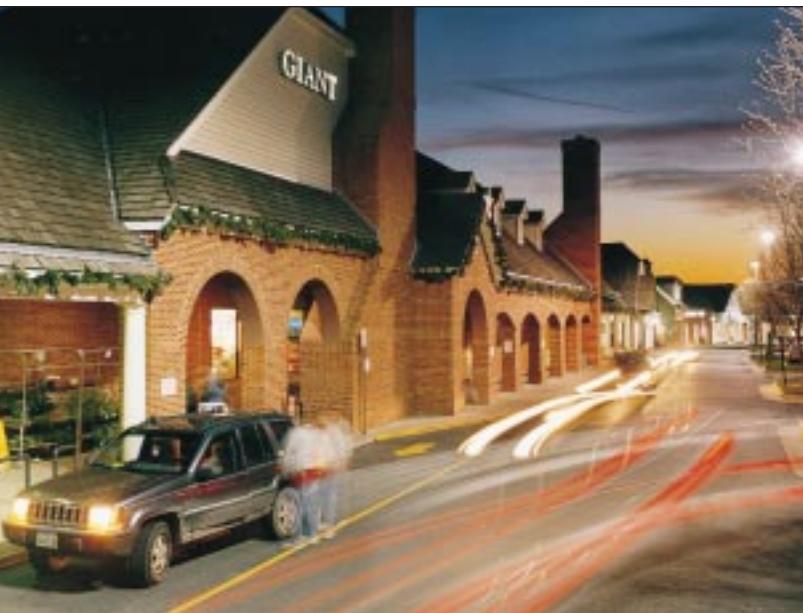


Saul Centers



1999

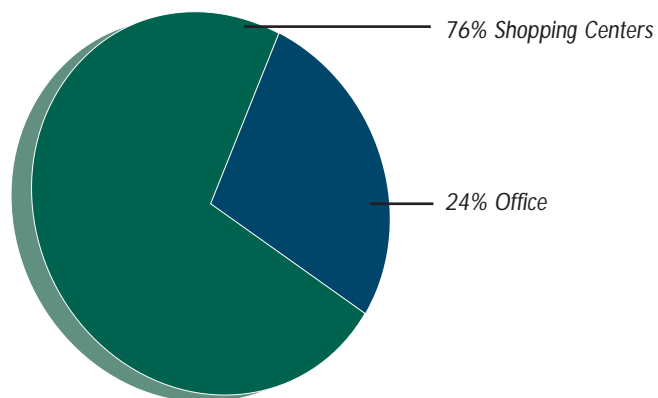
Annual Report
to Shareholders



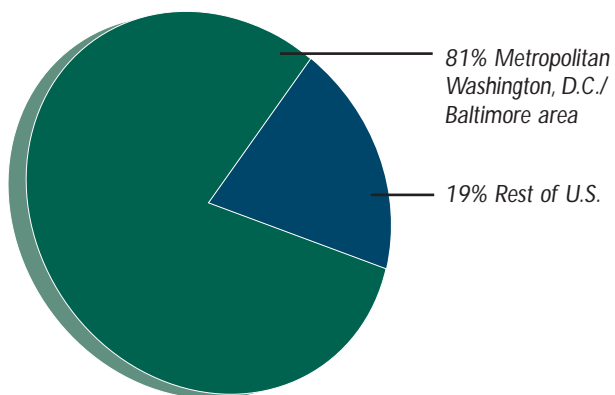
Portfolio Composition

Based on Property Operating Income

Property Type



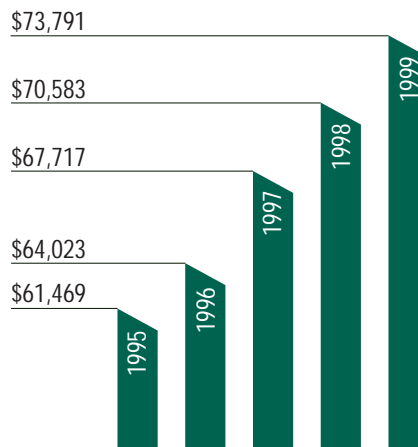
Geographic Location



Historic Operating Performance

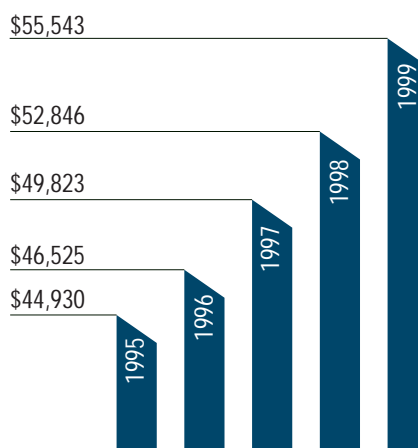
Total Revenues

(in millions)



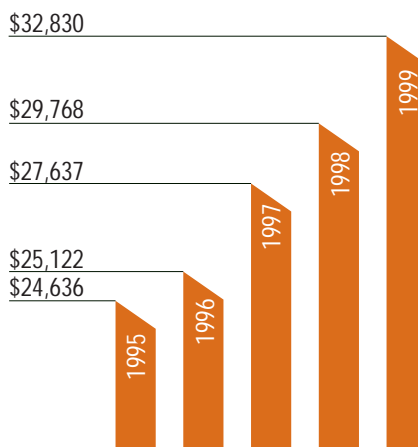
Property Operating Income

(in millions)



Funds From Operations

(in millions)



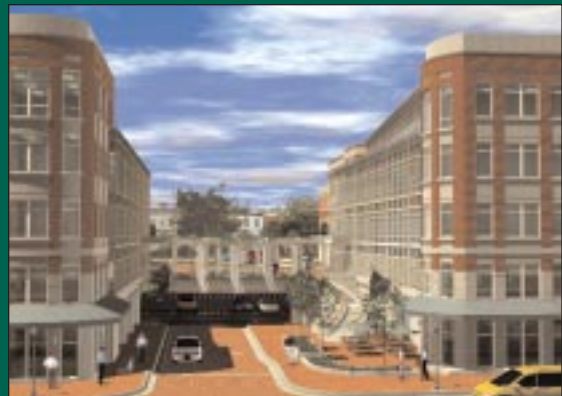
Saul Centers, Inc. is a self-managed, self-administered equity real estate investment trust headquartered in Chevy Chase, Maryland. Saul Centers currently operates



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.



Financial Highlights

Years ended December 31,

	1999	1998	1997	1996	1995
Summary Financial Data:					
Total Revenues	\$ 73,791,000	\$ 70,583,000	\$ 67,717,000	\$ 64,023,000	\$ 61,469,000
Funds From Operations (a)	\$ 32,830,000	\$ 29,768,000	\$ 27,637,000	\$ 25,122,000	\$ 24,636,000
Average Shares Outstanding (assuming operating partnership units fully converted)	18,147,954	17,233,047	16,690,417	16,423,984	16,284,666
Funds From Operations Per Share	\$ 1.81	\$ 1.73	\$ 1.66	\$ 1.53	\$ 1.51
Property Data:					
Number of Properties	33	34	33	33	32
Total Portfolio Square Feet	6,108,000	5,901,000	5,821,000	5,806,000	5,657,000
Shopping Center Square Feet	4,936,000	4,990,000	4,953,000	4,938,000	4,789,000
Office Square Feet	975,000	714,000	671,000	671,000	671,000
Industrial Square Feet	197,000	197,000	197,000	197,000	197,000
Average Percentage Leased	92%(b)	90%	90%	89%	90%

More detailed financial information is available from the Company's Annual Report Form 10-K.

(a) Funds From Operations, presented on a fully converted basis and the most widely accepted measure of operating performance for real estate investment trusts, is defined as net income before extraordinary and non-recurring items, and before real estate depreciation and amortization. All years are presented in conformance with the National Association of Real Estate Investment Trusts' guidelines adopted effective January 1, 1996.

(b) Excludes the Washington Square and Ashburn II development properties.



The past year was a successful year of same center cash flow growth, with leasing levels reaching a five year high, and with the commencement of significant retail and office development and redevelopment activity.

Financial Review

1999 Results

Funds From Operations (FFO) increased 10.3% to \$32,830,000 for the year ended December 31, 1999 compared to \$29,768,000 for the 1998 year. On a per share basis, 1999 FFO was \$1.81 per share, an increase of 4.7% over \$1.73 in the 1998 year. FFO is defined as net income before extraordinary items and before depreciation and amortization. FFO is presented on a fully converted basis and is the most widely accepted measure of operating performance for real estate investment trusts (REITs). For the quarter ended December 31, 1999, FFO increased 13.4% to \$8,920,000 compared to \$7,864,000 for the same period in 1998. On a per share basis, FFO was \$.48 per share for the 1999 fourth quarter, a 7.9% increase over the same quarter the previous year.



Continued Dividend Stability

During 1999, the Company paid four quarterly distributions of \$.39 per share to shareholders, of which 86.1% was taxable as ordinary income and 13.9% represented a non-taxable return of capital. As earnings increased in 1999, the FFO payout ratio declined, with the annual dividend of \$1.56 per share equal to an 86.2% payout of 1999 FFO. Consistent and steady FFO growth has caused the payout ratio to decline every year over the past six years, having the results of strengthening the dividend coverage and providing additional retained earnings for reinvestment into the portfolio.

Operating Highlights

Property Level Performance

Cash flow growth in existing assets in 1999 was driven by rental rate increases, higher occupancy levels, and internally generated redevelopment opportunities.

The Company continued to focus on managing properties for same center net income growth and higher profitability. Total revenues for 1999 increased 4.5% to \$73.8 million compared to \$70.6 million in 1998. For the 1999 fourth quarter, revenues increased 7.2% to \$19.4 million compared to \$18.1 million in the 1998 fourth quarter. Annual revenue growth was driven by a solid 6.6% increase in base rents fueled by overall portfolio leasing percentage increases to a year-end 92.7%, and 13% increases in roll-over rental rates on expiring leases.

Operating efficiencies were created with selective outsourcing and effective purchasing of contract services resulting in continued improvement of gross margins. Property gross margins improved from 74.8% in 1998 to 75.9% in 1999 when combining the revenue increases with unchanged total property expenses. Overall portfolio-wide same center net cash flow grew 5.0% in 1999.

This past holiday season provided the first clues that it is becoming apparent that e.commerce and traditional retail can and will co-exist. While Internet retail sales ballooned in 1999, store sales produced a most impressive estimated 7% year-over-year increase.

