Saul Centers

SECOND QUARTER 2009

Report to Shareholders

MESSAGE TO OUR SHAREHOLDERS

Total revenue for the three months ended June 30, 2009 ("2009 Quarter") decreased 1.7% to $39,416,000 compared to $40,105,000 for the three months ended June 30, 2008 ("2008 Quarter"). Operating income, which is net income available to common stockholders before gain on property dispositions, loss on early extinguishment of debt, income attributable to the noncontrolling interest and preferred stock dividends, decreased 13.1% to $10,574,000 for the 2009 Quarter compared to $12,175,000 for the 2008 Quarter. Net income available to common stockholders was $3,934,000 or $0.22 per diluted share for the 2009 Quarter, compared to net income available to common stockholders of $6,443,000 or $0.36 per diluted share for the 2008 Quarter. During the 2009 Quarter, the Company refinanced mortgage debt on four properties. As a result of these refinancings, the Company incurred expense totaling $1,660,000 related to the early retirement of the existing mortgage debt due to mature December 2011. The Company also modified its existing revolving credit agreement which was due to expire in December 2010. Interest expense and amortization of deferred debt costs includes $280,000 associated with the modification. Total expense recognized in the 2009 Quarter for these financing activities was $1,940,000.

Same property revenue for the total portfolio decreased 1.5% for the 2009 Quarter compared to the 2008 Quarter and same property operating income decreased 4.0%. The same property comparisons exclude the results of operations of properties not in operation for each of the comparable reporting quarters. Same property operating income in the shopping center portfolio decreased 4.6% for the 2009 Quarter compared to the 2008 Quarter. The primary cause of this decrease were vacancies at four shopping centers; small shop space at Lansdowne Town Center and Broadlands Village, both located in Loudoun County, Virginia; an anchor space at Seven Corners in Falls Church, Virginia; and an anchor space at White Oak in Silver Spring, Maryland. The vacant anchor spaces at both Seven Corners and White Oak have been re-leased with rents commencing in June and July, 2009, respectively. Increased property operating expenses and real estate taxes, net of recovered amounts, also contributed to the decrease in property operating income for the 2009 Quarter. Same property operating income in the office portfolio decreased 2.0% for the 2009 Quarter largely due to increased tenant vacancy at Avenel Business Park.

For the six months ended June 30, 2009 ("2009 Period"), total revenue increased 0.4% to $79,105,000 compared to $78,827,000 for the six months ended June 30, 2008 ("2008 Period") and operating income decreased 4.8% to $22,124,000 compared to $23,248,000 for the 2008 Period. Net income available to common stockholders was $9,890,000 or $0.55 per diluted share for the 2009 Period, compared to $13,476,000 or $0.75 per diluted share for the 2008 Period. Overall same property revenue for the total portfolio decreased 1.1% for the 2009 Period compared to the 2008 Period and same property operating income decreased 3.7%. For the 2009 Period, shopping center same property operating income decreased 5.1% due to overall increases in tenant vacancies and credit loss reserves. Same property operating income in the office portfolio remained relatively stable, increasing 0.9% for the 2009 Period, due primarily to lease termination fees received, which were largely offset by increased tenant vacancy at Avenel Business Park.

As of June 30, 2009, 91.8% of the operating portfolio, including the Northrock and Westview Village development projects which are phasing into service, was leased compared to 94.8% at June 30, 2008. On a same property basis, 93.1% of the portfolio was leased, compared to the prior year level of 94.8%. The 2009 leasing percentages declined due to a net decrease of approximately 144,000 square feet of leased space.

Funds from operations (FFO) available to common shareholders (after deducting preferred stock dividends) decreased 20.6% to $12,212,000 in the 2009 Quarter compared to $15,378,000 for the 2008 Quarter. On a diluted per share basis, FFO available to common shareholders decreased 21.2% to $0.52 per share for the 2009 Quarter compared to $0.66 per share for the 2008 Quarter. FFO, a widely accepted non-GAAP financial measure of operating performance for REITs, is defined as net income plus income attributable to the noncontrolling interest, extraordinary items and real estate depreciation and amortization, excluding gains from property dispositions. FFO available to common shareholders for the 2009 Period decreased 13.7% to $27,018,000 from $31,297,000 during the 2008 Period. Per share FFO available to common shareholders for the 2009 Period decreased 13.4% to $1.16 per diluted share compared to $1.34 per diluted share for the 2008 Period. FFO decreased in the 2009 Period primarily due to $1,940,000 ($0.08 per diluted share) of expense associated with the previously discussed second quarter financing activities, increased preferred stock dividends and to a lesser extent, decreased property operating income.

During the 2009 Quarter, Saul Centers refinanced a significant portion of its $62.7 million of fixed-rate mortgage debt due to mature December 2011. The Company closed on four new 15-year, non-recourse mortgage loans totaling $85 million, which require monthly payments at a weighted average interest rate of 7.6% and 25-year amortization schedule. These refinancings provided the Company with net cash proceeds of over $25 million. As a result of the refinancing of this debt, only $19 million of the Company's remaining fixed-rate mortgage debt will mature prior to 2012. Saul Centers also modified its revolving line of credit facility and in July increased the facility to $150 million and extended the maturity date to June 2012, with a one-year extension at the Company's option. As of August 6, 2009, the Company had no balance outstanding on the line.

