

2000

ANNUAL REPORT TO SHAREHOLDERS

2000



***Your Neighborhood
Shopping Center REIT***



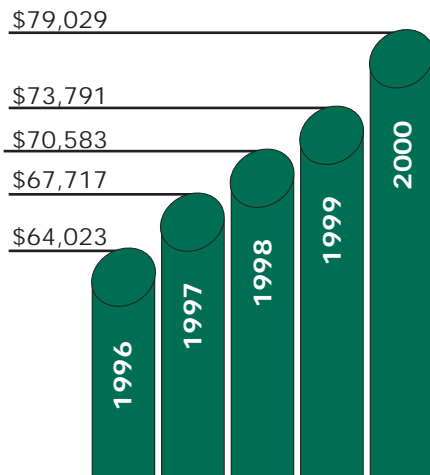
Saul Centers

Financial

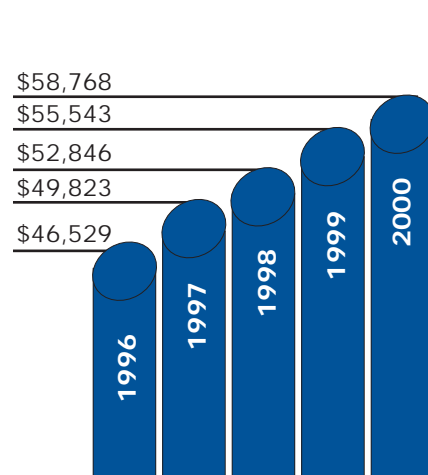
FINANCIAL DATA

Historic Operating Performance

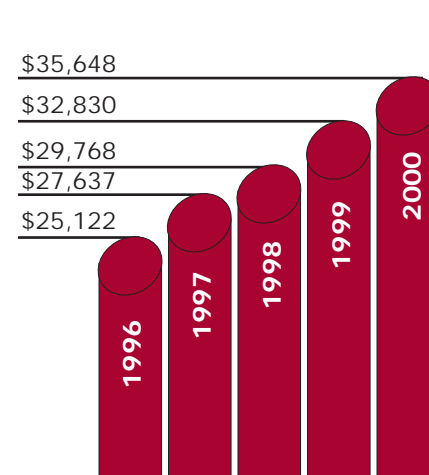
Total Revenues
(in thousands)



Property Operating Income
(in thousands)

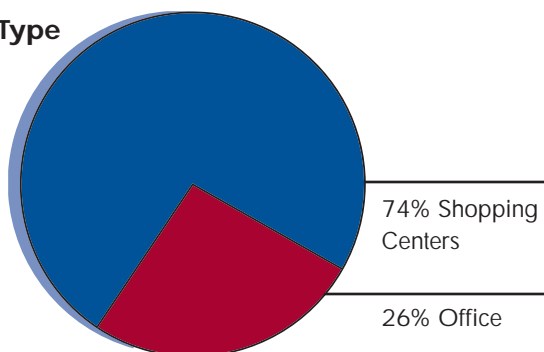


Funds From Operations
(in thousands)

