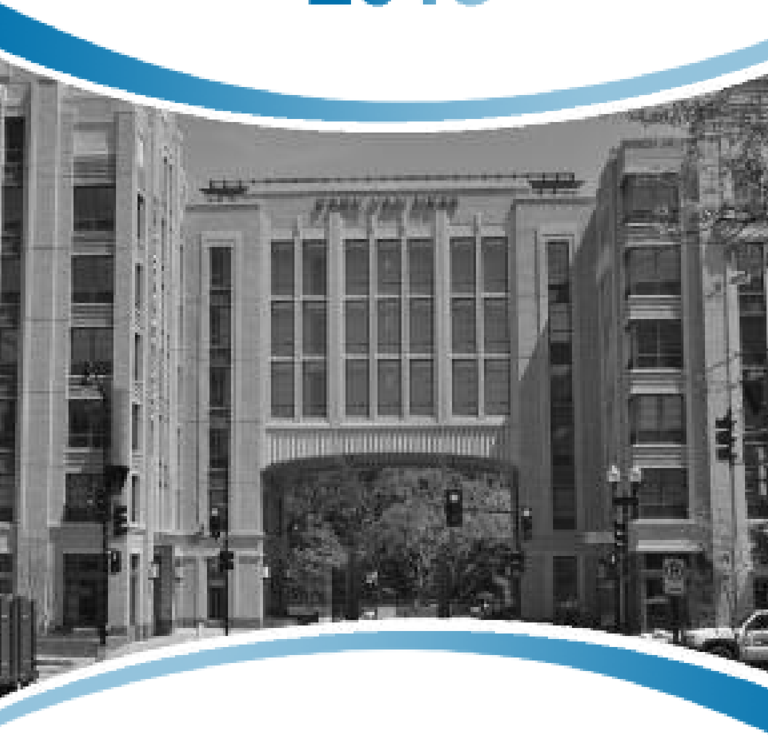
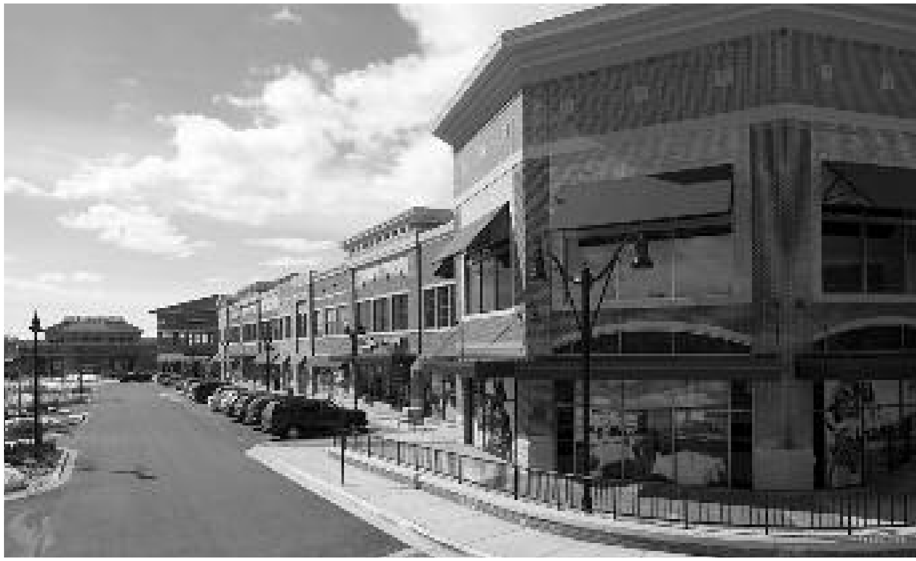
Saul Centers

2016



FIRST QUARTER REPORT

Message
to Shareholders



Total revenue for the quarter ended March 31, 2016 ("2016 Quarter") increased to $56.9 million from $52.1 million for the quarter ended March 31, 2015 ("2015 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 $16.4 million for the 2016 Quarter from $12.7 million for the 2015 Quarter.

Net income attributable to common stockholders was $9.9 million ($0.46 per diluted share) for the 2016 Quarter compared to $7.1 million ($0.34 per diluted share) for the 2015 Quarter. The increase in net income attributable to common stockholders resulted primarily from (a) the net impact of a lease termination at 11503 Rockville Pike ($2.7 million), (b) higher base rent throughout the portfolio ($1.4 million) and (c) lower interest expense and amortization of deferred debt costs ($0.3 million) partially offset by (d) higher noncontrolling interests ($1.0 million), and (e) higher depreciation and amortization of deferred leasing costs ($0.6 million).

Same property revenue increased $4.8 million (9.2%) and same property operating income increased $4.2 million (11.1%) for the 2016 Quarter compared to the 2015 Quarter. Same property operating income equals property revenue minus the sum of (a) property operating expenses, (b) provision for credit losses and (c) real estate taxes and the comparisons exclude the results of properties not in operation for the entirety of the comparable reporting periods. Shopping center same property operating income increased $3.4 million (11.6%) primarily due to (a) the net impact of a lease termination at 11503 Rockville Pike ($2.7 million) and (b) increased base rent throughout the portfolio ($0.9 million). Mixed-use same property operating income increased $0.8 million (9.7%) primarily due to (a) higher base rent ($0.5 million) and (b) higher other income ($0.3 million).

