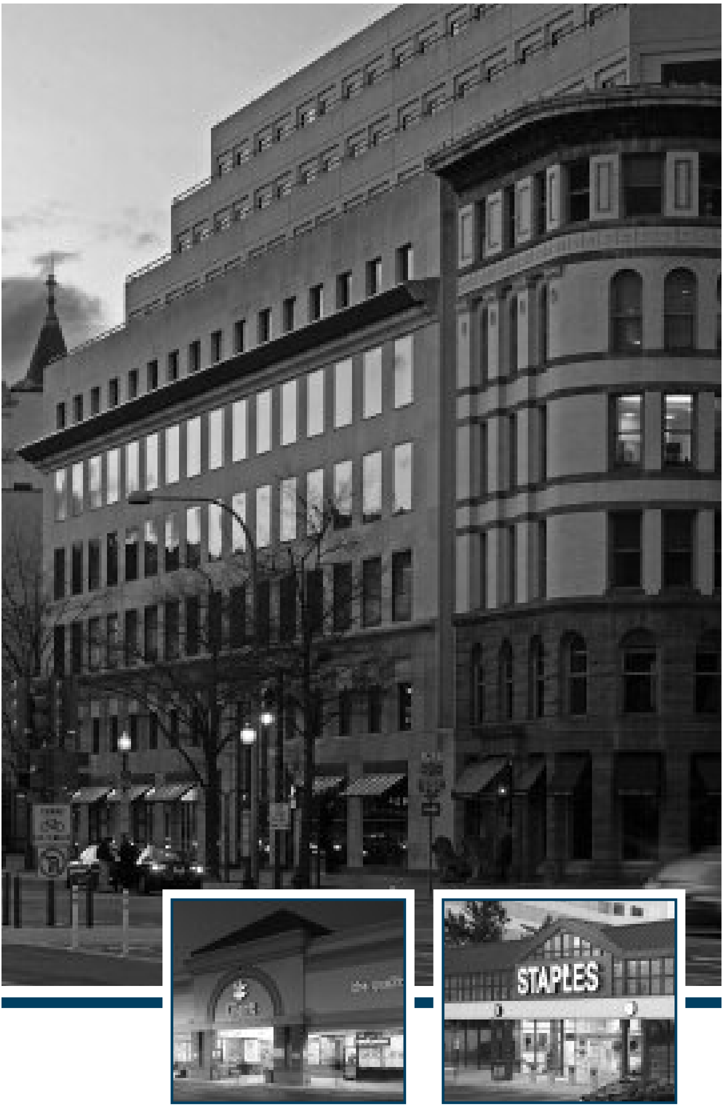
Saul Centers



2011

Second Quarter Report

MESSAGE
TO OUR SHAREHOLDERS

Total revenue for the three months ended June 30, 2011 ("2011 Quarter") increased 6.7% to $42,779,000, compared to $40,087,000 for the three months ended June 30, 2010 ("2010 Quarter"). Operating income, which is net income available to common stockholders before income attributable to the noncontrolling interests and preferred stock dividends, decreased 23.8% to $8,193,000 for the 2011 Quarter, compared to $10,746,000 for the 2010 Quarter. Net income available to common stockholders was $2,613,000, or $0.14 per share, for the 2011 Quarter compared to $1,888,000, or $0.10 per share, for the 2010 Quarter. In the 2011 Quarter, operating income decreased because (1) property operating income declined $1,285,000, due to reduced occupancy in the mixed-use portfolio, and (2) Clarendon Center, portions of which continue to be in their initial lease-up period, adversely impacted operating income by $1,256,000, primarily because interest, depreciation and amortization expenses exceeded property operating income ($265,000) and the amount of interest capitalized on the portion of the project not yet placed into service declined compared to the 2010 Quarter ($991,000). The comparative increase in net income available to common shareholders in the 2011 Quarter was primarily caused by $4,479,000 of expense in the 2010 Quarter related to the early extinguishment of debt, when the Company refinanced the mortgage loan secured by its Thruway shopping center located in Winston Salem, North Carolina, offset in part by a non-cash expense of $1,244,000 during the 2011 Quarter, due to a decline in the fair value of the Company's interest rate swaps.

