

Saul Centers



Report to
Shareholders



Third Quarter
2010

Message to our Shareholders

Total revenue for the three months ended September 30, 2010 ("2010 Quarter") decreased 1.7% to \$39,551,000 compared to \$40,235,000 for the three months ended September 30, 2009 ("2009 Quarter"). Operating income, which is net income available to common stockholders before loss on early extinguishment of debt, gains on property dispositions, acquisition related costs, income attributable to the noncontrolling interest and preferred stock dividends, decreased 8.2% to \$10,411,000 for the 2010 Quarter compared to \$11,344,000 for the 2009 Quarter, primarily due to a single-location office tenant default. Net income increased 36.6% to \$15,503,000 for the 2010 Quarter compared to \$11,349,000 for the 2009 Quarter primarily due to a \$3,591,000 gain on the sale of the Company's Lexington property and a gain on casualty settlement of \$1,700,000 arising from the excess of estimated insurance proceeds over the carrying value of assets damaged during a severe hail storm at French Market. All of the insurance proceeds will be used to restore the damaged assets. Net income available to common stockholders was \$9,046,000, or \$0.49 per diluted share, for the 2010 Quarter compared to \$5,822,000, or \$0.32 per diluted share, for the 2009 Quarter.

Same property revenue for the total portfolio decreased 2.3% for the 2010 Quarter compared to the 2009 Quarter and same property operating income decreased 3.7%. The same property comparisons exclude the results of operations of properties not fully in operation for each of the comparable reporting quarters. Same property operating income in the shopping center portfolio decreased 2.0% for the 2010 Quarter compared to the 2009 Quarter, due primarily to reduced termination fee income and increased repair and maintenance expenses. Same property operating income in the office portfolio decreased 9.3% for the 2010 Quarter compared to the 2009 Quarter due primarily to a single-location office tenant default.

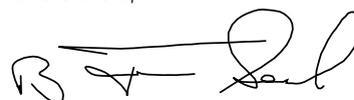
For the nine months ended September 30, 2010 ("2010 Period"), total revenue increased 3.3% to \$123,251,000 compared to \$119,270,000 for the nine months ended September 30, 2009 ("2009 Period") and operating income increased 0.7% to \$33,769,000 compared to \$33,539,000 for the 2009 Period. Net income available to common stockholders was \$17,702,000 or \$0.97 per diluted share for the 2010 Period, compared to \$15,712,000 or \$0.88 per diluted share for the 2009 Period. Overall same property revenue for the total portfolio increased 2.4% for the 2010 Period compared to the 2009 Period and same property operating income increased 0.9%. For the 2010 Period, shopping center same property operating income increased 2.6%, the primary cause of which was the collection of rents and other past due charges from a former anchor tenant. Excluding this one-time revenue, same property shopping center operating income decreased 0.3% compared to the prior year. Same property operating income in the office portfolio decreased 4.7% for the 2010 Period due primarily to a single-location office tenant default.

As of September 30, 2010, 92.0% of the operating portfolio was leased compared to 91.8% at September 30, 2009. On a same property basis, 92.9% of the portfolio was leased as of the end of both periods.

Funds from operations (FFO) available to common shareholders (after deducting preferred stock dividends) decreased 7.9% to \$13,488,000 in the 2010 Quarter compared to \$14,648,000 for the 2009 Quarter. On a diluted per share basis, FFO available to common shareholders decreased 9.5% to \$0.57 per share for the 2010 Quarter compared to \$0.63 per share for the 2009 Quarter. FFO decreased in the 2010 Quarter primarily due to a single-location office tenant default and initial costs related to a fourth quarter 2010 property acquisition. 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 from property dispositions and extraordinary items. FFO available to common shareholders for the 2010 Period decreased 6.1% to \$39,120,000 from \$41,666,000 during the 2009 Period. Per share FFO available to common shareholders for the 2010 Period decreased 7.8% to \$1.65 per diluted share compared to \$1.79 per diluted share for the 2009 Period. FFO decreased in the 2010 Period primarily due to higher losses on early extinguishment of debt (approximately \$2,819,000 or \$0.12 per diluted share) and by a decline in property operating income during the 1st quarter 2010, due to increased snow removal expense, net of tenant recoveries, from severe winter storms impacting the Mid-Atlantic region (approximately \$1,200,000 or \$0.05 per diluted share), offset in part by the one-time collection of rents and other past due charges from a former anchor tenant (\$1,939,000 or \$0.08 per diluted share) during the 1st quarter 2010.

During the third quarter, the Company sold its Lexington property for \$8,100,000 and recognized a gain of \$3,591,000. On October 1, 2010, net proceeds from the sale of Lexington together with additional cash of \$7,400,000 were used to purchase a property containing approximately 20,000 square feet of retail space located near the White Flint Metro Station in Montgomery County, Maryland. The Company incurred acquisition costs of approximately \$450,000, of which \$170,000 were incurred and recognized as expense during the third quarter and the remaining \$280,000 costs were incurred and will be recognized as expense in the fourth quarter. The property, which is fully leased, is zoned for up to 297,000 square feet of rentable mixed use space. The Company does not anticipate redeveloping this property in the foreseeable future.