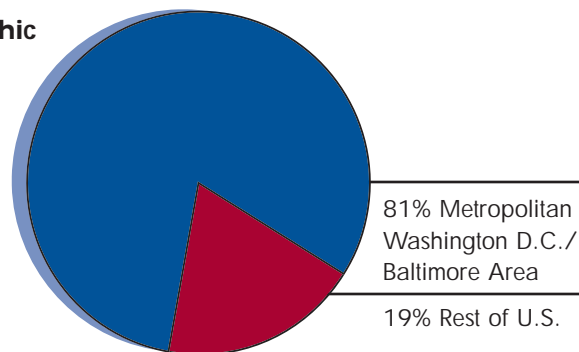


Portfolio Composition Based on Property Operating Income

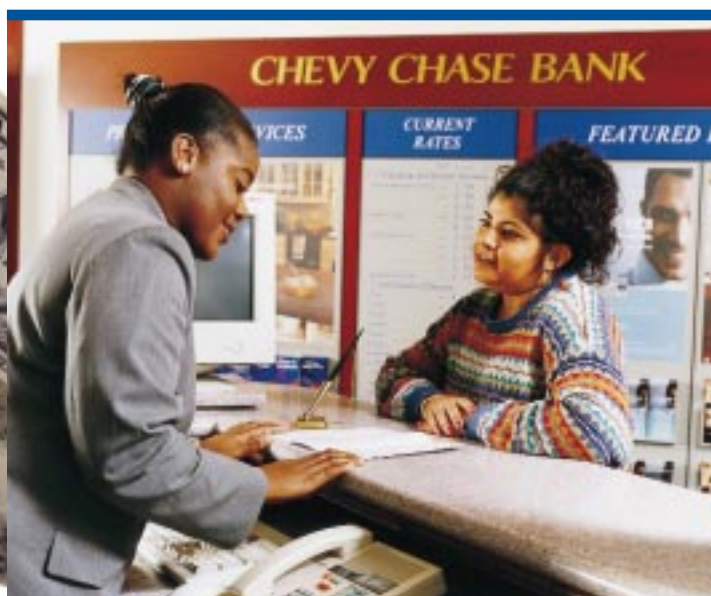
Property Type



Geographic Location



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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.

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saul centers



Financial

FINANCIAL HIGHLIGHTS

	2000	Years ended December 31,			1996
		1999	1998	1997	
Summary Financial Data:					
Total Revenues	\$ 79,029,000	\$ 73,791,000	\$ 70,583,000	\$ 67,717,000	\$ 64,023,000
Funds From Operations (a)	\$ 35,648,000	\$ 32,830,000	\$ 29,768,000	\$ 27,637,000	\$ 25,122,000
Average Shares Outstanding (assuming operating partnership units fully converted)	18,795,571	18,147,954	17,233,047	16,690,417	16,423,984
Funds From Operations Per Share	\$ 1.90	\$ 1.81	\$ 1.73	\$ 1.66	\$ 1.53

Property Data:

Number of Properties	33	33	34	33	33
Total Portfolio Square Feet	6,143,000	6,108,000	5,901,000	5,821,000	5,806,000
Shopping Center Square Feet	4,941,000	4,936,000	5,187,000	5,150,000	5,135,000
Office Square Feet	1,202,000	1,172,000	714,000	671,000	671,000
Average Percentage Leased	93% (b)	92% (b)	90%	90%	89%

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

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- (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 gains and losses from property sales, extraordinary items, and before real estate depreciation and amortization. All years are presented in conformance with the National Association of Real Estate Investment Trusts' current guidelines adopted October 27, 1999.
- (b) Excludes the Washington Square and Ashburn Village III & IV development properties.



2000

MESSAGE TO SHAREHOLDERS



2000

was a successful year of continued strong internal growth fundamentals including increasing cash flow, high leasing percentages, retail sales growth and value enhancement through redevelopment and renovation. Saul Centers enters 2001 with a strong balance sheet and a plan to continue its focus of creating value within a geographically focused portfolio of very well located retail and office properties.

Financial Highlights

Funds From Operations (FFO) increased 8.6% to \$35,648,000 in the year ended December 31, 2000 compared to \$32,830,000 for the 1999 year. For the quarter ended December 31, 2000, FFO increased 7.9% to \$9,626,000 compared to \$8,920,000 for the 1999 quarter. On a per share basis, FFO was \$1.90 per share for the 2000 year, a 4.8% increase over the prior year. For the quarter ended December 31, 2000, FFO per share increased 4.9% to \$.51 per share over the comparable 1999 quarter. FFO is presented on a fully converted basis and is the most widely accepted measure of operating performance for Real Estate Investment Trusts (REITs). FFO is defined as net income before gains and losses from property sales, extraordinary items and real estate depreciation and amortization.



Message

MESSAGE TO SHAREHOLDERS

Stable and Attractive Dividend

During 2000, the Company paid four quarterly distributions of \$.39 per share to shareholders, of which 90.1% was taxable as ordinary income and 9.9% represented a return of capital. The annual dividend of \$1.56 per share compared to 2000 FFO of \$1.90 represents an FFO payout ratio of 82%. As earnings have increased in each of the last five years, the Company's dividend payout ratio has been steadily and consistently reduced. The Company's decision not to increase the dividend has provided increased cash flow coverage of the current dividend while generating retained earnings to reinvest into the real estate at very attractive yields. It is our belief that, over the past year, this strategy proved to be the most advantageous use of the Company's increasing cash flow in a very constrained capital market.

