

# Saul Centers



First Quarter 2008

*Report to Shareholders*



## MESSAGE TO OUR SHAREHOLDERS



Total revenue for the three months ended March 31, 2008 ("2008 Quarter") increased 5.6% to \$38,722,000 compared to \$36,684,000 for the three months ended March 31, 2007 ("2007 Quarter"). Operating income, which is net income available to common stockholders before gain on property disposition, minority interests and preferred stock dividends, increased 0.6% to \$11,073,000 for the 2008 Quarter compared to \$11,009,000 for the 2007 Quarter. Net income available to common stockholders was \$7,033,000 or \$0.39 per diluted share for the 2008 Quarter, compared to net income available to common stockholders of \$6,874,000 or \$0.39 per diluted share for the 2007 Quarter.

Same property revenue for the total portfolio increased 4.2% for the 2008 Quarter compared to the 2007 Quarter and same property operating income increased 3.2%. The same property comparisons exclude the results of operations of properties not in operation for each of the comparable reporting quarters. Same property operating income in the shopping center portfolio increased 4.5% for the 2008 Quarter compared to the 2007 Quarter. The stabilization of Lansdowne Town Center produced approximately 65% of the quarter over quarter growth. Rental rate growth at several core properties produced the remainder of the shopping center operating income increase. Same property operating income in the office portfolio remained relatively stable, decreasing 0.6% for the 2008 Quarter.

As of March 31, 2008, 95.4% of the operating portfolio was leased compared to 95.9% for March 31, 2007. On a same property basis, 95.3% of the portfolio was leased, compared to the prior year level of 95.9%. The 2008 leasing percentages decreased due to a net decrease of approximately 45,000 square feet of leased space. The majority of the leasing decrease, approximately 20,000 square feet, occurred in the office portfolio at Avenel Business Park where the percentage leased decreased from 99.1% in 2007 to 94.2% in 2008. There was also an 18,000 square foot decrease at South Dekalb Plaza in Atlanta, Georgia.

Funds from operations (FFO) available to common shareholders (after deducting preferred stock dividends) increased 3.0% to \$15,919,000 in the 2008 Quarter compared to \$15,457,000 for the 2007 Quarter. On a diluted per share basis, FFO available to common shareholders increased 1.5% to \$0.68 per

## MESSAGE TO OUR SHAREHOLDERS

share for the 2008 Quarter compared to \$0.67 per share for the 2007 Quarter. FFO, a widely accepted non-GAAP financial measure of operating performance for REITs, is defined as net income plus minority interests, extraordinary items and real estate depreciation and amortization, excluding gains from property dispositions. FFO increased in the 2008 Quarter primarily due to increased net rental income from the lease-up of Lansdowne Town Center and to a lesser extent, rental rate growth at other core properties, partially offset by an increase in general and administrative expense.

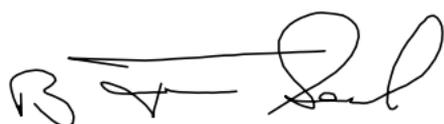
On March 27, 2008, we issued Series B 9% preferred stock, which together with the exercise of the underwriter's overallotment option raised net proceeds of \$76.3 million. The proceeds were used to fully repay our bank group's revolving credit facility (\$22 million) and to fund a portion (\$31.5 million) of the purchase of three shopping center properties. The balance remaining is invested in certificates of deposit (\$22.8 million) and together with our undrawn \$150 million revolving credit facility, provide capital availability to fund future investment opportunities.

During the 2008 first quarter, we also commenced construction on Westview Village and Northrock, both neighborhood shopping centers, located in Frederick, Maryland and Warrenton, Virginia, respectively. Subsequent to the end of quarter, we also procured \$157.5 million of construction financing and commenced construction of Clarendon Center, a mixed-use upscale apartment, office and retail development immediately adjacent to the Clarendon Metro Station in Northern Virginia.

On January 31, 2008, we paid a quarterly dividend of \$0.47 per share (annualized rate of \$1.88 per share), a \$0.05 per share increase (11.9%) over the prior year's comparable quarter .

Our capital markets activities during early 2008 help position us to continue our strategy of enhancing core cash flow growth with selective acquisitions and developments.

