

# SAUL CENTERS, INC.

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## **Saul Centers, Inc. Reports First Quarter 2013 Earnings**

April 30, 2013, Bethesda, MD.

Saul Centers, Inc. (NYSE: BFS), an equity real estate investment trust (REIT), announced its operating results for the quarter ended March 31, 2013 (“2013 Quarter”). Total revenue for the 2013 Quarter increased to \$49.2 million from \$47.0 million for the quarter ended March 31, 2012 (“2012 Quarter”). Operating income, which is net income available to common stockholders before income attributable to noncontrolling interests, preferred stock dividends and the impact of preferred stock redemptions, decreased to \$3.4 million for the 2013 Quarter from \$9.3 million for the 2012 Quarter. Operating income for the 2013 Quarter was adversely impacted by \$6.0 million of additional depreciation expense and \$2.3 million of predevelopment expenses, both of which are related to the Company’s activities at Van Ness Square. Without these expenses, operating income for the 2013 Quarter would have been \$11.7 million, or \$2.4 million more than the 2012 Quarter.

Net loss attributable to common stockholders was \$4.6 million (\$0.23 per diluted share) for the 2013 Quarter compared to net income of \$4.1 million (\$0.21 per diluted share) for the 2012 Quarter. Net income attributable to common stockholders for the 2013 Quarter was adversely impacted primarily by the \$8.3 million of depreciation and predevelopment expense related to Van Ness Square and a \$5.2 million charge against common equity resulting from the redemption of preferred stock. Without these items, as adjusted for noncontrolling interests, net income attributable to common stockholders would have been \$5.5 million, or \$1.4 million more than the 2012 Quarter. The \$1.4 million increase is primarily attributable to the leasing of major tenant space in the shopping center portfolio, reduced interest expense and increased property operating income from the recently constructed Clarendon Center.

During the 2013 Quarter, the Company issued \$140.0 million of 6.875% Series C Cumulative Redeemable Preferred Stock, redeemed all \$79.3 million of its 9.0% Series B preferred stock and redeemed \$60.0 million of its 8.0% Series A preferred stock. The changes in preferred stock will result in a reduction in annual preferred stock dividends to \$12.8 million from \$15.1 million.

Same property revenue increased 3.2% and same property operating income increased 4.5% for the 2013 Quarter compared to the 2012 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 5.2% and mixed-use same property operating income increased 2.2%. The shopping centers were primarily impacted by revenue received as a result of the occupancy of approximately 111,000 square feet of anchor-tenant space which was vacant during the 2012 Quarter. The leasing of Clarendon Center during early 2012 was the primary contributor of improved mixed-use property operating income. The same property results were adversely impacted by Van Ness Square as a result of the Company's lease termination activities. If Van Ness Square was excluded, overall same property operating income for the 2013 Quarter and the 2012 Quarter would have been \$36.4 million and \$34.6 million, respectively, an increase of 5.2% and mixed-use same property operating income would have been \$8.7 million and \$8.3 million, respectively, an increase of 4.9%.

As of March 31, 2013, 91.5% of the commercial portfolio was leased (all properties except the apartments at Clarendon Center, which were 100% leased), compared to 90.9% at March 31, 2012. On a same property basis, 91.6% of the portfolio was leased at March 31, 2012, which is unchanged from the prior year. Excluding Van Ness Square from the same property leasing ratios, 92.9% of the portfolio was leased as of March 31, 2013, a slight increase from 92.2% as of March 31, 2012.

Funds from operations (FFO) available to common shareholders (after deducting preferred stock dividends and the impact of preferred stock redemptions) decreased 33.7% to \$10.2 million (\$0.37 per diluted share) in the 2013 Quarter from \$15.3 million (\$0.58 per diluted share) in the 2012 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. FFO available to common shareholders for the 2013 Quarter was adversely impacted by the redemption of preferred stock (\$5.2 million) and predevelopment expenses (\$2.3 million). Without these items, FFO available to common shareholders would have been \$17.7 million, or \$2.4 million more than the 2012 Quarter. The \$2.4 million increase is primarily attributable to improved overall portfolio operating results (\$1.4 million) and reduced interest expense and amortization of deferred debt costs (\$1.0 million).

Saul Centers is a self-managed, self-administered equity REIT headquartered in Bethesda, Maryland. Saul Centers currently operates and manages a real estate portfolio of 59 community and neighborhood shopping center and mixed-use properties totaling 9.5 million square feet of leasable area. Over 85% of the Company's property operating income is generated from properties in the metropolitan Washington, DC/Baltimore area.

