Saul Centers

2016

THIRD QUARTER REPORT

Message
to Shareholders

Total revenue for the 2016 Quarter increased to $53.2 million from $52.4 million for the quarter ended September 30, 2015 ("2015 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, decreased to $12.7 million for the 2016 Quarter from $13.2 million for the 2015 Quarter.

The Park Van Ness mixed-use development opened in May 2016 and, as of November 30, 2016, 190 apartment leases have been executed (70.1%). The street level retail space is 100% leased to Soapstone Market, an independent community-focused grocery/gourmet food market, and Sfoglina, an upscale Italian restaurant. Revenue has continued to grow, commensurate with occupancy. However, since opening in May, interest, real estate taxes and all other costs associated with the property (including depreciation) began to be charged to expense. As a result, net income for the 2016 Quarter was adversely impacted by $1.3 million.

Net income attributable to common stockholders decreased to $7.1 million ($0.33 per diluted share) for the 2016 Quarter compared to $7.5 million ($0.36 per diluted share) for the 2015 Quarter. Same property revenue increased $0.2 million (0.4%) and same property operating income increased $0.4 million (1.1%) for the 2016 Quarter compared to the 2015 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 for the 2016 Quarter totaled $30.4 million, unchanged from the 2015 Quarter. Mixed-use same property operating income increased $0.4 million (4.7%) primarily due to (a) lower provision for credit losses ($0.2 million) and (b) higher expense recoveries ($0.2 million).

As of September 30, 2016, 94.7% of the commercial portfolio was leased (not including the apartments at Clarendon Center and Park Van Ness), compared to 94.8% at September 30, 2015. On a same property basis, 94.7% of the commercial portfolio was leased as of September 30, 2016, compared to 94.8% at September 30, 2015. The apartments at Clarendon Center were 96.7% leased as of September 30, 2016 compared to 97.1% as of September 30, 2015. The apartments at Park Van Ness were 61.3% leased as of September 30, 2016.

For the nine months ended September 30, 2016 ("2016 Period"), total revenue increased to $162.9 million from $156.2 million for the nine months ended September 30, 2015 ("2015 Period"). Operating income increased to $42.4 million for the 2016 Period from $38.8 million for the 2015 Period. The increase in operating income was primarily due to (a) the net impact of a lease termination at 11503 Rockville Pike ($2.2 million) and (b) higher property operating income, exclusive of the above lease termination ($3.4 million), partially offset by (c) higher depreciation and amortization of deferred leasing costs ($1.1 million) and (d) higher general and administrative expense ($0.8 million). Net income attributable to common stockholders increased to $24.5 million ($1.14 per diluted share) for the 2016 Period compared to $21.9 million ($1.04 per diluted share) for the 2015 Period. The increase in net income attributable to common stockholders was primarily due to (a) the net impact of a lease termination at 11503 Rockville Pike ($2.2 million) and (b) higher property operating income, exclusive of the above lease termination ($3.4 million), partially offset by (c) higher depreciation and amortization of deferred leasing costs ($1.1 million), (d) higher noncontrolling interests ($0.9 million), and (e) higher general and administrative expense ($0.8 million).

Same property revenue increased 3.9% and same property operating income increased 5.1% for the 2016 Period compared to the 2015 Period. Shopping center same property operating income increased 4.4% and mixed-use same property operating income increased 7.7%. Shopping center operating income increased due to (a) the net impact of a lease termination at 11503 Rockville Pike ($2.2 million) and (b) higher base rent throughout the remainder of the portfolio ($1.9 million). Avenel Business Park and 601 Pennsylvania Avenue were the primary contributors to improved mixed-use property operating income.

Funds from operations ("FFO") available to common stockholders and noncontrolling interests (after deducting preferred stock dividends) was $21.3 million ($0.73 per diluted share) in the 2016 Quarter compared to $21.3 million ($0.75 per diluted share) in the 2015 Quarter. Concurrent with the opening of Park Van Ness in May, interest, real estate taxes and all other costs associated with the property began to be charged to expense while revenue continues to grow as occupancy increases. As a result, FFO for the 2016 Quarter was adversely impacted by $0.6 million. 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 stockholders and noncontrolling interests (after deducting preferred stock dividends and the impact of preferred stock redemptions) increased 7.4% to $66.5 million ($2.30 per diluted share) in the 2016 Period from $61.9 million ($2.18 per diluted share) in the 2015 Period. FFO available to common shareholders increased primarily due to (a) the net impact of a lease termination at 11503 Rockville Pike ($2.2 million) and (b) higher property operating income, exclusive of the above lease termination ($3.4 million), partially offset by (c) higher general and administrative expenses ($0.8 million).

We recently announced that we entered into an agreement to purchase, for $75 million, Burtonsville Town Square located in Montgomery County, Maryland. Closing is anticipated to occur in January 2017. The property is anchored by a Giant Food store and a CVS Pharmacy. We remain confident that continued investment into well located, quality assets will further enhance our core operating performance into the future.

