Saul Centers

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Saul Centers

2015
FIRST QUARTER
REPORT

Total revenue for the quarter ended March 31, 2015 (“2015 Quarter”) decreased to $52.1 million from $52.9 million for the quarter ended March 31, 2014 (“2014 Quarter”). Operating income, which is net income before the impact of change in fair value of derivatives, loss on early extinguishment of debt and gains on sales of property and casualty settlements, if any, was $12.7 million for the 2015 Quarter, unchanged from the 2014 Quarter.

Net income attributable to common stockholders was $7.1 million ($0.34 per diluted share) for each of the 2015 and 2014 Quarters. Although unchanged from the prior year, net income attributable to common stockholders in 2014 included (a) a lease termination fee ($1.5 million), (b) accrued severance costs, included in general and administrative expenses ($1.1 million) and (c) predevelopment costs related to Park Van Ness ($0.5 million), none of which impacted 2015.

Same property revenue decreased $1.2 million (or 2.4%) and same property operating income decreased $1.8 million (or 4.5%) for the 2015 Quarter compared to the 2014 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 decreased $0.9 million (or 2.9%) primarily due to a lease termination fee received in 2014 ($1.5 million). Mixed-use same property operating income decreased $0.9 million (or 9.4%) primarily due to (a) higher real estate tax expense, the majority of which is not recoverable ($300,000), (b) lower base rent ($250,000) and (c) lower parking revenue ($123,000).

As of March 31, 2015, 94.5% of the commercial portfolio was leased (not including the apartments at Clarendon Center), compared to 94.3% at March 31, 2014. On a same property basis, 94.4% of the portfolio was leased at March 31, 2015, compared to 94.3% at March 31, 2014. The apartments at Clarendon Center were 98.4% leased as of March 31, 2015 compared to 98.8% at March 31, 2014.

Funds from operations ("FFO") available to common shareholders (after deducting preferred stock dividends and redemption charges) increased 1.7% to $20.0 million ($0.71 per diluted share) in the 2015 Quarter from $19.7 million ($0.71 per diluted share) in the 2014 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. The increase in FFO available to common shareholders for the 2015 Quarter was primarily due to (a) lower severance costs, included in general and administrative expenses ($1.1 million), (b) lower predevelopment expense related to Park Van Ness ($0.5 million) and (c) lower preferred stock dividends ($0.1 million) partially offset by (d) decreased property operating income ($1.4 million) as a result of a $1.5 million lease termination fee received in 2014.

We continue to develop Park Van Ness, a 271-unit residential project with approximately 9,000 square feet of street-level retail, below street-level structured parking, and amenities including a community room, landscaped courtyards, a fitness room and a rooftop pool and deck. Construction is projected to be completed in the first quarter of 2016. The structure will rise 11 levels above Rock Creek Park, providing exceptional views of the park, while being conveniently located just north of the Van Ness Metro Station. The total cost of the project, excluding predevelopment expense and land, which the Company has owned, is expected to be approximately $93.0 million, and all remaining costs will be funded by a $71.6 million, 18-year construction-to-permanent loan.

For the Board,

B. Francis Saul II
Chairman of the Board
May 21, 2015

CONSOLIDATED Statements of Operations

(Dollars in thousands, except per share amounts)	For the Three Months Ended March 31, 2015 (Unaudited)	2014 (Unaudited)
Revenue		
Base rent	$ 41,479	$ 40,563
Expense recoveries	8,732	8,789
Percentage rent	438	452
Other	1,439	3,143
Total revenue	52,088	52,947
Operating expenses		
Property operating expenses	7,616	7,585
Provision for credit losses	246	203
Real estate taxes	5,901	5,453
Interest expense and amortization of deferred debt costs	11,406	11,467
Depreciation and amortization of deferred leasing costs	10,440	10,180
General and administrative	3,771	4,680
Acquisition related costs	21	163
Predevelopment expenses	–	503
Total operating expenses	39,401	40,234
Operating income	12,687	12,713
Change in fair value of derivatives	(6)	(2)
Net income	12,681	12,711
Income attributable to the noncontrolling interests	(2,474)	(2,424)
Net income attributable to Saul Centers, Inc.	10,207	10,287
Preferred stock dividends	(3,094)	(3,206)
Net income attributable to common stockholders	$ 7,113	$ 7,081
Per share data attributable to common shareholders		
Net income attributable to Saul Centers, Inc. [a]	$ 0.34	$ 0.34
Funds from operations [b]	$ 0.71	$ 0.71

(a) Based upon diluted weighted average common shares outstanding of 21,137,314 and 20,663,445 for the three months ended March 31, 2015 and 2014, respectively.

