

Corporate Profile

Saul Centers, Inc. is a self-managed, self-administered equity real estate investment trust headquartered in Bethesda, Maryland. Saul Centers currently operates and manages a real estate portfolio of 39 community and neighborhood shopping center and office properties totaling approximately 7.0 million square feet of leasable area. Over 83% of our cash flow is generated from properties in the metropolitan Washington, D.C./ 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
The Honorable
James W. Symington
John R. Whitmore

WEB SITE

www.saulcenters.com

HEADQUARTERS

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

EXCHANGE LISTING

New York Stock Exchange
Symbol: BFS

DIVIDEND REINVESTMENT PLAN

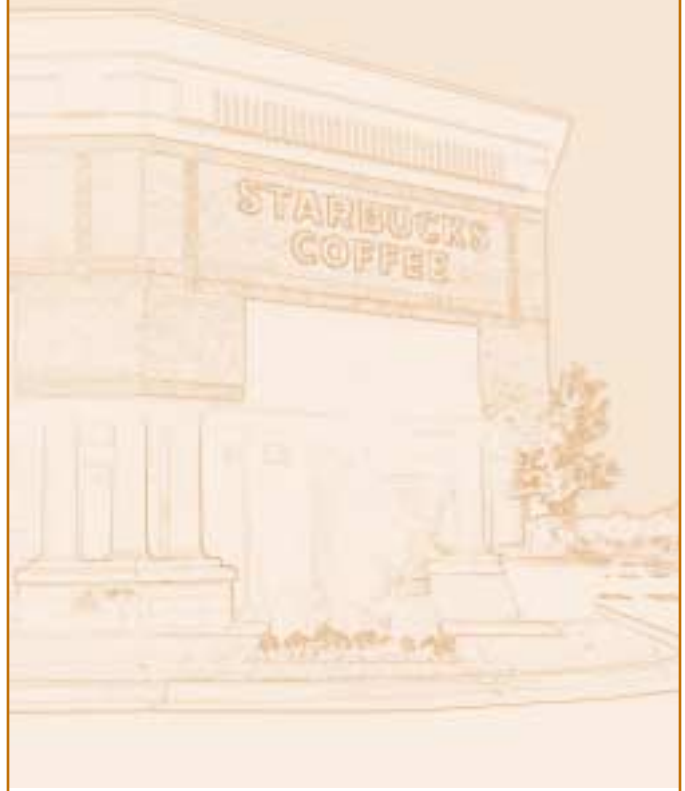
Saul Centers, Inc. offers a dividend reinvestment plan which enables its shareholders to automatically invest some of or all dividends in additional shares. The plan provides shareholders with a convenient and cost-free way to increase their investment in Saul Centers. Shares purchased under the dividend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

2004

Second Quarter Report to shareholders



Saul Centers

MESSAGE to our Shareholders

Saul Centers, Inc. reported a 7.3% increase in operating income from its core portfolio of shopping centers and office properties compared to the prior year's quarter. This increase is largely due to the performance of the 601 Pennsylvania Avenue office building which is now 100% leased. The same property comparisons exclude the results of operations of development and acquisition properties not in operation for each of the quarters. Operating income is calculated as total revenue less property operating expenses, provision for credit losses and real estate taxes. Same center operating income in the shopping center portfolio increased 3.6% for the 2004 second quarter, due primarily to successful re-leasing activity. Same property operating income in the office portfolio grew 15.7% for the 2004 quarter, primarily due to the lease-up of space at 601 Pennsylvania Avenue. Excluding the impact of 601 Pennsylvania Avenue, overall portfolio same property growth was 1.6% for the 2004 quarter. Supplementing the 2004 quarter's same property growth was operating income from six grocery-anchored shopping centers which were acquired or developed over the past year.

Total revenues for the quarter ended June 30, 2004 increased 20.1% to \$27,888,000 compared to \$23,226,000 for the 2003 quarter. After preferred stock dividends, the Company reported net income available to common stockholders of \$4,286,000 or \$.27 per share for the 2004 quarter, a per share increase of 3.8% compared to net income available to common stockholders of \$3,996,000 or \$0.26 per share for the 2003 quarter (basic & diluted).

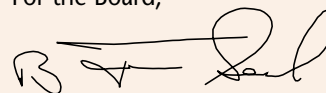
For the six month period ended June 30, 2004, total revenues increased 15.1% to \$54,229,000 compared to \$47,096,000 for the 2003 period. Net income available to common stockholders was \$8,591,000 or \$.54 per share for the 2004 period, a per share decrease of 1.8% compared to net income available to common stockholders of \$8,515,000 or \$0.55 per share for the 2003 period (basic & diluted). Overall same property revenues for the total portfolio increased 4.6% for the 2004 six month period and same property operating income increased 6.2%, compared to the prior year's period. The shopping center portfolio same center operating income increased 4.2% and the office portfolio grew 10.3%. Excluding the impact of 601 Pennsylvania Avenue, overall portfolio same property operating income growth was 2.1% for the 2004 period.

As of June 30, 2004, 94.0% of the portfolio was leased, compared to 93.6% a year earlier. On a same property basis, 94.6% of the portfolio was leased, compared to the prior year level of 93.6%. The comparative increase in the 2004 total portfolio same property leasing percentage is largely attributable to the leasing of approximately 30,000 square feet of office space at 601 Pennsylvania Avenue, 24,000 square feet of space at Southdale and 21,000 square feet of space at Thruway shopping centers.