For the Board,

B. Francis Saul II
Chairman of the Board
November 30, 2016

CONSOLIDATED Statements of Operations

(Dollars in thousands, except per share amounts)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
	(Unaudited)		(Unaudited)	
Revenue				
Base rent	$ 43,151	$ 42,431	$ 123,338	$ 125,786
Expense recoveries	8,561	8,181	26,011	24,710
Percentage rent	57	157	1,016	1,153
Other	1,464	1,607	7,504	4,526
Total revenue	53,233	52,376	162,869	156,175
Operating expenses				
Property operating expenses	6,685	6,308	20,740	20,120
Provision for credit losses	391	621	1,207	1,281
Real estate taxes	6,195	5,933	18,266	17,710
Interest expense and amortization of deferred debt costs	11,524	11,229	34,268	33,988
Depreciation and amortization of deferred leasing costs	11,626	11,131	33,478	32,382
General and administrative	4,033	3,802	12,500	11,712
Acquisition related costs	57	57	57	78
Predevelopment expenses	—	57	—	57
Total operating expenses	40,511	39,138	120,516	117,328
Operating income	12,722	13,238	42,353	38,847
Change in fair value of derivatives	1	(6)	(9)	(12)
Gain on sale of property	—	—	—	11
Net income	12,723	13,232	42,344	38,846
Income attributable to the noncontrolling interests	(2,484)	(2,617)	(8,530)	(7,628)
Net income attributable to Saul Centers, Inc.	10,239	10,615	33,814	31,218
Preferred stock dividends	(3,093)	(3,093)	(9,281)	(9,281)
Net income attributable to common stockholders	$ 7,146	$ 7,522	$ 24,533	$ 21,937
Per share data attributable to common stockholders				
Net income attributable to Saul Centers, Inc. [a]	$ 0.33	$ 0.36	$ 1.14	$ 1.04

(a) Based upon diluted weighted average common shares outstanding of 21,779,596 and 21,190,836 for the three months and 21,544,014 and 21,157,308 for the nine months ended September 30, 2016 and 2015, respectively.

CONSOLIDATED Balance Sheets

(Dollars in thousands)	September 30, 2016 (Unaudited)	December 31, 2015
Assets		
Real estate investments		
Land	$ 384,520	$ 424,837
Buildings and equipment	1,210,467	1,114,357
Construction in progress	60,733	83,516
	1,655,760	1,622,710
Accumulated depreciation	(449,116)	(425,370)
	1,206,644	1,197,340
Cash and cash equivalents	9,836	10,003
Accounts receivable and accrued income, net	52,880	51,076
Deferred leasing costs, net	26,287	26,919
Prepaid expenses, net	8,585	4,663
Other assets	6,772	5,407
Total assets	$ 1,311,004	$ 1,295,408
Liabilities		
Notes payable	$ 778,382	$ 796,169
Revolving credit facility payable	22,086	26,695
Construction loan payable	66,839	43,641
Dividends and distributions payable	16,739	15,380
Accounts payable, accrued expenses and other liabilities	25,022	27,687
Deferred income	31,925	32,109
Total liabilities	940,993	941,681
Stockholders' equity		
Preferred stock	180,000	180,000
Common stock	216	213
Additional paid-in capital	324,185	305,008
Accumulated deficit and other comprehensive loss	(187,972)	(181,893)
Total Saul Centers, Inc. stockholders' equity	316,429	303,328
Noncontrolling interests	53,582	50,399
Total stockholders’ equity	370,011	353,727
Total liabilities and stockholders' equity	$ 1,311,004	$ 1,295,408

RECONCILIATION of net income to FFO attributable to common stockholders and noncontrolling interests

(In thousands, except per share amounts)	Three Months Ended September 30 2016	2015	Six Months Ended September 30, 2016	2015
	(Unaudited)		*(Unaudited)*	
Net income	$ 12,723	$ 13,232	$ 42,344	$ 38,846
Subtract:				
Gain on sale of property	—	—	—	(11)
Add:				
Real estate depreciation and amortization	11,626	11,131	33,478	32,382
FFO	24,349	24,363	75,822	71,217
Subtract:				
Preferred stock dividends	(3,093)	(3,093)	(9,281)	(9,281)
FFO available to common shareholders and noncontrolling interests	$ 21,256	$ 21,270	$ 66,541	$ 61,936
Weighted average shares:				
Diluted weighted average common stock	21,779	21,191	21,544	21,157
Convertible limited partnership units	7,391	7,266	7,360	7,239
Average shares and units used to compute FFO per share	29,170	28,457	28,904	28,396
FFO per share available to common stockholders and noncontrolling interests	$ 0.73	$ 0.75	$ 2.30	$ 2.18

[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 is a self-managed, self-administered equity REIT headquartered in Bethesda, Maryland, which currently operates and manages a real estate portfolio of 59 properties which includes (a) 49 community and neighborhood shopping centers and seven mixed-use properties with approximately 9.6 million square feet of leasable area and (b) three land and development properties. Approximately 85% of the Saul Centers' property operating income is generated by properties in the metropolitan Washington, DC/Baltimore area.

DIRECTORS

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The Honorable
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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:

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