(b) Assumes conversion of operating partnership units, combined with diluted weighted average common shares outstanding, for a total of 28,349,899 and 27,726,884 shares for the three months ended March 31, 2015 and 2014, respectively.

CONSOLIDATED Balance Sheets

(Dollars in thousands)	March 31, 2015	December 31, 2014
	(Unaudited)	
Assets		
Real estate investments		
Land	$ 421,516	$ 420,622
Buildings and equipment	1,111,035	1,109,276
Construction in progress	39,301	30,261
	1,571,852	1,560,159
Accumulated depreciation	(405,349)	(396,617)
	1,166,503	1,163,542
Cash and cash equivalents	12,120	12,128
Accounts receivable and accrued income, net	47,682	46,784
Deferred leasing costs, net	26,737	26,928
Prepaid expenses, net	3,506	4,093
Deferred debt costs, net	9,695	9,874
Other assets	4,368	3,638
Total assets	$ 1,270,611	$ 1,266,987
Liabilities		
Notes payable	$ 818,083	$ 808,997
Revolving credit facility payable	26,000	43,000
Construction loan payable	8,768	5,391
Dividends and distributions payable	15,253	14,352
Accounts payable, accrued expenses and other liabilities	27,473	23,537
Deferred income	32,047	32,453
Total liabilities	927,624	927,730
Stockholders' equity		
Preferred stock	180,000	180,000
Common stock	211	209
Additional paid-in capital	293,564	287,995
Accumulated deficit and other comprehensive loss	(177,949)	(175,668)
Total Saul Centers, Inc. stockholders' equity	295,826	292,536
Noncontrolling interests	47,161	46,721
Total stockholders’ equity	342,987	339,257
Total liabilities and stockholders' equity	$ 1,270,611	$ 1,266,987

RECONCILIATION of net income to FFO attributable to common shareholders

(In thousands, except per share amounts)	For the Three Months Ended March 31, 2015 (Unaudited)	2014 (Unaudited)
Net income	$ 12,681	$ 12,711
Add:		
Real estate depreciation and amortization	10,440	10,180
FFO	23,121	22,891
Subtract:		
Preferred stock dividends	(3,094)	(3,206)
FFO available to common shareholders	$ 20,027	$ 19,685
Weighted average shares:		
Diluted weighted average common stock	21,137	20,663
Convertible limited partnership units	7,213	7,063
Average shares and units used to compute FFO per share	28,350	27,726
FFO per share available to common shareholders	$ 0.71	$ 0.71

[1] The National Association of Real Estate Investment Trusts (NAREIT) developed FFO as a relative non-GAAP financial measure of performance of an equity REIT in order to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP. FFO is defined by NAREIT as net income, computed in accordance with GAAP, plus real estate depreciation and amortization, and excluding extraordinary items, impairment charges on depreciable real estate assets and gains or losses from property dispositions. FFO does not represent cash generated from operating activities in accordance with GAAP and is not necessarily indicative of cash available to fund cash needs, which is disclosed in the Company's Consolidated Statements of Cash Flows for the applicable periods. There are no material legal or functional restrictions on the use of FFO. FFO should not be considered as an alternative to net income, its most directly comparable GAAP measure, as an indicator of the Company's operating performance, or as an alternative to cash flows as a measure of liquidity. Management considers FFO a meaningful supplemental measure of operating performance because it primarily excludes the assumption that the value of the real estate assets diminishes predictably over time (i.e. depreciation), which is contrary to what the Company believes occurs with its assets, and because industry analysts have accepted it as a performance measure. FFO may not be comparable to similarly titled measures employed by other REITs.

CORPORATE PROFILE

Saul Centers, Inc. is a self-managed, self-administered equity Real Estate Investment Trust (REIT) headquartered in Bethesda, Maryland. Saul Centers operates and manages a real estate portfolio comprised of 59 properties which includes (a) 56 community and neighborhood shopping centers and mixed-use properties with approximately 9.3 million square feet of leasable area and (b) three land and development properties. Approximately 85% of the Company's property operating income is generated by properties in the metropolitan Washington, DC/Baltimore area.

DIRECTORS

B. Francis Saul II
J. Page Lansdale
Philip D. Caraci
The Honorable John E. Chapoton
George P. Clancy, Jr.
Gilbert M. Grosvenor
Philip C. Jackson, Jr.
Charles R. Longsworth
Patrick F. Noonan
H. Gregory Platts
Andrew M. Saul II
Mark Sullivan III
The Honorable James W. Symington
John R. Whitmore

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.

CONTACT INFORMATION

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EXCHANGE LISTING
New York Stock
Exchange (NYSE) Symbol:

Common Stock: BFS
Preferred Stock: BFS.PrC