Same property revenue for the total portfolio decreased 3.6% for the 2011 Quarter and same property operating income decreased 5.8%. The same property comparisons exclude the results of operations of properties not in operation for the entirety of each of the comparable reporting quarters. Same property operating income in the shopping center portfolio decreased 2.1% in the 2011 Quarter due primarily to the (a) impact of the bankruptcy and departure of Superfresh from Lumberton shopping center and (b) loss of two restaurant tenants prior to their lease expirations. Same property operating income in the mixed-use portfolio decreased 18.3% for the 2011 Quarter, primarily due to a decrease in occupancy that occurred in the latter part of 2010 and the first quarter of 2011.

For the six months ended June 30, 2011 ("2011 Period"), total revenue increased 1.0% to $84,512,000, compared to $83,700,000 for the six months ended June 30, 2010 ("2010 Period"), and operating income decreased 29.3% to $16,512,000, compared to $23,358,000 for the 2010 Period. Net income available to common stockholders was $6,137,000, or $0.33 per share, for the 2011 Period, compared to $8,656,000, or $0.47 per share, for the 2010 Period. Overall same property revenue and operating income for the total portfolio each decreased 7.6% in the 2011 Period. During the 2011 Period, same property shopping center operating income decreased 4.7%, primarily due to the collection in the prior year of $1,939,000 of rents and other past due charges from a former anchor tenant. Excluding this one-time revenue, same property shopping center operating income decreased 0.7%. Same property operating income in the mixed-use portfolio decreased 17.3% for the 2011 Period, primarily due to decreased occupancy.

As of June 30, 2011, 89.8% of the commercial portfolio (all properties except the apartments at Clarendon Center) was leased, compared to 91.9% at June 30, 2010. On a same property basis, 90.2% of the commercial portfolio was leased, compared to the prior year level of 91.9%. The Clarendon Center apartments were 100% leased at June 30, 2011. The 2011 commercial leasing percentages were impacted by a net decrease of approximately 145,000 square feet of space leased, of which approximately 90,000 square feet was attributable to mixed-use properties.

Funds from operations (FFO) available to common shareholders (after deducting preferred stock dividends) increased 19.1% to $11,636,000 in the 2011 Quarter, compared to $9,770,000 in the 2010 Quarter. On a per share basis, FFO available to common shareholders increased 17.1% to $0.48 per share for the 2011 Quarter, compared to $0.41 per share for the 2010 Quarter. FFO, a widely accepted non-GAAP financial measure of operating performance for REITs, is defined as net income plus real estate depreciation and amortization, less gains and plus losses from property dispositions and extraordinary items. FFO for the 2011 Quarter increased primarily due to the inclusion in the 2010 Quarter of expense associated with the Thruway refinancing ($4,479,000 or $0.18 per share), offset in part by (1) reduced occupancy in the same property mixed-use portfolio ($1,285,000 or $0.05 per share) and (2) non-cash expense caused by the decrease in fair value of interest rate swaps ($1,244,000 or $0.05 per share). Clarendon Center operations adversely impacted FFO by $126,000 during the 2011 Quarter because increased interest expense, net of amounts capitalized, exceeded property operating income.

FFO available to common shareholders for the 2011 Period decreased 4.4% to $24,507,000 from $25,632,000 during the 2010 Period. Per share FFO available to common shareholders for the 2011 Period decreased 6.5% to $1.01 per share from $1.08 per share for the 2010 Period. The FFO decrease, from to the 2010 Period, resulted from (1) reduced occupancy in the same property mixed-use portfolio ($2,386,000 or $0.10 per share), (2) prior year collection of rents and other past due charges from a former anchor tenant ($1,939,000 or $0.08 per share), (3) non-cash expense caused by the decrease in fair value of interest rate swaps ($1,157,000 or $0.05 per share) and (4) the adverse impact of the commencement of operations at Clarendon Center ($1,145,000 or $0.05 per share), all of which were partially offset by items which reduced the prior year's FFO, (1) the expense associated with the Thruway refinancing ($4,479,000 or $0.18 per share) and (2) the net expense associated with snow removal ($1,200,000 or $0.05 per share).

