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

## HEADQUARTERS

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

## WEB SITE

www.saulcenters.com

## TRANSFER AGENT

First Chicago Trust
Company of New York
New York, NY 10805–3989
1-800-446-2617

## EXCHANGE LISTING

New York Stock Exchange
Symbol: BFS

## DIVIDEND REINVESTMENT PLAN

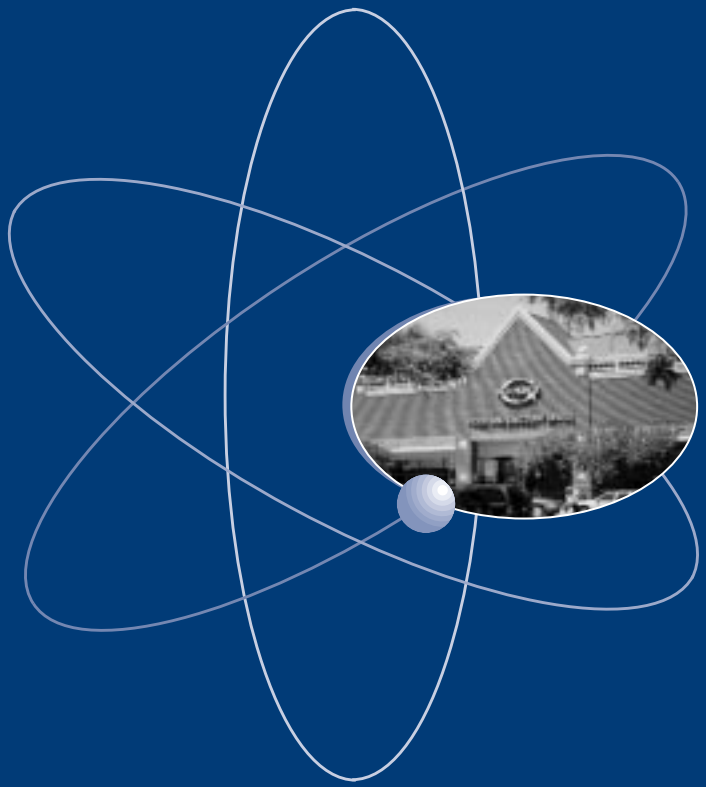
Saul Centers, Inc. offers a dividend reinvestment plan which enables its shareholders to automatically invest some of or all dividends in additional shares. The plan provides shareholders with a convenient and cost-free way to increase their investment in Saul Centers. Shares purchased under the dividend reinvestment plan are issued at a 3% discount from the 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



Second Quarter 2000

**Report to Shareholders**

# Message to Our Shareholders

Funds From Operations (FFO) increased 7.6% to $8,419,000 in the quarter ended June 30, 2000 compared to $7,823,000 for the same quarter in 1999. For the six month period ended June 30, 2000, FFO increased 7.9% to $16,999,000 compared to $15,761,000 for the same period in 1999. On a per share basis, FFO was $.45 per share for the 2000 first quarter, a 3.7% increase over the same quarter last year. For the six month period ended June 30, 2000, FFO per share increased 3.6%, to $.91 per share over the comparable period in 1999. 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 items and before real estate depreciation and amortization.

Total revenues for the 2000 second quarter increased 5.4% to $18,988,000 compared to $18,020,000 for the 1999 quarter. The company reported net income of $3,166,000 or $.24 per share for the 2000 second quarter, a per share increase of 3.4% compared to net income of $2,964,000 or $.23 per share for the 1999 quarter (basic and diluted). For the 2000 six month period, revenues increased 6.7% to $38,395,000 compared to $35,984,000 for the comparable period in 1999. The company reported net income of $6,682,000 or $.50 per share for the 2000 six month period, a per share increase of 5.6% compared to net income of $6,084,000 or $.47 per share for the comparable 1999 period (basic and diluted).

Same center net operating income in the shopping center portfolio grew 2.4% for the 2000 second quarter and 2.6% for the six month period ended June 30, 2000, compared to the same periods in 1999. Same property net operating income in the office portfolio grew 14.5% for the 2000 second quarter and 13.9% for the six month period ended June 30, 2000, compared to the same periods in 1999. Overall same property net operating income for the total portfolio grew 5.3% for both the 2000 second quarter and for the six month period ended June 30, 2000, compared to the same periods in 1999. As of June 30, 2000, approximately 93% of the portfolio was leased. Excluding the 200,000 square foot Crosstown Business Center warehouse/office redevelopment which is currently 25% leased, 95% of the portfolio was leased.

The Company recently closed on a new three-year $70 million unsecured revolving credit line, a $10 million increase over the previous line. Outstanding borrowings total approximately $30 million leaving $40 million of uncommitted availability. The availability provides the Company with capital to pursue new redevelopment, renovation, and expansion opportunities within its portfolio of community and neighborhood shopping centers and office properties. The interest rate floats at 1.625% to 1.875% over LIBOR, depending upon certain covenant tests. The facility provides the Company, at its option, a one-year term extension. Approximately 85% of the Company's debt is fixed rate mortgages and the weighted average maturity of total debt is over 10 years, with no debt maturing prior to 2002.

The Company is developing Washington Square at Old Town, a new Class A mixed-use office/retail complex along North Washington Street in historic Old Town Alexandria in Northern Virginia. The project will provide 235,000 square feet of leasable area and is well located on a two-acre site, along Alexandria's main street. The project is comprised of two identical buildings separated by a brick courtyard. Construction of the base building is scheduled for completion by the end of the third quarter of this year. The development is 25% pre-leased, with several additional significant office leases under negotiation.

