Saul Centers

2012 Second Quarter Report

MESSAGE

TO OUR SHAREHOLDERS

Total revenue for the 2012 Quarter increased to $47.5 million from $42.8 million for the three months ended June 30, 2011 ("2011 Quarter"). Operating income, which is net income available to common stockholders before income attributable to noncontrolling interests and preferred stock dividends, increased to $9.6 million for the 2012 Quarter from $8.2 million for the 2011 Quarter. Net income available to common stockholders was $4.3 million, or $0.22 per diluted share, for the 2012 Quarter compared to $2.6 million, or $0.14 per diluted share, for the 2011 Quarter. The revenue increase was primarily caused by $3.4 million of rents received from shopping centers acquired in 2011 and $1.0 million of revenue generated by the Clarendon Center development. Operating income increased $0.9 million from the core properties and $0.5 million from the recently acquired shopping centers.

Same property revenue increased 0.9% for the 2012 Quarter compared to the 2011 Quarter, and same property operating income increased 1.2%. The same property comparisons exclude the operating results of properties not in operation for the entirety of the comparable reporting periods. Shopping center portfolio same property operating income increased 0.6% and, primarily due to improved leasing at 601 Pennsylvania Avenue and Washington Square, the mixed-use portfolio same property operating income increased 3.7%.

For the six months ended June 30, 2012 ("2012 Period") total revenue increased to $94.6 million from $84.5 million for the six months ended June 30, 2011 ("2011 Period"). Operating income increased to $18.9 million for the 2012 Period from $16.5 million for the 2011 Period. Net income available to common stockholders was $8.4 million, or $0.43 per diluted share, for the 2012 Period compared to $6.1 million, or $0.33 per diluted share, for the 2011 Period. The revenue increase was primarily caused by $6.7 million of rents received from shopping centers acquired in 2011 and $3.5 million of revenue generated by the Clarendon Center development. Operating income increased $1.5 million from the core properties and $1.0 million from the recently acquired shopping centers. Same property revenue decreased 0.1% for the 2012 Period compared to the 2011 Period, but same property operating income increased 0.9%, primarily due to decreased credit losses. Shopping center portfolio same property operating income increased 0.1% and, primarily due to improved leasing at Washington Square, the mixed-use portfolio same property operating income increased 4.5%.

As of June 30, 2012, 91.1% of the commercial portfolio was leased (all properties except the apartments at Clarendon Center, which were 99.2% leased), compared to 89.8% at June 30, 2011. On a same property basis, 90.7% of the portfolio was leased compared to the prior year level of 90.2%. The 2012 leasing percentages were impacted by a net increase of approximately 38,000 square feet of space leased in the shopping center portfolio caused by the leasing of a portion of the space vacated by major tenants in 2011.

Funds from operations (FFO) available to common shareholders (after deducting preferred stock dividends) increased 33.9% to $15.6 million in the 2012 Quarter from $11.6 million in the 2011 Quarter. On a diluted per share basis, FFO available to common shareholders increased 22.9% to $0.59 per share for the 2012 Quarter from $0.48 per share for the 2011 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, and excluding gains and losses from property dispositions, impairment charges on depreciable real estate assets and extraordinary items. FFO increased in the 2012 Quarter primarily due to $1.7 million generated by the three recently acquired shopping center properties, a $1.2 million decline in the fair value of the Company's interest rate swaps during the 2011 Quarter and $0.7 million related to the operation of core properties and $0.2 million generated by the recently completed Clarendon Center.

FFO available to common shareholders for the 2012 Period increased 26.1% to $30.9 million from $24.5 million during the 2011 Period. Per share FFO available to common shareholders for the 2012 Period increased 15.8% to $1.17 per diluted share from $1.01 per diluted share for the 2011 Period. FFO increased in the 2012 Period primarily due to $3.3 million generated by the three recently acquired shopping center properties, a $1.1 million decline in the fair value of the Company's interest rate swaps during the 2011 Period, $1.0 million related to the operation of core properties and $0.7 million generated by the recently completed Clarendon Center.

On July 25, 2012, the Company sold for $2.0 million the 77,000 square foot West Park shopping center, located in Oklahoma City, Oklahoma. The center was 11.7% leased and had no associated debt. The Company expects to report a gain on sale of approximately $1.0 million during the third quarter of 2012.