Total Return: Yield and Growth

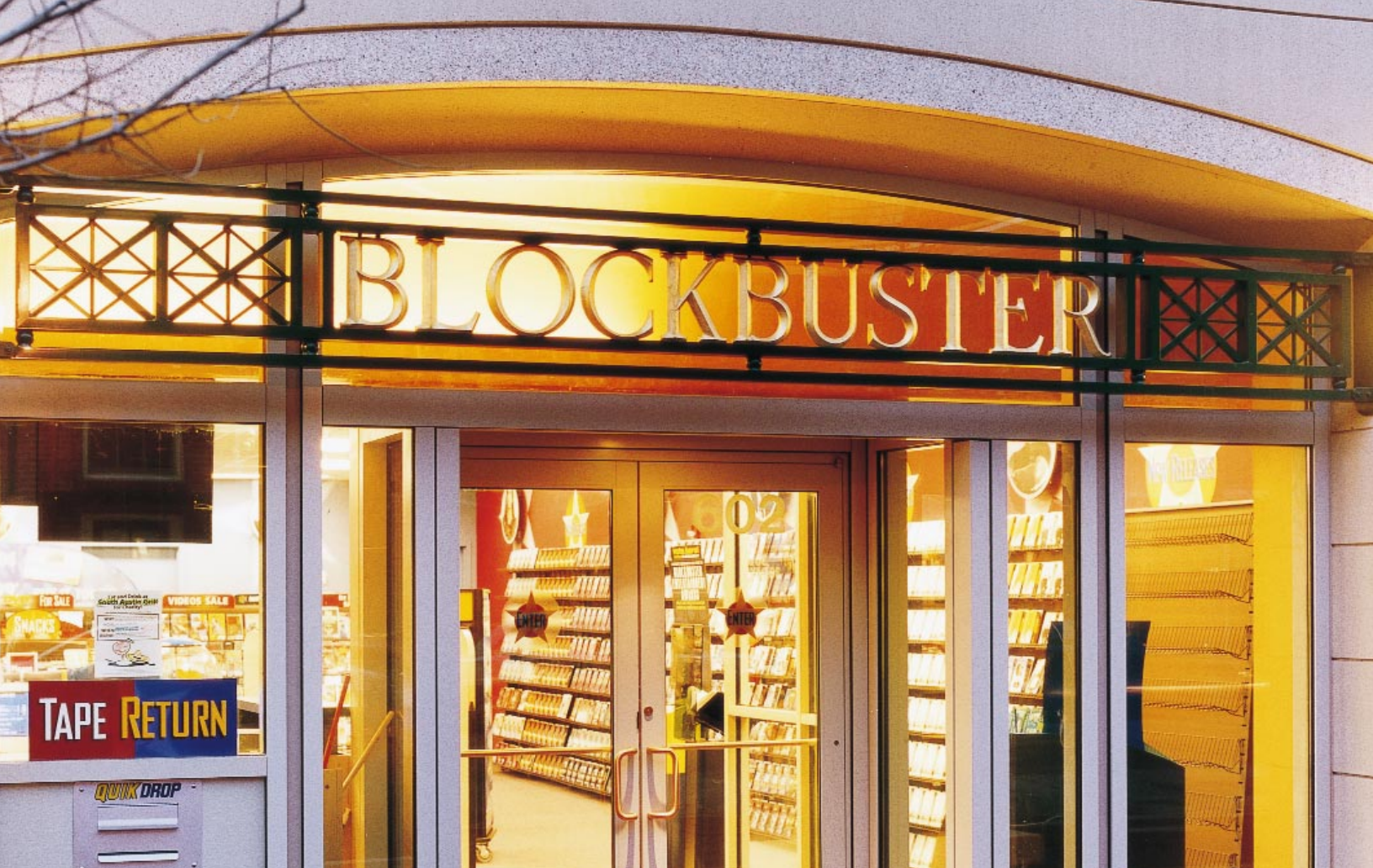
The year 2000 was a very successful year for the REIT industry, which posted a 26.8% total investment return. REITs had their best performance year since 1996, benefitting from an influx of cash into the REIT sector largely as a result of the technology sector's volatility, very attractive REIT dividend yields and modest company valuations early in 2000, combined with very good real estate fundamentals. Saul Centers produced a 43% total return for the year, and has achieved a five year compounded annual total return in excess of 16%. With a year-end dividend yield of 8.3% compared to a 7% weighted average yield for all REITs and a 5% yield for the 10-year Treasury, we continue to believe that Saul Centers is a very attractive investment for both income and total return investors.

Property Performance

Total operating revenues for 2000 increased 7.1% to \$79.0 million, compared to \$73.8 million for the 1999 year and revenues for the quarter ended December 31, 2000 increased 7.8% to \$20.9 million. This revenue growth was driven by 7.8% overall portfolio base rent growth, comprised of 5.3% same center base rent improvements and the balance from redevelopment or acquisition property rentals.

