Saul Centers

2017 SECOND QUARTER REPORT to Shareholders

Message to Shareholders

Total revenue for the 2017 Quarter increased to $55.9 million from $52.7 million for the quarter ended June 30, 2016 ("2016 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, increased to $14.4 million for the 2017 Quarter from $13.3 million for the 2016 Quarter.

The Park Van Ness mixed-use development opened in May 2016 and, as of June 30, 2017, 260 apartments were leased (95.9%). Concurrent with the opening in 2016, interest, real estate taxes and all other costs associated with the property, including depreciation, began to be charged to expense, while revenue continues to grow as occupancy increases. As a result, net income for the 2017 Quarter was adversely impacted by $0.5 million.

Net income attributable to common stockholders increased to $8.4 million ($0.38 per diluted share) for the 2017 Quarter compared to $7.5 million ($0.35 per diluted share) for the 2016 Quarter.

Same property revenue increased $0.4 million (0.9%) while same property operating income was unchanged for the 2017 Quarter compared to the 2016 Quarter. We define same property operating income as net income plus the sum of interest expense and amortization of deferred debt costs, depreciation and amortization, general and administrative expense, loss on the early extinguishment of debt (if any), predevelopment expense and acquisition related costs, minus the sum of interest income, the change in the fair value of derivatives, gains on property dispositions (if any) and the results of properties which were not in operation for the entirety of the comparable periods. Shopping center same property operating income for the 2017 Quarter totaled $31.1 million, a $0.6 increase from the 2016 Quarter. Mixed-use same property operating income totaled $9.0 million, a $0.6 million decrease from the 2016 Quarter. The decrease in Mixed-Use same property operating income was due primarily to (a) lower termination fees ($0.3 million) and (b) lower parking revenue ($0.2 million).

CLARENDON CENTER
ARLINGTON, VA

As of June 30, 2017, 94.3% of the commercial portfolio was leased (not including the apartments at Clarendon Center and Park Van Ness), compared to 94.9% at June 30, 2016. On a same property basis, 94.2% of the commercial portfolio was leased as of June 30, 2017, compared to 95.5% at June 30, 2016. The apartments at Clarendon Center were 97.5% leased as of June 30, 2017, compared to 97.1% as of June 30, 2016. The apartments at Park Van Ness were 95.9% leased as of June 30, 2017, compared to 34.7% at June 30, 2016.

Funds from operations ("FFO") available to common stockholders and noncontrolling interests (after deducting preferred stock dividends) was $23.0 million ($0.78 per diluted share) in the 2017 Quarter compared to $21.0 million ($0.73 per diluted share) in the 2016 Quarter. FFO for the 2017 Quarter increased primarily due to (a) Park Van Ness ($1.0 million), (b) lower interest expense exclusive of interest expense related to Park Van Ness and Burtonsville Town Square ($0.8 million), and (c) Burtonsville Town Square, which was acquired in January 2017 ($0.5 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.

During the second quarter, we commenced excavation, sheeting and shoring work on our 750 North Glebe Road mixed-use development in the Ballston neighborhood of Arlington, Virginia. The development will include approximately 490 residential units and approximately 62,000 square feet of retail space.

BURTONSVILLE TOWN SQUARE , BURTONSVILLE, MD

This $275 million project is scheduled for substantial completion in early 2020. We recently closed on a $157 million construction-to-permanent loan, the proceeds of which will be used to partially finance the project. We are pleased to have executed a 41,500 square foot lease with Target Corporation, to anchor the retail space, and an additional 7,800 square feet of shop space, resulting in approximately 80% of the retail space being leased. We look forward to the addition of 750 North Glebe Road, our third major transit-centric, mixed-use development, to our portfolio. We remain focused on continued strategic investment into well located, quality assets that will further complement and enhance our core operating performance into the future.

