

Saul Centers



Second Quarter 2008

Report to Shareholders

Total revenue for the three months ended June 30, 2008 ("2008 Quarter") increased 8.2% to \$40,105,000 compared to \$37,077,000 for the three months ended June 30, 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 9.9% to \$12,175,000 for the 2008 Quarter compared to \$11,077,000 for the 2007 Quarter. This \$1,098,000 increase in operating income was offset by the \$1,786,000 increase in preferred stock dividends from the Company's issuance of approximately \$79,300,000 of Series B preferred stock in March 2008. As a result, net income available to common stockholders was \$6,443,000 or \$0.36 per diluted share for the 2008 Quarter, compared to \$6,926,000 or \$0.39 per diluted share for the 2007 Quarter.

Same property revenue for the total portfolio increased 3.2% for the 2008 Quarter compared to the 2007 Quarter and same property operating income increased 1.2%. 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 1.0% for the 2008 Quarter compared to the 2007 Quarter. The quarter over quarter shopping center operating income increase resulted primarily from base rent growth at Southdale and several core shopping centers as well as the stabilization of Lansdowne Town Center. The same center operating income increases were offset in part by increased property operating expenses and real estate taxes, net of tenant recoveries, and an increase in credit loss reserves. Same property operating income in the office portfolio increased 2.0% for the 2008 Quarter compared to the 2007 Quarter.

For the six months ended June 30, 2008 ("2008 Period"), total revenue increased 6.9% to \$78,827,000 compared to \$73,761,000 for the six months ended June 30, 2007 ("2007 Period") and operating income increased 5.3% to \$23,248,000 compared to \$22,086,000 for the 2007 Period. This \$1,162,000 increase in operating income was offset by the \$1,883,000 increase in preferred stock dividends from the Company's Series B preferred stock issue. As a result, net income available to common stockholders was \$13,476,000 or \$0.75 per diluted share for the 2008 Period, compared to \$13,800,000 or \$0.78 per diluted share for the 2007 Period. Overall same property revenue for the total portfolio increased 3.7% for the 2008 Period compared to the 2007 Period and same property operating income increased 2.2%. For the 2008 Period, shopping center same property operating income increased 2.7% due to the stabilization of Lansdowne Town Center and rental rate growth at Southdale, Seven Corners and several core shopping centers. The same center operating income increases were offset in part by increased property operating expenses and real estate taxes,

net of tenant recoveries, and an increase in credit loss reserves. Same property operating income in the office portfolio remained relatively stable, increasing 0.7% for the 2008 Period.

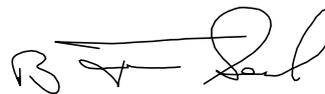
As of June 30, 2008, 94.8% of the operating portfolio was leased compared to 95.7% for June 30, 2007. On a same property basis, 94.8% of the portfolio was leased, compared to the prior year level of 95.8%. The 2008 same property leasing percentages decreased due to a net decrease of approximately 74,000 square feet of leased space. The majority of this leasing decrease, approximately 49,000 square feet, occurred at South Dekalb Plaza in Atlanta, Georgia. Leasing also decreased approximately 13,000 square feet at Smallwood Village Center where the Company is engaged in a major renovation.

Funds from operations (FFO) available to common shareholders (after deducting preferred stock dividends) decreased 1.3% to \$15,378,000 in the 2008 Quarter compared to \$15,580,000 for the 2007 Quarter. On a diluted per share basis, FFO available to common shareholders decreased 1.5% to \$0.66 per 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 available to common shareholders for the 2008 Period increased 0.8% to \$31,297,000 from \$31,037,000 during the 2007 Period. Per share FFO available to common shareholders for the 2008 Period remained level with the 2007 Period at \$1.34 per diluted share. Improved property operating results were offset by increased preferred stock dividends of \$1,786,000 (\$0.08 per diluted share) and \$1,883,000 (\$0.08 per diluted share), for the 2008 Quarter and 2008 Period, respectively, arising from the Company's Series B preferred stock issue.

