Saul Centers

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Saul Centers

2018
SECOND QUARTER REPORT
to Shareholders

Message

to Shareholders

Park Van Ness, Washington, DC

Total revenue for the 2018 Quarter increased to $56.3 million from $55.9 million for the quarter ended June 30, 2017 ("2017 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 $15.4 million for the 2018 Quarter from $14.4 million for the 2017 Quarter. Net income available to common stockholders increased to $9.6 million ($0.43 per diluted share) for the 2018 Quarter from $8.4 million ($0.38 per diluted share) for the 2017 Quarter.

Same property revenue increased $0.7 million (1.2%) and same property operating income increased $0.1 million (0.3%) for the 2018 Quarter compared to the 2017 Quarter. We define same property revenue as property revenue minus the revenue of properties not in operation for the entirety of the comparable reporting periods. We define same property operating income as property operating income minus the results of properties which were not in operation for the entirety of the comparable periods. Shopping Center same property operating income for the 2018 Quarter totaled $32.3 million, a $0.1 million increase from the 2017 Quarter. Mixed-Use same property operating income totaled $10.3 million, unchanged from the prior year.

As of June 30, 2018, 94.0% of the commercial portfolio was leased (not including the residential portfolio), compared to 94.3% at June 30, 2017. On a same property basis, 94.0% of the commercial portfolio was leased as of June 30, 2018, compared to 95.6% at June 30, 2017. As of June 30, 2018, the residential portfolio was 98.6% leased compared to 96.7% at June 30, 2017.

Funds from operations ("FFO") available to common stockholders and noncontrolling interests (after deducting preferred stock dividends) was $23.8 million ($0.79 per diluted share) in the 2018 Quarter compared to $23.0 million ($0.78 per diluted share) in the 2017 Quarter. FFO for the 2018 Quarter increased primarily due to lower interest and amortization of debt expense. FFO, a widely accepted non-GAAP financial measure of operating performance for REITs, is defined as net income plus real estate depreciation and amortization, excluding gains and losses from property dispositions and impairment charges on real estate assets. FFO available to common stockholders and noncontrolling interests (after deducting preferred stock dividends and the impact of preferred stock redemptions) decreased 8.8% to $44.4 million ($1.48 per diluted share) in the 2018 Period from $48.6 million ($1.66 per diluted share) in the 2017 Period. FFO available to common stockholders and noncontrolling interests decreased primarily due to (a) the net impact of terminating leases for the spaces previously occupied by Safeway at Broadlands and Kmart at Kentlands ($3.6 million) and (b) extinguishment of issuance costs upon redemption of preferred shares ($2.3 million), partially offset by (c) higher base rent ($1.9 million).

In May 2018, we acquired 13.7 acres of land located at the intersection of Ashburn Village Boulevard and Russell Branch Parkway in Loudoun County, Virginia. We have received site plan approval for an approximately 88,000 square foot neighborhood shopping center. Overall pre-leasing totals 37% of the planned space, which includes a 29,000 square foot anchor grocery store lease with Lidl and an executed gas station pad lease. In addition, lease negotiations are in progress for 11,000 square feet of the 43,000 square feet of planned small shop space. Subject to the receipt of final building permits, we expect site work to commence in late 2018, with the shopping center opening scheduled for early 2020.

Construction on our Glebe Road project in Arlington, Virginia, which will consist of 490 residential units and 60,000 square feet of street-level retail, is proceeding on schedule. Construction is complete on the three-level below grade parking structure. Concrete work has been completed through the fourth floor and is proceeding up through the sixth floor. The development is scheduled for substantial completion in early 2020. Leases have been executed for a 41,500 square foot Target and 9,000 square feet of retail shop space, resulting in 84% of the planned retail space being leased.

We remain confident that our strong balance sheet will enable us to continue prudent investments in the development of new mixed-use and retail properties to further enhance the long-term performance of our core portfolio.