For the Board,



B. Francis Saul II  
Chairman of the Board

May 28, 2008



# CONSOLIDATED STATEMENTS OF OPERATIONS

*(Dollars in thousands, except per share amounts)*

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## **Revenue**

Base rent  
Expense recoveries  
Percentage rent  
Other  
Total revenue

## **Operating expenses**

Property operating expenses  
Provision for credit losses  
Real estate taxes  
Interest expense and amortization of deferred debt  
Depreciation and amortization of deferred leasing costs  
General and administrative  
Total operating expenses

## **Operating income before minority interests and gain on property disposition**

Non-operating item: Gain on property disposition

## **Operating income before minority interests**

## **Minority interests**

Minority share of income

## **Net income**

Preferred dividends

## **Net income available to common stockholders**

## **Per share data available to common stockholders (Diluted)**

Net income <sup>(a)</sup>  
Funds from operations <sup>(b)</sup>

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*(a) Based upon diluted weighted average common shares outstanding of 17,943,111 and 17,617,689 for the three months ended March 31, 2008 and 2007, respectively.*

For the Three Months  
Ended March 31,

2008	(Unaudited)	2007
\$ 30,382		\$ 29,021
7,133		6,598
314		202
893		863
38,722		36,684
4,985		4,805
183		112
4,011		3,526
8,604		8,294
6,943		6,448
2,923		2,490
27,649		25,675
11,073		11,009
205		-
11,278		11,009
(2,148)		(2,135)
9,130		8,874
(2,097)		(2,000)
\$ 7,033		\$ 6,874
\$ 0.39		\$ 0.39
\$ 0.68		\$ 0.67

(b) Assumes conversion of operating partnership units, combined with diluted weighted average common shares outstanding, for a total of 23,359,526 and 23,034,104 shares for the three months ended March 31, 2008 and 2007, respectively.



# CONSOLIDATED BALANCE SHEETS

*(Dollars in thousands except per share amounts)*

## **Assets**

Real estate investments

Land

Buildings and equipment

Construction in progress

Accumulated depreciation

Cash and cash equivalents

Accounts receivable and accrued income, net

Deferred leasing costs, net

Prepaid expenses, net

Deferred debt costs, net

Other assets

Total assets

## **Liabilities**

Mortgage notes payable

Revolving credit facility outstanding

Dividends and distributions payable

Accounts payable, accrued expenses  
and other liabilities

Deferred income

Total liabilities

## **Minority interests**

## **Stockholders' equity**

Preferred stock, 1,000,000 shares authorized:

Series A Cumulative Redeemable, 40,000 shares issued  
and outstanding

Series B Cumulative Redeemable, 31,731 shares issued  
and outstanding

Common stock, \$0.01 par value, 30,000,000 shares  
authorized, 17,775,720 and 17,747,529 shares issued  
and outstanding, respectively

Additional paid-in capital

Accumulated deficit

Total stockholders' equity

## **Total liabilities and stockholders' equity**



March 31,  
2008

December 31,  
2007

*(Unaudited)*

\$ 215,421	167,007
709,543	673,328
52,382	49,592
977,346	889,927
(238,423)	(232,669)
738,923	657,258
29,007	5,765
37,991	33,967
18,099	16,190
2,483	2,571
6,402	6,264
6,851	5,428
\$ 839,756	\$ 727,443

\$ 554,377	\$ 524,726
--	8,000
12,998	12,887
18,059	13,159
24,668	15,147
610,102	573,919

4,347	4,745
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100,000	100,000
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79,328	--
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179	178
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160,139	161,618
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(114,339)	(113,017)
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225,307	148,779
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\$ 839,756	\$ 727,443
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## HISTORIC OPERATING PERFORMANCE

**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 51 community and neighborhood shopping centers and office properties totaling approximately 8.2 million square feet of leasable area. Over 80% of the property operating income is generated from properties in the metropolitan Washington, DC/Baltimore area.

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### **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. Longworth  
Patrick F. Noonan  
Mark Sullivan III  
The Honorable  
    James W. Symington  
John R. Whitmore

### **WEB SITE**

[www.saulcenters.com](http://www.saulcenters.com)

### **HEADQUARTERS**

7501 Wisconsin Ave.  
Suite 1500  
Bethesda, MD 20814-6522  
Phone: (301) 986-6200

### **EXCHANGE LISTING**

New York Stock Exchange  
Symbol: BFS

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### **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.

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*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.*