Same property operating income increased 3.3% for the shopping center portfolio, 9.9% for the office properties and 4.8% overall. Space leased to tenants, excluding the 235,000 square foot Washington Square development, averaged 92.7% for all of 2000 compared to the 1999 average of 91.8%. Our Metropolitan Washington D.C./Baltimore based retail centers, which represent 75% of our retail cash flow, attained average leasing percentages of 98.7%





for 2000. Market rent growth allowed the Company to achieve 5% increases in roll-over and renewal rental rates on expiring leases.

Effective asset management resulted in continued strong property operating margins. Gross margins fell only slightly from 75.9% in 1999 to 75.7% in 2000, despite a very high level of snow removal expenses in 2000. Over the past five years, margins have improved from 72.6% in 1996 to the current 75.7%, attributable in part to a very active and aggressive property management team producing compounded annual expense growth of only 2.0%, compared to an average 2.5% inflation rate. Efficient asset management and careful attention to business fundamentals has been and will continue to be a critical part of our internally focused operating strategy.

Retail Overview

Core Portfolio Highlights

It appears that events of the year 2000 answered the major question and uncertainty within the retail industry during 1999 - that being the impact that Internet retailing and e-commerce would have on traditional bricks and mortar retail. Internet retail will apparently supplement, not displace traditional retailing. Many start-up Internet retailers have come and gone over the past two years, while in-store sales growth was largely unaffected. We continue to believe in the solid future of convenience and necessity-oriented grocery anchored strip retail, located in well populated, in-fill neighborhoods. Same store sales levels within the portfolio continued to grow, with a 3.8% increase over those reported in 1999. Overall sales per square foot for those tenants reporting

sales totaled a very healthy \$280 per square foot. Despite the retail industry's slowdown in sales growth from unsustainable 1999 levels, solid retail property fundamentals continued in 2000. Given that primarily necessity type goods are sold at our properties, we feel that these centers are somewhat insulated from the effects of entering a potentially less favorable economic climate.

The year 2000 also demonstrated that tenant bankruptcies continue to be a constant element of the retail industry's evolution of changing shopping trends and store formats. There were, however, no significant retail bankruptcies directly affecting the Company's centers over the past 12 months. The Company continues to focus on food and pharmacy anchored service retail. We have no leases with headline bankruptcy tenants, Montgomery

Message

MESSAGE TO SHAREHOLDERS

Wards and Bradlees, nor do we have any Kmart or JC Penney stores, two chains that recently announced major store closings. The Company's tenant base does not include movie theatres, a sector which also has recently experienced financial strain. Based upon the year 2000 and the portfolio's performance in the first two months of 2001, the Company has seen no increase in tenant credit loss over historical levels. While by no means immune to future retail tenant difficulties, the Company continues to focus on maintaining tenant diversity, with only the federal government and Giant Food accounting for over 2.2% of total revenues in 2000.

The Company draws upon its extensive local market knowledge when assembling each center's tenant mix to best serve the demographics of the center's customer base. This geographically focused internal growth strategy continues to produce consistent retail property cash flow growth and increasing net asset value. The key ingredient to implementation of this strategy is having dominant locations in the marketplace. Herein lies the backbone of the Saul Centers retail story.

Retail Development and Redevelopment

Selective development and redevelopment opportunities continue to enhance the Company's core internal retail growth. Improved property operating income in the current year stems both from projects completed during 2000 and from the reporting of 12 months' results for projects completed during 1999. In June 2000, the Company completed the development of Ashburn Village II, a 40,200 square foot in-line and pad expansion to the original 108,000 square foot Giant Food anchored Ashburn Village shopping center. This expansion contains retail space and professional offices suites. The entire shopping center is currently 98% leased. In August, the Company purchased an





adjacent 7.1 acres of land. The Company immediately broke ground on the development of an additional 18,000 square foot in-line expansion to the existing shopping center. This expansion space is 65% pre-leased to neighborhood service and restaurant users, scheduled to occupy in the spring of 2001. This land also provides the Company with the ability to develop another 40,000 square feet of commercial space and free standing pad sites.