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**Saul Centers, Inc.**  
**Condensed Consolidated Balance Sheets**

(\$ in thousands)

	March 31, 2013	December 31, 2012
<b>Assets</b>	(Unaudited)	
Real estate investments		
Land.....	\$ 353,890	\$ 353,890
Buildings and equipment.....	1,112,577	1,109,911
Construction in progress.....	3,050	2,267
	1,469,517	1,466,068
Accumulated depreciation.....	(367,918)	(353,305)
	1,101,599	1,112,763
Cash and cash equivalents.....	8,482	12,133
Accounts receivable and accrued income, net.....	41,050	41,406
Deferred leasing costs, net.....	25,417	26,102
Prepaid expenses, net.....	4,065	3,895
Deferred debt costs, net.....	8,301	7,713
Other assets.....	5,418	3,297
Total assets.....	\$ 1,194,332	\$ 1,207,309
 <b>Liabilities</b>		
Mortgage notes payable.....	\$ 802,986	\$ 789,776
Revolving credit facility payable.....	25,000	38,000
Dividends and distributions payable.....	11,844	13,490
Accounts payable, accrued expenses and other liabilities.....	25,496	27,434
Deferred income.....	29,434	31,320
Total liabilities.....	894,760	900,020
 <b>Stockholders' equity</b>		
Preferred stock.....	180,000	179,328
Common stock.....	202	201
Additional paid-in capital.....	248,403	246,557
Accumulated deficit and other comprehensive loss.....	(164,672)	(158,383)
Total Saul Centers, Inc. stockholders' equity.....	263,933	267,703
Noncontrolling interest.....	35,639	39,586
Total stockholders' equity.....	299,572	307,289
 Total liabilities and stockholders' equity.....	\$ 1,194,332	\$ 1,207,309

**Saul Centers, Inc.**  
**Condensed Consolidated Statements of Operations**

(In thousands, except per share amounts)

	Three Months Ended March 31,	
	2013	2012
<b>Revenue</b>	(Unaudited)	
Base rent.....	\$ 39,740	\$ 37,485
Expense recoveries.....	7,614	7,701
Percentage rent.....	600	406
Other .....	1,232	1,397
Total revenue.....	49,186	46,989
<b>Operating expenses</b>		
Property operating expenses.....	5,949	5,737
Provision for credit losses.....	264	352
Real estate taxes.....	5,763	5,836
Interest expense and amortization of deferred debt costs.....	11,717	12,734
Depreciation and amortization of deferred leasing costs.....	16,352	9,758
General and administrative.....	3,404	3,247
Predevelopment expenses.....	2,349	-
Total operating expenses.....	45,798	37,664
<b>Operating income.....</b>	3,388	9,325
Change in fair value of derivatives.....	10	(3)
<b>Income from continuing operations.....</b>	3,398	9,322
<b>Discontinued operations:</b>		
Loss from operations of property sold.....	-	(2)
<b>Net income.....</b>	3,398	9,320
(Income) loss attributable to the noncontrolling interests.....	1,586	(1,456)
<b>Net income attributable to Saul Centers, Inc. ....</b>	4,984	7,864
Preferred stock redemption.....	(5,228)	-
Preferred dividends.....	(4,364)	(3,785)
<b>Net income (loss) attributable to common stockholders.....</b>	\$ (4,608)	\$ 4,079
<b>Per share net income (loss) attributable to common stockholders :</b>		
Diluted.....	\$ (0.23)	\$ 0.21
<b>Weighted average common stock :</b>		
Common stock.....	20,146	19,403
Effect of dilutive options.....	33	46
Diluted weighted average common stock.....	20,179	19,449

## Saul Centers, Inc. Supplemental Information

(In thousands, except per share amounts)

		<u>Three Months Ended March 31,</u>	
		<u>2013</u>	<u>2012</u>
<b>Reconciliation of net income to FFO attributable to common shareholders:</b>		(1)	(Unaudited)
Net income.....	\$	3,398	\$ 9,320
Add: Real property depreciation and amortization.....		16,352	9,758
Add: Real property depreciation - discontinued operations.....		-	20
FFO.....		19,750	19,098
Less: Preferred stock redemption.....		(5,228)	-
Less: Preferred dividends.....		(4,364)	(3,785)
FFO attributable to common shareholders.....	\$	<u>10,158</u>	<u>\$ 15,313</u>
 <b>Weighted average shares :</b>			
Diluted weighted average common stock.....		20,179	19,449
Convertible limited partnership units.....		6,914	6,914
Diluted & converted weighted average shares.....		<u>27,093</u>	<u>26,363</u>
 <b>Per share amounts:</b>			
FFO attributable to common shareholders (diluted).....	\$	<u>0.37</u>	<u>\$ 0.58</u>
 <b>Reconciliation of net income to same property operating income:</b>			
Net income.....	\$	3,398	\$ 9,320
Add: Interest expense and amortization of deferred debt costs.....		11,717	12,734
Add: Interest expense - discontinued operations.....		-	37
Add: Depreciation and amortization of deferred leasing costs.....		16,352	9,758
Add: Real property depreciation - discontinued operations.....		-	20
Add: General and administrative.....		3,404	3,247
Add: Predevelopment expenses.....		2,349	-
Less: Change in fair value of derivatives.....		(10)	3
Less: Interest income.....		(31)	(12)
Property operating income.....		37,179	35,107
Less: Acquisitions & Dispositions.....		(653)	(145)
Total same property operating income.....	\$	<u>36,526</u>	<u>\$ 34,962</u>
Shopping centers.....	\$	27,638	\$ 26,268
Mixed-Use properties.....		8,888	8,694
Total same property operating income.....	\$	<u>36,526</u>	<u>\$ 34,962</u>

(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 (sales of properties and casualty settlements). 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 we believe occurs with our 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.