defense products and services	2.7%
Communications	2.2%
Educational services	1.8%
Other	10.9%
Total	100.0%

The information below depicts the Company's top 10 customers by annualized rental income as of December 31, 2015 (in thousands):

Tenants	Square Footage	Annualized Rental Income (1)	Percent of Annualized Rental Income
US Government	842	$ 20,307	5.3%
Lockheed Martin Corporation	168	4,431	1.2%
Kaiser Permanente	199	4,181	1.1%
Keeco, LLC	460	3,385	0.9%
Luminex Corporation	185	3,234	0.9%
MAXIMUS, Inc.	102	2,006	0.5%
Investorplace Media, LLC	46	1,741	0.5%
KZ Kitchen Cabinet & Stone	181	1,728	0.5%
Inova Health Care Services	63	1,701	0.4%
Raytheon	78	1,653	0.4%
Total	2,324	$ 44,367	11.7%

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(1) For leases expiring prior to December 31, 2016, annualized rental income represents income to be received under existing leases from January 1, 2016 through the date of expiration.

Comparison of 2015 to 2014

Results of Operations: Net income for the year ended December 31, 2015 was $149.0 million compared to $204.7 million for the year ended December 31, 2014. Net income allocable to common shareholders for the year ended December 31, 2015 was $68.3 million compared to $113.2 million for the year ended December 31, 2014. Net income per common share on a diluted basis was $2.52 for the year ended December 31, 2015 compared to $4.19 for the year ended December 31, 2014 (based on weighted average diluted common shares outstanding of 27,051,000 and 27,000,000, respectively). The decrease in net income allocable to common shareholders was primarily due to higher gain on sale of assets reported in 2014 (gain on sale of real estate facilities was $28.2 million in 2015 compared to $92.4 million in 2014).

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Effective March, 2014, the Company entered into a performance-based restricted stock unit program, the Senior Management Long-Term Equity Incentive Program for 2014-2017 ("2014 LTEIP"), with certain employees of the Company. Net compensation expense of $8.2 million and $7.4 million related to the 2014 LTEIP was recognized for the years ended December 31, 2015 and 2014, respectively.

To present comparative results, the amortization of 2014 LTEIP reported in either cost of operations (for operations leadership) or general and administrative expenses (for executive management) have been reflected as adjustments in the tables below.

In order to evaluate the performance of the Company's portfolio over comparable periods, management analyzes the operating performance of properties owned and operated throughout both periods (herein referred to as "Same Park"). The Same Park portfolio includes all operating properties acquired prior to January 1, 2013. Operating properties acquired subsequently are referred to as "Non-Same Park." For the years ended December 31, 2015 and 2014, the Same Park facilities constitute 25.8 million rentable square feet, representing 92.1% of the 28.0 million square feet in the Company's total portfolio as of December 31, 2015.

The following table presents the operating results of the Company's properties for the years ended December 31, 2015 and 2014 in addition to other income and expenses items affecting net income (in thousands, except per square foot data):

	For The Years Ended December 31,		
	2015	2014	Change
Rental income:			
Same Park (25.8 million rentable square feet)	$ 345,932	$ 335,206	