For the Board,

B. Francis Saul II
Chairman of the Board
August 15, 2012

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share amounts)	For the Three Months Ended June 30, 2012	2011	For the Six Months Ended June 30, 2012	2011
	(Unaudited)		(Unaudited)	
Revenue				
Base rent	$ 38,100	$ 34,193	$ 75,688	$ 66,890
Expense recoveries	7,456	6,791	15,165	14,217
Percentage rent	453	453	859	828
Other	1,511	1,342	2,912	2,577
Total revenue	47,520	42,779	94,624	84,512
Operating expenses				
Property operating expenses	6,009	5,827	11,798	12,460
Provision for credit losses	241	518	593	1,033
Real estate taxes	5,538	4,656	11,382	9,138
Interest expense and amortization of deferred debt costs	12,567	11,170	25,338	21,464
Depreciation and amortization of deferred leasing costs	9,770	8,472	19,548	16,796
General and administrative	3,784	3,943	7,031	7,109
Total operating expenses	37,909	34,586	75,690	68,000
Operating income	9,611	8,193	18,934	16,512
Change in fair value of derivatives	(16)	(1,244)	(19)	(1,157)
Acquisition related costs	–	–	–	(74)
Gain on casualty settlement	–	198	–	198
Net income	9,595	7,147	18,915	15,479
Income attributable to the noncontrolling interest	(1,516)	(749)	(2,972)	(1,772)
Net income attributable to Saul Centers, Inc.	8,079	6,398	15,943	13,707
Preferred dividends	(3,785)	(3,785)	(7,570)	(7,570)
Net income available to common stockholders	$ 4,294	$ 2,613	$ 8,373	$ 6,137
Per share data attributable to common shareholders (diluted)				
Net income attributable to Saul Centers, Inc. [(a)]	$ 0.22	$ 0.14	$ 0.43	$ .033
Funds from operations [(b)]	$ 0.59	$ 0.48	$ 1.17	$ 1.01

(a) Based upon diluted weighted average common shares outstanding of 19,602,005 and 18,838,613 for the three months and 19,525,614 and 18,795,893 for the six months ended June 30, 2012 and 2011, respectively.

(b) Assumes conversion of operating partnership units, combined with diluted weighted average common shares outstanding for a total of 26,516,234 and 24,255,028 shares for the three months and 26,439,843 and 24,212,308 shares for the six months ended June 30, 2012 and 2011, respectively.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands except per share amounts)	June 30, 2012	December 31, 2011
	(Unaudited)	
Assets		
Real estate investments		
Land	$ 324,190	$ 324,183
Buildings and equipment	1,097,208	1,092,533
Construction in progress	1,150	1,129
	1,422,548	1,417,845
Accumulated depreciation	(340,579)	(326,397)
	1,081,969	1,091,448
Cash and cash equivalents	37,251	12,323
Accounts receivable and accrued income, net	38,671	39,094
Deferred leasing costs, net	26,074	25,876
Prepaid expenses, net	1,437	3,868
Deferred debt costs, net	8,267	7,090
Other assets	7,401	12,870
Total assets	$1,201,070	$ 1,192,569
Liabilities		
Mortgage notes payable	$ 833,095	$ 823,871
Revolving credit facility payable	–	8,000
Dividends and distributions payable	13,335	13,219
Accounts payable, accrued expenses and other liabilities	26,712	22,992
Deferred income	31,156	31,281
Total liabilities	904,298	899,363
Stockholders' equity		
Preferred stock		
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, 19,614,717 and 19,291,845 shares issued and outstanding, respectively	196	193
Additional paid-in capital	230,002	217,829
Accumulated deficit	(150,351)	(144,659)
Accumulated other comprehensive loss	(3,536)	(2,863)
Total Saul Centers, Inc. stockholders' equity	255,639	249,828
Noncontrolling interest	41,133	43,378
Total stockholders’ equity	296,772	293,206
Total liabilities and stockholders' equity	$ 1,201,070	$ 1,192,569

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 57 community and neighborhood shopping center and mixed-use properties totaling approximately 9.4 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

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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 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.