During 2000, the Company demolished a small mini-mall within its 213,000 square foot French Market shopping center and replaced it with a two-level 90,000 square foot Burlington Coat Factory store. The conversion added 34,000 square feet of leasable area and increased the center's size to 247,000 square feet. The addition of Burlington continues the successful redevelopment of French Market. We commenced work on this shopping center in 1998, with the retenanting of a former 103,000 square foot Venture store, now substantially leased to Staples, Bed, Bath & Beyond, BridesMart and Lakeshore Learning. The Company has

recently obtained control of an undersized 20,000 square foot grocery store and is redemising the space for occupancy by smaller, service based retailers. This final phase completes the modernization of the entire center.

Also contributing to year 2000's cash flow growth were redevelopments of the Shops at Fairfax, Boulevard and Beacon Center, all completed in 1999, which reported a full 12 months of operations in 2000.

Office Overview

Core Portfolio Highlights

The office portfolio produced over 26% of the Company's 2000 cash flow and is primarily based in three distinct and extremely healthy submarkets of the metropolitan Washington, D.C. office market. The regional market fundamentals remain strong, with an overall vacancy rate of under 4%. The Washington, D.C. area is currently one of the healthiest office markets in the country, a result of a widely diversified tenant base of government, high tech, defense, telecommunication, financial and biomedical companies which operate in the

area. The region's excellent supply and demand balance supports high real estate valuations as a result of robust demand for quality buildings from national and international investors.

The Company's 601 Pennsylvania Avenue office building is a pure Class-A asset located in the dynamic East End submarket of Washington, D.C., between the Capitol and the White House. This is the second largest cash flow producing asset in our portfolio. The downtown Washington, D.C. Class-A office market has higher barriers to new construction than almost any other major U.S. market. Combining this fact with historic low vacancy rates of near 3% and the prolonged period of economic expansion, we leased space to tenants at rental rates 11% higher than rents on expiring leases over the past 24 months. With a recent \$500,000 lobby renovation and upgrade, and continued strong market fundamentals, we believe that further growth in turnover rental rates exists at 601 Pennsylvania Avenue over the next several years.

Message

MESSAGE TO SHAREHOLDERS



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The Company has expanded its presence at the Avenel Business Park, located in the I-270 corridor one-story flex office market. In October, the Company purchased a newly constructed 30,000 square foot pre-leased building to increase its total Avenel ownership to 389,000 square feet. Avenel is the Company's second largest office investment, and third largest asset. This office/flex submarket of Montgomery County, Maryland is particularly attractive, as this product type has historically performed well even in periods of economic downturn. Research and development budgets for large pharmaceutical companies have increased for over a decade and are projected to continue to rise as our population ages. Approximately half of the Avenel tenant base is fueled by the County's dominant scientific community led by the National Institutes of Health and major university grants. The office/laboratory space is also a high barrier to entry product type largely due to expensive laboratory improvements and

prohibitive land costs for in-fill one-story construction.

Office Development Activity

The Company's major development in progress is the redevelopment of a former 40,000 square foot retail building, located on a premier two acre site in Old Town, Alexandria, Virginia, to a new Class-A mixed-use office/retail complex. The Company has successfully completed leases on 49% of the 235,000 square foot Washington Square at Old Town. The project is very well located along Alexandria's historic main street and is comprised of two identical buildings separated by a landscaped brick courtyard and fountain. The retail core of tenants opening over the past few months is anchored by Trader Joe's grocery, Starbucks coffee, Kinko's copies and Blockbuster video. A full service restaurant is under construction and projected to open in the spring of 2001. Over 75,000 square feet of quality office tenants have taken

occupancy. Washington Square's strong tenant directory results from a strategic decision during the building's construction in early 2000 to resist the temptation to pre-lease large spaces at high rents to start-up, marginal credit tenants, while instead electing to remain focused on tenant credit quality and the long-term value of this important asset.

The Company continues the conversion and redevelopment of a 197,000 square foot shopping center to an office/warehouse facility named Crosstown Business Center, located in Tulsa, Oklahoma. The development is advantageously located adjacent to two expressways and only three miles from Tulsa International Airport. Crosstown offers its tenants grade level and dock-high loading, 18-foot ceilings, and a newly renovated facade and interior. Eight tenants have leased 48% of the office park and several other leases are under negotiation.

