Saul Centers

2013 SECOND QUARTER REPORT

Total revenue for the 2013 Quarter increased to $48.8 million from $47.4 million for the quarter ended June 30, 2012 ("2012 Quarter"). Operating income, which is net income available to common stockholders before income attributable to noncontrolling interests, preferred stock dividends and the impact of preferred stock redemptions, decreased to $7.7 million for the 2013 Quarter from $9.6 million for the 2012 Quarter. Operating income for the 2013 Quarter was adversely impacted by $2.0 million of additional depreciation expense and $1.2 million of predevelopment expenses, both of which are related to the Company's redevelopment of Van Ness Square. Without these expenses, operating income for the 2013 Quarter would have been $10.9 million, or $1.3 million more than the 2012 Quarter.

The Company recently completed negotiation of lease termination agreements with tenants of Van Ness Square and the building is currently vacant. The Company intends to develop a primarily residential project with street-level retail. Costs incurred to terminate leases were recognized as expense over the remaining terms of the leases and costs to demolish the existing improvements are recognized as expenses when incurred. The Company will recognize additional predevelopment expenses in future periods when the existing improvements of Van Ness Square and the adjacent 4469 Connecticut Avenue are demolished, the timing of which is uncertain and dependent on the issuance of various governmental approvals and permits.

Net income attributable to common stockholders was $3.4 million ($0.17 per diluted share) for the 2013 Quarter compared to $4.3 million ($0.22 per diluted share) for the 2012 Quarter. Net income attributable to common stockholders for the 2013 Quarter was adversely impacted primarily by the $3.2 million of depreciation and predevelopment expense related to Van Ness Square offset in part by a $0.6 million decrease in preferred stock dividends. Without these items, as adjusted for noncontrolling interests, net income attributable to common stockholders would have been $5.4 million, or $1.1 million more than the 2012 Quarter. The $1.1 million increase is primarily attributable to reduced interest expense, increased operating income generated by Clarendon Center and the leasing of major tenant space in the shopping center portfolio.

During the quarter ended March 31, 2013, the Company issued $140.0 million of 6.875% Series C Cumulative Redeemable Preferred Stock, redeemed all $79.3 million of its 9.0% Series B preferred stock and redeemed $60.0 million of its 8.0% Series A preferred stock. The changes in preferred stock reduced second quarter 2013 preferred stock dividends to $3.2 million from $3.8 million in 2012.

Same property revenue increased 3.2% and same property operating income increased 3.0% for the 2013 Quarter compared to the 2012 Quarter. Same property operating income equals property revenue minus the sum of (a) property operating expenses, (b) provision for credit losses and (c) real estate taxes and the comparisons exclude the results of properties not in operation for the entirety of the comparable reporting periods. Shopping center same property operating income increased 2.2% and mixed-use same property operating income increased 5.7%. The leasing of office space at Clarendon Center was the primary contributor of improved mixed-use property operating income.

For the six months ended June 30, 2013 ("2013 Period"), total revenue increased to $98.0 million from $94.4 million for the six months ended June 30, 2012 ("2012 Period"). Operating income decreased to $11.1 million for the 2013 Period from $18.9 million for the 2012 Period. Operating income for the 2013 Period was adversely impacted by $8.0 million of additional depreciation expense and $3.6 million of predevelopment expenses, both of which are related to the Company's activities at Van Ness Square. Without these expenses, operating income for the 2013 Period would have been $22.7 million, or $3.9 million more than the 2012 Period.

Net loss attributable to common stockholders was $1.2 million ($0.06 per diluted share) for the 2013 Period compared to net income of $8.4 million ($0.43 per diluted share) for the 2012 Period. Net income attributable to common stockholders for the 2013 Period was adversely impacted primarily by the $11.6 million of depreciation and predevelopment expense related to Van Ness Square and a $5.2 million charge against common equity resulting from the redemption of preferred stock. Without these items, as adjusted for noncontrolling interests, net income attributable to common stockholders would have been $12.6 million, or $4.2 million more than the 2012 Period. The $4.2 million increase is primarily attributable to reduced interest expense, increased operating income generated by Clarendon Center and the leasing of major tenant space in the shopping center portfolio.

Same property revenue increased 3.7% and same property operating income increased 4.1% for the 2013 Period compared to the 2012 Period. Shopping center same property operating income increased 3.7% and mixed-use same property operating income increased 5.3%. The shopping centers were primarily impacted by revenue received as a result of the occupancy of approximately 132,000 square feet of anchor-tenant space which was vacant during the 2012 Period. The leasing of Clarendon Center office space was the primary contributor of improved mixed-use property operating income.

As of June 30, 2013, 93.6% of the commercial portfolio was leased (all properties except the apartments at Clarendon Center, which were 98% leased), compared to 91.1% at June 30, 2012. On a same property basis, 93.8% of the portfolio was leased at June 30, 2013, compared to 92.8% for the prior year.

Funds from operations (FFO) available to common shareholders (after deducting preferred stock dividends) increased 9.3% to $17.0 million ($0.63 per diluted share) in the 2013 Quarter from $15.6 million ($0.59 per diluted share) in the 2012 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 available to common shareholders for the 2013 Quarter was adversely impacted by predevelopment expenses ($1.2 million). Without this item, FFO available to common shareholders would have been $18.2 million, or $2.6 million more than the 2012 Quarter. The $2.6 million increase is primarily attributable to improved overall portfolio property operating income ($1.3 million) and reduced interest expense and amortization of deferred debt costs ($0.8 million).