Retail Overview

The central theme of retailing in 1999 revolved around the challenges provided by the extraordinary momentum of Internet retailing and e.commerce. The Internet will challenge traditional retailing in potentially more dramatic ways than the



advent of catalogue sales and mail order retail sales impacted shopping centers earlier in the 20th century. The extent of this impact on neighborhood and community shopping centers and whether these forces are positive or negative to shopping center financial performance is a major issue as we turn the century. This past holiday season provided the first clues that it is becoming apparent that e-commerce and traditional retail can and will co-exist. While Internet retail sales ballooned in 1999, store sales produced a most impressive estimated 7% year-over-year increase. These results were some of the best in the last ten years in almost all retail categories. As e-commerce grows in importance it will most likely become another formidable distribution medium, converging with mail order and catalogues to supplement our universe of existing bricks and mortar retail. We believe that

convenience and necessity-oriented grocery anchored strips, located in well-populated neighborhoods, will continue to be productive assets in this new retailing environment.

In the Washington metropolitan area, 1999 was a year of continued economic expansion which continued to fuel robust retail demand. With consumer confidence high, strong retail demand was partially a result of the Northern Virginia market's new found, high tech wealth creation. The strong results of the Company's retail portfolio were heavily influenced by our Northern Virginia centers which produce 45% of our retail cash flow. Occupancy in the retail portfolio improved to 95.2% at year end 1999, with same center net cash flow growth increasing 4.9% over 1998 performance. Rental rate increases on 1999 new and renewed retail leases were a very strong 14%. Same store sales

levels in the portfolio continued to grow, with a 4.2% increase over 1998. Overall portfolio sales per square foot for those tenants required to report sales averaged \$271 per square foot in 1999. Not unlike past years, bankruptcies are still present in the face of competition in certain retail categories, with Caldor, Reading China & Glass and Discovery Zone leaving Company centers over the past 18 months. While downtime presents a short term financial shortfall, all of the spaces were successfully released at aggregate higher rents with minimal capital investment.

Office Activity

The Company's office presence is entirely in the Washington, D. C. metropolitan area, where market vacancy rates remain below historical averages. This low overall vacancy has allowed market rents to climb given the strength of demand. The Washington, D.C.





Rendering (below) of the expansion to the Ashburn Village shopping center, under construction (above) and scheduled for Spring 2000 completion.

metropolitan area had the highest net absorption of office space in the United States last year. The strengthened city government is improving the overall downtown business climate, and biotech and high-tech business growth continue to fuel the suburbs. Performance of the office properties in 1999 accounted for approximately 24% of the Company's property cash flow. Occupancy in the office portfolio was 96.3% at year end with same center cash flow increasing 5.5% over 1998. Rental rate increases on turnover leases improved at both the Company's downtown Washington, D.C. office buildings as well as the Gaithersburg, Maryland flex/research and development park, averaging a 10% increase on 1999 expiring leases.

Redevelopment and Development

Adaptive redevelopment and retensing of infill neighborhood and community centers continues to be the Company's primary value creation operating strategy. This strategy of internally generated redevelopment and development opportunities has remained consistent over the past six years since the Company became public in 1993.

1999 Completions

In late 1999, the Company completed redevelopment of the Beacon Center, located along U.S. Route 1 in Alexandria, Virginia. Beacon Center's central enclosed mall area was demolished and construction of a 148,000 square foot Lowe's home improvement



store and garden center was completed and opened during the first week in November. In addition to the new Lowe's, 8,000 square feet of new small shop space was constructed and is 100% leased and occupied.

The Company also recently completed another significant redevelopment during 1999 with the opening of a 53,000 square foot SuperFresh grocery store at the Shops at Fairfax, located in Fairfax, Virginia. A small, enclosed mall comprising a portion of the shopping center was demolished and replaced with the new SuperFresh building and an additional 7,500 square feet of small shop space. SuperFresh opened for business in late September, and the shop space is 100% leased and occupied.

Development in Progress

During 1999, the Company completed construction on a facade renovation and retenanting of a 103,000 square foot anchor space by Bed Bath and Beyond and Staples, at the 213,000 square foot French Market center in Oklahoma City, Oklahoma. In December, a 90,000 square foot lease was signed with Burlington Coat Factory to locate in the adjacent enclosed mall portion of the center. The common areas of the mall will become part of the Burlington leasable area, increasing the center to 247,000 leasable square feet upon completion of tenant improvements. Mall tenants have relocated to other space in the center or ceased operations to allow construction to commence. Burlington is scheduled to open

in the fall of 2000, increasing the center's leasing percentage to over 95%.

The Company recently 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 is being developed into a 39,700 square foot in-line and pad building 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, with one 5,400 square foot pad lease completed. Construction began in November with substantial completion scheduled for the spring of 2000. Approximately 56% of the new space has been pre-leased.



Development of the Company's 235,000 square foot Washington Square at Old Town, a class A, mixed-use office/retail complex located along North Washington Street in historic Old Town Alexandria, Virginia, is proceeding on schedule. Construction of the underground parking deck has been substantially completed, with building frames for the retail and office levels completed to the roof deck.

Precast facade features and brick work is underway with base building construction of the two buildings scheduled to be completed by the summer of 2000. The 45,000 square feet of street level retail space is 62% pre-leased.

Capital Structure

Throughout the year 2000, the Company has no significant debt maturities and has procured adequate capital for its current redevelopment and development

activities. With variable rate debt less than 15% of its total \$310 million of debt, interest rate exposure remains minimal. The only debt maturity in the year 2000 is the \$60 million line of credit, of which \$31 million was outstanding at year end. Over 80% of the Company's currently outstanding debt matures beyond the year 2010. This balance sheet structure provided a comfortable interest expense coverage ratio of 2.48 during the past year, an increase from 2.33 in 1998.

Construction of the Company's Washington Square at Old Town property is scheduled for completion by summer 2000.

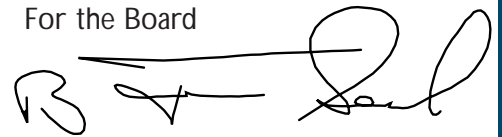


In a maturing phase of the real estate cycle with balanced fundamentals, we view our mixed portfolio of neighborhood retail and office properties as well positioned to accept the challenges of the new century. The primary retail challenge is the integration of the operation of our shopping centers with the power of e-commerce. Having prime locations in highly populated demographic areas, and primarily service and necessity oriented neighborhood centers, should allow us to meet this

challenge successfully. A moderation in demand from previous high levels and a corresponding supply growth reduction, which is beginning to be seen due in part to an environment of capital constraints, should lead to general real estate market equilibrium in the year 2000. As in the past, our future success in continuing internally generated cash flow growth lies with prime asset locations.

On behalf of all of our Directors, we remain confident in the growth potential of our real estate and in the wide range of abilities of our entire staff to productively operate and manage this real estate in a dynamic and challenging environment. And many thanks to you, our shareholders, for choosing to be a part of our future.

For the Board



B. Francis Saul II
Chairman of the Board
February 25, 2000



Portfolio Properties

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	Location of Property	Gross Leasable Square Feet
SHOPPING CENTERS		
Ashburn Village	Ashburn, VA	108,204
Ashburn Village II	Ashburn, VA	39,700*
Beacon Center	Alexandria, VA	355,659
Belvedere	Baltimore, MD	54,941
Boulevard	Fairfax, VA	56,350
Clarendon	Arlington, VA	6,940
Clarendon Station	Arlington, VA	4,868
Flagship Center	Rockville, MD	21,500
French Market	Oklahoma City, OK	247,393
Germantown	Germantown, MD	26,241
Giant	Baltimore, MD	70,040
The Glen	Lake Ridge, VA	112,639
Great Eastern	District Heights, MD	255,448
Hampshire Langley	Langley Park, MD	134,425
Leesburg Pike	Baileys Crossroads, VA	97,880
Lexington Mall	Lexington, KY	315,707
Lumberton Plaza	Lumberton, NJ	189,898
Olney	Olney, MD	53,765
Ravenwood	Baltimore, MD	87,750
Seven Corners	Falls Church, VA	560,998
Shops at Fairfax	Fairfax, VA	68,743
Southdale	Glen Burnie, MD	483,874
Southside Plaza	Richmond, VA	352,964
South Dekalb Plaza	Atlanta, GA	183,199
Thruway	Winston-Salem, NC	345,534
Village Center	Centreville, VA	142,881
West Park	Oklahoma City, OK	77,810
White Oak	Silver Spring, MD	480,156
Shopping Centers Total		4,935,507

	Location of Property	Gross Leasable Square Feet
OFFICE PROPERTIES		
Avenel Business Park I-V	Gaithersburg, MD	358,633
601 Pennsylvania Avenue	Washington, DC	225,223
Van Ness Square	Washington, DC	156,182
Washington Square	Alexandria, VA	235,000*
Office Properties Total		975,038

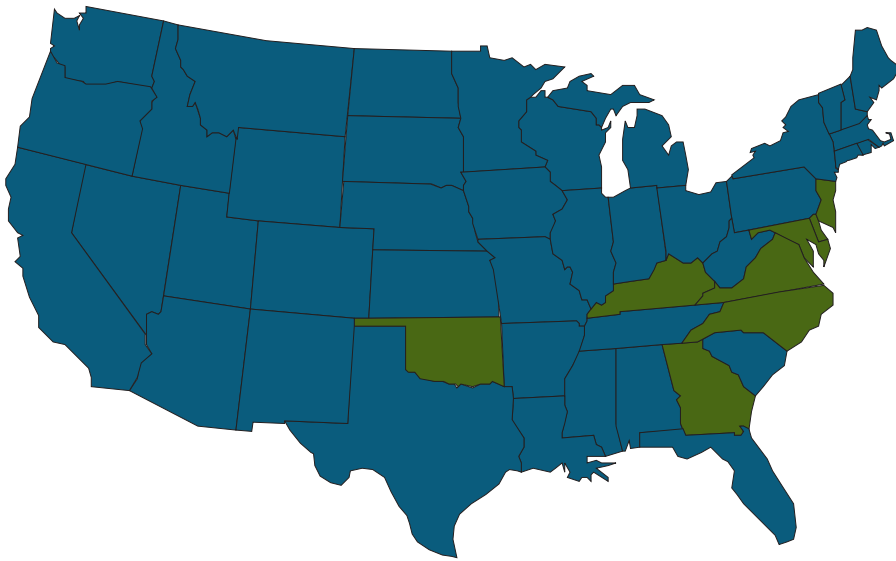
INDUSTRIAL PROPERTY

Crosstown Business Center	Tulsa, OK	197,135
Industrial Property Total		197,135

TOTAL PORTFOLIO PROPERTIES **6,107,680**

* These properties are in development.





Saul Centers' properties are located primarily in the metropolitan Washington, D.C./Baltimore area, representing 69% of the portfolio's gross leasable area.