During late 1999, the Company purchased land located within the 1,580 acre community of Ashburn Village in Loudoun County, Virginia, adjacent to its 108,000 square foot Ashburn Village neighborhood shopping center. The land has been developed into Ashburn Village II, a 39,700 square foot in-line and pad expansion to the existing shopping center, containing 23,600 square feet of retail space and 16,100 square feet of professional office suites. Pad sites are being leased to restaurant and other users for free-standing buildings. Construction was completed in June. Substantially all of the in-line retail tenants are open for business, and tenant finish continues in the office space. Approximately 90% of the new office and retail space has been leased.

For the remainder of this year and looking into 2001, Saul Centers remains focused on continuing the cash flow growth of its core portfolio, while continuing to pursue additional redevelopments and expansions with attractive returns on investment.

For the Board

B. Francis Saul II
Chairman of the Board

August 28, 2000

## Corporate Profile

Saul Centers, Inc. is a self-managed, self-administered equity real estate investment trust headquartered in Chevy Chase, Maryland. Saul Centers currently operates and manages a real estate portfolio of 33 community and neighborhood shopping center and office properties totaling approximately 6.1 million square feet of leasable area. Over 80% of our cash flow is generated from properties in the metropolitan Washington, D.C./ Baltimore area.

Saul Centers' primary operating strategy is to focus on continuing its program of internal growth, renovations, and expansions of community and neighborhood shopping centers, which primarily service the day-to-day necessities and services sub-sector of the overall retail market. The Company plans to supplement its growth through effective development of new office and retail properties and acquisitions of operating properties as appropriate opportunities arise.

# Consolidated Statements of Operations (Unaudited)

| *(Dollars in thousands, except per share amounts)* | For the Three Months Ended June 30, 2000 | For the Three Months Ended June 30, 1999 | For the Six Months Ended June 30, 2000 | For the Six Months Ended June 30, 1999 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Base rent | $ 15,734 | $ 14,467 | $ 31,381 | $ 28,800 |
| Expense recoveries | 2,545 | 2,433 | 5,367 | 4,881 |
| Percentage rent | 261 | 250 | 849 | 1,030 |
| Other | 448 | 870 | 798 | 1,273 |
| Total revenue | 18,988 | 18,020 | 38,395 | 35,984 |
| **Operating expenses** | | | | |
| Property operating expenses | 1,960 | 1,899 | 4,216 | 3,835 |
| Provision for credit losses | 112 | 64 | 233 | 125 |
| Real estate taxes | 1,553 | 1,626 | 3,194 | 3,160 |
| Interest expense | 5,870 | 5,568 | 11,658 | 11,098 |
| Amortization of deferred debt expense | 104 | 105 | 207 | 208 |
| Depreciation and amortization | 3,236 | 2,892 | 6,283 | 5,789 |
| General and administrative | 970 | 935 | 1,888 | 1,797 |
| Total operating expenses | 13,805 | 13,089 | 27,679 | 26,012 |
| **Net income before minority interests** | 5,183 | 4,931 | 10,716 | 9,972 |
| **Minority interests** | | | | |
| Minority share of income | (1,430) | (1,371) | (2,968) | (2,752) |
| Distributions in excess of earnings | (587) | (596) | (1,066) | (1,136) |
| Total minority interests | (2,017) | (1,967) | (4,034) | (3,888) |
| **Net income** | $ 3,166 | $ 2,964 | $ 6,682 | $ 6,084 |
| **Per share (basic and dilutive)** | | | | |
| Net income (a) | $ 0.24 | $ 0.23 | $ 0.50 | $ 0.47 |
| Funds from operations (b) | $ 0.45 | $ 0.43 | $ 0.91 | $ 0.88 |

*(a) (a) Based upon weighted average common shares outstanding of 13,557,078 and 13,036,440 for the three months and 13,490,701 and 12,976,885 for the six months ended June 30, 2000 and 1999, respectively.*

*(b) Assumes conversion of operating partnership units, combined with weighted average common shares outstanding, for a total of 18,729,319 and 18,041,755 shares for the three months and 18,662,942 and 17,921,124 shares for the six months ended June 30, 2000 and 1999, respectively.*

# Consolidated Balance Sheets
(Unaudited)

| *(Dollars in thousands)* | June 30, 2000 | December 31, 1999 |
|---|---|---|
| **Assets** | | |
| Real estate investments | | |
| Land | $ 65,676 | $ 64,233 |
| Buildings and equipment | 313,979 | 304,149 |
| | 379,655 | 368,382 |
| Accumulated depreciation | (117,844) | (112,272) |
| | 261,811 | 256,110 |
| Construction in progress | 33,859 | 21,201 |
| Cash and cash equivalents | 3,171 | 957 |
| Accounts receivable and accrued income, net | 6,475 | 8,723 |
| Prepaid expenses | 7,307 | 7,959 |
| Deferred debt costs, net | 3,157 | 3,197 |
| Other assets | 3,422 | 1,518 |
| Total assets | $ 319,202 | $ 299,665 |
| **Liabilities** | | |
| Notes payable | $ 327,236 | $ 310,268 |
| Accounts payable, accrued expenses and other liabilities | 21,163 | 18,391 |
| Deferred income | 2,629 | 2,865 |
| Total liabilities | 351,028 | 331,524 |
| **Minority interests** | -- | -- |
| **Stockholders' equity (deficit)** | | |
| Common stock, $0.01 par value, 30,000,000 shares authorized, 13,600,181 and 13,334,145 shares issued and outstanding, respectively | 136 | 133 |
| Additional paid-in capital | 48,523 | 44,616 |
| Accumulated deficit | (80,485) | (76,608) |
| Total stockholders' equity (deficit) | (31,826) | (31,859) |
| **Total liabilities and stockholders' equity (deficit)** | $ 319,202 | $ 299,665 |