For the Board,



B. Francis Saul II
Chairman of the Board
November 12, 2010

Consolidated Statements of Operations

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
<i>(Dollars in thousands, except per share amounts)</i>	<i>(Unaudited)</i>		<i>(Unaudited)</i>	
Revenue				
Base rent	\$ 31,243	\$ 31,746	\$ 94,713	\$ 93,483
Expense recoveries	6,938	7,141	22,583	21,758
Percentage rent	238	214	927	775
Other	1,132	1,134	5,028	3,254
Total revenue	39,551	40,235	123,251	119,270
Operating expenses				
Property operating expenses	5,199	4,890	17,706	15,055
Provision for credit losses	345	189	699	748
Real estate taxes	4,367	4,528	13,498	13,558
Interest expense and amortization of deferred debt costs	8,781	8,942	26,259	25,920
Depreciation and amortization of deferred leasing costs	7,031	7,083	21,365	21,122
General and administrative	3,417	3,259	9,955	9,328
Total operating expenses	29,140	28,891	89,482	85,731
Operating income	10,411	11,344	33,769	33,539
Loss on early extinguishment of debt	-	-	(4,479)	(1,660)
Acquisition related costs	(170)	-	(170)	-
Gain on casualty settlement	1,700	-	1,700	-
Income from continuing operations	11,941	11,344	30,820	31,879
(Loss) income from operations of property sold	(29)	5	(96)	(66)
Gain on property sale	3,591	-	3,591	-
Net income	15,503	11,349	34,315	31,813
Income attributable to the noncontrolling interest	(2,672)	(1,742)	(5,258)	(4,746)
Net income attributable to Saul Centers, Inc.	12,831	9,607	29,057	27,067
Preferred dividends	(3,785)	(3,785)	(11,355)	(11,355)
Net income available to common stockholders	\$ 9,046	\$ 5,822	\$ 17,702	\$ 15,712
Per share data attributable to common shareholders (diluted)				
Net income attributable to Saul Centers, Inc. ^(a)	\$ 0.49	\$ 0.32	\$ 0.97	\$ 0.88
Funds from operations ^(b)	\$ 0.57	\$ 0.63	\$ 1.65	\$ 1.79

(a) Based upon diluted weighted average common shares outstanding of 18,440,269 and 17,938,643 for the three months and 18,305,898 and 17,918,121 for the six months ended September 30, 2010 and 2009, respectively.

(b) Assumes conversion of operating partnership units, combined with diluted weighted average common shares outstanding, for a total of 23,856,684 and 23,355,058 shares for the three months and 23,722,313 and 23,334,536 shares for the nine months ended September 30, 2010 and 2009, respectively.

Consolidated Balance Sheets

<i>(Dollars in thousands except per share amounts)</i>	September 30, 2010 <i>(Unaudited)</i>	December 31, 2009
Assets		
Real estate investments		
Land	\$ 230,080	\$ 223,193
Buildings and equipment	761,805	740,442
Construction in progress	170,049	147,589
	1,161,934	1,111,224
Accumulated depreciation	(290,831)	(276,310)
	871,103	834,914
Cash and cash equivalents	12,735	20,607
Accounts receivable and accrued income, net	35,572	37,503
Deferred leasing costs, net	14,672	15,609
Prepaid expenses, net	4,854	3,096
Deferred debt costs, net	6,767	7,537
Other assets	22,761	6,308
Total assets	\$ 970,464	\$ 925,574
Liabilities		
Mortgage notes payable	\$ 579,757	\$ 576,069
Construction loans payable	88,281	60,737
Dividends and distributions payable	12,343	12,220
Accounts payable, accrued expenses and other liabilities	30,221	23,395
Deferred income	26,267	27,090
Total liabilities	736,869	699,511
Stockholders' equity		
Preferred stock	179,328	179,328
Common stock	184	180
Additional paid-in capital	182,756	169,363
Accumulated deficit and other comprehensive loss	(128,691)	(124,167)
Total Saul Centers, Inc. stockholders' equity	233,577	224,704
Noncontrolling interest	18	1,359
Total stockholders' equity	233,595	226,063
Total liabilities and stockholders' equity	\$ 970,464	\$ 925,574

Corporate Profile

SAUL CENTERS, INC. is a self-managed, self-administered equity real estate investment trust headquartered in Bethesda, Maryland. Saul Centers operates and manages a real estate portfolio of 52 community and neighborhood shopping centers and office properties totaling approximately 8.4 million square feet of leasable area. Over 82% of the property operating income is generated from properties in the metropolitan Washington, DC/Baltimore area.

DIRECTORS

B. Francis Saul II
B. Francis Saul III
Philip D. Caraci
The Honorable
 John E. Chapoton
Gilbert M. Grosvenor
Philip C. Jackson, Jr.
David B. Kay
General Paul X. Kelley
Charles R. Longsworth
Patrick F. Noonan
Mark Sullivan III
The Honorable
 James W. Symington
John R. Whitmore

WEB SITE

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HEADQUARTERS

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EXCHANGE LISTING

New York Stock Exchange Symbol:
BFS

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.