Funds From Operations (FFO) available to common shareholders (after deducting preferred stock dividends), increased 13.3% to \$11,676,000 in the 2004 second quarter compared to \$10,301,000 for the same quarter in 2003. The \$1,375,000 increase in FFO available to common shareholders in the 2004 quarter resulted from retail acquisition and development property operating income and successful core portfolio leasing efforts, offset in part by the payment of \$2,000,000 in dividends relating to the November 2003 preferred stock offering. On a fully diluted per share basis, FFO available to common shareholders increased 10.0% to \$.55 per share in 2004 compared to \$.50 for the 2003 quarter. FFO available to common shareholders for the 2004 six month period increased \$1,761,000 (8.4%) to \$22,643,000 from \$20,882,000 during the 2003 period. Fully diluted per share FFO available to common shareholders increased 5.9% to \$1.07 per share in 2004 compared to \$1.01 for the 2003 period. FFO, a widely accepted non-GAAP financial measure of operating performance for real estate investment trusts, is defined as net income, plus minority interests, extraordinary items and real estate depreciation and amortization, excluding gains and losses from property sales.

The Company is developing new properties such as Broadlands Village II, Shops at Monocacy and Kentlands Place, and is redeveloping Olde Forte Village. The completion of these properties in early 2005 will expand the Company's core metropolitan Washington, D.C. retail portfolio.

For the Board,



B. Francis Saul II
Chairman of the Board
August 13, 2004

Consolidated Statements of Operations

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2004	2003	2004	2003
<i>(Dollars in thousands, except per share amounts)</i>				
Revenue				
Base rent	\$ 22,751	\$ 18,931	\$ 44,027	\$ 37,982
Expense recoveries	4,018	3,365	7,912	7,170
Percentage rent	260	215	704	664
Other	859	715	1,586	1,280
Total revenue	<u>27,888</u>	<u>23,226</u>	<u>54,229</u>	<u>47,096</u>
Operating expenses				
Property operating expenses	2,870	2,579	5,762	5,608
Provision for credit losses	99	56	168	92
Real estate taxes	2,488	2,130	4,879	4,261
Interest expense	6,407	6,466	12,456	12,960
Amortization of deferred debt expense	227	199	444	397
Depreciation and amortization	5,347	4,285	9,985	8,327
General and administrative	2,121	1,495	3,877	2,896
Total operating expenses	<u>19,559</u>	<u>17,210</u>	<u>37,571</u>	<u>34,541</u>
Net operating income before minority interests	<u>8,329</u>	<u>6,016</u>	<u>16,658</u>	<u>12,555</u>
Minority interests				
Minority share of income	(1,545)	(1,503)	(3,102)	(3,151)
Distributions in excess of earnings	(498)	(517)	(965)	(889)
Total minority interests	<u>(2,043)</u>	<u>(2,020)</u>	<u>(4,067)</u>	<u>(4,040)</u>
Net income	<u>6,286</u>	<u>3,996</u>	<u>12,591</u>	<u>8,515</u>
Preferred dividends	(2,000)	--	(4,000)	--
Net income available to common shareholders	<u>\$ 4,286</u>	<u>3,996</u>	<u>8,591</u>	<u>8,515</u>
Per share (basic and diluted)				
Net income (a)	\$ 0.27	\$ 0.26	\$ 0.54	\$ 0.55
Funds from operations (b)	\$ 0.55	\$ 0.50	\$ 1.07	\$ 0.78

(a) Based upon fully diluted weighted average common shares outstanding of 16,122,892 and 15,545,891 for the three months and 16,049,243 and 15,442,378 for the six months ended June 30, 2004 and 2003, respectively.

(b) Assumes conversion of operating partnership units, combined with fully diluted weighted average common shares outstanding, for a total of 21,315,790 and 20,726,828 shares for the three months and 21,240,563 and 20,621,660 shares for the six months ended June 30, 2004 and 2003, respectively.

Consolidated Balance Sheets

(Dollars in thousands)

	June 30, 2004	December 31, 2003
	(Unaudited)	
Assets		
Real estate investments		
Land	\$ 109,153	\$ 82,256
Buildings and equipment	500,086	436,487
Construction in progress	41,938	33,372
	<u>651,177</u>	<u>552,115</u>
Accumulated depreciation	(172,851)	(164,823)
	478,326	387,292
Cash and cash equivalents	10,066	45,244
Accounts receivable and accrued income	15,558	14,642
Leasing costs, net	18,887	15,344
Prepaid expenses, net	2,170	3,633
Deferred debt costs, net	4,509	4,224
Other assets	5,266	1,237
Total assets	<u>\$ 534,782</u>	<u>\$ 471,616</u>
Liabilities		
Mortgage notes payable	\$ 389,544	\$ 357,248
Revolving credit facility	22,000	--
Dividends and distributions payable	10,322	9,454
Accounts payable, accrued expenses and other liabilities	12,482	7,793
Deferred income	4,220	4,478
Total liabilities	<u>438,568</u>	<u>378,973</u>
Stockholders' equity		
Series A Cumulative Redeemable Preferred stock, par value \$0.01 per share, 1,000,000 shares authorized and 40,000 shares issued and outstanding	100,000	100,000
Common stock, \$0.01 par value, 30,000,000 shares authorized, 16,143,785 and 15,861,234 shares issued and outstanding, respectively	161	159
Additional paid-in capital	98,980	91,469
Accumulated deficit	(102,927)	(98,985)
Total stockholders' equity	<u>96,214</u>	<u>92,643</u>
Total liabilities and stockholders' equity	<u>\$ 534,782</u>	<u>\$ 471,616</u>