During the 2008 second quarter, the Company continued construction of the Clarendon Center (Arlington, VA), Westview Village (Frederick, MD) and Northrock (Warrenton, VA) development projects, as well as renovations of the Boulevard (Fairfax, VA) and Smallwood Village (Waldorf, MD) shopping centers.

On April 30, 2008, we paid a quarterly dividend of \$0.47 per share (annualized rate of \$1.88 per share), a \$0.03 per share increase (6.8%) over the prior year's comparable quarter.

For the Board,



B. Francis Saul II
Chairman of the Board

August 26, 2008

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share amounts)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
	(Unaudited)		(Unaudited)	
Revenue				
Base rent	\$ 31,751	\$ 29,531	\$ 62,133	\$ 58,552
Expense recoveries	6,945	6,282	14,078	12,880
Percentage rent	232	312	546	514
Other	1,177	952	2,070	1,815
Total revenue	40,105	37,077	78,827	73,761
Operating expenses				
Property operating expenses	4,527	4,343	9,512	9,148
Provision for credit losses	241	103	424	215
Real estate taxes	4,278	3,538	8,289	7,064
Interest expense and amortization of deferred debt costs	8,705	8,325	17,309	16,619
Depreciation and amortization of deferred leasing costs	6,989	6,503	13,932	12,951
General and administrative	3,190	3,188	6,113	5,678
Total operating expenses	27,930	26,000	55,579	51,675
Operating income before minority interests and gain on property dispositions				
	12,175	11,077	23,453	22,086
Gain on property dispositions	–	–	205	–
Minority share of income	(1,946)	(2,151)	(4,094)	(4,286)
Net income				
	10,229	8,926	19,359	17,800
Preferred dividends	(3,786)	(2,000)	(5,883)	(4,000)
Net income available to common stockholders				
	\$ 6,443	\$ 6,926	\$ 13,476	\$ 13,800
Per share data available to common stockholders (Diluted)				
Net income ^(a)	\$ 0.36	\$ 0.39	\$ 0.75	\$ 0.78
Funds from operations ^(b)	\$ 0.66	\$ 0.67	\$ 1.34	\$ 1.34

(a) Based upon diluted weighted average common shares outstanding of 17,977,642 and 17,706,796 for the three months and 17,960,377 and 17,662,243 for the six months ended June 30, 2008 and 2007, respectively.

(b) Assumes conversion of operating partnership units, combined with diluted weighted average common shares outstanding, for a total of 23,394,057 and 23,123,211 shares for the three months and 23,376,792 and 23,078,658 shares for the six months ended June 30, 2008 and 2007, respectively.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands except per share amounts)

	June 30, 2008	December 31, 2007
	<i>(Unaudited)</i>	
Assets		
Real estate investments		
Land	\$ 215,407	167,007
Buildings and equipment	711,592	673,328
Construction in progress	67,301	49,592
	994,300	889,927
Accumulated depreciation	(244,196)	(232,669)
	750,104	657,258
Cash and cash equivalents	36,964	5,765
Accounts receivable and accrued income, net	33,087	33,967
Deferred leasing costs, net	17,363	16,190
Prepaid expenses, net	1,407	2,571
Deferred debt costs, net	6,440	6,264
Other assets	6,674	5,428
Total assets	\$ 852,039	\$ 727,443
Liabilities		
Mortgage notes payable	\$ 565,194	\$ 524,726
Revolving credit facility outstanding	--	8,000
Dividends and distributions payable	14,803	12,887
Accounts payable, accrued expenses and other liabilities	20,140	13,159
Deferred income	22,654	15,147
Total liabilities	622,791	573,919
Minority interests	3,747	4,745
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	-
Common stock, \$0.01 par value, 30,000,000 shares authorized, 17,817,057 and 17,747,529 shares issued and outstanding, respectively	180	178
Additional paid-in capital	162,263	161,618
Accumulated deficit	(116,270)	(113,017)
Total stockholders' equity	225,501	148,779
Total liabilities and stockholders' equity	\$ 852,039	\$ 727,443



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 50 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.

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

HEADQUARTERS

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

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.