For the Board,

B. Francis Saul II

Chairman of the Board
August 11, 2011

CONSOLIDATED
STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share amounts)	For the Three Months Ended June 30, 2011	2010	For the Six Months Ended June 30 2011	2010
	(Unaudited)		*(Unaudited)*	
Revenue				
Base rent	$ 34,193	$ 31,805	$ 66,890	$ 63,470
Expense recoveries	6,791	6,923	14,217	15,645
Percentage rent	453	331	828	689
Other	1,342	1,028	2,577	3,896
Total revenue	42,779	40,087	84,512	83,700
Operating expenses				
Property operating expenses	5,827	4,870	12,460	12,508
Provision for credit losses	518	157	1,033	354
Real estate taxes	4,656	4,449	9,138	9,131
Interest expense and amortization of deferred debt costs	11,170	8,887	21,464	17,478
Depreciation and amortization of deferred leasing costs	8,472	7,289	16,796	14,333
General and administrative	3,943	3,689	7,109	6,538
Total operating expenses	34,586	29,341	68,000	60,342
Operating income	8,193	10,746	16,512	23,358
Acquisition related costs	–	–	(74)	–
Decrease in fair value of derivatives	(1,244)	–	(1,157)	–
Gain on casualty settlement	198	–	198	–
Loss on early extinguishment of debt	–	(4,479)	–	(4,479)
Loss from operations of property sold	–	(29)	–	(67)
Net income	7,147	6,238	15,479	18,812
Income attributable to the noncontrolling interests	(749)	(565)	(1,772)	(2,586)
Net income attributable to Saul Centers, Inc.	6,398	5,673	13,707	16,226
Preferred dividends	(3,785)	(3,785)	(7,570)	(7,570)
Net income available to common stockholders	$ 2,613	$ 1,888	$ 6,137	$ 8,656
Per share data attributable to common shareholders (diluted)				
Net income [(a)]	$ 0.14	$ 0.10	$ 0.33	$ 0.47
Funds from operations [(b)]	$ 0.48	$ 0.41	$ 1.01	$ 1.08

(a) Based upon diluted weighted average common shares outstanding of 18,838,613 and 18,312,052 for the three months and 18,795,893 and 18,238,712 for the six months ended June 30, 2011 and 2010, respectively.

(b) Assumes conversion of operating partnership units, combined with diluted weighted average common shares outstanding, for a total of 24,255,028 and 23,728,467 shares for the three months and 24,212,308 and 23,655,127 shares for the six months ended June 30, 2011 and 2010, respectively.

CONSOLIDATED

BALANCE SHEETS

(Dollars in thousands except per share amounts)	June 30, 2011 *(Unaudited)*	December 31, 2010
Assets		
Real estate investments		
Land	$ 282,027	$ 275,044
Buildings and equipment	920,937	870,143
Construction in progress	39,019	78,849
	1,241,983	1,224,036
Accumulated depreciation	(311,176)	(296,786)
	930,807	927,250
Cash and cash equivalents	21,103	12,968
Accounts receivable and accrued income, net	36,721	36,417
Deferred leasing costs, net	17,952	17,835
Prepaid expenses, net	1,286	3,024
Deferred debt costs, net	6,914	7,192
Other assets	17,178	9,202
Total assets	$ 1,031,961	$ 1,013,888
Liabilities		
Mortgage notes payable	$ 732,862	$ 601,147
Construction loans payable	–	110,242
Dividends and distributions payable	12,506	12,415
Accounts payable, accrued expenses and other liabilities	19,317	23,544
Deferred income	25,475	26,727
Total liabilities	790,160	774,075
Stockholders' equity		
Preferred stock, 1,000,000 shares authorized:		
Series A Cumulative Redeemable, 40,000 shares issued and outstanding	100,000	100,000
Series B Cumulative Redeemable, 31,731 shares issued and outstanding	79,328	79,328
Common stock, $0.01 par value, 30,000,000 shares authorized, 18,807,211 and 18,557,059 shares issued and outstanding, respectively	188	186
Additional paid-in capital	200,734	189,787
Accumulated deficit	(136,302)	(128,926)
Accumulated other comprehensive loss	–	(419)
Total Saul Centers, Inc. stockholders' equity	243,948	239,956
Noncontrolling interest	(2,147)	(143)
Total stockholders' equity	241,801	239,813
Total liabilities and stockholders' equity	$ 1,031,961	$ 1,013,888

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 55 community and neighborhood shopping center and mixed-use properties totaling approximately 9.0 million square feet of leasable area. Over 85% 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.
General Paul X. Kelley
Charles R. Longsworth
Patrick F. Noonan
Mark Sullivan III
The Honorable
James W. Symington
John R. Whitmore

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EXCHANGE LISTING

New York Stock Exchange Symbol:
BFS

DIVIDEND REINVESTMENT PLAN

Saul Centers, Inc. offers a dividend reinvestment plan which enables its common shareholders to automatically invest some of or all dividends in additional shares of common stock. 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 common 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.