For the Board,

B. Francis Saul II
Chairman of the Board
August 27, 2009

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share amounts)	For the Three Months Ended June 30, 2009	For the Three Months Ended June 30, 2008	For the Six Months Ended June 30, 2009	For the Six Months Ended June 30, 2008
	(Unaudited)		(Unaudited)	
Revenue				
Base rent	$ 31,131	$ 31,751	$ 61,796	$ 62,133
Expense recoveries	7,048	6,945	14,628	14,078
Percentage rent	328	232	561	546
Other	909	1,177	2,120	2,070
Total revenue	39,416	40,105	79,105	78,827
Operating expenses				
Property operating expenses	4,845	4,527	10,215	9,512
Provision for credit losses	232	241	559	424
Real estate taxes	4,620	4,278	9,036	8,289
Interest expense and amortization of deferred debt costs	8,782	8,705	16,978	17,309
Depreciation and amortization of deferred leasing costs	7,083	6,989	14,124	13,932
General and administrative	3,280	3,190	6,069	6,113
Total operating expenses	28,842	27,930	56,981	55,579
Operating income	10,574	12,175	22,124	23,248
Loss on early extinguishment of debt	(1,660)	–	(1,660)	–
Gain on property dispositions	–	–	–	205
Net income	8,914	12,175	20,464	23,453
Net income attributable to the noncontrolling interest	(1,195)	(1,946)	(3,004)	(4,094)
Net income attributable to Saul Centers, Inc.	7,719	10,229	17,460	19,359
Preferred dividends	(3,785)	(3,786)	(7,570)	(5,883)
Net income available to common stockholders	$ 3,934	$ 6,443	$ 9,890	$ 13,476
Per share data attributable to common shareholders (diluted)				
Net income attributable to Saul Centers, Inc. [a]	$ 0.22	$ 0.36	$ 0.55	$ 0.75
Funds from operations [b]	$ 0.52	$ 0.66	$ 1.16	$ 1.34

(a) Based upon diluted weighted average common shares outstanding of 17,916,183 and 17,977,642 for the three months and 17,907,861 and 17,960,377 for the six months ended June 30, 2009 and 2008, respectively.

(b) Assumes conversion of operating partnership units, combined with diluted weighted average common shares outstanding, for a total of 23,332,598 and 23,394,057 shares for the three months and 23,324,276 and 23,376,792 shares for the six months ended June 30, 2009 and 2008, respectively.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands except per share amounts)	June 30, 2009	December 31, 2008
	(Unaudited)	
Assets		
Real estate investments		
Land	$ 220,974	215,407
Buildings and equipment	730,763	713,154
Construction in progress	112,248	98,920
	1,063,985	1,027,481
Accumulated depreciation	(264,530)	(252,763)
	799,455	774,718
Cash and cash equivalents	38,213	13,006
Accounts receivable and accrued income, net	34,204	37,495
Deferred leasing costs, net	16,427	16,901
Prepaid expenses, net	1,507	2,981
Deferred debt costs, net	5,969	5,875
Other assets	9,676	2,897
Total assets	$ 905,451	$ 853,873
Liabilities		
Mortgage notes payable	$ 606,256	$ 567,495
Revolving credit facility outstanding	15,000	–
Dividends and distributions payable	12,872	12,864
Accounts payable, accrued expenses and other liabilities	24,092	22,394
Deferred income	23,530	23,233
Total liabilities	681,750	625,986
Stockholders' equity		
Preferred stock	179,328	179,328
Common stock	179	179
Additional paid-in capital	165,367	164,278
Accumulated deficit	(122,920)	(118,865)
Total Saul Centers, Inc. stockholders' equity	221,954	224,920
Noncontrolling interest	1,747	2,967
Total stockholders' equity	223,701	227,887
Total liabilities and stockholders' equity	$ 905,451	$ 853,873

CORPORATE PROFILE

SAUL CENTERS, INC. is a self-managed, self-administered equity real estate investment trust headquartered in Bethesda, Maryland. Saul Centers operates and manages a real estate portfolio of 52 community and neighborhood shopping centers and office properties totaling approximately 8.4 million square feet of leasable area. Over 80% of the property operating income is generated from properties in the metropolitan Washington, DC/Baltimore area.

DIRECTORS

B. Francis Saul II
B. Francis Saul III
Philip D. Caraci
The Honorable
John E. Chapoton
Gilbert M. Grosvenor
Philip C. Jackson, Jr.
David B. Kay
General Paul X. Kelley
Charles R. Longsworth
Patrick F. Noonan
Mark Sullivan III
The Honorable
James W. Symington
John R. Whitmore

WEB SITE

www.saulcenters.com

HEADQUARTERS

7501 Wisconsin Ave.
Suite 1500
Bethesda, MD 20814-6522
Phone: (301) 986-6200

EXCHANGE LISTING

New York Stock Exchange
Symbol: BFS

DIVIDEND REINVESTMENT PLAN

Saul Centers, Inc. offers a dividend reinvestment plan which enables its shareholders to automatically invest some of or all dividends in additional shares. The plan provides shareholders with a convenient and cost-free way to increase their investment in Saul Centers. Shares purchased under the dividend reinvestment plan are issued at a 3% discount from the market price of the stock on the dividend payment date. The Plan's prospectus is available for review in the Shareholders Information section of the Company's web site.

To receive more information please call our shareholder relations representative at (301) 986-6016.

Certain matters discussed within this report are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and as such may involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of Saul Centers to be different from any future results, performance or achievements expressed or implied by such forward-looking statements. Although Saul Centers believes the expectations reflected in such forward-looking statements are based upon reasonable assumptions, it can give no assurance that its expectations will be attained. These risks are detailed from time to time in the Company's filings with the Securities and Exchange Commission.