For the Board,

B. Francis Saul II
Chairman of the Board
August 25, 2017

CONSOLIDATED Statements of Operations

(Dollars in thousands, except per share amounts)	For the Three Months Ended June 30, 2017	2016	For the Six Months Ended June 30, 2017	2016
	(Unaudited)		*(Unaudited)*	
Revenue				
Base rent	$ 45,575	$ 42,580	$ 90,051	$ 85,187
Expense recoveries	8,337	7,892	16,931	17,450
Percentage rent	519	596	901	959
Other	1,476	1,642	6,490	6,040
Total revenue	55,907	52,710	114,373	109,636
Operating expenses				
Property operating expenses	6,473	6,060	13,125	14,055
Provision for credit losses	207	384	550	816
Real estate taxes	6,700	6,137	13,290	12,071
Interest expense and amortization of deferred debt costs	11,900	11,655	23,764	22,744
Depreciation and amortization of deferred leasing costs	11,691	10,817	23,033	21,852
General and administrative	4,514	4,407	8,815	8,467
Total operating expenses	41,485	39,460	82,577	80,005
Operating income	14,422	13,250	31,796	29,631
Change in fair value of derivatives	(1)	(3)	(1)	(10)
Net income	14,421	13,247	31,795	29,621
Income attributable to the noncontrolling interests	(2,911)	(2,620)	(6,581)	(6,046)
Net income attributable to Saul Centers, Inc.	11,510	10,627	25,214	23,575
Preferred stock dividends	(3,094)	(3,094)	(6,188)	(6,188)
Net income attributable to common stockholders	$ 8,416	$ 7,533	$ 19,026	$ 17,387
Per share data attributable to common stockholders				
Basic and diluted	$ 0.38	$ 0.35	$ 0.87	$ 0.81
Dividends declared per common share outstanding	$ 0.51	$ 0.47	$ 1.02	$ 0.94

CONSOLIDATED Balance Sheets

(Dollars in thousands except per share data)	June 30, 2017	December 31, 2016
	(Unaudited)	
Assets		
Real estate investments		
Land	$ 454,041	$ 422,546
Buildings and equipment	1,266,394	1,214,697
Construction in progress	72,791	63,570
	1,793,226	1,700,813
Accumulated depreciation	(477,565)	(458,279)
	1,315,661	1,242,534
Cash and cash equivalents	12,395	8,322
Accounts receivable and accrued income, net	51,198	53,033
Deferred leasing costs, net	28,143	25,983
Prepaid expenses, net	1,724	5,057
Other assets	11,757	8,096
Total assets	$ 1,420,878	$ 1,343,025
Liabilities		
Notes payable	$ 810,108	$ 783,400
Revolving credit facility payable	83,478	48,217
Construction loan payable	70,077	68,672
Dividends and distributions payable	18,081	17,953
Accounts payable, accrued expenses and other liabilities	25,052	20,838
Deferred income	29,621	30,696
Total liabilities	1,036,417	969,776
Stockholders' equity		
Preferred stock, 1,000,000 shares authorized:		
Series C Cumulative Redeemable, 72,000 shares issued and outstanding	180,000	180,000
Common stock, $0.01 par value, 40,000,000 shares authorized, 21,877,619 and 21,704,359 shares issued and outstanding, respectively	219	217
Additional paid-in capital	338,495	328,171
Accumulated deficit and other comprehensive loss	(192,889)	(189,883)
Total Saul Centers, Inc. stockholders' equity	325,825	318,505
Noncontrolling interests	58,636	54,744
Total stockholders' equity	384,461	373,249
Total liabilities and stockholders' equity	$ 1,420,878	$ 1,343,025

RECONCILIATION of net income to FFO attributable to common stockholders and noncontrolling interests[1]

(In thousands, except per share amounts)	Three Months Ended June 30, 2017 (Unaudited)	Three Months Ended June 30, 2016 (Unaudited)	Six Months Ended June 30, 2017 (Unaudited)	Six Months Ended June 30, 2016 (Unaudited)
Net income	$ 14,421	$ 13,247	$ 31,795	$ 29,621
Add:				
Real estate depreciation and amortization	11,691	10,817	23,033	21,852
FFO	26,112	24,064	54,828	51,473
Subtract:				
Preferred stock dividends	(3,094)	(3,094)	(6,188)	(6,188)
FFO available to common stockholders and noncontrolling interests	$ 23,018	$ 20,970	$ 48,640	$ 45,285
Weighted average shares:				
Diluted weighted average common stock	21,927	21,516	21,910	21,426
Convertible limited partnership units	7,497	7,361	7,477	7,345
Average shares and units used to compute FFO per share	29,424	28,877	29,386	28,771
FFO per share available to common stockholders and noncontrolling interests	$ 0.78	$ 0.73	$ 1.66	$ 1.57

(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 including (a) 50 community and neighborhood shopping centers and six mixed-use properties with approximately 9.5 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

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The Honorable John E. Chapoton
George P. Clancy, Jr.
Philip C. Jackson, Jr.
Patrick F. Noonan
H. Gregory Platts
Andrew M. Saul II
Mark Sullivan III
John R. Whitmore

DIVIDEND REINVESTMENT PLAN

Saul Centers, Inc. offers a dividend reinvestment plan which enables its shareholders to automatically invest some or all common 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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