Saul Centers

2019
2ND QUARTER REPORT

Message
to Shareholders

Total revenue for the 2019 Quarter increased to $58.1 million from $56.1 million for the quarter ended June 30, 2018 ("2018 Quarter"). Net income increased to $16.8 million for the 2019 Quarter from $15.9 million for the 2018 Quarter. Net income available to common stockholders increased to $10.3 million ($0.45 per diluted share) for the 2019 Quarter from $9.6 million ($0.43 per diluted share) for the 2018 Quarter. Net income available to common stockholders increased primarily due to (a) an increase in lease termination fees ($1.0 million) and (b) higher base rent ($0.9 million), partially offset by (c) gain on sale in 2018 ($0.5 million), and (d) higher general and administrative expenses ($0.5 million).

Same property revenue increased $1.9 million (3.3%) and same property operating income increased $1.6 million (3.9%) for the 2019 Quarter compared to the 2018 Quarter. We define same property revenue as total revenue minus the revenue of properties not in operation for the entirety of the comparable reporting periods. We define same property operating income as net income plus (a) interest expense, net and amortization of deferred debt costs, (b) depreciation and amortization of deferred leasing costs, (c) general and administrative expenses and (d) change in fair value of derivatives minus (e) gains on sale of property and (f) the results of properties which were not in operation for the entirety of the comparable periods. Shopping Center same property operating income for the 2019 Quarter totaled $33.7 million, a $1.4 million increase from the 2018 Quarter. Mixed-Use same property operating income totaled $10.5 million, a $0.2 million increase from the 2018 Quarter. The increase in Shopping Center same property operating income was primarily the result of (a) higher lease termination fees ($0.8 million) and (b) higher base rent ($0.5 million). The increase in Mixed-Use same property operating income was primarily the result of higher base rent ($0.2 million).

As of June 30, 2019, 94.7% of the commercial portfolio was leased (not including the residential portfolio), compared to 94.0% at June 30, 2018. On a same property basis, 95.2% of the commercial portfolio was leased as of June 30, 2019, compared to 94.0% at June 30, 2018. As of June 30, 2019, the residential portfolio was 98.1% leased compared to 98.6% at June 30, 2018.

For the six months ended June 30, 2019 ("2019 Period"), total revenue increased to $117.9 million from $112.2 million for the six months ended June 30, 2018 ("2018 Period"). Net income increased to $33.8 million for the 2019 Period from $30.8 million for the 2018 Period. Net income available to common stockholders increased to $20.8 million ($0.91 per diluted share) for the 2019 Period compared to $16.4 million ($0.74 per diluted share) for the 2018 Period. The increase in net income available to common stockholders was primarily due to (a) higher lease termination fees ($2.7 million), (b) extinguishment in 2018 of issuance costs upon redemption of preferred shares ($2.3 million), and (c) higher base rent ($1.7 million), partially offset by (d) higher income attributable to non-controlling interests ($1.4 million) and (e) higher general and administrative expenses ($0.9 million).

Same property revenue increased $4.6 million (4.1%) and same property operating income increased $3.5 million (4.1%) for the 2019 Period, compared to the 2018 Period. Shopping Center same property operating income increased 4.4% and mixed-use same property operating income increased 3.1%. Shopping Center same property operating income increased primarily due to (a) lease termination fees ($2.0 million) and (b) an increase in base rent ($0.8 million). Mixed-use same property operating income increased primarily due to higher base rent ($0.4 million).

Funds from operations ("FFO") available to common stockholders and noncontrolling interests (after deducting preferred stock dividends) was $25.3 million ($0.82 per diluted share) in the 2019 Quarter compared to $23.8 million ($0.79 per diluted share) in the 2018 Quarter. FFO is a non-GAAP supplemental earnings measure which the Company considers meaningful in measuring its operating performance. A reconciliation of net income to FFO is attached to this quarterly report. The increase in FFO available to common stockholders and noncontrolling interests was primarily due to (a) higher lease termination fees ($1.0 million) and (b) higher capitalized interest ($1.1 million), partially offset by (c) higher interest incurred due to the higher outstanding construction loan balance ($0.7 million).

FFO available to common stockholders and noncontrolling interests (after deducting preferred stock dividends and the impact of preferred stock redemptions) increased 15.2% to $51.1 million ($1.66 per diluted share) in the 2019 Period from $44.4 million ($1.48 per diluted share) in the 2018 Period. FFO available to common stockholders and noncontrolling interests increased primarily due to (a) extinguishment in 2018 of issuance costs upon redemption of preferred shares ($2.3 million), (b) higher lease termination fees in the core portfolio ($2.2 million), (c) higher base rent in the core portfolio ($1.3 million), (d) the net operating income of recently acquired properties ($0.6 million) and (e) lower preferred stock dividends ($0.5 million).

We are scheduled to complete construction of 490 residential units and 60,000 square feet of retail space in our North Glebe Road mixed-use development in Arlington, Virginia, and of our 83,000 square foot Ashbrook Marketplace shopping center in early 2020. We remain focused on continued strategic investment into well located, quality assets similar to these that will further complement and enhance our core operating performance into the future.

