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B. Francis Saul II, Chairman & CEO
B. Francis Saul III, Vice Chairman
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The Honorable James W. Symington
John R. Whitmore

TRANSFER AGENT

U.S. Bank, N.A.
Milwaukee, WI 53212
1 (800) 637-7549

EXCHANGE LISTING

New York Stock Exchange
Symbol: BFS

HEADQUARTERS

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

WEB SITE

www.saulcenters.com

DIVIDEND REINVESTMENT PLAN

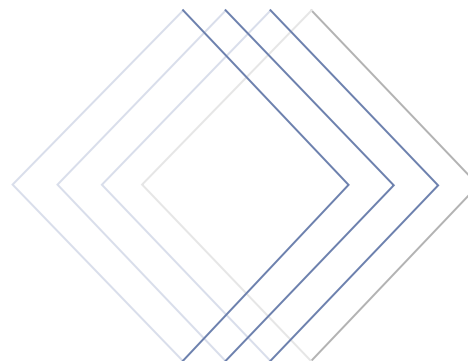
Saul Centers, Inc. offers a dividend reinvestment plan which enables its shareholders to automatically invest some of or all dividends in additional shares. The plan provides shareholders with a convenient and cost-free way to increase their investment in Saul Centers. Shares purchased under the dividend 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 1-800-637-7549 and request to speak with a service representative or write:

U.S. Bank, N.A.
Attention: Dividend Reinvestment Department
1555 N. River Center Dr., Suite 301
Milwaukee, WI 53212

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



REPORT TO SHAREHOLDERS

Third Quarter
2001

Third Quarter

MESSAGE TO SHAREHOLDERS



Funds From Operations (FFO) increased 12.7% to \$10,169,000 in the quarter ended September 30, 2001 compared to \$9,023,000 for the same quarter in 2000. For the nine month period ended September 30, 2001, FFO increased 13.1% to \$29,436,000 compared to \$26,022,000 for the same period in 2000. On a per share basis, FFO was \$.53 per share for the 2001 third quarter, a 9.2% increase over the same quarter last year. For the nine month period ended September 30, 2001, FFO per share increased 9.8%, over the comparable period in 2000 to \$1.53 per share. Approximately half of the FFO improvement was derived from the start-up of operations at our 235,000 square foot Washington Square development. 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 2001 third quarter increased 9.2% to \$21,533,000 compared to \$19,724,000 for the 2000 quarter. The Company reported net income of \$4,272,000 or \$.30 per share for the 2001 third quarter, a per share increase of 6.5% compared to net income of \$3,842,000 or \$.28 per share for the 2000 quarter (basic and diluted). For the 2001 nine month period, revenues increased 9.6% to \$63,688,000 compared to \$58,119,000 for the comparable period in 2000. The Company reported net income of \$12,213,000 or \$.87 per share for the 2001 nine month period, a per share increase of 11.4% compared to net income of \$10,524,000 or \$.78 per share for the comparable 2000 period (basic and diluted).

Same center net operating income in the shopping center portfolio grew 2.1% for the 2001 third quarter and 3.3% for the nine month period ended September 30, 2001, compared to

the same periods in 2000. Same property net operating income in the office portfolio declined 5.6% for the 2001 third quarter due to down time for 60,000 square feet of space at 601 Pennsylvania Avenue while two new tenants build-out their new offices, and increased 0.2% for the nine month period ended September 30, 2001, compared to the same periods in 2000. Overall same property net operating income for the total portfolio grew 0.2% for the 2001 third quarter and 2.5% for the nine month period ended September 30, 2001, compared to the same periods in 2000. The portfolio is currently 93.7% leased. The Company has two properties in the lease-up phase of their development, Washington Square at Old Town Alexandria, Virginia and Crosstown Business Center, which were 65.6% and 77.9% leased, respectively. Excluding these two properties, the remainder of the property portfolio was 95.4% leased.