Visit the Company's
web site at
www.saulcenters.com
for photos, tenant lists,
demographic information
and location maps of
each property.

Consolidated Balance Sheets

	December 31,	
(Dollars in thousands)	1999	1998
Assets		
Real estate investments		
Land	\$ 64,233	\$ 64,339
Buildings and equipment	304,149	283,722
	368,382	348,061
Accumulated depreciation	(112,272)	(101,910)
	256,110	246,151
Construction in progress	21,201	4,506
Cash and cash equivalents	957	2,395
Accounts receivable and accrued income, net	8,723	6,347
Prepaid expenses	7,959	6,873
Deferred debt costs, net	3,197	3,604
Other assets	1,518	1,158
Total assets	<u>\$ 299,665</u>	<u>\$ 271,034</u>
Liabilities		
Notes payable	\$ 310,268	\$ 290,623
Accounts payable, accrued expenses and other liabilities	18,391	14,856
Deferred income	2,865	2,839
Total liabilities	<u>331,524</u>	<u>308,318</u>
Minority interests		
	<u>--</u>	<u>--</u>
Stockholders' equity (deficit)		
Common stock, \$0.01 par value, 30,000,000 shares authorized, 13,334,145 and 12,836,378 shares issued and outstanding, respectively	133	129
Additional paid-in capital	44,616	31,967
Accumulated deficit	(76,608)	(69,380)
Total stockholders' equity (deficit)	<u>(31,859)</u>	<u>(37,284)</u>
Total liabilities and stockholders' equity (deficit)	<u>\$ 299,665</u>	<u>\$ 271,034</u>

The accompanying notes are an integral part of these statements.

(Dollars in thousands, except per share amounts)

	For the Years Ended December 31,		
	1999	1998	1997
Revenue			
Base rent	\$ 59,200	\$ 55,542	\$ 51,779
Expense recoveries	10,176	9,911	9,479
Percentage rent	2,222	2,755	2,948
Other	2,193	2,375	3,511
Total revenue	<u>73,791</u>	<u>70,583</u>	<u>67,717</u>
Operating expenses			
Property operating expenses	7,720	7,830	8,075
Provision for credit losses	295	418	505
Real estate taxes	6,207	6,128	6,084
Interest expense	22,568	22,627	20,308
Amortization of deferred debt expense	416	419	1,729
Depreciation and amortization	12,163	12,578	10,642
General and administrative	3,755	3,393	3,379
Total operating expenses	<u>53,124</u>	<u>53,393</u>	<u>50,722</u>
Operating income	20,667	17,190	16,995
Non-operating items			
Gain on sale of property	553	--	--
Sales of interest rate protection agreements	--	--	(4,392)
Net income before extraordinary item, cumulative effect of change in accounting method and minority interests	21,220	17,190	12,603
Extraordinary item			
Early extinguishment of debt	--	(50)	(3,197)
Cumulative effect of change in accounting method	--	(771)	--
Net income before minority interests	<u>21,220</u>	<u>16,369</u>	<u>9,406</u>
Minority interests			
Minority share of income	(5,899)	(4,354)	(2,483)
Distributions in excess of earnings	(2,024)	(2,886)	(4,371)
Total minority interests	<u>(7,923)</u>	<u>(7,240)</u>	<u>(6,854)</u>
Net income	<u>\$ 13,297</u>	<u>\$ 9,129</u>	<u>\$ 2,552</u>
Per share (basic and dilutive)			
Net income before extraordinary item, cumulative effect of change in accounting method and minority interests	\$ 1.17	\$ 1.00	\$ 0.76
Extraordinary item	--	--	(0.19)
Cumulative effect of change in accounting method	--	(0.05)	--
Net income before minority interests	<u>\$ 1.17</u>	<u>\$ 0.95</u>	<u>\$ 0.57</u>
Net income	<u>\$ 1.01</u>	<u>\$ 0.72</u>	<u>\$ 0.21</u>

The accompanying notes are an integral part of these statements.

Consolidated Statements of Stockholders' Equity (Deficit)



<i>(Dollars in thousands, except per share amounts)</i>	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total
Stockholders' equity (deficit):				
Balance, December 31, 1996	\$ 121	\$ 15,950	\$ (42,011)	\$ (25,940)
Issuance of 275,374 shares of common stock	3	4,497	--	4,500
Net income	--	--	2,552	2,552
Distributions (\$1.17 per share)	--	--	(14,334)	(14,334)
Distributions payable (\$.39 per share)	<u>--</u>	<u>--</u>	<u>(4,832)</u>	<u>(4,832)</u>
Balance, December 31, 1997	124	20,447	(58,625)	(38,054)
Issuance of 408,233 shares of common stock	5	6,629	--	6,634
Issuance of 405,532 convertible limited partnership units in the Operating Partnership	--	4,891	--	4,891
Net income	--	--	9,129	9,129
Distributions (\$1.17 per share)	--	--	(14,899)	(14,899)
Distributions payable (\$.39 per share)	<u>--</u>	<u>--</u>	<u>(4,985)</u>	<u>(4,985)</u>
Balance, December 31, 1998	129	31,967	(69,380)	(37,284)
Issuance of 497,767 shares of common stock	4	7,158	--	7,162
Issuance of 373,546 convertible limited partnership units in the Operating Partnership	--	5,491	--	5,491
Net income	--	--	13,297	13,297
Distributions (\$1.17 per share)	--	--	(15,323)	(15,323)
Distributions payable (\$.39 per share)	<u>--</u>	<u>--</u>	<u>(5,202)</u>	<u>(5,202)</u>
Balance, December 31, 1999	<u>\$ 133</u>	<u>\$ 44,616</u>	<u>\$ (76,608)</u>	<u>\$ (31,859)</u>

The accompanying notes are an integral part of these statements.

(Dollars in thousands)

For the Years Ended December 31,
1999 1998 1997**Cash flows from operating activities:**

Net income	\$ 13,297	\$ 9,129	\$ 2,552
Adjustments to reconcile net income to net cash provided by operating activities:			
Minority interests	7,923	7,240	6,854
Gain on sale of property	(553)	--	--
Sales of interest rate protection agreements	--	--	4,392
Cumulative effect of change in accounting method	--	771	--
Loss on early extinguishment of debt	--	50	3,197
Depreciation and amortization	12,579	12,997	12,371
Provision for credit losses	295	418	505
Increase in accounts receivable	(2,671)	(1,346)	(406)
Increase in prepaid expenses	(2,434)	(2,742)	(1,426)
Decrease (increase) in other assets	(360)	3	2,548
Increase (decrease) in accounts payable, accrued expenses and other liabilities	3,535	1,763	(1,640)
Increase (decrease) in deferred income	26	1,409	(11)
Other, net	8	(6)	--
Net cash provided by operating activities	<u>31,645</u>	<u>29,686</u>	<u>28,936</u>

Cash flows from investing activities:

Net proceeds from sales of property	1,718	--	--
Additions to real estate investments	(11,587)	(6,607)	(4,377)
Additions to construction in progress	(27,051)	(8,169)	(11,717)
Net cash used in investing activities	<u>(36,920)</u>	<u>(14,776)</u>	<u>(16,094)</u>

Cash flows from financing activities:

Proceeds from notes payable	33,979	20,900	223,600
Repayments on notes payable	(14,334)	(18,407)	(212,388)
Proceeds from sale of interest rate protection agreements	--	--	1,370
Note prepayment fees	--	--	(95)
Additions to deferred debt expense	(13)	(220)	(3,159)
Proceeds from the issuance of common stock and convertible limited partnership units in the Operating Partnership	12,653	11,648	4,500
Distributions to common stockholders and holders of convertible limited partnership units in the Operating Partnership	(28,448)	(27,124)	(26,020)
Net cash provided by (used) in financing activities	<u>3,837</u>	<u>(13,203)</u>	<u>(12,192)</u>

Net increase (decrease) in cash	(1,438)	1,707	650
Cash, beginning of year	2,395	688	38
Cash, end of year	<u>\$ 957</u>	<u>\$ 2,395</u>	<u>\$ 688</u>

Supplemental disclosures of cash flow information:

Cash paid during the year for:			
Interest, net of amount capitalized	\$ 22,698	\$ 22,575	\$ 19,804

The accompanying notes are an integral part of these statements.

1. ORGANIZATION, FORMATION, AND BASIS OF PRESENTATION

Organization

Saul Centers, Inc. ("Saul Centers") was incorporated under the Maryland General Corporation Law on June 10, 1993. The authorized capital stock of Saul Centers consists of 30,000,000 shares of common stock, having a par value of \$0.01 per share, and 1,000,000 shares of preferred stock. Each holder of common stock is entitled to one vote for each share held. Saul Centers, together with its wholly owned subsidiaries and the limited partnerships of which Saul Centers or one of its subsidiaries is the sole general partner, are referred to collectively as the "Company". Saul Centers operates as a real estate investment trust under the Internal Revenue Code of 1986, as amended (a "REIT").

Formation and Structure of Company

Saul Centers was formed to continue and expand the shopping center business previously owned and conducted by the B.F. Saul Real Estate Investment Trust, the B.F. Saul Company, Chevy Chase Bank, F.S.B. and certain other affiliated entities (collectively, "The Saul Organization"). On August 26, 1993, The Saul Organization transferred to Saul Holdings Limited Partnership, a newly formed Maryland limited partnership (the "Operating Partnership"), and two newly formed subsidiary limited partnerships (the "Subsidiary Partnerships") shopping center and office properties, and the management functions related to the transferred properties. Since its formation, the Company has purchased and developed additional properties. The Company is currently developing Washington Square at Old Town, a 235,000 square foot Class A mixed-use office/retail complex, on the 2-acre site of the former North Washington shopping center property, and Ashburn II, a 39,700 square foot retail and office suite expansion to the Company's Ashburn Village shopping center and repositioning an under-performing shopping center to an industrial/warehouse use (the "Industrial Property"). On December 16, 1999, the District of Columbia purchased the Park Road retail property as part of an assemblage of parcels for a neighborhood revitalization project. Therefore, as of December 31, 1999, the Company's properties (the "Current Portfolio Properties") consisted of 27 operating shopping center properties and Ashburn II (the "Shopping Centers"), 3 predominantly office operating properties and Washington Square at Old Town (the "Office Properties") and the Industrial Properties. To facilitate the placement of collateralized mortgage debt, the Company established Saul QRS, Inc. and SC Finance Corporation, each of which is a wholly owned subsidiary of Saul Centers. Saul QRS, Inc. was established to succeed to the interest of Saul Centers as the sole general partner of Saul Subsidiary I Limited Partnership.

