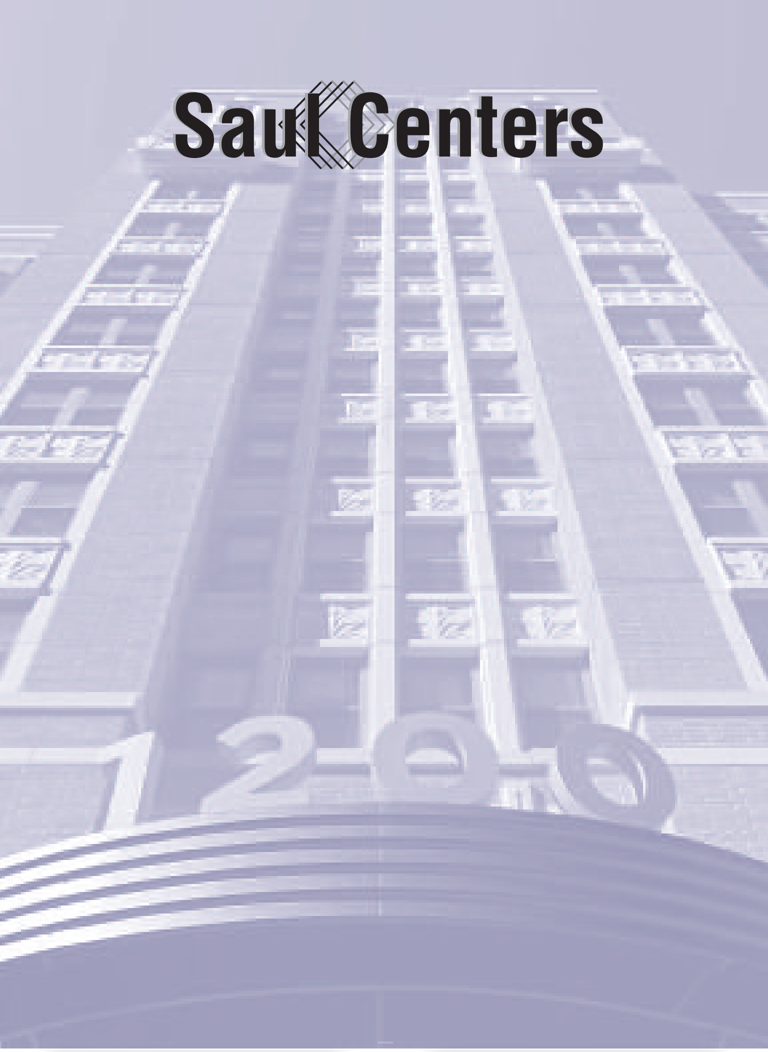
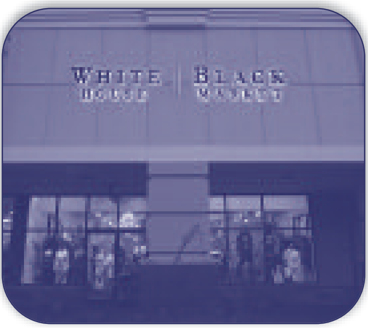
Saul Centers





2012 Third Quarter Report

MESSAGE TO OUR SHAREHOLDERS

Total revenue for the quarter ended September 30, 2012 ("2012 Quarter") increased to $47.5 million from $42.9 million for the quarter ended September 30, 2011 ("2011 Quarter"). Operating income, which is net income available to common stockholders before income attributable to noncontrolling interests and preferred stock dividends, decreased to $8.1 million for the 2012 Quarter from $8.7 million for the 2011 Quarter. Net income available to common stockholders was $4.2 million ($0.21 per diluted share) for the 2012 Quarter compared to $1.7 million ($0.09 per diluted share) for the 2011 Quarter. Revenue increased primarily due to $3.0 million of rents generated by the shopping centers acquired in 2011 and $0.9 million of additional revenue generated by Clarendon Center. Operating income declined primarily due to $1.9 million of predevelopment expenses, which was partially offset by $1.3 million of additional operating income generated by the core portfolio and $0.2 million generated by the shopping centers acquired in 2011.