For the Board,

B. Francis Saul II
August 27, 2019

Consolidated Statements of Operations

(Dollars in thousands, except per share amounts)	For the Three Months Ended June 30, 2019 (Unaudited)	For the Three Months Ended June 30, 2018 (Unaudited)	For the Six Months Ended June 30, 2019 (Unaudited)	For the Six Months Ended June 30, 2018 (Unaudited)
Revenue				
Rental revenue	$ 55,953	$ 54,970	$ 112,756	$ 109,960
Other	2,188	1,111	5,135	2,230
Total revenue	58,141	56,081	117,891	112,190
Expenses				
Property operating expenses	7,115	6,732	15,116	13,856
Real estate taxes	6,819	6,778	13,967	13,622
Interest expense, net and amortization of deferred debt costs	10,793	11,168	21,860	22,594
Depreciation and amortization of deferred leasing costs	11,524	11,351	23,167	22,700
General and administrative	5,140	4,647	9,954	9,068
Total expenses	41,391	40,676	84,064	81,840
Change in fair value of derivatives	—	(12)	—	(12)
Gain on sale of property	—	509	—	509
Net income	16,750	15,902	33,827	30,847
Noncontrolling interests				
Income attributable to the noncontrolling interests	(3,518)	(3,359)	(7,148)	(5,718)
Net income attributable to Saul Centers, Inc.	13,232	12,543	26,679	25,129
Extinguishment of issuance costs upon redemption of preferred shares	—	—	—	(2,328)
Preferred stock dividends	(2,953)	(2,953)	(5,906)	(6,356)
Net income attributable to common stockholders	$ 10,279	$ 9,590	$ 20,773	$ 16,445
Per share net income available to common stockholders				
Basic and diluted	$ 0.45	$ 0.43	$ 0.91	$ 0.74
Dividends declared per common share outstanding	$ 0.53	$ 0.52	$ 1.06	$ 1.04

(Dollars in thousands, except per share data)	June 30, 2019 (Unaudited)	December 31, 2018 (Unaudited)
Assets		
Real estate investments		
Land	$ 488,942	$ 488,918
Buildings and equipment	1,280,397	1,273,275
Construction in progress	249,719	185,972
	2,019,058	1,948,165
Accumulated depreciation	(544,811)	(525,518)
	1,474,247	1,422,647
Cash and cash equivalents	9,262	14,578
Accounts receivable and accrued income, net	51,602	53,876
Deferred leasing costs, net	25,525	28,083
Prepaid expenses, net	1,806	5,175
Other assets	6,720	3,130
Total assets	$ 1,569,162	$ 1,527,489
Liabilities		
Notes payable	$ 853,627	$ 880,271
Term loan facility payable	74,641	74,591
Revolving credit facility payable	46,600	45,329
Construction loan payable	70,436	21,655
Dividends and distributions payable	19,313	19,153
Accounts payable, accrued expenses and other liabilities	42,287	32,419
Deferred income	25,649	28,851
Total liabilities	1,132,553	1,102,269
Equity		
Preferred stock, 1,000,000 shares authorized:		
Series C Cumulative Redeemable, 42,000 shares issued and outstanding	105,000	105,000
Series D Cumulative Redeemable, 30,000 shares issued and outstanding	75,000	75,000
Common stock, $0.01 par value, 40,000,000 shares authorized, 23,008,615 and 22,739,207 shares issued and outstanding, respectively	230	227
Additional paid-in capital	399,047	384,533
Distributions in excess of accumulated earnings	(212,109)	(208,593)
Accumulated other comprehensive loss	(384)	(255)
Total Saul Centers, Inc. equity	366,784	355,912
Noncontrolling interests	69,825	69,308
Total equity	436,609	425,220
Total liabilities and equity	$ 1,569,162	$ 1,527,489

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, 2019 (Unaudited)	For the Three Months Ended June 30, 2018 (Unaudited)	For the Six Months Ended June 30, 2019 (Unaudited)	For the Six Months Ended June 30, 2018 (Unaudited)
Net income	$ 16,750	$ 15,902	$ 33,827	$ 30,847
Subtract:				
Gain on sale of property	—	(509)	—	(509)
Add:				
Real estate depreciation and amortization	11,524	11,351	23,167	22,700
FFO	28,274	26,744	56,994	53,038
Subtract:				
Extinguishment of issuance costs upon redemption of preferred shares	—	—	—	(2,328)
Preferred stock dividends	(2,953)	(2,953)	(5,906)	(6,356)
FFO available to common stockholders and noncontrolling interests	$ 25,321	$ 23,791	$ 51,088	$ 44,354
Weighted average shares:				
Diluted weighted average common stock	22,994	22,288	22,929	22,253
Convertible limited partnership units	7,853	7,726	7,844	7,646
Average shares and units used to compute FFO per share	30,847	30,014	30,773	29,899
FFO per share available to common stockholders and noncontrolling interests	$ 0.82	$ 0.79	$ 1.66	$ 1.48

[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 REIT headquartered in Bethesda, Maryland. Saul Centers currently operates and manages a real estate portfolio comprised of 60 properties which includes (a) 49 community and neighborhood shopping centers and seven mixed-use properties with approximately 9.3 million square feet of leasable area and (b) four land and development properties. Approximately 85% of the Company's property operating income is generated from properties in the metropolitan Washington, DC/Baltimore area.

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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.

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EXCHANGE LISTING
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Common Stock:	BFS
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Preferred Stock:	BFS.PrD

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