For the Board,

B. Francis Saul II
August 27, 2018

11503 Rockville Pike, Rockville, MD

Consolidated Statements of Operations

(Dollars in thousands, except per share amounts)	For the Three Months Ended June 30, 2018	For the Three Months Ended June 30, 2017	For the Six Months Ended June 30, 2018	For the Six Months Ended June 30, 2017
	(Unaudited)		*(Unaudited)*	
Property revenue				
Base rent	$ 45,943	$ 45,575	$ 91,810	$ 90,051
Expense recoveries	8,601	8,337	17,373	16,931
Percentage rent	249	519	667	901
Other property revenue	1,431	1,466	2,769	6,467
Total property revenue	56,224	55,897	112,619	114,350
Property expenses				
Property operating expenses	6,732	6,473	13,856	13,125
Provision for credit losses	143	207	429	550
Real estate taxes	6,778	6,700	13,622	13,290
Total property expenses	13,653	13,380	27,907	26,965
Property operating income	42,571	42,517	84,712	87,385
Other revenue	69	10	170	23
Other expenses				
Interest expense and amortization of deferred debt costs	11,237	11,900	22,764	23,764
Depreciation and amortization of deferred leasing costs	11,351	11,691	22,700	23,033
General and administrative	4,647	4,514	9,068	8,815
Total other expenses	27,235	28,105	54,532	55,612
Operating income	15,405	14,422	30,350	31,796
Change in fair value of derivatives	(12)	(1)	(12)	(1)
Gain on sale of property	509	—	509	—
Net income	15,902	14,421	30,847	31,795
Income attributable to the noncontrolling interests	(3,359)	(2,911)	(5,718)	(6,581)
Net income attributable to Saul Centers, Inc.	12,543	11,510	25,129	25,214
Extinguishment of issuance costs upon redemption of preferred shares	—	—	(2,328)	—
Preferred stock dividends	(2,953)	(3,094)	(6,356)	(6,188)
Net income attributable to common stockholders	$ 9,590	$ 8,416	$ 16,445	$ 19,026
Per share data attributable to common stockholders				
Basic and diluted	$ 0.43	$ 0.38	$ 0.74	$ 0.87
Weighted Average Common Stock:				
Common stock	22,260	21,846	22,219	21,796
Effect of dilutive options	28	81	34	114
Diluted weighted average common stock	22,288	21,927	22,253	21,910

(Dollars in thousands except per share data)	June 30, 2018	December 31, 2017
	(Unaudited)	
Assets		
Real estate investments		
Land	$ 450,256	$ 450,256
Buildings and equipment	1,263,865	1,261,830
Construction in progress	139,285	91,114
	1,853,406	1,803,200
Accumulated depreciation	(507,084)	(488,166)
	1,346,322	1,315,034
Cash and cash equivalents	6,425	10,908
Accounts receivable and accrued income, net	50,634	54,057
Deferred leasing costs, net	27,139	27,255
Prepaid expenses, net	1,669	5,248
Other assets	14,293	9,950
Total assets	$ 1,446,482	$ 1,422,452
Liabilities		
Notes payable	$ 869,272	$ 897,888
Revolving credit facility payable	23,065	60,734
Term loan facility payable	74,543	—
Dividends and distributions payable	18,599	18,520
Accounts payable, accrued expenses and other liabilities	29,078	23,123
Deferred income	25,594	29,084
Total liabilities	1,040,151	1,029,349
Equity		
Preferred stock	180,000	180,000
Common stock	223	221
Additional paid-in capital	361,413	352,590
Distribution in excess of accumulated net income and accumulated other comprehensive loss	(204,689)	(198,406)
Total Saul Centers, Inc. equity	336,947	334,405
Noncontrolling interests	69,384	58,698
Total equity	406,331	393,103
Total liabilities and equity	$ 1,446,482	$ 1,422,452

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

(In thousands, except per share amounts)	For the Three Months Ended June 30, 2018	For the Three Months Ended June 30, 2017	For the Six Months Ended June 30, 2018	For the Six Months Ended June 30, 2017
	(Unaudited)		(Unaudited)	
Net income	$ 15,902	$ 14,421	$ 30,847	$ 31,795
Subtract:				
Gain on sale of property	(509)	—	(509)	—
Add:				
Real estate depreciation and amortization	11,351	11,691	22,700	23,033
FFO	26,744	26,112	53,038	54,828
Subtract:				
Extinguishment of issuance costs upon redemption of preferred shares	—	—	(2,328)	—
Preferred stock dividends	(2,953)	(3,094)	(6,356)	(6,188)
FFO available to common stockholders and noncontrolling interests	$ 23,791	$ 23,018	$ 44,354	$ 48,640
Weighted average shares:				
Diluted weighted average common stock	22,288	21,927	22,253	21,910
Convertible limited partnership units	7,726	7,497	7,646	7,476
Average shares and units used to compute FFO per share	30,014	29,424	29,899	29,386
FFO per share available to common stockholders and noncontrolling interests	$ 0.79	$ 0.78	$ 1.48	$ 1.66

(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 impairment charges on 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) 49 community and neighborhood shopping centers and 6 mixed-use properties with approximately 9.2 million square feet of leasable area and (b) four land and development properties. Over 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.
H. Gregory Platts
Earl A. Powell III
Andrew M. Saul II
Mark Sullivan III
John R. Whitmore

Beacon Center,
Alexandria, VA

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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EXCHANGE LISTING
New York Stock
Exchange (NYSE) Symbol:

Common Stock:	BFS
Preferred Stock:	BFS.PrC
Preferred Stock:	BFS.PrD