As a consequence of the transactions constituting the formation of the Company, Saul Centers serves as the sole general partner of the Operating Partnership and of Saul Subsidiary II Limited Partnership, while Saul QRS, Inc., Saul Centers' wholly owned subsidiary, serves as the sole general partner of Saul Subsidiary I Limited Partnership. The remaining limited partnership interests in Saul Subsidiary I Limited Partnership and Saul Subsidiary II Limited Partnership are held by the Operating Partnership as the sole limited partner. Through this structure, the Company owns 100% of the Current Portfolio Properties.

Basis of Presentation

The accompanying financial statements of the Company have been presented on the historical cost basis of The Saul Organization because of affiliated ownership and common management and because the assets and liabilities were the subject of a business combination with the Operating Partnership, the Subsidiary Partnerships and Saul Centers, all newly formed entities with no prior operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Company, which conducts all of its activities through its subsidiaries, the Operating Partnership and Subsidiary Partnerships, engages in the ownership, operation, management, leasing, acquisition, renovation, expansion, development and financing of community and neighborhood shopping centers and office properties, primarily in the Mid-Atlantic region. A majority of the Shopping Centers are anchored by several major tenants. Eighteen of the Shopping Centers are anchored by a grocery store and offer primarily day-to-day necessities and services. As of December 31, 1999, no single Shopping Center accounted for more than 11.5% of the total Shopping Center gross leasable area. Only one retail tenant, Giant Food, at 7.3%, accounted for more than 1.6% of the Company's 1999 total revenues. No office tenant other than the United States Government, at 10.6%, accounted for more than 1.8% of 1999 total revenues.

Principles of Consolidation

The accompanying consolidated financial statements of the Company include the accounts of Saul Centers, its subsidiaries, and the Operating Partnership and Subsidiary Partnerships which are majority owned by Saul Centers. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent

assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Real Estate Investment Properties

Real estate investment properties are stated at the lower of depreciated cost or fair value less cost to sell. Management believes that these assets have generally appreciated in value and, accordingly, the aggregate current value exceeds their aggregate net book value and also exceeds the value of the Company's liabilities as reported in these financial statements. These financial statements are prepared in conformity with generally accepted accounting principles, and accordingly, do not report the current value of the Company's real estate assets.

Interest, real estate taxes and other carrying costs are capitalized on projects under construction. Once construction is substantially complete and the assets are placed in service, rental income, direct operating expenses, and depreciation associated with such properties are included in current operations. Expenditures for repairs and maintenance are charged to operations as incurred. Repairs and maintenance expense totaled \$2,815,000, \$2,616,000 and \$2,479,000, for calendar years 1999, 1998, and 1997, respectively, and is included in operating expenses in the accompanying financial statements. Interest expense capitalized totaled \$934,000, \$257,000 and \$297,000, for calendar years 1999, 1998 and 1997, respectively.

In the initial rental operations of development projects, a project is considered substantially complete and available for occupancy upon completion of tenant improvements, but no later than one year from the cessation of major construction activity. Substantially completed portions of a project are accounted for as separate projects. Depreciation is calculated using the straight-line method and estimated useful lives of 33 to 50 years for buildings and up to 20 years for certain other improvements. Leasehold improvements are amortized over the lives of the related leases using the straight-line method.

Accounts Receivable and Accrued Income

Accounts receivable primarily represent amounts currently due from tenants in accordance with the terms of the respective leases. In addition, accounts receivable included \$1,803,000, \$1,443,000 and \$1,663,000, at December 31, 1999, 1998 and 1997, respectively, representing minimum rental income accrued on a straight-line basis to be paid by tenants over the terms of the respective leases. Receivables are reviewed monthly and reserves are established with a charge to current period operations when, in the opinion of management, collection of the receivable is doubtful. Accounts receivable in the accompanying financial statements are shown net of an allowance for doubtful

accounts of \$594,000, \$657,000 and \$506,000, at December 31, 1999, 1998 and 1997, respectively.

Allowance for Doubtful Accounts

(In thousands)	For the Years Ended December 31,		
	1999	1998	1997
Beginning Balance	\$ 657	\$ 506	\$ 427
Provision for Credit Losses	295	418	505
Charge-offs	(358)	(267)	(426)
Ending Balance	\$ <u>594</u>	\$ <u>657</u>	\$ <u>506</u>

Deferred Debt Costs

Deferred debt costs consists of fees and costs incurred to obtain long-term financing, construction financing and the revolving line of credit. These fees and costs are being amortized over the terms of the respective loans or agreements. Deferred debt costs in the accompanying financial statements are shown net of accumulated amortization of \$1,005,000, \$589,000 and \$171,000, at December 31, 1999, 1998 and 1997, respectively.

Revenue Recognition

Rental and interest income is accrued as earned except when doubt exists as to collectibility, in which case the accrual is discontinued. When rental payments due under leases vary from a straight-line basis because of free rent periods or stepped increases, income is recognized on a straight-line basis in accordance with generally accepted accounting principles. Expense recoveries represent a portion of property operating expenses billed to the tenants, including common area maintenance, real estate taxes and other recoverable costs. Expense recoveries are recognized in the period when the expenses are incurred. Rental income based on a tenant's revenues ("percentage rent") is accrued when a tenant reports sales that exceed a specified breakpoint.

Income Taxes

The Company made an election to be treated, and intends to continue operating so as to qualify as a REIT under sections 856 through 860 of the Internal Revenue Code of 1986, as amended, commencing with its taxable year ending December 31, 1993. A REIT generally will not be subject to federal income taxation on that portion of its income that qualifies as REIT taxable income to the extent that it distributes at least 95% of its REIT taxable income to stockholders and complies with certain other requirements. Therefore, no provision has been made for federal income taxes in the accompanying financial statements. As of December 31, 1999 and 1998, the total tax basis of the Company's assets was \$323,080,000 and \$296,658,000, and the tax basis of the liabilities was \$317,474,000 and \$298,280,000, respectively.

Deferred Compensation and Stock Plan for Directors

Saul Centers has established a Deferred Compensation and Stock Plan for Directors (the "Plan") for the benefit of its directors and their beneficiaries. A director may elect to defer all or part of his or her director's fees and has the option to have the fees paid in cash, in shares of common stock or in a combination of cash and shares of common stock upon termination from the Board. If the director elects to have fees paid in stock, the number of shares allocated to the director is determined by the market price of the common stock on the day the fee is earned. As of December 31, 1999, 120,000 shares were authorized and registered for use under the Plan, and 72,000 shares had been credited to the directors' deferred fee accounts.

Beginning in 1999, pursuant to the Plan, 100 shares of the Company's common stock are awarded annually as additional compensation to each director serving on the Board of Directors as of the record date for the Annual Meeting of Stockholders. The shares are issued on the date of the Annual Meeting, their issuance may not be deferred and transfer of the shares is restricted for a period of twelve months following the date of issue.

Change In Accounting Method

On May 21, 1998, the Emerging Issues Task Force ("EITF") discussed Issue 98-9 "Accounting for Contingent Rent In Interim Financial Periods" and reached a consensus that lessors should defer the accounting recognition of contingent rent, such as percentage rent, until the specific tenant sales breakpoint is achieved. The Company's prior accounting method, which was permitted under generally accepted accounting principles, recognized percentage rent when a tenant's achievement of its sales breakpoint was considered probable. This EITF consensus was implemented retroactively to January 1, 1998, as a change in accounting method. The new accounting method did not affect the amount of percentage rent income reported on an annual basis, but did impact the recognition of percentage rent income reported on an interim basis by increasing revenues the Company reported in the first and fourth quarters and decreasing revenues reported in the second and third quarters.

The change in accounting method has no impact on the Company's cash flows. As a result of adoption of EITF Issue 98-9, the Company recorded a \$771,000 charge for the cumulative effect of change in accounting method, which is included in the consolidated statement of operations for the year ended December 31, 1998.

Construction in Progress

Construction in progress includes the costs of active development projects and other predevelopment project costs.

Development costs include direct construction costs and indirect costs such as architectural, engineering, construction management and carrying costs consisting of interest, real estate taxes and insurance. Construction in progress balances as of December 31, 1999 and 1998 are as follows:

Construction in Progress		
<i>(In thousands)</i>		
	December 31, 1999	1998
Washington Square	\$ 18,009	\$ --
Ashburn Village II	2,326	--
French Market	509	949
Crosstown Business Center	357	55
Avenel V	--	2,800
Shops At Fairfax	--	702
Balance	<u>\$ 21,201</u>	<u>\$ 4,506</u>

Cash and Cash Equivalents

Cash and cash equivalents includes cash and short-term investments with maturities of three months or less.

Per Share Data

Per share data is calculated in accordance with SFAS No. 128, "Earnings Per Share". The Company has no dilutive securities, therefore, basic and diluted earnings per share are identical. Net income before minority interests is presented on a fully converted basis, that is, assuming the limited partners exercise their right to convert their partnership ownership into shares of Saul Centers and is computed using weighted average shares of 18,147,954, 17,233,047 and 16,690,417, shares for the years ended December 31, 1999, 1998 and 1997, respectively. Per share data relating to net income after minority interests is computed on the basis of 13,100,295, 12,643,639 and 12,297,254, weighted average common shares for the years ended December 31, 1999, 1998 and 1997, respectively.

3. MINORITY INTERESTS - HOLDERS OF CONVERTIBLE LIMITED PARTNERSHIP UNITS IN THE OPERATING PARTNERSHIP

The Saul Organization has a 27.9% limited partnership interest, represented by 5,172,241 convertible limited partnership units, in the Operating Partnership, as of December 31, 1999. These convertible limited partnership units are convertible into shares of Saul Centers' common stock on a one-for-one basis, provided the rights may not be exercised at any time that The Saul Organization owns, directly or indirectly, in the aggregate more than 24.9% of the outstanding equity securities of Saul Centers. The impact of the Saul Organization's 27.9% limited partnership interest in the Operating Partnership is reflected as minority interests in the accompanying consolidated financial statements.