Capital Structure

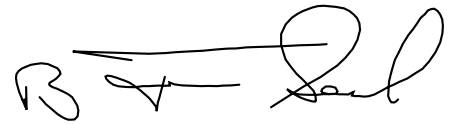
Entering 2001, the Company's capital structure provides both security and financial flexibility, assuring that the Company has adequate capital resources to implement its development and operating strategies in future years. The interest coverage ratio is a very comfortable 2.5 times and the year-end debt-to-market capitalization ratio is 49%. While only 20% of the Company's debt is variable rate, the current environment of declining interest rates will provide modest interest expense benefits as well as provide us with the opportunity to access debt markets to take advantage of additional favorable long-term, fixed rate financing. Looking out over the next ten years, a total of only \$10 million of fixed rate debt will mature. The Company has approximately \$35 million available under its

recently expanded and renewed \$70 million revolving credit line and over \$8 million remaining on its Washington Square construction loan, providing adequate financing to complete existing developments and capital to implement a redevelopment strategy into the future.

The success of the Saul Centers' portfolio of properties throughout many years and many economic cycles has largely been a function of a long-time consistent business strategy. The majority of the assets have been under the same management for over 25 years. Our management team has demonstrated the ability to perform even in times of uncertain and softening real estate markets. The business strategy, then and now, is to concentrate on the Company's retail and office field of expertise, generally focusing

geographically in selected markets near home. Efforts will continue to be directed toward internal cash flow and net asset value growth with focused redevelopment. On behalf of our Board of Directors, we are confident that this strategy will provide you with an investment opportunity providing a secure dividend, stable FFO growth and long term net asset value improvements. We remain confident that we can meet the challenges of the ever-changing and evolving retail and office business, and we thank you for your belief in our mission.

For the Board



B. Francis Saul II

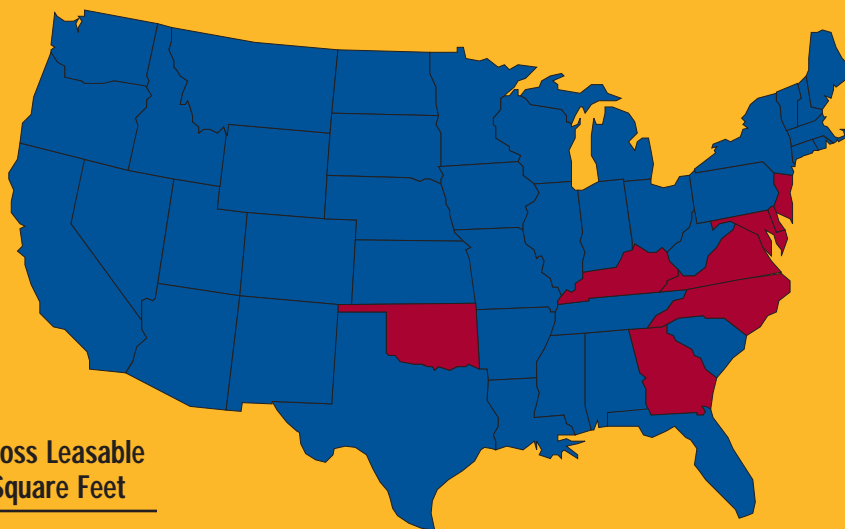
February 26, 2001



2000

PORTFOLIO PROPERTIES

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



	Location of Property	Gross Leasable Square Feet
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SHOPPING CENTERS

Ashburn Village I & II	Ashburn, VA	148,381
Ashburn Village III & IV	Ashburn, VA	18,000*
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	254,398
Hampshire Langley	Langley Park, MD	131,700
Leesburg Pike	Baileys Crossroads, VA	97,880
Lexington Mall	Lexington, KY	315,707
Lumberton Plaza	Lumberton, NJ	189,398
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	484,115
Southside Plaza	Richmond, VA	343,355
South Dekalb Plaza	Atlanta, GA	185,335

	Location of Property	Gross Leasable Square Feet
Thruway	Winston-Salem, NC	345,454
Village Center	Centreville, VA	143,109
West Park	Oklahoma City, OK	76,610
White Oak	Silver Spring, MD	480,156
Shopping Centers Total		4,941,425

OFFICE PROPERTIES

Avenel Business Park	Gaithersburg, MD	388,620
Crosstown Business Center	Tulsa, OK	197,135 *
601 Pennsylvania Avenue	Washington, DC	225,223
Van Ness Square	Washington, DC	156,182
Washington Square	Alexandria, VA	235,000 *
Office Properties Total		1,202,160

TOTAL PORTFOLIO PROPERTIES **6,143,585**

* These properties are in development.

