

PS BUSINESS PARKS INC/CA

Form 8-K

May 07, 2003

News Release

PS Business Parks, Inc.
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For Release: Immediately
Date: May 6, 2003
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PS Business Parks, Inc. (AMEX: PSB) reported first quarter 2003 net income allocable to common shareholders of \$5.8 million or \$0.27 per share versus \$13.1 million or \$0.60 per share in the prior year. PSB also reported FFO per share of \$0.91 for the first quarter of 2003 versus \$0.90 per share in the prior year.

Glendale, California PS Business Parks, Inc. (AMEX: PSB), reported operating results for the three months ending March 31, 2003.

Net income allocable to common shareholders for the first quarter of 2003 was \$5.8 million or \$0.27 per diluted share on revenues of \$48.5 million compared to \$13.1 million or \$0.60 per diluted share on revenues of \$48.4 million for the same period in 2002. Net income allocable to common shareholders in 2003 includes a loss on discontinued operations of \$2.9 million or (\$0.10 per share) primarily as a result of an impairment loss, partially offset by equity in income of a discontinued joint venture of \$1.8 million (\$0.06 per share). This is compared to a gain on the disposition of a property of \$5.4 million or \$0.19 per common share in the first quarter of 2002.

Supplemental Measures

Funds from operations (FFO) for the first quarter of 2003 were \$26.3 million or \$0.91 per share compared to \$26.1 million or \$0.90 per share for the same period in 2002. This represents an increase of 1.1% in FFO per share based on 28.8 million and 29.0 million weighted average shares outstanding during the first quarter of 2003 and 2002, respectively. FFO and FFO per share exclude depreciation or amortization, the gain on disposition of real estate and marketable securities and impairment loss, all of which are included in the calculation of net income.

The slight growth in FFO per share is due primarily to a reduction in the number of the Company's outstanding common shares and the equity in income of the discontinued joint venture related to incentive fees. This was offset by the short-term dilutive effect of property dispositions completed during 2002. The repurchase of shares was financed primarily with retained cash flow. These factors offset the moderate negative decline in the net operating income of the Company's Same Park operations.

Funds available for Distribution (FAD) decreased 0.2% to \$21,336,000 during the first quarter of 2003 from \$21,391,000 during the first quarter of 2002. The decrease was primarily the result of higher leasing transaction costs.

The Company announced in April that it will report funds from operations in conformity with the definition provided by the National Association of Real Estate Investment Trusts and, therefore, will no longer exclude the effects of straight-lining rents from its calculation of funds from operations. The Company made this decision after review of Regulation G, governing public disclosures of non-GAAP financial measures which was recently adopted by the Securities and Exchange Commission. The impact on the three months ended March 31, 2003 and 2002 was to increase funds from operations by \$0.02 and \$0.03 per share, respectively. The Company continues to disclose the straight-line rent adjustment and exclude it from its FAD calculation. See the Company's reconciliation of net income allocable to common shareholders to FFO and FAD on page 8 of this news release.

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Property Operations

In order to evaluate the performance of the Company's overall portfolio, management analyzes the operating performance of a consistent group of properties (13.9 million net rentable square feet). These properties (herein referred to as the "Same Park" facilities) have been owned and operated by the Company for the comparable periods. The "Same Park" facilities represent approximately 95% of the square footage of the Company's portfolio at March 31, 2003.

The following tables summarize the pre-depreciation historical operating results of the "Same Park" facilities and the entire portfolio.

"Same Park" Facilities (13.9 million square feet)		
Three Months Ended March 31,		
	2003	2002
Rental income before straight line rent adjustment...	\$ 46,802,000	\$ 46,619,000
Straight line rent adjustment.....	582,000	931,000
	-----	-----
Total rental income.....	47,384,000	47,550,000
	-----	-----
Cost of operations.....	13,119,000	12,778,000
	-----	-----
Net operating income.....	34,265,000	34,772,000
Less: straight line rent adjustment.....	(582,000)	(931,000)
	-----	-----
Net operating income before straight line rent adjustment.....	\$ 33,683,000	\$ 33,841,000
	=====	=====
Gross margin (1).....	72.0%	72.6%
Weighted average for period:		
Occupancy.....	92.7%	95.1%
Annualized realized rent per occupied sq. ft.(2).	\$ 14.54	\$ 14.12

(1) Gross margin is computed by dividing property net operating income by rental income before straight line rent adjustment. (2) Realized rent per square foot represents the revenues earned before straight line rent adjustment per occupied square foot.

