



## Press Release

For Immediate News Release  
January 29, 2003

### **MISSION WEST PROPERTIES, INC. ANNOUNCES FOURTH QUARTER AND FULL YEAR 2002 EARNINGS RESULTS**

***“We build the buildings for the high tech companies that build the internet”***

**Cupertino, CA – Mission West Properties, Inc. (AMEX/PCX: MSW)** reported today that Funds From Operations (“FFO”) for the quarter ended December 31, 2002 was \$29,676,000 or \$0.28 per diluted common share (considering the potential effect of all O.P. Units being exchanged for shares of the Company’s common stock) as compared to \$29,950,000 or \$0.29 per diluted common share for the same period in 2001, a per share decrease of approximately 3.4%. Termination fees accounted for approximately \$0.02 per diluted share in the fourth quarter 2002. On a sequential quarter basis, FFO per diluted common share remained the same as the previous quarter ended September 30, 2002. For the year ended December 31, 2002, FFO increased to \$117,360,000 or \$1.13 per diluted share from FFO of \$114,513,000 or \$1.11 per diluted share for the same period in 2001, a per share increase of approximately 1.8%.

Net income on a per share basis available to common shareholders was \$0.21 per diluted share for the quarter ended December 31, 2002, as compared with \$0.24 per diluted share for the same period in 2001, a per share decrease of 12.5%. Net income per share for the year ended December 31, 2002 was \$0.98 per diluted share which included \$0.06 per diluted share in a net gain from the sale of an asset, compared to \$1.03 per diluted share for the comparable period in 2001 which included \$0.11 per diluted share in net gains from the sale of assets, a per share decrease of 4.9%. Fourth quarter and full year 2002 net income per share included \$0.02 per share for lease termination fees, net of straight line rent adjustment and write-off of unamortized leasing commissions.

#### ***Development Activity***

During 2002 the Company acquired a total of two properties from the Berg Group under the Berg Land Holdings Option Agreement consisting of 290,000 rentable square feet for a total acquisition cost of approximately \$31 million with a combined weighted average first year anticipated unleveraged cash return of approximately 20.6%.

During 2002 the Company also acquired three properties from an unrelated third party consisting of 206,500 rentable square feet in a tax-deferred exchange (Section 1031 exchange) transaction for approximately \$31.3 million. The combined weighted average first year anticipated unleveraged cash return for these properties is approximately 14.7%.

#### ***Disposition Activity***

The Company sold one property consisting of 72,400 rentable square feet during 2002 for a gross sales price of approximately \$18.5 million resulting in a gain of approximately \$6.1 million as previously reported. The proceeds were used to purchase the three properties in the tax-deferred exchange transaction described above.

#### ***Financing Activity***

On January 9, 2003, the Company obtained a \$100 million secured mortgage loan from Northwestern Mutual Life Insurance Company that bears a fixed interest rate at 5.64% and matures in ten years with principal payments amortized over 20 years. The mortgage loan is secured by 11 properties. The

Company paid approximately \$675,000 in loan fees and financing costs and used the proceeds to primarily pay down short-term debt.

The following table presents certain information concerning currently identified land or projects that the Company has the right to acquire under the Berg Land Holdings Option Agreement.

| <u>Property</u>                    | <u>Net Acres</u> | <u>Projected Rentable Area</u> | <u>Projected Acquisition Period</u> |
|------------------------------------|------------------|--------------------------------|-------------------------------------|
| <b>Under Development:</b>          |                  |                                |                                     |
| Morgan Hill (JV I) <sup>(1)</sup>  | 12               | 160,000                        | Q1 2003                             |
| Morgan Hill (JV II) <sup>(1)</sup> | 11               | 151,242                        | Q1 2003                             |
| Subtotal                           | <u>23</u>        | <u>311,242</u>                 |                                     |
| <b>Available Land:</b>             |                  |                                |                                     |
| Piercy & Hellyer                   | 30               | 490,000                        |                                     |
| Morgan Hill <sup>(1)</sup>         | 24               | 368,025                        |                                     |
| King Ranch                         | 12               | 207,000                        |                                     |
| Fremont & Cushing                  | 24               | 387,000                        |                                     |
| Evergreen                          | 160              | 2,480,000                      |                                     |
| Subtotal                           | <u>250</u>       | <u>3,932,025</u>               |                                     |
| Total                              | <u>273</u>       | <u>4,243,267</u>               |                                     |

- (1) The Company expects to own an approximate 50% interest in the partnership through one of its operating partnerships. The properties will be operated and managed by the other partner in the entity. The rentable area shown above reflects both the Company's and the other partner's combined interest in these properties.

