

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 36 community and neighborhood shopping center and office properties totaling approximately 6.6 million square feet of leasable area. Over 80% 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.
Suite 1500
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.

2003

Third Quarter Report to shareholders



Saul Centers

Message to Our Shareholders

Total revenues for the quarter ended September 30, 2003 increased 5.1% to \$24,659,000 compared to \$23,471,000 for the 2002 quarter. The Company reported net income of \$5,012,000 or \$.32/share for the 2003 quarter, a per share increase of 33.3% compared to net income of \$3,486,000 or \$0.24/share for the 2002 quarter (basic & diluted).

For the nine month period ending September 30, 2003, total revenues increased 3.3% to \$71,755,000 compared to \$69,455,000 for the 2002 period. The Company reported net income of \$13,527,000 or \$.87/share for the 2003 period, a per share decrease of 10.3% compared to net income of \$14,303,000 or \$0.97/share for the 2002 period (basic & diluted). Net income in the 2002 nine month period included recognition of a gain on property sold of \$1,426,000 when the Company was awarded a final settlement for the condemnation and purchase of our Park Road property by the District of Columbia.

Overall same property net operating income for the total portfolio increased 0.6% for the 2003 third quarter and decreased 1.2% for the 2003 nine month period compared to the same periods in 2002. Net operating income is calculated as total revenue less property operating expenses, provision for credit losses and real estate taxes. The same property comparisons include only those properties that were operational during both the current year and prior year periods. Same center net operating income was adversely impacted by the February 2003 expiration of a major tenant lease (120,000 square feet, 53% of the leasable area) at 601 Pennsylvania Avenue. As of September 30, 2003, 601 Pennsylvania Avenue was 91.4% leased.

As of September 30, 2003, 93.8% of the portfolio was leased, compared to 94.3% a year earlier. This decrease in the percentage of space leased is primarily due to approximately 50,000 square feet of redevelopment space at the recently acquired Old Forte Village shopping center.

Funds From Operations (FFO), a widely accepted non-GAAP financial measure of operating performance for real estate investment trusts, increased 4.5% to \$11,584,000 in the 2003 third quarter compared to \$11,081,000 for the same quarter in 2002. FFO is defined as net income, plus minority interests, extraordinary items and real estate depreciation and amortization, excluding gains and losses

from property sales. On a fully diluted per share basis, FFO was \$0.55 per share for both of the 2003 and 2002 third quarters. For the nine month period ending September 30, 2003, FFO decreased 1.0% to \$32,466,000 compared to \$32,810,000 for the 2002 period. On a fully diluted per share basis, FFO was \$1.57 per share for the 2003 nine month period, a 4.3% decrease from \$1.64 per share for the same period last year. The decrease in the nine month FFO was primarily attributable to decreased net operating income at the Company's 601 Pennsylvania Avenue office building.

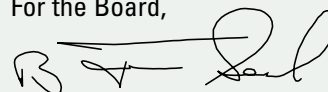
The Company issued 4,000,000 depositary shares, each representing 1/100th of a share of 8% Series A Cumulative Redeemable Preferred Stock in November 2003. The depositary shares may be redeemed, in whole or in part, at the \$25.00 liquidation preference at the Company's option on or after November 5, 2008. The depositary shares will pay an annual dividend of \$2.00 per share, equivalent to 8% of the \$25.00 liquidation preference.

Net proceeds from the issuance, were approximately \$96 million and were used to repay amounts outstanding under the Company's revolving credit facility and will be used to fund redevelopments, developments and new acquisitions. The depositary shares are trading on the New York Stock Exchange under the symbol "BFS PrA".

On November 14, 2003 the Company purchased 13 acres of undeveloped land in Frederick, Maryland which is being developed into an approximately 100,000 square foot, Giant Food anchored, neighborhood shopping center. Construction commenced in December 2003 and completion is anticipated for the fourth quarter of 2004.

Construction has been completed at our 105,000 square foot Broadlands Village shopping center. The 58,000 square foot Safeway supermarket opened October 29, 2003, and the development is 96.1% leased.

For the Board,



B. Francis Saul II
Chairman of the Board
December 4, 2003

Consolidated Statements of Operations

(Unaudited)

**For the Three Months
Ended September 30,
2003**

**For the Nine Months
Ended September 30,
2003**

(Dollars in thousands, except per share amounts)

Revenue

Base rent	\$	\$19,751	\$	19,184	\$	57,733	\$	56,532
Expense recoveries		3,303		3,207		10,473		9,317
Percentage rent		438		446		1,102		1,220
Other		1,167		634		2,447		2,386
Total revenue		24,659		23,471		71,755		69,455

Operating expenses

Property operating expenses		2,653		2,441		8,261		7,165
Provision for credit losses		26		131		118		402
Real estate taxes		2,130		1,947		6,391		5,917
Interest expense		6,566		6,335		19,526		18,757
Amortization of deferred debt expense		201		180		598		504
Depreciation and amortization		4,549		5,578		12,876		13,882
General and administrative		1,499		1,356		4,395		3,900
Total operating expenses		17,624		17,968		52,165		50,527

Operating income

Non-operating item								
Gain on sale of property		--		--		--		1,426

Income before minority interests

		7,035		5,503		19,590		20,354
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Minority interests

Minority share of income		(1,747)		(1,411)		(4,898)		(5,272)
Distributions in excess of earnings		(276)		(606)		(1,165)		(779)
Total minority interests		(2,023)		(2,017)		(6,063)		(6,051)

Net income

	\$	5,012	\$	3,486	\$	13,527	\$	14,303
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Per share (basic and fully diluted)

Net income (a)	\$	0.32	\$	0.24	\$	0.87	\$	0.97
Funds from operations (b)	\$	0.55	\$	0.55	\$	1.57	\$	1.64

(a) Based upon fully diluted weighted average common shares outstanding of 15,699,276 and 14,949,722 for the three months and 15,529,780 and 14,806,861 for the nine months ended September 30, 2003 and 2002, respectively.

(b) Assumes conversion of operating partnership units, combined with fully diluted weighted average common shares outstanding, for a total of 20,883,198 and 20,121,963 shares for the three months and 20,710,608 and 19,979,102 shares for the nine months ended September 30, 2003 and 2002, respectively.

Consolidated Balance Sheets

**September 30,
2003**

**December 31,
2002**

(Dollars in thousands)

Assets

Real estate investments

Land

Buildings and equipment

Construction in progress

Accumulated depreciation

Cash and cash equivalents

Accounts receivable and accrued income, net

Prepaid expenses

Deferred debt costs, net

Other assets

Total assets

(Unaudited)

\$ 95,878

420,596

20,698

537,172

(161,153)

376,019

2,169

13,249

19,567

4,255

2,275

\$ 417,534

\$ 90,469

405,153

8,292

503,914

(150,286)

353,628

1,309

12,505

15,712

4,125

1,408

\$ 388,687

Liabilities

Notes payable

Accounts payable, accrued expenses
and other liabilities

Deferred income

Total liabilities

\$ 400,668

18,115

4,355

423,138

\$ 380,743

16,727

4,484

401,954

Minority interests

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Stockholders' equity (deficit)

Common stock, \$0.01 par value, 30,000,000
shares authorized, 15,727,192 and 15,196,582
shares issued and outstanding, respectively

Additional paid-in capital

Accumulated deficit

Total stockholders' equity (deficit)

157

91,507

(97,268)

(5,604)

152

79,131

(92,550)

(13,267)

Total liabilities and stockholders' equity (deficit)

\$ 417,534

\$ 388,687