Total Portfolio Statistics		
Three Months Ended March 31,		
	2003	2002
Rental income before straight line rent adjustment...	\$ 47,417,000	\$ 46,908,000
Straight line rent adjustment.....	595,000	946,000
	-----	-----
Total rental income.....	48,012,000	47,854,000
	-----	-----
Cost of operations	13,300,000	12,941,000
	-----	-----
Net operating income.....	34,712,000	34,913,000
Less: straight line rent adjustment.....	(595,000)	(946,000)
	-----	-----
Net operating income before straight line rent adjustment.....	34,117,000	33,967,000
	=====	=====
Gross margin (1).....	72.0%	72.4%
Weighted average for period:		
Square footage.....	14,083,000	14,030,000
Occupancy.....	92.6%	94.6%
Annualized realized rent per occupied sq. ft.(2).	\$ 14.54	\$ 14.14

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- (1) Gross margin is computed by dividing property net operating income before straight line rent adjustment by rental income.
- (2) Realized rent per square foot represents the revenues earned before straight line rent adjustment per occupied square foot.

Financial Condition

The Company continued to maintain financial strength and flexibility. The following are the Company's key financial ratios with respect to its leverage for the three months ended March 31, 2003.

Ratio of FFO to fixed charges (1).....	36.0x
Ratio of FFO to fixed charges and preferred distributions (2).....	3.7x
Debt and preferred equity to total market capitalization (based on the common stock price of \$29.75 at March 31, 2003).....	34.9%
Available under line of credit at March 31, 2003.....	\$100 million

(1) Fixed charges include interest expense of \$1,002,000.

(2) Preferred distributions include amounts paid to preferred shareholders of \$3,928,000 and preferred unitholders in the operating partnership of \$4,810,000.

Property Dispositions

The Company has identified several properties for disposition. One property, a 57,000 square foot office building in Lakewood, California was sold during the second quarter with net proceeds of approximately \$6.4 million. The others are a group of five office and flex buildings with a 3.5 acre parcel of land in Beaverton, Oregon. These properties are under contract for sale with estimated net proceeds of \$34.5 million. A gain on the Lakewood property of \$3.3 million will be recognized in the second quarter. An impairment loss of \$5.9 million based on the estimated proceeds from the disposition of the Beaverton, Oregon properties was recognized in the first quarter of 2003.

Joint Venture Property Dispositions

Through a joint venture with an institutional investor, the Company held a 25% equity interest in an industrial park in the City of Industry submarket of Los Angeles, California. Initially, the joint venture consisted of 14 buildings totaling 294,000 square feet. During 2002, the joint venture sold eight buildings totaling 170,000 square feet. During January, 2003, five of the remaining six buildings were sold and the Company recognized gains of approximately \$1.1 million as a result of these sales and incentive compensation of \$0.7 million. The final property was sold in April, 2003, resulting in a gain of approximately \$300,000 and incentive compensation of approximately \$200,000 to be recognized during the second quarter of 2003.

Property Acquisitions

On February 14, 2003, the Company completed the acquisition of Westwood Business Park containing 113,000 square feet of flex space, in the Farmer's Branch submarket of Dallas, Texas for \$7.9 million.

Stock Repurchase Program

The Company's Board of Directors has authorized the repurchase from time to time of up to 4,500,000 shares of the Company's common stock on the open market or in privately negotiated transactions. From January 1, 2003 through March 31, 2003, the Company repurchased 261,200 shares at an aggregate cost of approximately \$8,119,000 or \$31.08 per share. Since the inception of the program (March 2000), the Company has repurchased an aggregate total of 2,621,711 shares of common stock and 30,484 common units in its operating partnership at an aggregate cost of approximately \$70.8 million (average cost of \$26.69 per share/unit).

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Distributions Declared

The Board of Directors declared a quarterly dividend of \$0.29 per common share on May 6, 2003. Distributions are payable June 27, 2003 to shareholders of record on June 13, 2003. Distributions were also declared on the various series of depositary shares, each representing 1/1,000 of a share of preferred stock listed below. The preferred distributions are payable on June 30, 2003 to shareholders of record on June 16, 2003.

