

# Saul Centers



Third Quarter 2008

*Report to Shareholders*

Total revenue for the three months ended September 30, 2008 ("2008 Quarter") increased 7.7% to \$40,947,000 compared to \$38,014,000 for the three months ended September 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, decreased 5.8% to \$11,264,000 for the 2008 Quarter compared to \$11,956,000 for the 2007 Quarter. This \$692,000 decrease in operating income includes a one-time \$1,112,000 non-cash depreciation charge resulting from the demolition of a portion of the Smallwood Village Center in conjunction with the Company's redevelopment of the property. The Company issued approximately \$79,300,000 of Series B preferred stock in March 2008, which increased the 2008 Quarter preferred stock dividends by \$1,785,000. Primarily as a result of these two events, net income available to common stockholders decreased to \$5,736,000 or \$0.32 per diluted share for the 2008 Quarter, compared to \$7,624,000 or \$0.43 per diluted share for the 2007 Quarter.

Same property revenue for the total portfolio increased 3.9% for the 2008 Quarter compared to the 2007 Quarter and same property operating income increased 0.7%. 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 1.9% for the 2008 Quarter compared to the 2007 Quarter. This shopping center operating income increase resulted primarily from base rent growth and to a lesser extent, an increase in lease termination fees. These increases were offset in part by increased real estate taxes and property operating expenses, net of tenant recoveries, and an increase in credit loss reserves. Same property operating income in the office portfolio decreased 3.2% for the 2008 Quarter compared to the 2007 Quarter. This decrease resulted primarily from the 1.2% leasing percentage decrease, from 96.5% at the 2007 Quarter end to 95.3% at the 2008 Quarter end.

For the nine months ended September 30, 2008 ("2008 Period"), total revenue increased 7.2% to \$119,774,000 compared to \$111,775,000 for the nine months ended September 30, 2007 ("2007 Period") and operating income increased 1.4% to \$34,512,000 compared to \$34,042,000 for the 2007 Period. This \$470,000 increase in operating income includes a one-time \$1,112,000 non-cash depreciation charge resulting from the demolition of a portion of the Smallwood Village Center in conjunction with the Company's redevelopment of the property. Preferred stock dividends increased by \$3,668,000 in the 2008 Period due to the Company's Series B preferred stock issue. Primarily as a result of these two events, net income available to common stockholders decreased to \$19,212,000 or \$1.07 per diluted share for the 2008 Period, compared to \$21,424,000 or \$1.21 per diluted share for the 2007 Period. Same property revenue for the total

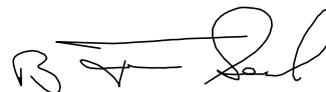
portfolio increased 3.8% for the 2008 Period compared to the 2007 Period and same property operating income increased 1.8%. For the 2008 Period, shopping center same property operating income increased 2.5% due to the stabilization of Lansdowne Town Center, rental rate growth at Southdale and several other shopping centers, and to a lesser extent, an increase in lease termination fees. These 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, decreasing 0.6% for the 2008 Period.

As of September 30, 2008, 94.7% of the operating portfolio was leased compared to 95.4% for September 30, 2007. On a same property basis, 94.6% of the portfolio was leased, compared to the prior year level of 95.4%.

Funds from operations (FFO) available to common shareholders (after deducting preferred stock dividends) decreased 3.1% to \$15,966,000 in the 2008 Quarter compared to \$16,481,000 for the 2007 Quarter. On a diluted per share basis, FFO available to common shareholders decreased 4.2% to \$0.68 per share for the 2008 Quarter compared to \$0.71 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 decreased 0.5% to \$47,263,000 from \$47,518,000 during the 2007 Period. Per share FFO available to common shareholders for the 2008 Period decreased 1.5% to \$2.02 from \$2.05 per diluted share, for the 2007 Period. Improved property operating results were offset by increased preferred stock dividends of \$1,785,000 (\$0.08 per diluted share) and \$3,668,000 (\$0.16 per diluted share), for the 2008 Quarter and 2008 Period, respectively, arising from the Company's Series B preferred stock issue.