4. NOTES PAYABLE

December 31, 1999

During 1999 the Company obtained a \$42,000,000 loan to fund the construction of the Washington Square at Old Town project in Alexandria, Virginia. Borrowings totaled \$31,000,000 on the Company's \$60,000,000 unsecured revolving credit facility at December 31, 1999, leaving \$29,000,000 available for future use. The facility is due to mature September 30, 2000. The Company has the option to pay a fee of 1/4% and extend the term one year, however, the Company and lender are currently negotiating a new three year facility. Notes payable totaled \$310,268,000 at December 31, 1999, as follows:

Notes Payable			
(In thousands)	Principal Outstanding	Interest Rate †	Scheduled Maturity †
Fixed Rate Mortgages:	\$ 142,772 (a)	7.67%	Oct 2012
	76,914 (b)	8.52%	Dec 2011
	36,874 (c)	7.88%	Jan 2013
	10,430 (d)	6.88%	May 2004
Total Fixed Rate	266,990	7.91%	12.2 Years
Variable Rate Loans:			
Construction Loan	12,278 (e)	8.40%	Jan 2002
Line of Credit	31,000 (f)	8.00%	Sep 2000
Total Variable Rate	43,278	8.26%	1.1 Years
Total Notes Payable	\$ 310,268	7.96%	10.7 Years

† Weighted averages computed for interest rate and scheduled maturity totals.

(a) The loan is collateralized by nine shopping centers.

(b) The loan is collateralized by Avenel Business Park, Van Ness Square, Ashburn Village (I and II), Leesburg Pike, Lumberton Plaza and Village Center. The loan was amended during 1998 to include new borrowings of \$6,400,000 at a rate of 7.09%. Avenel IV (acquired in 1998) and Avenel V (under construction at year-end 1998 and substantially completed during 1999) were added as collateral. The 8.52% blended interest rate is the weighted average of the initial loan rate and the additional borrowings rate.

(c) The loan is collateralized by 601 Pennsylvania Avenue.

(d) The loan is collateralized by The Glen shopping center.

(e) The loan is a construction loan totaling \$42,000,000. Interest expense is calculated based upon the 1,2,3 or 6 month LIBOR plus a spread of 1.45% to 1.9% (determined by certain leasing and/or construction benchmarks) or upon the bank's prime rate at the Company's option. The loan may be extended for 2 one-year terms with payment of a fee of 1/4% at the Company's option. The interest rate in effect on December 31, 1999 was based on a LIBOR of 6.5% and spread of 1.9%.

(f) The loan is a revolving credit facility totaling \$60,000,000. Interest expense is calculated based upon the 1,2,3 or 6 month LIBOR plus a spread of 1.375% to 1.625% (determined by certain debt service coverage and leverage tests) or upon the bank's reference rate plus 1/2% at the Company's option. The line may be extended one year with payment of a fee of 1/4% at the Company's option. The interest rate in effect on December 31, 1999 was based on a LIBOR of 6.5% and spread of 1.5%.

Notes payable balances outstanding at December 31, 1999 have a weighted average remaining term of 10.7 years, and a weighted average interest rate of 7.96%. Of the \$310,268,000 total debt at December 31, 1999, \$266,990,000 was fixed rate (86.1% of the total notes payable) and \$43,278,000 was variable rate (13.9% of the total notes payable). The December 31, 1999 depreciated cost of properties collateralizing the mortgage notes payable totaled \$193,696,000. Certain loans are subject to covenant tests. The Company believes it is in compliance with all such covenant tests.

Notes payable of \$266,990,000 at December 31, 1999 require monthly installments of principal and interest, with principal amortization on schedules averaging approximately 20 years. The remaining notes payable totaling \$43,278,000 at December 31, 1999 require monthly installments of interest only. Notes payable at December 31, 1999 totaling \$221,075,000 are guaranteed by members of The Saul Organization.

As of December 31, 1999, the scheduled maturities of all debt for years ended December 31, are as follows:

Debt Maturity Schedule	
<i>(In thousands)</i>	
2000	\$ 36,297
2001	6,074
2002	18,030
2003	6,232
2004	15,999
Thereafter	227,636
	<u>\$ 310,268</u>

December 31, 1998

The Company assumed a \$3,700,000 loan when it acquired Avenel IV on April 1, 1998. In September 1998, the Company closed a \$6,400,000 permanent fixed rate loan to replace the variable rate loan assumed on the acquisition of Avenel IV. The balance of the loan, \$2,700,000, was used to fund construction of the new Avenel V development. The new loan term was 13 years and required monthly principal and interest payments based upon a 25 year amortization schedule and an interest rate of 7.09%. Borrowings totaled \$18,000,000 on the Company's \$60,000,000 unsecured revolving credit facility at December 31, 1998, leaving \$42,000,000 available for future use. Notes payable totaled \$290,623,000 at December 31, 1998.

Notes payable balances outstanding at December 31, 1998 had a weighted average remaining term of 12.5 years, and a weighted average interest rate of 7.84%. Of the \$290,623,000 total debt at December 31, 1998, \$272,623,000 was fixed rate (93.8% of the total notes payable) and \$18,000,000 was variable rate (6.2% of the total notes payable). The December 31, 1998 depreciated cost of properties collateralizing the mortgage notes payable totaled \$192,000,000.

Notes payable of \$272,422,000 at December 31, 1998 required monthly installments of principal and interest, with principal amortization on schedules averaging approximately 20 years. The \$201,000 note required monthly interest and an annual principal payment of \$100,000. The remaining notes payable totaling \$18,000,000 at December 31, 1998 required monthly installments of interest only. Notes payable at December 31, 1998 totaling \$211,000,000 were guaranteed by members of The Saul Organization.

5. LEASE AGREEMENTS

Lease income includes primarily base rent arising from noncancellable commercial leases. Base rent for the years ended December 31, 1999, 1998 and 1997 amounted to \$59,200,000, \$55,542,000 and \$51,779,000, respectively. Future base rent under noncancellable leases for years ended December 31, are as follows:

Future Base Rental Income	
<i>(In thousands)</i>	
2000	\$ 59,121
2001	52,658
2002	45,705
2003	39,176
2004	34,022
Thereafter	246,062
	<u>\$ 476,744</u>

The majority of the leases also provide for rental increases and expense recoveries based on increases in the Consumer Price Index or increases in operating expenses, or both. These increases generally are payable in equal installments throughout the year based on estimates, with adjustments made in the succeeding year. Expense recoveries for the years ended December 31, 1999, 1998 and 1997 amounted to \$10,176,000, \$9,911,000 and \$9,479,000, respectively. In addition, certain retail leases provide for percentage rent based on sales in excess of the minimum specified in the tenant's lease. Percentage rent amounted to \$2,222,000, \$2,755,000 and \$2,948,000, for the years ended December 31, 1999, 1998 and 1997, respectively.

6. LONG-TERM LEASE OBLIGATIONS

Certain properties are subject to noncancellable long-term leases which apply to land underlying the Shopping Centers. Certain of the leases provide for periodic adjustments of the base annual rent and require the payment of real estate taxes on the underlying land. The leases will expire between 2058 and 2068. Reflected in the accompanying consolidated financial statements is minimum ground rent expense of \$154,000, \$152,000 and \$152,000, for each of the years ended December 31, 1999, 1998, and 1997, respectively. The minimum future rental commitments under these ground leases are as follows:

Ground Lease Rental Commitments

(In thousands)

	2000	Annual Rent 2001	2002-2004	Total Thereafter
Beacon Center	\$ 47	\$ 51	\$ 53	\$ 3,395
Olney	50	50	50	4,575
Southdale	60	60	60	3,785
Total	<u>\$ 157</u>	<u>\$ 161</u>	<u>\$ 163</u>	<u>\$ 11,755</u>

The Company's Flagship Center consists of two developed outparcels that are part of a larger adjacent community shopping center formerly owned by The Saul Organization and sold to an affiliate of a tenant in 1991. The Company has a 90-year ground leasehold interest which commenced in September 1991 with a minimum rent of one dollar per year.

7. SHAREHOLDERS' EQUITY AND MINORITY INTERESTS

The consolidated statement of operations for the year ended December 31, 1999 includes a charge for minority interests of \$7,923,000, consisting of \$5,899,000 related to The Saul Organization's share of the net income for the year and \$2,024,000 related to distributions to minority interests in excess of allocated net income for the year. The charge for the year ended December 31, 1998 of \$7,240,000 consists of \$4,354,000 related to The Saul Organization's share of net income for the year and \$2,886,000 related to distributions to minority interests in excess of allocated net income for the year. The charge for the year ended December 31, 1997 of \$6,854,000 consists of \$2,483,000 related to The Saul Organization's share of the net income for the year and \$4,371,000 related to distributions to minority interests in excess of allocated net income for the year.

8. RELATED-PARTY TRANSACTIONS

In October 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 at a price of \$1,438,000. The land is being developed into a 39,700 square foot expansion to the existing shopping

center, containing approximately 23,600 square feet of retail and restaurant space and 16,100 square feet of professional office suites. The seller was a member of The Saul Organization.

In April 1998, the Company purchased, through its Operating Partnership, a 46,227 square foot office/flex property known as Avenel IV. The \$5,600,000 purchase price consisted of \$3,657,000 in variable rate debt assumption, with the balance paid through the issuance of 105,922 new units in Saul Centers' Operating Partnership. The seller was a member of The Saul Organization.

Chevy Chase Bank, an affiliate of The Saul Organization, leases space in twelve of the Company's properties. Total rental income from Chevy Chase Bank amounted to \$1,169,000, \$1,192,000 and \$1,181,000, for the years ended December 31, 1999, 1998 and 1997, respectively.

The Chairman and Chief Executive Officer, the Vice Chairman and the President of the Company are officers of The Saul Organization but devote a substantial amount of time to the management of the Company. The annual compensation for these officers is fixed by the Compensation Committee of the Board of Directors.

The Company shares with The Saul Organization on a prorata basis certain ancillary functions such as computer and payroll services and insurance expense based on management's estimate of usage or time incurred, as applicable. Also, The Saul Organization subleases office space to the Company. The terms of all such arrangements with The Saul Organization, including payments related thereto, are periodically reviewed by the Audit Committee of the Board of Directors. Included in general and administrative expense for the years ended December 31, 1999, 1998 and 1997, are charges totaling \$1,798,000, \$1,685,000 and \$1,624,000, related to shared services, of which \$1,773,000, \$1,480,000 and \$1,436,000, was paid during the years ended December 31, 1999, 1998 and 1997, respectively.

9. STOCK OPTION PLAN

The Company has established a stock option plan for the purpose of attracting and retaining executive officers and other key personnel. The plan provides for grants of options to purchase a specified number of shares of common stock. A total of 400,000 shares are available under the plan. The plan authorizes the Compensation Committee of the Board of Directors to grant options at an exercise price which may not be less than the market value of the common stock on the date the option is granted.

The Compensation Committee has granted options to purchase a total of 180,000 shares (90,000 shares from incentive stock options and 90,000 shares from nonqualified stock options) to five Company officers. The options vested 25% per year over four years, have an exercise price of \$20 per share and a term of ten years, subject to earlier expiration upon termination of employment. A total of 170,000 of the options expire September 23, 2003 and 10,000 expire September 24, 2004. As of December 31, 1999, all 180,000 of the options were fully vested. No compensation expense has been recognized as a result of these grants.