Series	Dividend Rate	Dividend Declared
Series A	9.25%	\$0.5781
Series D	9.50%	\$0.5938
Series F	8.75%	\$0.5469

Company Information

PSB is a self-advised and self-managed equity real estate investment trust that acquires, develops, owns and operates commercial properties, primarily flex, multi-tenant office and industrial space. The Company defines flex space as buildings that are configured with a combination of office and warehouse space and can be designed to fit a number of uses (including office, assembly, showroom, laboratory, light manufacturing and warehouse space). As of March 31, 2003, PSB wholly-owned approximately 14.5 million net rentable square feet of commercial space with approximately 3,300 customers located in eight states, concentrated primarily in California (4,673,000 sq. ft.), Texas (2,895,000 sq. ft.), Oregon (1,973,000 sq. ft.), Virginia (2,621,000 sq. ft.) and Maryland (1,646,000 sq. ft.).

Forward-Looking Statements

When used within this press release, the words expects, believes, anticipates, should, estimates, and similar expressions are intended to identify forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors, which may cause the actual results and performance of the Company to be materially different from those expressed or implied in the forward-looking statements. Such factors include the impact of competition from new and existing commercial facilities which could impact rents and occupancy levels at the Company's facilities, the Company's ability to evaluate, finance, and integrate acquired and developed properties into the Company's existing operations; the Company's ability to effectively compete in the markets that it does business in; the impact of the regulatory environment as well as national, state, and local laws and regulations including, without limitation, those governing Real Estate Investment Trusts; the impact of general economic conditions upon rental rates and occupancy levels at the Company's facilities; the availability of permanent capital at attractive rates, the outlook and actions of Rating Agencies and risks detailed from time to time in the Company's SEC reports, including quarterly reports on Form 10-Q, reports on Form 8-K and annual reports on Form 10-K.

Additional information about PS Business Parks, Inc. including more financial analysis of the first quarter's operating results is available on the Internet. The Company's web site is www.psbusinessparks.com.

A conference call is scheduled for Wednesday, May 7, 2003 at 1:30 p.m. (PDT) to discuss these results. The toll free number is 1-800-399-4409 the conference ID is 9729905. An instant replay of the conference call will be available through May 14, 2003 at 1-800-642-1687 the conference ID is 9729905. The replay can also be accessed under the Investor Relations section of our web site.

Additional financial data attached.

PS BUSINESS PARKS, INC.
Selected Financial Data

(Unaudited)

At March 31, 2003

Balance Sheet Data:

Cash and cash equivalents.....	\$	37,782,000
Marketable equity securities.....	\$	5,285,000
Properties held for disposition, net.....	\$	37,563,000
Real estate facilities, before accumulated depreciation.....	\$	1,218,375,000
Total assets.....	\$	1,144,610,000
Total debt.....	\$	70,137,000
Minority interest - common units.....	\$	166,865,000

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Minority interest - preferred units.....	\$	217,750,000
Perpetual preferred stock.....	\$	170,813,000
Common shareholders' equity.....	\$	485,831,000
Total common shares outstanding at period end.....		21,272,000
		=====
Total common shares outstanding at period end, assuming conversion of all Operating Partnership units into common stock		28,577,000
		=====

PS BUSINESS PARKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	For the Three Months Ended March 31,	
	2003	2002
Revenues:		
Rental income.....	\$ 48,012,000	\$ 47,000,000
Facility management fees primarily from affiliates.....	185,000	185,000
Interest and other income.....	272,000	3,000
	-----	-----
	48,469,000	48,188,000
	-----	-----
Expenses:		
Cost of operations.....	13,300,000	12,000,000
Cost of facility management.....	37,000	37,000
Depreciation and amortization.....	13,685,000	13,000,000
General and administrative.....	1,054,000	1,000,000
Interest expense.....	1,002,000	1,000,000
	-----	-----
	29,078,000	29,037,000
	-----	-----
Income before discontinued operation and minority interest.....	19,391,000	19,151,000
	-----	-----
Discontinued Operations:		
Income from discontinued operations.....	1,226,000	1,000,000
Impairment charge on properties held for sale..	(5,907,000)	(5,907,000)
Gain on disposition of real estate.....	-	5,000
Equity in income of discontinued joint venture.	1,796,000	1,796,000
	-----	-----
Net income (loss) from discontinued operations...	(2,885,000)	6,889,000
	-----	-----
Income before minority interest.....	16,506,000	25,040,000
Minority interest in income - preferred units..	(4,810,000)	(4,810,000)
Minority interest in income - common units.....	(1,965,000)	(4,810,000)
	-----	-----
Net income.....	\$ 9,731,000	\$ 16,420,000
	=====	=====
Net income allocation:		
Allocable to preferred shareholders.....	\$ 3,928,000	\$ 3,928,000
Allocable to common shareholders.....	5,803,000	13,492,000
	-----	-----