### **Company Profile**

Mission West Properties, Inc. operates as a self-managed, self-administered and fully integrated REIT engaged in the management, leasing, marketing, development and acquisition of commercial R&D properties, primarily located in the Silicon Valley portion of the San Francisco Bay Area. Currently, the Company manages 101 properties totaling approximately 7.2 million square feet. For additional information, please contact Investor Relations at 408-725-0700.

*The matters described herein contain forward-looking statements. Such statements can be identified by the use of forward-looking terminology such as "will", "anticipate", "estimate", "expect", "intends", or similar words. Forward-looking statements involve a number of risks, uncertainties or other factors beyond the Company's control, which may cause material differences in actual results, performance or other expectations. These factors include, but are not limited to, the ability to complete acquisitions under the Berg Land Holdings Option Agreement with the Berg Group and other factors detailed in the Company's registration statements, and periodic filings with the Securities & Exchange Commission.*

**MISSION WEST PROPERTIES, INC.**  
**SELECTED FINANCIAL DATA**

(In thousands, except share, per share and property data amounts)

|  | Three Months<br>Ended<br>December 31,<br>2002 | Three Months<br>Ended<br>December 31,<br>2001 | Twelve Months<br>Ended<br>December 31,<br>2002 | Twelve Months<br>Ended<br>December 31,<br>2001 |
|--|---|---|--|--|
| <b>REVENUES:</b>   |   |   |  |  |
| Rental revenues from real estate                                 | \$32,378                                      | \$33,168                                      | \$129,781 <sup>(6)</sup>                       | \$126,230                                      |
| Tenant reimbursements  | 4,677   | 4,994   | 20,097   | 17,474   |
| Other income, including interest                                 | 2,989 <sup>(7)</sup>                          | 465   | 4,250 <sup>(7)</sup>                           | 2,465  |
| Gain on sales of assets  | -   | (100)   | -  | 11,453   |
| Total revenues   | <u>40,044</u>                                 | <u>38,527</u>                                 | <u>154,128</u>                                 | <u>157,622</u>                                 |
| <b>EXPENSES:</b>   |   |   |  |  |
| Operating expenses   | 3,611   | 2,573   | 9,781  | 7,984  |
| Real estate taxes  | 3,083   | 3,005   | 12,234   | 10,324   |
| Depreciation of real estate                                      | 4,565   | 4,255   | 17,928   | 16,638   |
| General and administrative                                       | 298   | 333   | 1,488  | 1,284  |
| Interest   | 2,542   | 2,133   | 9,588  | 8,704  |
| Interest (related parties)                                       | 652   | 973   | 3,422  | 4,709  |
| Total expenses   | <u>14,751</u>                                 | <u>13,272</u>                                 | <u>54,441</u>                                  | <u>49,643</u>                                  |
| Income before minority interest                                  | <u>25,293</u>                                 | <u>25,255</u>                                 | <u>99,687</u>                                  | <u>107,979</u>                                 |
| Minority interest  | <u>21,623</u>                                 | <u>21,123</u>                                 | <u>83,251</u>                                  | <u>90,129</u>                                  |
| Income from continuing operations                                | <u>3,670</u>                                  | <u>4,132</u>                                  | <u>16,436</u>                                  | <u>17,850</u>                                  |
| Discontinued operations:   |   |   |  |  |
| Gain from disposal of discontinued operations                    | -   | -   | 6,103  | -  |
| Gain from discontinued operations                                | -   | 430   | 287  | 1,721  |
| Net gain from discontinued operations                            | <u>-</u>                                      | <u>430</u>                                    | <u>6,390</u>                                   | <u>1,721</u>                                   |
| Net income to minority interest                                  | <u>\$21,623</u>                               | <u>\$21,482</u>                               | <u>\$88,576</u>                                | <u>\$91,565</u>                                |
| Net income to common stockholders                                | <u>\$ 3,670</u>                               | <u>\$ 4,203</u>                               | <u>\$17,501</u>                                | <u>\$18,135</u>                                |
| Income per share from continuing operations:                     |   |   |  |  |
| Basic  | <u>\$0.21</u>                                 | <u>\$0.24</u>                                 | <u>\$0.94</u>                                  | <u>\$1.04</u>                                  |