10. NON-OPERATING ITEMS

Sales of Interest Rate Protection Agreements

The Company sold the remaining portion of its interest rate protection agreements with a notional value of \$162,800,000 in October 1997. The sales resulted in the write-off of unamortized costs in excess of the proceeds received totaling \$4,392,000 for the year ended December 31, 1997.

Gain on Sale of Property

Gain on sale of property of \$553,000 in 1999 resulted from the District of Columbia's purchase of the Company's Park Road property as part of an assemblage of parcels for a neighborhood revitalization project. There were no property sales in the 1998 year.

11. EXTRAORDINARY ITEM - EARLY EXTINGUISHMENT OF DEBT

The consolidated statements of operations for the years ending December 31, 1998 and 1997, include \$50,000 and \$3,197,000, respectively, related to the write-off of deferred financing costs on loans that were prepaid. There was no such write-off for the year ended December 31, 1999.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, "Disclosure about Fair Value of Financial Instruments," requires disclosure about the fair value for all financial instruments. The carrying values of cash, accounts receivable, accounts payable and accrued expenses are reasonable estimates of their fair value. Based on interest rates currently available to the Company, the carrying value of the variable rate credit line payable is a reasonable estimation of fair value, because the debt bears interest based on short-term interest rates. Based upon management's estimate of borrowing rates and loan terms currently available to the Company for fixed rate financing in the amount of the total notes payable, the fair value is not materially different from its carrying value.

13. COMMITMENTS AND CONTINGENCIES

Neither the Company nor the Current Portfolio Properties are subject to any material litigation, nor, to management's knowledge, is any material litigation currently threatened against the Company, other than routine litigation and administrative proceedings arising in the ordinary course of business. Management believes that these items, individually or in the aggregate, will not have a material adverse impact on the Company or the Current Portfolio Properties.

14. DISTRIBUTIONS

In December 1995, the Company established a Dividend Reinvestment and Stock Purchase Plan (the "Plan"), to allow its stockholders and holders of limited partnership interests an opportunity to buy additional shares of common stock by reinvesting all or a portion of their dividends or distributions. The Plan provides for investing in newly issued shares of common stock at a 3% discount from market price without payment of any brokerage commission, service charges or other expenses. All expenses of the Plan are paid by the Company. The January 31, 1996 dividend was the initial dividend payment date when the Company's stockholders and holders of limited partnership interests could participate in the Plan.

Of the distributions paid during 1999, \$1.34 per share represented ordinary dividend income and \$0.22 per share represented return of capital to the shareholders. The following summarizes distributions paid during the years ended December 31, 1999, 1998 and 1997, including activity in the Plan:

(In thousands)

	Total Distributions to		Dividend Reinvestment Plan		
	Common Stockholders	Limited Partnership Unitholders	Common Stock Issued	Units Issued	Discounted Share Price
Distributions during 1999					
October 29	\$ 5,148	\$ 2,017	130,753	--	\$ 13.76
July 30	5,100	2,018	119,142	126,967	14.79
April 30	5,075	1,967	111,990	119,877	15.28
January 29	4,985	1,921	116,727	126,702	14.07
	<u>\$ 20,308</u>	<u>\$ 7,923</u>	<u>478,612</u>	<u>373,546</u>	
Distributions during 1998					
October 30	\$ 4,980	\$ 1,873	105,756	112,867	\$ 15.40
July 29	4,969	1,827	101,739	106,010	16.01
April 30	4,950	1,827	90,856	80,733	17.40
January 30	4,832	1,713	94,304	--	16.19
	<u>\$ 19,731</u>	<u>\$ 7,240</u>	<u>392,655</u>	<u>299,610</u>	
Distributions during 1997					
October 31	\$ 4,808	\$ 1,713	72,901	--	\$ 17.10
July 31	4,782	1,715	63,291	--	16.98
April 30	4,744	1,713	68,913	--	15.16
January 31	4,729	1,713	58,728	--	16.01
	<u>\$ 19,063</u>	<u>\$ 6,854</u>	<u>263,833</u>	<u>--</u>	

In December 1999, 1998 and 1997, the Board of Directors of the Company authorized a distribution of \$0.39 per share payable in January 2000, 1999 and 1998, to holders of record on January 17, 2000, January 15, 1999 and January 16, 1998, respectively. As a result, \$5,202,000, \$4,985,000 and \$4,832,000 was paid to common shareholders on January 31, 2000, January 29, 1999 and January 30, 1998,

respectively. Also, \$2,017,000, \$1,921,000 and \$1,713,000, was paid to limited partnership unitholders on January 31, 2000, January 29, 1999 and January 30, 1998 (\$0.39 per Operating Partnership unit), respectively. These amounts are reflected as a reduction of stockholders' equity and are included in accounts payable in the accompanying consolidated financial statements.

15. INTERIM RESULTS (UNAUDITED)

The following summary presents the results of operations of the Company for the quarterly periods of years 1999 and 1998.

(In thousands, except per share amounts)

	Three Months Ended			
	12/31/1999	9/30/1999	6/30/1999	3/31/1999
Revenues	\$ 19,398	\$ 18,409	\$ 18,020	\$ 17,964
Net income before extraordinary item and minority interests	6,103	5,145	4,931	5,041
Minority interests	(2,017)	(2,018)	(1,967)	(1,921)
Net income	\$ 4,086	\$ 3,127	\$ 2,964	\$ 3,120
Per Share Data:				
Net income before extraordinary item and minority interests	\$ 0.33	\$ 0.28	\$ 0.27	\$ 0.28
Net income	\$ 0.31	\$ 0.24	\$ 0.23	\$ 0.24
	12/31/1998	9/30/1998	6/30/1998	3/31/1998
Revenues	\$ 18,100	\$ 17,650	\$ 17,505	\$ 17,143
Net income before extraordinary item and minority interests	3,774	4,427	4,326	4,478
Extraordinary item-Early extinguishment of debt	--	(50)	--	--
Minority interests	(1,873)	(1,827)	(1,827)	(1,713)
Net income	\$ 1,901	\$ 2,550	\$ 2,499	\$ 2,765
Per Share Data:				
Net income before extraordinary item and minority interests	\$ 0.21	\$ 0.26	\$ 0.25	\$ 0.27
Net income	\$ 0.15	\$ 0.20	\$ 0.20	\$ 0.22

In June 1998, the Company adopted a new accounting method as directed by the Emerging Issues Task Force (EITF) Issue 98-9 "Accounting for Contingent Rent In Interim Financial Periods" which reallocated the amount of annual percentage rent income recognized in its quarterly reports. (See Note 2, Summary of Significant Accounting Policies-Change In Accounting Method.) The Company adopted the new accounting method during the second quarter of 1998, retroactive to January 1, 1998. The Company reported revenues and net income of \$34,833,000 and \$4,678,000, respectively, for the six months ended June 30, 1998. The six month results included additional percentage rent income of \$185,000 and the cumulative effect of change in accounting method of (\$771,000), which would have been reported in the first quarter had the accounting method been then adopted. The 1998 second, third and fourth quarter interim results presented above reflect application of the new accounting method. The 1998 first quarter does not reflect the allocation of percentage rent income earned in accordance with the new accounting method and therefore is not comparable with the 1999 results. The application of the change in accounting method had no impact on the Company's cash flows nor the amount of revenues reported for the years ended December 31, 1999 and 1998.

16. BUSINESS SEGMENTS

The company has two reportable business segments: Shopping Centers and Office Properties. The accounting policies of the segments presented below are the same as those described in the summary of significant accounting policies (see Note 1). The Company evaluates performance based upon income from real estate for the combined properties in each segment.

(In thousands)

	Shopping Centers	Office Properties	Corporate and Other	Consolidated Totals
1999				
Real estate rental operations:				
Revenues	\$ 54,510	\$ 19,178	\$ 103	\$ 73,791
Expenses	(9,604)	(4,611)	(7)	(14,222)
Income from real estate	44,906	14,567	96	59,569
Interest expense & amortization of debt costs	--	--	(22,984)	(22,984)
General and administrative	--	--	(3,755)	(3,755)
Subtotal	44,906	14,567	(26,643)	32,830
Depreciation and amortization	(8,414)	(3,662)	(87)	(12,163)
Gain on property sale	553	--	--	553
Minority interests	--	--	(7,923)	(7,923)
Net income	\$ 37,045	\$ 10,905	\$ (34,653)	\$ 13,297
Capital investment	\$ 16,939	\$ 21,397	\$ 302	\$ 38,638
Total assets	\$ 186,769	\$ 88,310	\$ 24,586	\$ 299,665

1998

Real estate rental operations:				
Revenues	\$ 52,595	\$ 17,871	\$ 117	\$ 70,583
Expenses	(9,523)	(4,723)	(130)	(14,376)
Income (loss) from real estate	43,072	13,148	(13)	56,207
Interest expense & amortization of debt costs	--	--	(23,046)	(23,046)
General and administrative	--	--	(3,393)	(3,393)
Subtotal	43,072	13,148	(26,452)	29,768
Depreciation and amortization	(8,758)	(3,694)	(126)	(12,578)
Early extinguishment of debt	--	--	(50)	(50)
Cumulative effect of accounting method change	--	--	(771)	(771)
Minority interests	--	--	(7,240)	(7,240)
Net income	\$ 34,314	\$ 9,454	\$ (34,639)	\$ 9,129
Capital investment	\$ 11,807	\$ 2,892	\$ 77	\$ 14,776
Total assets	\$ 178,459	\$ 70,182	\$ 22,393	\$ 271,034

1997

Real estate rental operations:				
Revenues	\$ 51,096	\$ 16,302	\$ 319	\$ 67,717
Expenses	(9,771)	(4,691)	(202)	(14,664)
Income from real estate	41,325	11,611	117	53,053
Interest expense & amortization of debt costs	--	--	(22,037)	(22,037)
General and administrative	--	--	(3,379)	(3,379)
Subtotal	41,325	11,611	(25,299)	27,637
Depreciation and amortization	(7,144)	(3,373)	(125)	(10,642)
Sales of interest rate protection agreements	--	--	(4,392)	(4,392)
Early extinguishment of debt	--	--	(3,197)	(3,197)
Minority interests	--	--	(6,854)	(6,854)
Net income	\$ 34,181	\$ 8,238	\$ (39,867)	\$ 2,552
Capital investment	\$ 15,240	\$ 849	\$ 5	\$ 16,094
Total assets	\$ 174,556	\$ 67,016	\$ 19,370	\$ 260,942

To the Board of Directors of Saul Centers, Inc.:

We have audited the accompanying consolidated balance sheets of Saul Centers, Inc. (a Maryland corporation) and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of operations, stockholders' equity and cash flows for the three years ended December 31, 1999, 1998 and 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made

by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Saul Centers, Inc. and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years ended December 31, 1999, 1998 and 1997 in conformity with accounting principles generally accepted in the United States.