As of September 30, 2008, approximately 97% of the Company's debt consists of fixed rate, amortizing non-recourse mortgage loans, none of which mature until December 2011. The mortgage maturing December 2011 will have a remaining balance of \$62,233,000, or only 54% of the original amount borrowed, as a result of loan principal repaid monthly over the term of the loan. The Company has no outstanding borrowings on its \$150 million revolving credit facility.

For the Board,



B. Francis Saul II  
Chairman of the Board

November 24, 2008

# CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share amounts)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Unaudited)		(Unaudited)	
<b>Revenue</b>				
Base rent	\$ 31,466	\$ 30,064	\$ 93,599	\$ 88,616
Expense recoveries	7,652	6,638	21,730	19,518
Percentage rent	253	249	799	763
Other	1,576	1,063	3,646	2,878
Total revenue	40,947	38,014	119,774	111,775
<b>Operating expenses</b>				
Property operating expenses	5,360	4,777	14,872	13,925
Provision for credit losses	236	65	660	280
Real estate taxes	4,241	3,558	12,530	10,622
Interest expense and amortization of deferred debt costs	8,568	8,497	25,877	25,116
Depreciation and amortization of deferred leasing costs	8,487	6,525	22,419	19,476
General and administrative	2,791	2,636	8,904	8,314
Total operating expenses	29,683	26,058	85,262	77,733
<b>Operating income before minority interests and gain on property disposition</b>	11,264	11,956	34,512	34,042
Gain on property disposition	–	–	205	–
Minority share of income	(1,743)	(2,332)	(5,837)	(6,618)
<b>Net income</b>	9,521	9,624	28,880	27,424
Preferred dividends	(3,785)	(2,000)	(9,668)	(6,000)
<b>Net income available to common stockholders</b>	\$ 5,736	\$ 7,624	\$ 19,212	\$ 21,424
<b>Per share data available to common stockholders (Diluted)</b>				
Net income <sup>(a)</sup>	\$ 0.32	\$ 0.43	\$ 1.07	\$ 1.21
Funds from operations <sup>(b)</sup>	\$ 0.68	\$ 0.71	\$ 2.02	\$ 2.05

(a) Based upon diluted weighted average common shares outstanding of 17,991,006 and 17,831,003 for the three months and 17,970,586 and 17,718,496 for the nine months ended September 30, 2008 and 2007, respectively.

(b) Assumes conversion of operating partnership units, combined with diluted weighted average common shares outstanding, for a total of 23,407,421 and 23,247,418 shares for the three months and 23,387,001 and 23,134,911 shares for the nine months ended September 30, 2008 and 2007, respectively.

# CONSOLIDATED BALANCE SHEETS

*(Dollars in thousands except per share amounts)*

	September 30, 2008	December 31, 2007
	<i>(Unaudited)</i>	
<b>Assets</b>		
Real estate investments		
Land	\$ 215,407	167,007
Buildings and equipment	711,628	673,328
Construction in progress	83,322	49,592
	<u>1,010,357</u>	<u>889,927</u>
Accumulated depreciation	(247,994)	(232,669)
	762,363	657,258
Cash and cash equivalents	25,137	5,765
Accounts receivable and accrued income, net	35,821	33,967
Deferred leasing costs, net	16,558	16,190
Prepaid expenses, net	4,642	2,571
Deferred debt costs, net	6,148	6,264
Other assets	4,971	5,428
Total assets	<u>\$ 855,640</u>	<u>\$ 727,443</u>
<b>Liabilities</b>		
Mortgage notes payable	\$ 567,680	\$ 524,726
Revolving credit facility outstanding	–	8,000
Dividends and distributions payable	14,722	12,887
Accounts payable, accrued expenses and other liabilities	21,107	13,159
Deferred income	24,790	15,147
Total liabilities	<u>628,299</u>	<u>573,919</u>
<b>Minority interests</b>	2,944	4,745
<b>Stockholders' equity</b>		
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, 17,853,281 and 17,747,529 shares issued and outstanding, respectively	181	178
Additional paid-in capital	163,813	161,618
Accumulated deficit	(118,925)	(113,017)
Total stockholders' equity	<u>224,397</u>	<u>148,779</u>
Total liabilities and stockholders' equity	<u>\$ 855,640</u>	<u>\$ 727,443</u>



## 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.

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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.*