Saul Centers

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Saul Centers

2017 THIRD QUARTER REPORT to Shareholders

Message to Shareholders

Total revenue for the 2017 Quarter increased to $56.2 million from $53.2 million for the quarter ended September 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 $12.7 million for the 2016 Quarter. Net income attributable to common stockholders increased to $8.4 million ($0.38 per diluted share) for the 2017 Quarter compared to $7.1 million ($0.33 per diluted share) for the 2016 Quarter.

Concurrent with the opening of the Park Van Ness Mixed-use development in May 2016, interest, real estate taxes and all other costs associated with the property, including depreciation, began to be charged to expense, while revenue continued to grow with occupancy. With occupancy averaging 88% for the 2017 quarter, net income continued to be adversely impacted by $0.4 million. As of November 30, 2017, 259 apartments were leased (95.6%) and 253 apartments were occupied (93.4%).

Same property revenue increased $2.2 million (4.2%) and same property operating income increased $1.1 million (2.8%) 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 $31.0 million, a $0.7 increase from the 2016 Quarter. Mixed-use same property operating income totaled $9.9 million, a $0.4 million increase from the 2016 Quarter. The increase in Mixed-Use same property operating income was due primarily to (a) Park Van Ness ($1.1 million) partially offset by (b) lower termination fees ($0.3 million) and lower parking revenue as a result of a garage refurbishment ($0.2 million).

BRIGGS CHANEY MARKETPLACE, SILVER SPRING, MD

As of September 30, 2017, 95.5% of the commercial portfolio was leased (not including the apartments at Clarendon Center and Park Van Ness), compared to 94.7% at September 30, 2016. On a same property basis, 95.4% of the commercial portfolio was leased as of September 30, 2017, compared to 95.3% at September 30, 2016. The apartments at Clarendon Center were 96.3% leased as of September 30, 2017 compared to 96.7% as of September 30, 2016. The apartments at Park Van Ness were 93.7% leased as of September 30, 2017, compared to 61.3% at September 30, 2016.

Funds from operations ("FFO") available to common stockholders and noncontrolling interests (after deducting preferred stock dividends) was $22.7 million ($0.77 per diluted share) in the 2017 Quarter compared to $21.3 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 ($0.4 million), and (c) Burtonsville Town Square, which was acquired in January 2017 ($0.4 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.

750 GLEBE ROAD, ARLINGTON, VA (ARCHITECT'S RENDERING)

Construction at 750 Glebe Road, Arlington, Virginia, a 491-unit residential project with approximately 62,000 square feet of street-level retail is proceeding on schedule. As of November 30, 2017, excavation was over 85% complete and the retail space was 84% leased, including a 41,500 square foot Target store. We remain confident that our strong balance sheet will enable us to continue to develop new mixed-use and retail properties to further enhance the long-term performance of our core portfolio.

For the Board,

B. Francis Saul II
Chairman of the Board
December 15, 2017

CONSOLIDATED Statements of Operations

(Dollars in thousands, except per share amounts)	For the Three Months Ended September 30, 2017 (Unaudited)	For the Three Months Ended September 30, 2016 (Unaudited)	For the Nine Months Ended September 30, 2017 (Unaudited)	For the Nine Months Ended September 30, 2016 (Unaudited)
Revenue				
Base rent	$ 45,385	$ 43,151	$ 135,436	$ 128,338
Expense recoveries	9,447	8,561	26,378	26,011
Percentage rent	67	57	968	1,016
Other	1,338	1,464	7,828	7,504
Total revenue	56,237	53,233	170,610	162,869
Operating expenses				
Property operating expenses	7,418	6,685	20,543	20,740
Provision for credit losses	52	391	602	1,207
Real estate taxes	6,834	6,195	20,124	18,266
Interest expense and amortization of deferred debt costs	11,821	11,524	35,585	34,268
Depreciation and amortization of deferred leasing costs	11,363	11,626	34,396	33,478
General and administrative	4,363	4,033	13,178	12,500
Acquisition related costs	—	57	—	57
Total operating expenses	41,851	40,511	124,428	120,516
Operating income	14,386	12,722	46,182	42,353
Change in fair value of derivatives	(1)	1	(2)	(9)
Net income	14,385	12,723	46,180	42,344
Income attributable to the noncontrolling interests	(2,902)	(2,484)	(9,483)	(8,530)
Net income attributable to Saul Centers, Inc.	11,483	10,239	36,697	33,814
Preferred stock dividends	(3,093)	(3,093)	(9,281)	(9,281)
Net income attributable to common stockholders	$ 8,390	$ 7,146	$ 27,416	$ 24,533
Per share data attributable to common stockholders				
Basic and diluted	$ 0.38	$ 0.33	$ 1.25	$ 1.14
Dividends declared per common share outstanding	$ 0.51	$ 0.47	$ 1.53	$ 1.41

(Dollars in thousands except per share data)	September 30, 2017	December 31, 2016
	(Unaudited)	
Assets		
Real estate investments		
Land	$ 450,256	$ 422,546
Buildings and equipment	1,257,886	1,214,697
Construction in progress	80,163	63,570
	1,788,305	1,700,813
Accumulated depreciation	(478,284)	(458,279)
	1,310,021	1,242,534
Cash and cash equivalents	9,385	8,322
Accounts receivable and accrued income, net	55,619	52,774
Deferred leasing costs, net	27,679	25,983
Prepaid expenses, net	8,901	5,057
Other assets	12,123	8,355
Total assets	$ 1,423,728	$ 1,343,025
Liabilities		
Notes payable	$ 873,538	$ 783,400
Revolving credit facility payable	88,608	48,217
Construction loan payable	—	68,672
Dividends and distributions payable	18,143	17,953
Accounts payable, accrued expenses and other liabilities	24,267	20,838
Deferred income	31,040	30,696
Total liabilities	1,035,596	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, 21,985,890 and 21,704,359 shares issued and outstanding, respectively	220	217
Additional paid-in capital	344,820	328,171
Accumulated deficit and other comprehensive loss	(195,584)	(189,883)
Total Saul Centers, Inc. stockholders' equity	329,456	318,505
Noncontrolling interests	58,676	54,744
Total stockholders' equity	388,132	373,249
Total liabilities and stockholders' equity	$ 1,423,728	$ 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 September 30, 2017	2016	Nine Months Ended September 30, 2017	2016
	(Unaudited)		*(Unaudited)*	
Net income	$ 14,385	$ 12,723	$ 46,180	$ 42,344
Add:				
Real estate depreciation and amortization	11,363	11,626	34,396	33,478
FFO	25,748	24,349	80,576	75,822
Subtract:				
Preferred stock dividends	(3,093)	(3,093)	(9,281)	(9,281)
FFO available to common stockholders and noncontrolling interests	$ 22,655	$ 21,256	$ 71,295	$ 66,541
Weighted average shares:				
Diluted weighted average common stock	22,028	21,779	21,949	21,544
Convertible limited partnership units	7,521	7,391	7,491	7,360
Average shares and units used to compute FFO per share	29,549	29,170	29,440	28,904
FFO per share available to common stockholders and noncontrolling interests	$ 0.77	$ 0.73	$ 2.42	$ 2.30

(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

B. Francis Saul II
J. Page Lansdale
Philip D. Caraci
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

WEB SITE

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HEADQUARTERS

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EXCHANGE LISTING

New York Stock
Exchange (NYSE) Symbol:

Common Stock: BFS
Preferred Stock: BFS.PrC