As of March 31, 2016, 95.2% of the commercial portfolio was leased (not including the apartments at Clarendon Center), compared to 94.5% at March 31, 2015. On a same property basis, 95.2% of the portfolio was leased as of March 31, 2016, compared to 94.4% at March 31, 2015. The apartments at Clarendon Center were 99.2% leased as of March 31, 2016 compared to 98.4% as of March 31, 2015.

Funds from operations ("FFO") available to common stockholders and noncontrolling interests (after deducting preferred stock dividends) increased 21.4% to $24.3 million ($0.85 per diluted share) in the 2016 Quarter from $20.0 million ($0.71 per diluted share) in the 2015 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 increase in FFO available to common stockholders and noncontrolling interests for the 2016 Quarter was primarily due to (a) the net impact of a lease termination at 11503 Rockville Pike ($2.7 million), (b) higher base rent throughout the portfolio ($1.4 million), and (c) lower interest expense and amortization of deferred debt costs ($0.3 million).

In late April 2016, the Company received a certificate of occupancy from the District of Columbia for its Park Van Ness development, with the first residential tenant moving in on May 2, 2016. Park Van Ness is a 271-unit residential project with approximately 9,000 square feet of street-level retail. Amenities include a community room, landscaped courtyards, a fitness room and a rooftop pool and deck. The structure comprises 11 levels, five of which on the east side are below street level. Because of the change in grade from the street eastward to Rock Creek Park, apartments on all 11 levels will have park or city views. The street level retail space is 100% leased to a grocery/gourmet food market and an upscale Italian restaurant. As of May 31, 2016, leases have been executed for 62 apartments. Park Van Ness is Saul Centers' second major urban Metro oriented development project, following the success of the Clarendon Center project, which delivered in 2010.

For the Board,

B. Francis Saul II
Chairman of the Board
May 31, 2016

CONSOLIDATED Statements of Operations

(Dollars in thousands, except per share amounts)	For the Three Months Ended March 31, 2016 (Unaudited)	2015 (Unaudited)
Revenue		
Base rent	$ 42,607	$ 41,479
Expense recoveries	9,558	8,732
Percentage rent	363	438
Other	4,398	1,439
Total revenue	56,926	52,088
Operating expenses		
Property operating expenses	7,995	7,616
Provision for credit losses	432	246
Real estate taxes	5,934	5,901
Interest expense and amortization of deferred debt costs	11,089	11,406
Depreciation and amortization of deferred leasing costs	11,035	10,440
General and administrative	4,060	3,771
Acquisition related costs	–	21
Total operating expenses	40,545	39,401
Operating income	16,381	12,687
Change in fair value of derivatives	(7)	(6)
Net income	16,374	12,681
Income attributable to the noncontrolling interests	(3,426)	(2,474)
Net income attributable to Saul Centers, Inc.	12,948	10,207
Preferred stock dividends	(3,094)	(3,094)
Net income attributable to common stockholders	$ 9,854	$ 7,113
Per share data attributable to common stockholders		
Net income attributable to Saul Centers, Inc. [a]	$ 0.46	$ 0.34

(a) Based upon diluted weighted average common shares outstanding of 21,336,669 and 21,137,314 for the three months ended March 31, 2016 and 2015, respectively

CONSOLIDATED Balance Sheets

(Dollars in thousands)	March 31, 2016	December 31, 2015
	(Unaudited)	
Assets		
Real estate investments		
Land	$ 424,840	$ 424,837
Buildings and equipment	1,114,635	1,114,357
Construction in progress	92,698	83,516
	1,632,173	1,622,710
Accumulated depreciation	(431,463)	(425,370)
	1,200,710	1,197,340
Cash and cash equivalents	15,352	10,003
Accounts receivable and accrued income, net	48,593	51,076
Deferred leasing costs, net	26,815	26,919
Prepaid expenses, net	3,401	4,663
Other assets	6,764	5,407
Total assets	$ 1,301,635	$ 1,295,408
Liabilities		
Notes payable	$ 790,324	$ 796,169
Revolving credit facility payable	21,825	26,695
Construction loan payable	53,042	43,641
Dividends and distributions payable	16,570	15,380
Accounts payable, accrued expenses and other liabilities	30,893	27,687
Deferred income	30,959	32,109
Total liabilities	943,613	941,681
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, 21,335,346 and 21,266,239 shares issued and outstanding, respectively	213	213
Additional paid-in capital	308,574	305,008
Accumulated deficit	(180,264)	(180,091)
Accumulatedother comprehensive loss	(2,313)	(1,802)
Total Saul Centers, Inc. stockholders' equity	306,210	303,328
Noncontrolling interests	51,812	50,399
Total stockholders' equity	358,022	353,727
Total liabilities and stockholders' equity	$ 1,301,635	$ 1,295,408

RECONCILIATION of net income to FFO attributable to common stockholders and noncontrolling interests