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	\$ 9,731,000	\$ 16,
	=====	=====
Net income (loss) per common share - basic:		
Continuing operations.....	\$ 0.37	\$
Discontinued operations.....	\$ (0.10)	\$

	\$ 0.27	\$
Net income (loss) per common share - diluted:		
Continuing operations.....	0.37	
Discontinued operations.....	(0.10)	

	\$ 0.27	\$
Weighted average common shares outstanding:		
Basic.....	21,374,000	21,
	=====	=====
Diluted.....	21,520,000	21,
	=====	=====

See accompanying notes.

PS BUSINESS PARKS, INC.
Computation of Funds from Operations ("FFO")

	Three Months Ended March 31,	
	2003	2002
Net income allocable to common shareholders.....	\$ 5,803,000	\$ 13,085,
Less: Gain on investment in marketable securities.....	-	(25,
Less: Gain on disposition of real estate.....	-	(5,366,
Less: Equity income from sale of joint venture properties	(1,076,000)	
Impairment charge on properties held for sale.....	5,907,000	
Depreciation and amortization.....	13,685,000	13,978,
Depreciation from unconsolidated joint venture.....	-	20,
Minority interest in income - common units.....	1,965,000	4,432,
	-----	-----
Consolidated FFO allocable to common shareholders.....	\$ 26,284,000	\$ 26,124,
	=====	=====
Computation of Diluted FFO per Common Share (1):		
Consolidated FFO allocable to common shareholders.....	\$ 26,284,000	\$ 26,124,
	=====	=====
Weighted average common shares outstanding.....	21,374,000	21,543,
Weighted average common OP units outstanding.....	7,305,000	7,305,
Dilutive effect of stock options.....	146,000	193,
	-----	-----
Weighted average common shares and OP units for purposes of computing fully-diluted FFO per common share	28,825,000	29,041,
	=====	=====
Fully diluted FFO per common share.....	0.91	0
	=====	=====
Computation of Funds Available for Distribution ("FAD") (2)		
Consolidated FFO allocable to common shareholders.....	\$ 26,284,000	\$ 26,124,
	=====	=====
Less: Capitalized Expenditures:		

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Maintenance capital expenditures.....	\$	(573,000)	\$	(842,000)
Tenant improvements.....		(2,885,000)		(2,163,000)
Capitalized lease commissions.....		(1,029,000)		(858,000)
		-----		-----
Total Capitalized Expenditures.....		(4,487,000)		(3,863,000)
		-----		-----
Less: Straight line rent adjustment.....		(635,000)		(960,000)
Add: Stock based compensation expense.....		174,000		90,000
		-----		-----
FAD.....	\$	21,336,000	\$	21,391,000
		=====		=====

- (1) Funds from operations (FFO) is a term defined by the National Association of Real Estate Investment Trusts, Inc. (NAREIT) by which real estate investment trusts (REITs) may be compared. It is generally defined as net income before depreciation and extraordinary items. FFO computations do not factor out the REIT s requirement to make either capital expenditures or principal payments on debt. The Company excludes gains/losses on disposition of real estate impairment loss and gains/losses on sale of marketable securities to more accurately reflect cash flow from real estate operations. Other REITs may not make these adjustments in computing FFO.
- (2) Funds available for distribution (FAD) is computed by deducting from consolidated FFO recurring capital expenditures, tenant improvements, capitalized leasing commissions, and the straight line rent adjustment from FFO and adding stock based compensation expense.