For the Board

B. Francis Saul II
Chairman of the Board

November 6, 2001

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)



| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|-----------------|--|------------------|
| | 2001 | 2000 | 2001 | 2000 |
| <i>(Dollars in thousands, except per share amounts)</i> | | | | |
| Revenue | | | | |
| Base rent | \$ 17,546 | \$ 15,934 | \$ 52,301 | \$ 47,315 |
| Expense recoveries | 2,881 | 2,786 | 8,392 | 8,153 |
| Percentage rent | 557 | 588 | 1,410 | 1,437 |
| Other | 549 | 416 | 1,585 | 1,214 |
| Total revenue | <u>21,533</u> | <u>19,724</u> | <u>63,688</u> | <u>58,119</u> |
| Operating expenses | | | | |
| Property operating expenses | 2,131 | 1,940 | 6,357 | 6,156 |
| Provision for credit losses | 140 | 72 | 421 | 305 |
| Real estate taxes | 1,744 | 1,591 | 5,300 | 4,785 |
| Interest expense | 6,203 | 6,037 | 18,750 | 17,695 |
| Amortization of deferred debt expense | 142 | 123 | 415 | 330 |
| Depreciation and amortization | 3,880 | 3,164 | 11,172 | 9,447 |
| General and administrative | 1,004 | 938 | 3,009 | 2,826 |
| Total operating expenses | <u>15,244</u> | <u>13,865</u> | <u>45,424</u> | <u>41,544</u> |
| Net income before minority interests | <u>6,289</u> | <u>5,859</u> | <u>18,264</u> | <u>16,575</u> |
| Minority interests | | | | |
| Minority share of income | (1,674) | (1,607) | (4,895) | (4,575) |
| Distributions in excess of earnings | (343) | (410) | (1,156) | (1,476) |
| Total minority interests | <u>(2,017)</u> | <u>(2,017)</u> | <u>(6,051)</u> | <u>(6,051)</u> |
| Net income | <u>\$ 4,272</u> | <u>\$ 3,842</u> | <u>\$ 12,213</u> | <u>\$ 10,524</u> |
| Per share (basic and dilutive) | | | | |
| Net income (a) | <u>\$ 0.30</u> | <u>\$ 0.28</u> | <u>\$ 0.87</u> | <u>\$ 0.78</u> |
| Funds from operations (b) | <u>\$ 0.53</u> | <u>\$ 0.48</u> | <u>\$ 1.53</u> | <u>\$ 1.39</u> |

(a) Based upon weighted average common shares outstanding of 14,294,874 and 13,688,031 for the three months and 14,122,000 and 13,556,478 for the nine months ended September 30, 2001 and 2000, respectively.

(b) Assumes conversion of operating partnership units, combined with weighted average common shares outstanding, for a total of 19,467,115 and 18,860,272 shares for the three months and 19,294,241 and 18,728,719 shares for the nine months ended September 30, 2001 and 2000, respectively.

Consolidated

BALANCE SHEETS

(UNAUDITED)



| <i>(Dollars in thousands)</i> | September 30, 2001 | December 31, 2000 |
|---|-----------------------|----------------------|
| Assets | | |
| Real estate investments | | |
| Land | \$ 67,166 | \$ 66,252 |
| Buildings and equipment | 359,354 | 325,609 |
| | <u>426,520</u> | <u>391,861</u> |
| Accumulated depreciation | (133,938) | (124,180) |
| | 292,582 | 267,681 |
| Construction in progress | 23,868 | 41,148 |
| Cash and cash equivalents | 1,020 | 1,772 |
| Accounts receivable and accrued income, net | 7,366 | 9,540 |
| Prepaid expenses | 13,060 | 9,485 |
| Deferred debt costs, net | 2,886 | 3,054 |
| Other assets | 1,655 | 1,770 |
| Total assets | <u>\$ 342,437</u> | <u>\$ 334,450</u> |
| Liabilities | | |
| Notes payable | \$ 350,247 | \$ 343,453 |
| Accounts payable, accrued expenses and other liabilities | 16,739 | 19,592 |
| Deferred income | 2,379 | 2,560 |
| Total liabilities | <u>369,365</u> | <u>365,605</u> |
| Minority interests | -- | -- |
| Stockholders' equity (deficit) | | |
| Common stock, \$0.01 par value, 30,000,000 shares authorized, 14,354,692 and 13,869,535 shares issued and outstanding, respectively | 144 | 139 |
| Additional paid-in capital | 61,191 | 52,594 |
| Accumulated deficit | (88,263) | (83,888) |
| Total stockholders' equity (deficit) | <u>(26,928)</u> | <u>(31,155)</u> |
| Total liabilities and stockholders' equity (deficit) | <u>\$ 342,437</u> | <u>\$ 334,450</u> |