As explained in Note 2 to the financial statements, effective June 30, 1998, the Company changed its method of accounting for percentage rent.

Arthur Andersen LLP
Vienna, Virginia
February 7, 2000

GENERAL

The following discussion is based on the consolidated financial statements of the Company as of December 31, 1999 and for the year ended December 31, 1999. Prior year data is based on the Company's consolidated financial statements as of December 31, 1998 and 1997 and for the years ended December 31, 1998 and 1997.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal demands for liquidity are expected to be distributions to its stockholders, debt service and loan repayments, expansion and renovation of the Current Portfolio Properties and selective acquisition and development of additional properties. In order to qualify as a REIT for federal income tax purposes, the Company must distribute to its stockholders at least 95% of its "real estate investment trust taxable income," as defined in the Internal Revenue Code of 1986, as amended. The Company anticipates that operating revenues will provide the funds necessary for operations, debt service, distributions, and required recurring capital expenditures. Balloon principal repayments are expected to be funded by refinancings.

Management anticipates that during the coming year the Company may: 1) redevelop certain of the Shopping Centers, 2) develop additional freestanding outparcels or expansions within certain of the Shopping Centers, 3) acquire existing neighborhood and community shopping centers and/or office properties and 4) develop new shopping center or office sites. Acquisition and development of properties are undertaken only after careful analysis and review, and management's determination that such property is expected to provide long-term earnings and cash flow growth. During the coming year, any developments, expansions or acquisitions are expected to be funded with bank borrowings from the Company's credit line, construction financing, proceeds from the operation of the Company's dividend reinvestment plan or other external capital resources available to the Company.

The Company expects to fulfill its long range requirements for capital resources in a variety of ways, including undistributed cash flow from operations, secured or unsecured bank and institutional borrowings, private or public offerings of debt or equity securities and proceeds from the sales of properties. Borrowings may be at the Saul Centers, Operating Partnership or Subsidiary Partnership level, and securities offerings may include (subject to certain limitations) the issuance of additional limited partnership interests in the Operating Partnership which can be converted into shares of Saul Centers common stock.

Management believes that the Company's current capital resources, including approximately \$29,000,000 of the Company's credit line which was available for borrowing as of December 31, 1999, will be sufficient to meet its liquidity needs for the foreseeable future.

CAPITAL STRATEGY AND FINANCING ACTIVITY

The Company's capital strategy is to maintain a ratio of total debt to total asset value of 50% or less, and to actively manage the Company's leverage and debt expense on an ongoing basis in order to maintain prudent coverage of fixed charges. Management believes that current total debt remains less than 50% of total asset value. Over 80% of the Company's debt has a maturity beyond the year 2010. The Company's interest expense coverage ratio increased to 2.48 during the past year, from 2.33 in 1998.

During 1999, the Company closed a \$38,000,000 construction loan to fund the development costs associated with Washington Square, the mixed-use office/retail complex which the Company is constructing in Old Town Alexandria, Virginia. In October 1999, the Company secured a \$4,000,000 increase in the construction loan in order to fully fund the increase in the overall project size from 225,000 leasable square feet to 235,000 leasable square feet and additional development costs. The loan has an initial three-year term with an interest rate of LIBOR plus 1.90%, with the spread over LIBOR declining as leasing of the office and retail space is achieved.

In conjunction with the Company's April 1998 acquisition of Avenel IV and the development of the 28,000 square foot Avenel V during 1999, the Company closed a \$6,400,000 permanent loan in September 1998. The new loan term is 13 years, maturing in December 2011, and requires monthly principal and interest payments based on a 25-year amortization schedule and a rate of 7.09%. This loan is a part of a cross-collateralized mortgage pool totaling \$76,914,000 at December 31, 1999. See "Notes to Consolidated Financial Statements, Note 4—Notes Payable".

As of February 20, 2000, outstanding borrowings on the Company's \$60,000,000 unsecured credit line totaled \$36,400,000, leaving \$23,600,000 of credit availability. The Company has fixed interest rates on approximately 83.3% of its total debt outstanding, which now has a weighted remaining term of 10.2 years.



FINANCIAL INFORMATION

In 1999, the Company reported Funds From Operations (FFO) of \$32,830,000 on a fully converted basis. This represents a 10.3% increase over 1998 FFO of \$29,768,000. The following table represents a reconciliation from net income before minority interests to FFO:

Funds from Operations Schedule			
(Dollars in thousands)	For the Years Ended December 31,		
	1999	1998	1997
Net income before minority interests	\$ 21,220	\$ 16,369	\$ 9,406
Subtract: Gain on sale of property	553	--	--
Add: Depreciation and amortization of real property	12,163	12,578	10,642
Debt restructuring losses:			
Disposition of interest rate protection agreements	--	--	4,392
Write-off of unamortized loan costs	--	50	3,197
	<u>32,830</u>	<u>28,997</u>	<u>27,637</u>
Add: Retroactive impact of change in accounting method	--	771	--
Funds From Operations	<u>\$ 32,830</u>	<u>\$ 29,768</u>	<u>\$ 27,637</u>

¹ Retroactive to January 1, 1998, the Company began recognition of percentage rental income in accordance with a new accounting pronouncement.

² FFO, as defined by the National Association of Real Estate Investment Trusts, is calculated as net income excluding gains or losses from debt restructuring and sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. FFO does not represent cash generated from operating activities in accordance with generally accepted accounting principles and is not necessarily indicative of cash available to fund cash needs, which is disclosed in the Consolidated Statements of Cash Flows for the applicable periods. There are no material legal or functional restrictions on the use of FFO. FFO should not be considered as an alternative to net income, as an indicator of the Company's operating performance, or as an alternative to cash flows as a measure of liquidity. Management considers FFO a supplemental measure of operating performance and along with cash flow from operating activities, financing activities and investing activities, it provides investors with an indication of the ability of the Company to incur and service debt, to make capital expenditures and to fund other cash needs. FFO may not be comparable to similarly titled measures employed by other REITs.

Cash flow from operating activities, investing activities and financing activities are as follows:

(Dollars in thousands)	For the Years Ended December 31,		
	1999	1998	1997
Cash flow provided by (used in):			
Operating activities	\$ 31,645	\$ 29,686	\$ 28,936
Investing activities	(36,920)	(14,776)	(16,094)
Financing activities	3,837	(13,203)	(12,192)

REDEVELOPMENT, RENOVATIONS AND ACQUISITIONS

The Company has been selectively involved in redevelopment, renovation and acquisition activities. It continues to evaluate land parcels for retail and office development and potential acquisitions of operating properties for opportunities to enhance operating income and cash flow growth. The Company also continues to take advantage of redevelopment, renovation and expansion opportunities within the portfolio, as demonstrated by its activities at Washington Square, Ashburn II, French Market and Crosstown Business Center. The Company completed development activity during 1999 at Beacon Center, Shops at Fairfax and Avenel Business Park.

In February 1999, the Company announced the development of 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 leaseable area and is well located on a two-acre site, formerly leased to Mastercraft furniture, along Alexandria's main street. Construction of the underground parking deck has been substantially completed, with building frames for the retail and office levels completed to the roof deck. Precast facade features and brick work is being installed and base building construction of the two buildings is scheduled to be completed by the summer of 2000. The 45,000 square feet of retail space is 62% pre-leased.

The Company recently 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 is being developed into 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 began in November with substantial completion scheduled for the spring of 2000. Approximately 56% of the new space has been pre-leased.

During 1999, the Company completed construction on a facade renovation and retenancing of a 103,000 square foot anchor space at the 213,000 square foot French Market center in Oklahoma City, Oklahoma. In December, a 90,000 square foot lease was signed with Burlington Coat Factory to locate in the enclosed mall portion of the center. The common areas of the mall will become part of the Burlington leasable area, increasing the center to 247,000 square feet upon completion of tenant improvements. Mall tenants will be relocating to other space in the center or ceasing operations this month to allow construction to commence. Burlington is scheduled to open in the fall of 2000, increasing the center's occupancy to over 95%.

The conversion of the under-performing Tulsa, Oklahoma shopping center formerly anchored by Wal-Mart, to an industrial/office campus named Crosstown Business Center has commenced. The first tenant occupied its space in December 1999 and the project is now 15% leased.

In late 1999, the Company completed redevelopment of the Beacon Center, located along U.S. Route 1 in Alexandria, Virginia. Beacon Center's central enclosed mall area was demolished and construction of a 148,000 square foot Lowe's home improvement and garden center store was completed and opened during the first week in November. In addition to the new Lowe's, 8,000 square feet of new small shop space was constructed and is 100% leased and occupied.

The Company also recently completed another significant redevelopment during 1999 with the opening of a 53,000 square foot SuperFresh grocery store at the Shops at Fairfax, located in Fairfax, Virginia. A small, enclosed mall comprising a portion of the shopping center was demolished and replaced by the new SuperFresh building and an additional 7,500 square feet of small shop space. SuperFresh opened for business in late September, and the shop space is 100% leased and occupied.

The 1998 acquisition of Avenel IV and the completion in 1999 of the 27,000 square foot Avenel V expansion, increased the leasable area of the Company's Avenel Business Park by 26% to 359,000 square feet. Avenel Business Park is currently over 97% leased.

PORTFOLIO LEASING STATUS

At December 31, 1999, the portfolio consisted of twenty eight Shopping Centers, four Office Properties and one Industrial Property, all of which are located in seven states and the District of Columbia. The Office Properties consist of one office property and one office/retail property, both located in the District of Columbia, a research park located in a Maryland suburb of Washington, D.C. and an office/retail property under construction in Old Town Alexandria, Virginia.

At December 31, 1999, 92.7% of the Company's 5.8 million square feet of operating leasable space was leased to tenants, as compared to 92.1% at December 31, 1998. The shopping center portfolio was 95.2% leased at both December 31, 1999 and 1998. The Office Properties (excluding the Washington Square project under development) were 96.3% leased at December 31, 1999 compared to 95.4% as of December 31, 1998. The Industrial Property was 15% leased at December 31, 1999 compared to 2% as of December 31, 1998. The overall improvement in the year-end 1999 leasing percentage resulted primarily from the Company's successful leasing at Avenel Business Park and the commencement of leasing at Crosstown Business Center.