*Selective development
and redevelopment
opportunities continue
to enhance the
Company's core
internal retail growth.*



2000

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

December 31,

2000 1999

Assets

Real estate investments		
Land	\$ 66,252	\$ 64,233
Buildings and equipment	325,609	304,149
	391,861	368,382
Accumulated depreciation	(124,180)	(112,272)
	267,681	256,110
Construction in progress	41,148	21,201
Cash and cash equivalents	1,772	957
Accounts receivable and accrued income, net	9,540	8,723
Prepaid expenses	8,956	7,959
Deferred debt costs, net	3,583	3,197
Other assets	1,770	1,518
Total assets	<u>\$ 334,450</u>	<u>\$ 299,665</u>

Liabilities

Notes payable	\$ 343,453	\$ 310,268
Accounts payable, accrued expenses and other liabilities	19,592	18,391
Deferred income	2,560	2,865
Total liabilities	<u>365,605</u>	<u>331,524</u>

Minority interests

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Stockholders' equity (deficit)

Common stock, \$0.01 par value, 30,000,000 shares authorized, 13,869,535 and 13,334,145 shares issued and outstanding, respectively	139	133
Additional paid-in capital	52,594	44,616
Accumulated deficit	(83,888)	(76,608)
Total stockholders' equity (deficit)	<u>(31,155)</u>	<u>(31,859)</u>
Total liabilities and stockholders' equity (deficit)	<u>\$ 334,450</u>	<u>\$ 299,665</u>

The accompanying notes are an integral part of these statements.

2000

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share amounts)

	For the Years Ended December 31,		
	2000	1999	1998
Revenue			
Base rent	\$ 63,837	\$ 59,200	\$ 55,542
Expense recoveries	11,129	10,176	9,911
Percentage rent	2,097	2,222	2,755
Other	1,966	2,193	2,375
Total revenue	<u>79,029</u>	<u>73,791</u>	<u>70,583</u>
Operating expenses			
Property operating expenses	8,271	7,720	7,830
Provision for credit losses	467	295	418
Real estate taxes	6,451	6,207	6,128
Interest expense	23,843	22,568	22,627
Amortization of deferred debt expense	458	416	419
Depreciation and amortization	13,534	12,163	12,578
General and administrative	3,891	3,755	3,393
Total operating expenses	<u>56,915</u>	<u>53,124</u>	<u>53,393</u>
Operating income	22,114	20,667	17,190
Non-operating items			
Gain on sale of property	<u>--</u>	<u>553</u>	<u>--</u>
Net income before extraordinary item, cumulative effect of change in accounting method and minority interests	22,114	21,220	17,190
Extraordinary item			
Early extinguishment of debt	--	--	(50)
Cumulative effect of change in accounting method	<u>--</u>	<u>--</u>	<u>(771)</u>
Net income before minority interests	<u>22,114</u>	<u>21,220</u>	<u>16,369</u>
Minority interests			
Minority share of income	(6,081)	(5,899)	(4,354)
Distributions in excess of earnings	(1,988)	(2,024)	(2,886)
Total minority interests	<u>(8,069)</u>	<u>(7,923)</u>	<u>(7,240)</u>
Net income	<u>\$ 14,045</u>	<u>\$ 13,297</u>	<u>\$ 9,129</u>
Per share (basic and dilutive)			
Net income before extraordinary item, cumulative effect of change in accounting method and minority interests	\$ 1.18	\$ 1.17	\$ 1.00
Extraordinary item	--	--	--
Cumulative effect of change in accounting method	<u>--</u>	<u>--</u>	<u>(0.05)</u>
Net income before minority interests	<u>\$ 1.18</u>	<u>\$ 1.17</u>	<u>\$ 0.95</u>
Net income	<u>\$ 1.03</u>	<u>\$ 1.01</u>	<u>\$ 0.72</u>

The accompanying notes are an integral part of these statements.

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total
<i>(Dollars in thousands, except per share amounts)</i>				
Stockholders' equity (deficit):				
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)	--	--	(4,985)	(4,985)
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)	--	--	(5,202)	(5,202)
Balance, December 31, 1999	133	44,616	(76,608)	(31,859)
Issuance of 535,390 shares of common stock	6	7,978	--	7,984
Net income	--	--	14,045	14,045
Distributions (\$1.17 per share)	--	--	(15,915)	(15,915)
Distributions payable (\$.39 per share)	--	--	(5,410)	(5,410)
Balance, December 31, 2000	<u>\$ 139</u>	<u>\$ 52,594</u>	<u>\$ (83,888)</u>	<u>\$ (31,155)</u>

The accompanying notes are an integral part of these statements.

