

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 40 community and neighborhood shopping center and office properties totaling approximately 7.2 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.
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.

2004

Third Quarter Report to shareholders



Saul Centers

MESSAGE to our Shareholders

During the third quarter of 2004, Saul Centers, Inc. reported increased operating income from its core portfolio of metropolitan Washington, DC/Baltimore based, grocery-anchored shopping centers and office properties, particularly its 601 Pennsylvania Avenue office building which is now 100% leased. Supplementing the core portfolio growth is operating income from six properties, acquired or developed, and placed in service during 2003 and 2004. These development and acquisition properties contributed \$2.6 million, or 74.9%, of the Company's overall \$3.5 million operating income improvement over the prior year quarter's results.

Total revenues for the quarter ended September 30, 2004 increased 17.8% to \$29,044,000 compared to \$24,659,000 for the 2003 quarter. Operating income before gain on property sale, minority interests and preferred stock dividends increased 25.0% to \$8,793,000 compared to \$7,035,000 for the comparable 2003 quarter. After preferred stock dividends and a \$572,000 property sale gain resulting from the State of Maryland's condemnation of a small strip of unimproved land for a road widening project at White Oak shopping center, the Company reported net income available to common stockholders of \$5,355,000 or \$0.33 per share for the 2004 quarter, a per share increase of 3.1% compared to net income available to common stockholders of \$5,012,000 or \$0.32 per share for the 2003 quarter (basic & diluted).

Overall same property revenues for the total portfolio increased 5.5% for the 2004 third quarter compared to the same quarter in 2003 and same property operating income increased 5.6%. The same property comparisons exclude the results of operations of properties not in operation for each of the comparable reporting periods. 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 3.8% for the 2004 third quarter, due primarily to new leasing resulting from minor redevelopments at Thruway and Southdale. Same property operating income in the office portfolio grew 9.3% for the 2004 quarter, due primarily to the completion of lease-up of space, vacant during a portion of 2003, at 601 Pennsylvania Avenue. Excluding the impact of 601 Pennsylvania Avenue, overall portfolio same property growth was 3.5% for the 2004 quarter.

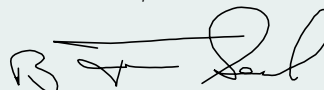
For the nine month period ended September 30, 2004, total revenues increased 16.1% to \$83,273,000 compared to \$71,755,000 for the 2003 period. Operating income before gain on property sale, minority interests and preferred stock dividends increased 29.9% to \$25,451,000 compared to \$19,590,000 for the comparable 2003 period. After preferred stock dividends and the third quarter property sale gain, net income available to common stockholders was \$13,946,000 or \$0.86 per fully diluted share for the 2004 period, a per share decrease of 1.1% compared to net income available to common stockholders of \$13,527,000 or

\$0.87 per fully diluted share for the 2003 period. Overall same property revenues for the total portfolio increased 4.9% for the 2004 nine month period compared to the same period in 2003 and same property operating income increased 5.8%. The shopping center portfolio same center operating income increased 3.9% and the office portfolio grew 10.0%. Excluding the impact of 601 Pennsylvania Avenue, overall portfolio same property operating income growth was 2.7% for the 2004 period. As of September 30, 2004, 94.2% of the portfolio was leased, compared to 93.8% a year earlier. On a same property basis, 94.8% of the portfolio was leased, compared to the prior year level of 94.4%. The comparative increase in the 2004 same property leasing percentage is largely attributable to the leasing of approximately 31,000 square feet of office space at two Washington, DC office properties.

Funds From Operations (FFO) available to common shareholders (after deducting preferred stock dividends), increased 6.2% to \$12,304,000 in the 2004 third quarter compared to \$11,584,000 for the same quarter in 2003. The \$720,000 increase in FFO available to common shareholders in the 2004 quarter resulted from the combination of (1) increased operating income from retail acquisition and development properties and (2) successful leasing efforts in the core portfolio, primarily at 601 Pennsylvania Avenue; offset in part by the payment of \$2,000,000 in preferred dividends relating to the November 2003 offering. On a fully diluted per share basis, FFO available to common shareholders increased 3.6% to \$0.57 per share in 2004 compared to \$0.55 for the 2003 quarter. FFO available to common shareholders for the 2004 nine month period increased by \$2,481,000 (7.6%) to \$34,947,000. Fully diluted per share FFO available to common shareholders increased 4.5% to \$1.64 per share in 2004 compared to \$1.57 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 expects to substantially complete construction of the Broadlands Village II, Shops at Monocacy, and Kentlands Place developments during the fourth quarter. These properties will provide additional retail operating income growth next year and beyond.