RESULTS OF OPERATIONS

The following discussion compares the results of the Company for the year ended December 31, 1999 with the year ended December 31, 1998, and compares the year ended December 31, 1998 with the year ended December 31, 1997. This information should be read in conjunction with the accompanying consolidated financial statements and the notes related thereto.

Years Ended December 31, 1999 and 1998

Base rent increased to \$59,200,000 in 1999 from \$55,542,000 in 1998, representing a \$3,658,000 (6.6%) increase. The increase in base rent resulted primarily from new leases in effect at recently redeveloped shopping centers (French Market, Seven Corners, Beacon Center and Thruway), leases rolling-over to higher rents in the Office Properties and the rollover of three anchor tenant leases into higher paying base rent in lieu of percentage rent at White Oak, Ravenwood and Giant shopping centers. The increase in base rent was diminished in part by the temporary absence of rental income on space being redeveloped at the Washington Square and Shops at Fairfax developments.

Expense recoveries increased to \$10,176,000 in 1999 from \$9,911,000 in 1998, representing an increase of \$265,000 (2.7%). Expense recovery income increased primarily as a result of increases in real estate tax expense billed and collected from the Company's shopping center tenants.

Percentage rent was \$2,222,000 in 1999, compared to \$2,755,000 in 1998, representing a decrease of \$533,000 (19.3%). The decrease in percentage rent resulted primarily from the rollover of three anchor tenant leases into higher paying base rent in lieu of percentage rent at White Oak, Ravenwood and Giant shopping centers.

Other income, which consists primarily of parking income at two of the Office Properties, kiosk leasing, temporary leases and payments associated with early termination of leases, was \$2,193,000 in 1999, compared to \$2,375,000 in 1998, representing a decrease of \$182,000 (7.7%). The decrease in other income resulted from reduced lease termination payments in the Office Properties compared to the prior year.

As a consequence of the foregoing, the 1999 total revenues of \$73,791,000 represented an increase of \$3,208,000 (4.5%) over 1998 total revenues of \$70,583,000.

Operating expenses, which consist mainly of repairs and maintenance, utilities, payroll and insurance expense, decreased \$110,000 (1.4%) to \$7,720,000 in 1999 from \$7,830,000 in 1998.

The provision for credit losses was \$295,000 in 1999 compared to \$418,000 in 1998, representing a decrease of \$123,000 (29.4%). The credit loss decrease resulted from lower credit loss activity in 1999 compared to 1998, when a major tenant at Avenel Business Park filed for bankruptcy protection.

Real estate taxes were \$6,207,000 in 1999 compared to \$6,128,000 in 1998, representing an increase of \$79,000 (1.3%).

Interest expense was \$22,568,000 in 1999 compared to \$22,627,000 in 1998, representing a decrease of \$59,000 (0.3%).

Amortization of deferred debt expense was \$416,000 in 1999 compared to \$419,000 in 1998, a decrease of \$3,000 (0.7%).

Depreciation and amortization expense was \$12,163,000 in 1999 compared to \$12,578,000 in 1998, representing a decrease of \$415,000 (3.3%).

General and administrative expense, which consists primarily of administrative payroll and other overhead expenses, was \$3,755,000 in 1999 compared to \$3,393,000 in 1998, representing an increase of \$362,000 (10.7%). The increase in 1999 expenses compared to 1998 resulted from increases in payroll and state income tax expenses.

Gain on sale of property of \$553,000 in 1999 resulted from the District of Columbia's purchase of the Company's Park Road property as part of an assemblage of parcels for a neighborhood revitalization project. There were no property sales in the 1998 year.

Extraordinary item, early extinguishment of debt, resulted in losses of \$50,000 in 1998. The losses resulted from the write-off of unamortized loan costs when the Company refinanced a portion of its loan portfolio. There were no such losses in 1999.

Cumulative effect of change in accounting method occurred in 1998, when the company adopted a new accounting method as directed by the Emerging Issues Task Force (EITF), Issue 98-9, Accounting for Contingent Rent In Interim Financial Periods. The Company recorded a charge of \$771,000 for contingent rents recognized under the previous method.



Years Ended December 31, 1998 and 1997

Base rent increased to \$55,542,000 in 1998 from \$51,779,000 in 1997, representing a \$3,763,000 (7.3%) increase. The increase in base rent resulted primarily from improved occupancy at the redeveloped Seven Corners and Beacon Center, increased minimum rents on lease rollover from three tenants previously paying percentage rent, and to a lesser extent, generally higher rents on lease renewals.

Expense recoveries increased to \$9,911,000 in 1998 from \$9,479,000 in 1997, representing an increase of \$432,000 (4.6%). The equal increases in common area maintenance expense recoveries and real estate tax expense recovery occurred due to improved occupancy primarily at Seven Corners and the addition of the Avenel IV property to the Company's portfolio during 1998.

Percentage rent was \$2,755,000 in 1998, compared to \$2,948,000 in 1997, representing a decrease of \$193,000 (6.5%). This decrease resulted primarily from the rollover of three leases into higher paying base rent in lieu of percentage rent.

Other income, which consists primarily of parking income at two of the Office Properties, kiosk leasing, temporary leases and payments associated with early termination of leases, was \$2,375,000 in 1998, compared to \$3,511,000 in 1997, representing a decrease of \$1,136,000 (32.4%). The decrease in other income resulted from two large lease termination payments collected from former tenants at Seven Corners and Beacon Center in 1997.

As a consequence of the foregoing, the 1998 total revenues of \$70,583,000 represented an increase of \$2,866,000 (4.2%) over 1997 total revenues of \$67,717,000.

Operating expenses, which consist mainly of repairs and maintenance, utilities, payroll and insurance expense, decreased \$245,000 (3.0%) to \$7,830,000 in 1998 from \$8,075,000 in 1997.

The provision for credit losses was \$418,000 in 1998 compared to \$505,000 in 1997, representing a decrease of \$87,000 (17.2%). The decrease resulted from fewer uncollectible rent receivables resulting from tenants vacating their space prior to lease expiration.

Real estate taxes were \$6,128,000 in 1998 compared to \$6,084,000 in 1997, representing an increase of \$44,000 (0.7%).

Interest expense was \$22,627,000 in 1998 compared to \$20,308,000 in 1997, representing an increase of \$2,319,000 (11.4%). This increase is primarily attributable to higher interest rates resulting from the Company's October 1997 refinancing and conversion of approximately \$147.0 million of its mortgage debt from interest rate capped floating rate loans to longer term, fixed rate loans. New debt associated with the acquisition of Avenel IV in April 1998 also added approximately \$210,000 to interest expense in 1998.

Amortization of deferred debt expense decreased \$1,310,000 (75.8%) to \$419,000 in 1998 from \$1,729,000 in 1997. The decrease in the 1998 expense resulted from the elimination of amortization on interest rate protection agreements with notional values of \$162.8 million sold during the fourth quarter of 1997, and reduced amortization because new debt costs related to the October 1997 refinancings are being amortized over a longer term than the prior debt costs.

Depreciation and amortization expense increased \$1,936,000 (18.2%) from \$10,642,000 in 1997 to \$12,578,000 in 1998. The increase resulted from the non-recurring write-off of unamortized tenant improvement costs due to the early termination of tenant leases at Beacon Center and Shops At Fairfax redevelopments and increased recurring expense related to new assets placed in service during 1998 and the latter half of 1997.

General and administrative expense, which consists primarily of administrative payroll and other overhead expenses, was \$3,393,000 in 1998 compared to \$3,379,000 in 1997, representing an increase of \$14,000 (0.4%).

Non-operating item, sales of interest rate protection agreements, resulted in a loss of \$4,392,000 in 1997 due to the write-off of unamortized costs in excess of sale proceeds received when the Company sold its remaining interest rate protection agreements. No such sales occurred in 1998.

Extraordinary item, early extinguishment of debt, resulted in losses of \$50,000 and \$3,197,000, in 1998 and 1997, respectively. The losses in each period resulted from the write-off of unamortized loan costs when the Company refinanced a portion of its loan portfolio.

DIRECTORS

B. Francis Saul II
Chairman & Chief
Executive Officer

B. Francis Saul III
Vice Chairman

Philip D. Caraci
President

Gilbert M. Grosvenor
Chairman of the
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Charles R. Longworth
Chairman Emeritus, Colonial
Williamsburg Foundation

Patrick F. Noonan
Chairman, The Conservation Fund

Mark Sullivan III
Attorney

**The Honorable James W.
Symington**
Partner, O'Connor & Hannan,
Attorneys at Law

John R. Whitmore
Senior Advisor to the
Bessemer Group, Inc.

EXECUTIVE OFFICERS

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Officer

B. Francis Saul III
Vice Chairman

Philip D. Caraci
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Scott V. Schneider
Senior Vice President,
Chief Financial Officer,
Treasurer & Secretary

Christopher H. Netter
Senior Vice President, Leasing

John F. Collich
Vice President, Retail
Development

Charles W. Sherren, Jr.
Vice President, Management

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EXCHANGE LISTING

New York Stock Exchange
Symbol: BFS

TRANSFER AGENT

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

10-K REPORT

A copy of the Saul Centers, Inc.
annual report to the Securities
and Exchange Commission on
Form 10-K may be printed from
the Company's web site or
obtained at no cost to
stockholders by writing to:

Investor Relations
Saul Centers, Inc.
8401 Connecticut Avenue
Chevy Chase, Maryland 20815



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 Shareholder's Information section of the Company's Web Site.

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 Annual 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.

STOCK PRICES

Period	Share Price	
	High	Low
Fourth Quarter, 1999	\$15 ¹⁵ / ₁₆	\$14
Third Quarter, 1999	\$17 ³ / ₈	\$14 ¹³ / ₁₆
Second Quarter, 1999	\$17 ¹ / ₈	\$14 ³ / ₄
First Quarter, 1999	\$15 ⁹ / ₁₆	\$14 ¹ / ₂
Fourth Quarter, 1998	\$16 ³ / ₄	\$15 ³ / ₈
Third Quarter, 1998	\$18 ³ / ₁₆	\$15 ³ / ₁₆
Second Quarter, 1998	\$18 ¹⁵ / ₁₆	\$17 ³ / ₁₆
First Quarter, 1998	\$18 ¹⁵ / ₁₆	\$17 ³ / ₈

On February 28, 2000, the closing price was \$14³/₈.

There were approximately 500 holders of record as of that date.

The annual meeting of shareholders will be held at 11:00 a.m., local time, on April 28, 2000, at the Embassy Suites Chevy Chase Pavilion, 4300 Military Road, N.W., Washington, D.C. (at the intersection of Western and Wisconsin Avenues, adjacent to Friendship Heights Metro Stop on the Metro Red Line.)



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