| Diluted  | <u>\$0.21</u>                                 | <u>\$0.24</u>                                 | <u>\$0.92</u>                                  | <u>\$1.01</u>                                  |
| Income per share from discontinued operations:                   |   |   |  |  |
| Basic  | <u>-</u>                                      | <u>-</u>                                      | <u>\$0.06</u>                                  | <u>\$0.02</u>                                  |
| Diluted  | <u>-</u>                                      | <u>-</u>                                      | <u>\$0.06</u>                                  | <u>\$0.02</u>                                  |
| Net income per share to common stockholders:                     |   |   |  |  |
| Basic  | <u>\$0.21</u>                                 | <u>\$0.24</u>                                 | <u>\$1.00</u>                                  | <u>\$1.06</u>                                  |
| Diluted  | <u>\$0.21</u>                                 | <u>\$0.24</u>                                 | <u>\$0.98</u>                                  | <u>\$1.03</u>                                  |
| Weighted average shares of common stock (basic)                  | <u>17,485,590</u>                             | <u>17,162,111</u>                             | <u>17,455,799</u>                              | <u>17,103,714</u>                              |
| Weighted average shares of common stock (diluted)                | <u>17,800,971</u>                             | <u>17,596,536</u>                             | <u>17,854,892</u>                              | <u>17,589,353</u>                              |
| Weighted average O.P. Units outstanding                          | <u>86,475,771</u>                             | <u>85,925,041</u>                             | <u>86,334,548</u>                              | <u>85,122,715</u>                              |
| <b>FUNDS FROM OPERATIONS/FUNDS AVAILABLE FOR DISTRIBUTION</b>    |   |   |  |  |
| Funds from operations <sup>(2)</sup>                             | <u>\$29,676</u>                               | <u>\$29,950</u>                               | <u>\$117,360</u>                               | <u>\$114,513</u>                               |
| Funds from operations per share <sup>(1) (2)</sup>               | <u>\$ 0.28</u>                                | <u>\$ 0.29</u>                                | <u>\$ 1.13</u>                                 | <u>\$ 1.11</u>                                 |
| Funds available for distribution <sup>(3)</sup>                  | <u>\$28,292</u>                               | <u>\$28,354</u>                               | <u>\$116,087</u>                               | <u>\$106,502</u>                               |
| Funds available for distribution per share <sup>(1) (3)</sup>    | <u>\$ 0.27</u>                                | <u>\$ 0.27</u>                                | <u>\$ 1.11</u>                                 | <u>\$ 1.04</u>                                 |
| Outstanding common stock   | <u>17,487,329</u>                             | <u>17,329,779</u>                             | <u>17,487,329</u>                              | <u>17,329,779</u>                              |
| Outstanding O.P. Units   | <u>86,474,032</u>                             | <u>85,762,541</u>                             | <u>86,474,032</u>                              | <u>85,762,541</u>                              |
| Weighted average O.P. Units & common stock outstanding (diluted) | <u>104,276,742</u>                            | <u>103,521,577</u>                            | <u>104,189,440</u>                             | <u>102,712,068</u>                             |

| PROPERTY AND OTHER DATA:                           | Three Months                  | Three Months                  | Twelve Months                 | Twelve Months                 |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
|  | Ended<br>December 31,<br>2002 | Ended<br>December 31,<br>2001 | Ended<br>December 31,<br>2002 | Ended<br>December 31,<br>2001 |
| Total properties, end of period                    | 101                           | 96                            | 101                           | 96                            |
| Total square feet, end of period                   | 7,163,930                     | 6,696,327                     | 7,163,930                     | 6,696,327                     |
| Average monthly rental revenue per square foot (4) | \$ 1.75                       | \$ 1.62                       | \$ 1.71                       | \$ 1.56                       |
| Average occupancy                                  | 85%                           | 97%                           | 90%                           | 98%                           |
| Actual occupancy                                   | 84%                           | 97%                           | 84%                           | 97%                           |

