

Corporate Information

Directors

B. Francis Saul II—Chairman & CEO
B. Francis Saul III—Vice Chairman
Philip D. Caraci—President
Gilbert M. Grosvenor
Philip C. Jackson, Jr.
General Paul X. Kelley, USMC (Ret.)
Charles R. Longsworth
Patrick F. Noonan
Mark Sullivan III
James W. Symington
John R. Whitmore

Transfer Agent

First Chicago Trust Company of New York
New York, NY 10805-3989

Exchange Listing

New York Stock Exchange Symbol: BFS

Saul Centers, Inc.

8401 Connecticut Avenue
Chevy Chase, Maryland 20815
(301) 986-6200

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 closing price of the stock on the dividend payment date.

To receive more information please call the plan administrator at 1-800-446-2617 and request to speak with a service representative or write:

First Chicago Trust Company of New York
Attention: Dividend Reinvestment Department
P.O. Box 2598
Jersey City, NJ 07303-2598

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.

Saul Centers



nineteen hundred ninety nine
First Quarter Report
to shareholders



Message

TO OUR SHAREHOLDERS

For the quarter ended March 31, 1999, Funds From Operations (FFO) increased 7.4% to \$7,938,000, as compared to \$7,388,000 for the comparable 1998 quarter. FFO per share increased 1.9% to \$0.45 per share for the 1999 quarter from \$0.44 for the same quarter last year. FFO is presented on a fully converted basis and is the most widely accepted measure of operating performance for REITs. FFO is defined as net income before extraordinary and nonrecurring items and before real estate depreciation and amortization. Retractive to January 1, 1998, the Company began recognition of percentage rental income in accordance with a new accounting pronouncement. The new accounting method did not affect the amount of percentage rent income reported on an annual basis, but did impact the recognition of percentage rent income reported on an interim basis by increasing revenues the Company reported in the first and fourth quarters and decreasing revenues reported in the second and third quarters. The 1998 first quarter results were increased \$185,000 or \$0.01 per share, to provide comparability with the 1999 first quarter results.

Total revenues for the 1999 first quarter increased 3.7% to \$17,964,000 compared to \$17,328,000 for the 1998 first quarter. Operating income before minority interests and extraordinary charges was \$5,041,000, or \$0.28 per share, representing a per share increase of 2.6% over the comparable 1998 quarter. After deducting minority interests and extraordinary charges, the Company reported net income of \$3,120,000, or \$0.24 per share, an increase of 38.5% over the first quarter of 1998. The comparative increase in net income for the quarter ended March 31, 1999 resulted primarily from a non-recurring charge related to a change in accounting method taken during the 1998 quarter.

The Company has completed construction on a facade renovation and is retenanting a 103,000 square foot anchor space at the 213,000 square foot French Market center in Oklahoma City, Oklahoma. Leasing and occupancy of three new spaces—Bed, Bath and Beyond, Lakeshore Learning, and BridesMart—was completed in 1998. During the first quarter of 1999, the Company signed a lease with a 25,000 square foot Staples office supply store, which leaves only 21,000 square feet remaining to lease. Staples is scheduled to open in late summer of 1999.

The Company is redeveloping the Beacon Center, located along Route 1 in Alexandria, Virginia. Beacon Center's central enclosed mall area was demolished and construction has commenced on a 148,000 square foot Lowe's home improvement store, scheduled to open in the summer of 1999. The Center's other tenants include anchors Giant Food, Marshalls and Office Depot, with a complement of small shop space and restaurants. The 356,000 square foot Beacon Center is now 100% leased. In addition to Lowe's, 8,000 square feet of new small shop space was constructed in late 1998 and is fully occupied.

The Company commenced another significant redevelopment during 1998 when it signed a lease with SuperFresh for a new 53,000 square foot grocery store at the Shops at Fairfax, located in Fairfax, Virginia. A major portion of the shopping center which included a small enclosed mall was demolished to allow

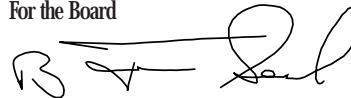
construction of the new SuperFresh, projected to be completed in the fall of 1999. An additional 7,500 square feet of shop space is being constructed adjacent to the supermarket. The Company is also renovating the facade of the adjacent Boulevard shopping center. This renovation was driven by a new 12,000 square foot lease with Party City, which opened during May 1999.