FFO available to common shareholders (after deducting preferred stock dividends and the impact of preferred stock redemptions) decreased 12.0% to $27.2 million ($1.00 per diluted share) in the 2013 Period from $30.9 million ($1.17 per diluted share) in the 2012 Period. FFO available to common shareholders for the 2013 Period was adversely impacted by the redemption of preferred stock ($5.2 million) and predevelopment expenses ($3.6 million). Without these items, FFO available to common shareholders would have been $36.0 million, or $5.1 million more than the 2012 Period. The $5.1 million increase is attributable to improved overall portfolio property operating income ($3.5 million) and reduced interest expense and amortization of deferred debt costs ($1.8 million).

For the Board,

B. Francis Saul II
Chairman of the Board
August 24, 2013

CONSOLIDATED Statements of Operations

(Dollars in thousands, except per share amounts)	For the Three Months Ended June 30 2013 (Unaudited)	For the Three Months Ended June 30 2012 (Unaudited)	For the Six Months Ended June 30 2013 (Unaudited)	For the Six Months Ended June 30 2012 (Unaudited)
Revenue				
Base rent	$ 39,553	$ 38,043	$ 79,293	$ 75,528
Expense recoveries	7,463	7,441	15,077	15,142
Percentage rent	338	453	938	859
Other	1,455	1,435	2,687	2,832
Total revenue	48,809	47,372	97,995	94,361
Operating expenses				
Property operating expenses	6,041	5,918	11,990	11,655
Provision for credit losses	285	241	549	593
Real estate taxes	5,433	5,526	11,196	11,362
Interest expense and amortization of deferred debt costs	11,709	12,554	23,426	25,287
Depreciation and amortization of deferred leasing costs	12,472	9,749	28,824	19,507
General and administrative	3,925	3,784	7,329	7,031
Predevelopment expenses	1,233	–	3,582	–
Total operating expenses	41,098	37,772	86,896	75,435
Operating income	7,711	9,600	11,099	18,926
Change in fair value of derivatives	51	(16)	61	(19)
Income (loss) from operations of properties sold	–	11	–	8
Net income	7,762	9,595	11,160	18,915
(Income) loss attributable to the noncontrolling interest	(1,168)	(1,516)	418	(2,972)
Net income attributable to Saul Centers, Inc.	6,594	8,079	11,578	15,943
Preferred stock redemption	–	–	(5,228)	–
Preferred stock dividends	(3,207)	(3,785)	(7,571)	(7,570)
Net income (loss) attributable to common stockholders	$ 3,387	$ 4,294	$ (1,221)	$ 8,373
Per share data attributable to common shareholders (diluted)				
Net income (loss) attributable to Saul Centers, Inc. [a]	$ 0.17	$ 0.22	$ (0.06)	$ 0.43
Funds from operations [b]	$ 0.63	$ 0.59	$ 1.00	$ 1.17

(a) *Based upon diluted weighted average common shares outstanding of 20,322,949 and 19,602,005 for the three months and 20,251,106 and 19,525,614 for the six months ended June 30, 2013 and 2012, respectively.*

(b) *Assumes conversion of operating partnership units, combined with diluted weighted average common shares outstanding, for a total of 27,214,972 and 26,516,234 shares for the three months and 27,165,335 and 26,439,843 shares for the six months ended June 30, 2013 and 2012, respectively.*

CONSOLIDATED Balance Sheets

(Dollars in thousands except per share amounts)	June 30, 2013	December 31, 2012
	(Unaudited)	
Assets		
Real estate investments		
Land	$ 351,647	$ 353,890
Buildings and equipment	1,117,976	1,109,911
Construction in progress	6,165	2,267
	1,475,788	1,466,068
Accumulated depreciation	(378,775)	(353,305)
	1,097,013	1,112,763
Cash and cash equivalents	12,945	12,133
Accounts receivable and accrued income, net	41,701	41,406
Deferred leasing costs, net	24,757	26,102
Prepaid expenses, net	1,669	3,895
Deferred debt costs, net	8,342	7,713
Other assets	5,183	3,297
Total assets	$ 1,191,610	$ 1,207,309
Liabilities		
Mortgage notes payable	$ 826,224	$ 789,776
Revolving credit facility payable	–	38,000
Dividends and distributions payable	13,022	13,490
Accounts payable, accrued expenses and other liabilities	22,576	27,434
Deferred income	26,961	31,320
Total liabilities	888,783	900,020
Stockholders' equity		
Preferred stock, 1,000,000 shares authorized:		
Series A Cumulative Redeemable, 16,000 and 40,000 shares issued and outstanding, respectively	40,000	100,000
Series B Cumulative Redeemable, 31,731 shares issued and outstanding in 2012	–	79,328
Series C Cumulative Redeemable, 56,000 shares issued and outstanding in 2013	140,000	–
Common stock, $0.01 par value, 40,000,000 shares authorized, 20,353,039 and 20,045,452 shares issued and outstanding, respectively	204	201
Additional paid-in capital	260,371	246,557
Accumulated deficit	(170,649)	(154,830)
Accumulated other comprehensive loss	(1,866)	(3,553)
Total Saul Centers, Inc. stockholders' equity	268,060	267,703
Noncontrolling interest	34,767	39,586
Total stockholders' equity	302,827	307,289
Total liabilities and stockholders' equity	$ 1,191,610	$ 1,207,309

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 59 community and neighborhood shopping center and mixed-use properties totaling 9.3 million square feet of leasable area. Over 85% of the property operating income is generated from properties in the metropolitan Washington, DC/ Baltimore area.

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EXCHANGE LISTING

New York Stock Exchange (NYSE) Symbol:

Common Stock: BFS
Preferred Stock: BFS.PrA
BFS.PrC

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.