For the Board,



B. Francis Saul II
Chairman of the Board
November 30, 2004

Consolidated Statements of Operations (Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2004	2003	2004	2003
<i>(Dollars in thousands, except per share amounts)</i>				
Revenue				
Base rent	\$ 23,324	\$ 19,751	\$ 67,351	\$ 57,733
Expense recoveries	4,448	3,303	12,360	10,473
Percentage rent	440	438	1,144	1,102
Other	<u>832</u>	<u>1,167</u>	<u>2,418</u>	<u>2,447</u>
Total revenue	<u>29,044</u>	<u>24,659</u>	<u>83,273</u>	<u>71,755</u>
Operating expenses				
Property operating expenses	3,186	2,653	8,948	8,261
Provision for credit losses	131	26	299	118
Real estate taxes	2,325	2,130	7,204	6,391
Interest and amortization of deferred debt expense	7,008	6,767	19,908	20,124
Depreciation and amortization	5,511	4,549	15,496	12,876
General and administrative	<u>2,090</u>	<u>1,499</u>	<u>5,967</u>	<u>4,395</u>
Total operating expenses	<u>20,251</u>	<u>17,624</u>	<u>57,822</u>	<u>52,165</u>
Operating income before minority interests and gain on sale of property	8,793	7,035	25,451	19,590
Non-operating item				
Gain on sale of property	<u>572</u>	<u>--</u>	<u>572</u>	<u>--</u>
Income before minority interests	<u>9,365</u>	<u>7,035</u>	<u>26,023</u>	<u>19,590</u>
Minority interests				
Minority share of income	(1,784)	(1,747)	(4,886)	(4,898)
Distributions in excess of earnings	<u>(226)</u>	<u>(276)</u>	<u>(1,191)</u>	<u>(1,165)</u>
Total minority interests	<u>(2,010)</u>	<u>(2,023)</u>	<u>(6,077)</u>	<u>(6,063)</u>
Net income	7,355	5,012	19,946	13,527
Preferred dividends	<u>(2,000)</u>	<u>--</u>	<u>(6,000)</u>	<u>--</u>
Net income available to common shareholders	<u>\$ 5,355</u>	<u>\$ 5,012</u>	<u>\$ 13,946</u>	<u>\$ 13,527</u>
Per share data available to common shareholders (fully diluted)				
Net income (a)	<u>\$ 0.33</u>	<u>\$ 0.32</u>	<u>\$ 0.87</u>	<u>\$ 0.87</u>
Funds from operations (b)	<u>\$ 0.57</u>	<u>\$ 0.55</u>	<u>\$ 1.64</u>	<u>\$ 1.57</u>

(a) Based upon fully diluted weighted average common shares outstanding of 16,294,830 and 15,699,276 for the three months and 16,130,207 and 15,529,780 for the nine months ended September 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 21,490,664 and 20,883,198 shares for the three months and 21,323,032 and 20,710,608 shares for the nine months ended September 30, 2004 and 2003, respectively.

Consolidated Balance Sheets

<i>(Dollars in thousands)</i>	September 30, 2004	December 31, 2003
	(Unaudited)	
Assets		
Real estate investments		
Land	\$ 109,153	\$ 82,256
Buildings and equipment	500,351	436,371
Construction in progress	57,330	33,488
	<u>666,834</u>	<u>552,115</u>
Accumulated depreciation	(176,848)	(164,823)
	489,986	387,292
Cash and cash equivalents	21,785	45,244
Accounts receivable and accrued income	18,394	14,642
Leasing costs, net	18,571	15,344
Prepaid expenses, net	3,072	3,633
Deferred debt costs, net	4,982	4,224
Other assets	3,339	1,237
Total assets	<u>\$ 560,129</u>	<u>\$ 471,616</u>
Liabilities		
Mortgage notes payable	\$ 429,498	\$ 357,248
Dividends and distributions payable	10,371	9,454
Accounts payable, accrued expenses and other liabilities	16,667	7,793
Deferred income	4,716	4,478
Total liabilities	<u>461,252</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, 16,266,466 and 15,861,234 shares issued and outstanding, respectively	163	159
Additional paid-in capital	102,630	91,469
Accumulated deficit	(103,916)	(98,985)
Total stockholders' equity	<u>98,877</u>	<u>92,643</u>
Total liabilities and stockholders' equity	<u>\$ 560,129</u>	<u>\$ 471,616</u>