(In thousands, except per share amounts)	For the Three Months Ended March 31, 2016 (Unaudited)	2015 (Unaudited)
Net income	$ 16,374	$ 12,681
Add:		
Real estate depreciation and amortization	11,035	10,440
FFO	27,409	23,121
Subtract:		
Preferred stock dividends	(3,094)	(3,094)
FFO available to common shareholders	$ 24,315	$ 20,027
Weighted average shares:		
Diluted weighted average common stock	21,337	21,137
Convertible limited partnership units	7,327	7,213
Average shares and units used to compute FFO per share	28,664	28,350
FFO per share available to common stockholders and noncontrolling interests	$ 0.85	$ 0.71

[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 is a self-managed, self-administered equity REIT headquartered in Bethesda, Maryland, which currently operates and manages a real estate portfolio of 59 properties which includes (a) 50 community and neighborhood shopping centers and six mixed-use properties with approximately 9.3 million square feet of leasable area and (b) three land and development properties. Approximately 85% of the Saul Centers' property operating income is generated by properties in the metropolitan Washington, DC/Baltimore area.

DIRECTORS

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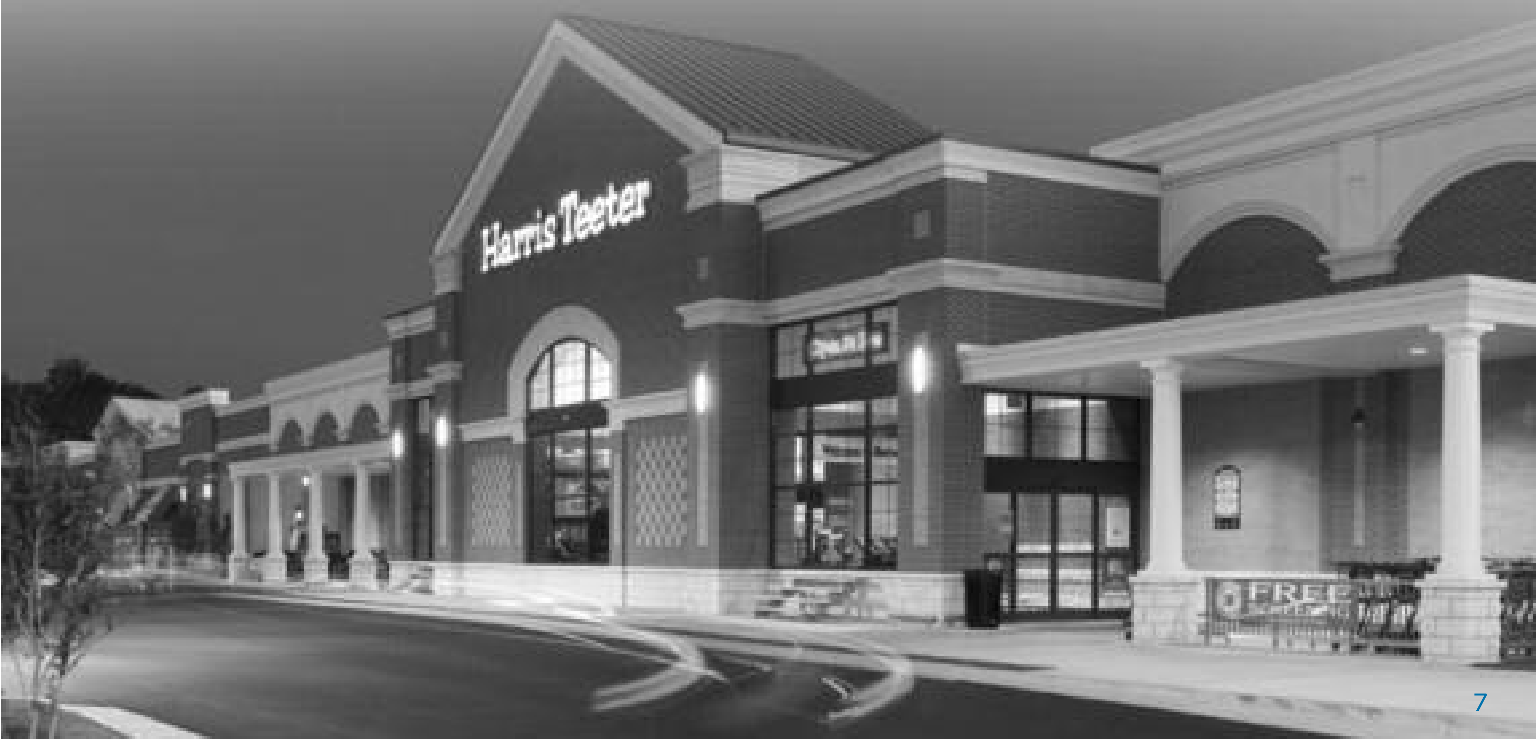
The Honorable John E. Chapoton
George P. Clancy, Jr.
Gilbert M. Grosvenor
Philip C. Jackson, Jr.
Patrick F. Noonan
H. Gregory Platts
Andrew M. Saul II
Mark Sullivan III
The Honorable James W. Symington
John R. Whitmore



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.

CONTACT INFORMATION

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