In February 1999, the Company announced the development of a 230,000 square foot Class A mixed-use office/retail complex along North Washington Street in historic Old Town Alexandria in Northern Virginia. The project is well located on a two-acre site along Alexandria's main street. Demolition of the Company's existing 41,500 square foot building, formerly leased to Mastercraft furniture, was completed in March 1999.

Site excavation is currently in progress. Construction is scheduled to be completed by the summer of 2000. Two twin four-story buildings will feature a brick and cast stone exterior facade with a glass curtain wall overlooking a spacious courtyard. Amenities will include 3-story atrium lobbies, a fitness center, concierge service, and a 600 space parking structure. The street level will have 45,000 square feet of retail space. Office space totals 185,000 square feet, with the top floor containing walkout terraces.

With a continuing pipeline of retail and office development, redevelopment and expansion opportunities, we remain committed to our internal growth program as the driving factor in continued value creation and cash flow growth.

For the Board



B. Francis Saul II
Chairman of the Board

May 27, 1999



CORPORATE PROFILE

Saul Centers, Inc. (NYSE: BFS) operates and manages a real estate portfolio of 34 community and neighborhood shopping centers and office properties totaling approximately 5.9 million square feet of leasable area, with over 80 percent of the cash flow generated from properties in the metropolitan Washington, D.C./Baltimore area. Saul Centers' primary operating strategy is to continue its program of internal growth, renovations, and expansions of community and neighborhood shopping centers, which primarily service the day-to-day necessities and services subsector of the overall retail market.

Consolidated

Statements of Operations

(Unaudited)



	For the Three Months Ended March 31,	
	1999	1998
Revenue		
Base rent	\$ 14,333	\$ 13,471
Expense recoveries	2,448	2,320
Percentage rent	780	799
Other	403	553
Total revenue	17,964	17,143
Operating expenses		
Property operating expenses	1,936	1,971
Provision for credit losses	61	40
Real estate taxes	1,534	1,422
Interest expense	5,530	5,604
Amortization of deferred debt expense	103	101
Depreciation and amortization	2,897	2,725
General and administrative	862	802
Total operating expenses	12,923	12,665
Net income before minority interests	5,041	4,478
Minority interests		
Minority share of income	(1,381)	(1,012)
Distributions in excess of earnings	(540)	(701)
Total minority interests	(1,921)	(1,713)
Net income	\$ 3,120	\$ 2,765
Per share data (basic and diluted)		
Net income (a)	\$ 0.24	\$ 0.22
Funds from operations (b)	\$ 0.45	\$ 0.44

(a) Based upon weighted average common shares outstanding of 12,917,243 and 12,493,633, for the three months ended March 31, 1999 and 1998, respectively.

(b) Assumes conversion of operating partnership units, combined with weighted average common shares outstanding, for a total of 17,800,406 and 16,886,796 shares for the three months ended March 31, 1999 and 1998, respectively. Effective January 1, 1998, the Company began recognition of percentage rental income in accordance with a new accounting pronouncement. The 1998 quarter's FFO amount previously reported has been increased \$185,000 (\$01 per share) to provide comparability.



Consolidated

Balance Sheets (Unaudited)



<i>(Dollars in thousands)</i>	March 31, 1999	December 31, 1998
Assets		
Real estate investments		
Land	\$ 63,795	\$ 64,339
Buildings and equipment	286,654	283,722
	<u>350,449</u>	<u>348,061</u>
Accumulated depreciation	(104,472)	(101,910)
	<u>245,977</u>	<u>246,151</u>
Construction in progress	8,941	4,506
Cash and cash equivalents	2,061	2,395
Accounts receivable and accrued income, net	5,661	6,347
Prepaid expenses	6,600	6,873
Deferred debt costs, net	3,510	3,604
Other assets	2,494	1,158
Total assets	<u>\$ 275,244</u>	<u>\$ 271,034</u>
Liabilities		
Notes payable	\$ 291,781	\$ 290,623
Accounts payable, accrued expenses and other liabilities	16,423	14,856
Deferred income	2,794	2,839
Total liabilities	<u>310,998</u>	<u>308,318</u>
Minority Interests		
	—	—
Stockholders' equity (deficit)		
Common stock, \$0.01 par value, 30,000,000 shares authorized; 12,726,331 and 12,428,145 shares issued and outstanding, respectively	130	129
Additional paid-in capital	35,451	31,967
Accumulated deficit	(71,335)	(69,380)
Total stockholders' equity (deficit)	<u>(35,754)</u>	<u>(37,284)</u>
Total liabilities and stockholders' equity	<u>\$ 275,244</u>	<u>\$ 271,034</u>