| BALANCE SHEET DATA:                      | December 31,<br>2002      | December 31,<br>2001 |
|--|---------------------------|----------------------|
|  | Cash and cash equivalents | \$ 4,479             |
| Land                                     | 234,707                   | 218,058              |
| Buildings                                | 726,581                   | 692,485              |
| Accumulated depreciation                 | (66,560)                  | (49,608)             |
| Total assets                             | 929,406                   | 910,255              |
| Line of credit - related parties         | 58,792                    | 79,887               |
| Line of credit                           | 23,839                    | -                    |
| Unsecured loan                           | 20,000                    | -                    |
| Mortgage notes payable                   | 125,062                   | 127,416              |
| Mortgage notes payable - related parties | 11,078                    | 11,371               |
| Total liabilities                        | 289,817                   | 286,768              |
| Minority interest - limited partners     | 528,768                   | 515,063              |
| Stockholders' equity                     | 110,821                   | 108,424              |

- (1) Calculated on a fully diluted basis. Assumes conversion of O.P. Units outstanding into the Company's common stock.
- (2) As defined by NAREIT, Funds From Operations ("FFO") represents net income (loss) before minority interest of unit holders (computed in accordance with GAAP, accounting principles generally accepted in the United States of America), excluding gains (or losses) from debt restructuring and sales of property, plus real estate related depreciation and amortization (excluding amortization of deferred financing costs and depreciation of non-real estate assets) and after adjustments for unconsolidated partnerships and joint ventures. Management considers FFO an appropriate measure of performance of an equity REIT because, along with cash flows from operating activities, financing activities and investing activities, it provides investors with an understanding of our ability to incur and service debt, and make capital expenditures. FFO should not be considered as an alternative for net income as a measure of profitability or is it comparable to cash flows provided by operating activities determined in accordance with GAAP. FFO is not comparable to similarly entitled items reported by other REITs that do not define them exactly as we define FFO. FFO was calculated as follows:

|                                | Three Months Ended<br>December 31, 2002 | Three Months Ended<br>December 31, 2001 | Twelve Months Ended<br>December 31, 2002 | Twelve Months Ended<br>December 31, 2001 |
|--------------------------------|---|---|--|--|
| Net income                     | \$ 3,670                                | \$ 4,203                                | \$ 17,501                                | \$ 18,135                                |
| Add:                           |   |   |  |  |
| Minority interest (5)          | 21,441                                  | 21,323                                  | 87,988                                   | 90,914                                   |
| Depreciation                   | 4,565                                   | 4,324                                   | 17,974                                   | 16,917                                   |
| Less:                          |   |   |  |  |
| Gain/(loss) on sales of assets | -                                       | (100)                                   | 6,103                                    | 11,453                                   |
| FFO                            | \$ 29,676 (7)                           | \$ 29,950                               | \$ 117,360 (7)                           | \$ 114,513                               |

- (3) Funds Available for Distribution ("FAD") is calculated as FFO less straight-line rents, leasing commissions paid and capital expenditures made during the respective period. The calculation of FAD is as follows:

|                      | Three Months Ended<br>December 31, 2002 | Three Months Ended<br>December 31, 2001 | Twelve Months Ended<br>December 31, 2002 | Twelve Months Ended<br>December 31, 2001 |
|----------------------|---|---|--|--|
| FFO                  | \$ 29,676                               | \$ 29,950                               | \$ 117,360                               | \$ 114,513                               |
| Less:                |   |   |  |  |
| Straight-line rents  | 1,166                                   | 702                                     | 78                                       | 6,054                                    |
| Leasing commissions  | 200                                     | 263                                     | 478                                      | 915                                      |
| Capital expenditures | 18                                      | 631                                     | 717                                      | 1,042                                    |
| FAD                  | \$ 28,292                               | \$ 28,354                               | \$ 116,087                               | \$ 106,502                               |

- (4) Average monthly rental revenue per square foot has been determined by taking the base rent for the period divided by the number of months in the period, and then divided by the total square feet of occupied space.
- (5) The minority interest for unrelated third parties has been deducted from total minority interest in calculating FFO.
- (6) The Company recorded an adjustment of \$1.4 million to establish a reserve relating to the recapture of straight-line revenues and other tenant related items for the quarter ended March 31, 2002.
- (7) Included approximately \$2.4 million in termination fees, net of straight line rent adjustment and write-off of unamortized leasing commissions.