Same property revenue increased 1.9% for the 2012 Quarter compared to the 2011 Quarter, and same property operating income increased 3.3%. The same property comparisons exclude the results of properties not in operation for the entirety of the comparable reporting periods. Shopping center portfolio same property operating income increased 3.7%, primarily due to lower provision for credit losses, and the mixed-use portfolio same property operating income increased 2.0%.

For the nine months ended September 30, 2012 ("2012 Period"), total revenue increased to $142.2 million from $127.4 million for the nine months ended September 30, 2011 ("2011 Period"). Operating income increased to $27.0 million for the 2012 Period from $25.2 million for the 2011 Period. Net income available to common stockholders was $12.5 million ($0.64 per diluted share) for the 2012 Period compared to $7.9 million ($0.42 per diluted share) for the 2011 Period. The primary sources of the revenue increase were additional revenue from the shopping centers acquired in 2011 ($9.7 million) and Clarendon Center ($4.3 million). The primary sources of the increase in operating income were the core portfolio ($2.9 million) and the shopping centers acquired in 2011 ($1.3 million), partially offset by predevelopment expenses ($1.9 million). Same property revenue increased 0.6% for the 2012 Period compared to the 2011 Period, and same property operating income increased 1.7%. Shopping center portfolio same property operating income increased 1.2% and the mixed-use portfolio same property operating income increased 3.6% due to improved operating performance at Washington Square.

As of September 30, 2012, 91.6% of the commercial portfolio was leased (all properties except the apartments at Clarendon Center, which were 100% leased), compared to 90.4% at September 30, 2011. On a same property basis, 91.1% of the portfolio was leased compared to the prior year level of 89.9%. The 2012 leasing percentages were impacted by a net increase of approximately 105,000 square feet of leased space, primarily caused by the leasing of a portion of the space vacated by major shopping center tenants in 2011.

Funds from operations (FFO) available to common shareholders (after deducting preferred stock dividends) increased 36.2% to $14.6 million ($0.55 per diluted share) in the 2012 Quarter from $10.7 million ($0.44 per diluted share) in the 2011 Quarter. 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. The primary sources of increased FFO in the 2012 Quarter were (a) acquisition costs incurred in 2011 ($2.4 million), (b) additional FFO generated by the shopping center properties acquired in 2011 ($1.5 million), the core portfolio ($1.5 million), and Clarendon Center ($0.1 million) and (c) the change in fair value recognized on the Company's interest rate swaps ($0.2 million), partially offset by predevelopment expenses ($1.9 million or $0.07 per diluted share).

FFO available to common shareholders for the 2012 Period increased 29.1% to $45.5 million ($1.72 per diluted share) from $35.2 million ($1.45 per diluted share) during the 2011 Period. The primary sources of increased FFO in the 2012 Period were (a) additional FFO generated by the shopping centers acquired in 2011 ($4.8 million), the core portfolio ($2.5 million), and Clarendon Center ($0.8 million), (b) acquisition costs incurred in the 2011 Period ($2.5 million), (c) a change in the fair value loss recognized on the Company's interest rate swaps ($1.4 million), partially offset by predevelopment expenses ($1.9 million).

In connection with the potential repositioning of Van Ness Square, the Company has recently entered into arrangements with various tenants which effectively accelerated the termination of the tenant leases. Costs incurred by the Company related to those arrangements are included in "Predevelopment Expenses" in the Statement of Operations. Additional predevelopment expenses will be recognized in future periods as the potential repositioning of Van Ness Square continues to be evaluated. The Company has not committed to any definitive plan.

For the Board,

B. Francis Saul II
Chairman of the Board
November 26, 2012

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share amounts)	For the Three Months Ended September 30, 2012 (Unaudited)	2011	For the Nine Months Ended September 30, 2012 (Unaudited)	2011
Revenue				
Base rent	$ 38,403	$ 34,390	$ 114,091	$ 101,280
Expense recoveries	7,576	6,994	22,741	21,211
Percentage rent	259	209	1,118	1,037
Other	1,296	1,285	4,208	3,862
Total revenue	47,534	42,878	142,158	127,390
Operating expenses				
Property operating expenses	5,977	5,829	17,775	18,289
Provision for credit losses	168	595	761	1,628
Real estate taxes	5,546	4,743	16,928	13,881
Interest expense and amortization of deferred debt costs	12,322	11,250	37,660	32,714
Depreciation and amortization of deferred leasing costs	10,268	8,512	29,816	25,308
General and administrative	3,272	3,293	10,303	10,402
Predevelopment expenses	1,870	–	1,870	–
Total operating expenses	39,423	34,222	115,113	102,222
Operating income	8,111	8,656	27,045	25,168
Acquisition related costs	–	(2,439)	–	(2,513)
Change in fair value of derivatives	17	(217)	(2)	(1,374)
Gain on sale of property	1,057	–	1,057	–
Gain on casualty settlement	219	–	219	198
Net income	9,404	6,000	28,319	21,479
Income attributable to the noncontrolling interest	(1,456)	(496)	(4,428)	(2,268)
Net income attributable to Saul Centers, Inc.	7,948	5,504	23,891	19,211
Preferred dividends	(3,785)	(3,785)	(11,355)	(11,355)
Net income available to common stockholders	$ 4,163	$ 1,719	$ 12,536	$ 7,856
Per share data attributable to common shareholders (diluted)				
Net income [(a)]	$ 0.21	$ 0.09	$ 0.64	$ 0.42
Funds from operations [(b)]	$ 0.55	$ 0.44	$ 1.72	$ 1.45

(a) Based upon diluted weighted average common shares outstanding of 19,783,637 and 18,936,683 for the three months and 19,611,622 and 18,842,823 for the nine months ended September 30, 2012 and 2011, respectively.

(b) Assumes conversion of operating partnership units, combined with diluted weighted average common shares outstanding, for a total of 26,697,866 and 24,353,098 shares for the three months and 26,525,851 and 24,259,238 shares for the nine months ended September 30, 2012 and 2011, respectively.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands except per share amounts)	September 30, 2012	December 31, 2011
	(Unaudited)	
Assets		
Real estate investments		
Land	$ 323,723	$ 324,183
Buildings and equipment	1,101,339	1,092,533
Construction in progress	1,422	1,129
	1,426,484	1,417,845
Accumulated depreciation	(346,426)	(326,397)
	1,080,058	1,091,448
Cash and cash equivalents	33,498	12,323
Accounts receivable and accrued income, net	41,916	39,094
Deferred leasing costs, net	25,396	25,876
Prepaid expenses, net	6,367	3,868
Deferred debt costs, net	8,106	7,090
Other assets	5,106	12,870
Total assets	$ 1,200,447	$ 1,192,569
Liabilities		
Mortgage notes payable	$827,963	$823,871
Revolving credit facility payable	–	8,000
Dividends and distributions payable	13,394	13,219
Accounts payable, accrued expenses and other liabilities	30,044	22,992
Deferred income	30,128	31,281
Total liabilities	901,529	899,363
Stockholders' equity		
Preferred stock, 1,000,000 shares authorized:		
Series A Cumulative Redeemable, 40,000 shares issued and outstanding	100,000	100,000
Series B Cumulative Redeemable, 31,731 shares issued and outstanding	79,328	79,328
Common stock, $0.01 par value, 30,000,000 shares authorized, 19,769,875 and 19,291,845 shares issued and outstanding, respectively	198	193
Additional paid-in capital	236,459	217,829
Accumulated deficit	(153,312)	(144,659)
Accumulated other comprehensive loss	(3,773)	(2,863)
Total Saul Centers, Inc. stockholders' equity	258,900	249,828
Noncontrolling interest	40,018	43,378
Total stockholders' equity	298,918	293,206
Total liabilities and stockholders' equity	$ 1,200,447	$ 1,192,569

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 57 community and neighborhood shopping center and mixed-use properties totaling approximately 9.4 million square feet of leasable area. Over 85% of the property operating income is generated from properties in the metropolitan Washington, DC/Baltimore area.

DIRECTORS

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John R. Whitmore

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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.