2000

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,
2000 1999 1998

(Dollars in thousands)

Cash flows from operating activities:

Net income	\$ 14,045	\$ 13,297	\$ 9,129
Adjustments to reconcile net income to net cash provided by operating activities:			
Minority interests	8,069	7,923	7,240
Gain on sale of property	--	(553)	--
Cumulative effect of change in accounting method	--	--	771
Loss on early extinguishment of debt	--	--	50
Depreciation and amortization	13,992	12,579	12,997
Provision for credit losses	467	295	418
Increase in accounts receivable	(1,284)	(2,671)	(1,346)
Increase in prepaid expenses	(2,623)	(2,434)	(2,742)
Decrease (increase) in other assets	(252)	(360)	3
Increase in accounts payable, accrued expenses and other liabilities	1,201	3,535	1,763
Increase (decrease) in deferred income	(305)	26	1,409
Other, net	--	8	(6)
Net cash provided by operating activities	<u>33,310</u>	<u>31,645</u>	<u>29,686</u>

Cash flows from investing activities:

Proceeds from sales of property	--	1,718	--
Additions to real estate investments	(18,233)	(11,587)	(6,607)
Additions to construction in progress	(25,193)	(27,051)	(8,169)
Net cash used in investing activities	<u>(43,426)</u>	<u>(36,920)</u>	<u>(14,776)</u>

Cash flows from financing activities:

Proceeds from notes payable	69,700	33,979	20,900
Repayments on notes payable	(36,515)	(14,334)	(18,407)
Additions to deferred debt expense	(844)	(13)	(220)
Proceeds from the issuance of common stock and convertible limited partnership units in the Operating Partnership	7,984	12,653	11,648
Distributions to common stockholders and holders of convertible limited partnership units in the Operating Partnership	(29,394)	(28,448)	(27,124)
Net cash provided by (used in) financing activities	<u>10,931</u>	<u>3,837</u>	<u>(13,203)</u>

Net increase (decrease) in cash	815	(1,438)	1,707
Cash, beginning of year	<u>957</u>	<u>2,395</u>	<u>688</u>
Cash, end of year	<u>\$ 1,772</u>	<u>\$ 957</u>	<u>\$ 2,395</u>

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 Village III & IV, an in-line retail and retail pad expansion to the Company's Ashburn Village I & II shopping center. The Company is also redeveloping an under-performing shopping center to an office/business park. As of December 31, 2000, the Company's properties (the "Current Portfolio Properties") consisted of 27 operating shopping center properties and Ashburn Village III & IV (the "Shopping Centers"), 4 predominantly office operating properties and Washington Square at Old Town (the "Office 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. 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. Seventeen of the Shopping Centers are anchored by a grocery store and offer primarily day-to-day necessities and services. As of December 31, 2000, 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 6.5%, accounted for more than 2.2% of the Company's 2000 total revenues. No office tenant other than the United States Government, at 12.3%, accounted for more than 1.3% of 2000 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 \$3,144,000, \$2,815,000 and \$2,616,000, for calendar years 2000, 1999 and 1998, respectively, and is included in operating expenses in the accompanying consolidated financial statements. Interest expense capitalized totaled \$2,681,000, \$934,000 and \$257,000, for calendar years 2000, 1999 and 1998, 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 \$3,053,000, \$1,803,000 and \$1,443,000, at December 31, 2000, 1999 and 1998, respectively, representing minimum rental income accrued on a straight-line basis to be paid by tenants over the term 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 consolidated financial statements are shown net of an allowance for doubtful accounts of \$563,000, \$594,000 and \$657,000, at December 31, 2000, 1999 and 1998, respectively.

Allowance for Doubtful Accounts

<i>(In thousands)</i>	For the Years Ended December 31,		
	2000	1999	1998
Beginning Balance	\$ 594	\$ 657	\$ 506
Provision for Credit Losses	467	295	418
Charge-offs	(498)	(358)	(267)
Ending Balance	<u>\$ 563</u>	<u>\$ 594</u>	<u>\$ 657</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 consolidated financial statements are shown net of accumulated amortization of \$1,402,000, \$1,005,000 and \$589,000, at December 31, 2000, 1999 and 1998, 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% (90% for tax years beginning on or after January 1, 2001) 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 consolidated financial statements. As of December 31, 2000 and 1999, the total tax basis of the Company's assets was \$362,586,000 and \$323,080,000, and the tax basis of the liabilities was \$353,908,000 and \$317,474,000, 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, 2000, 120,000 shares were authorized and registered for use under the Plan, and 92,000 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.

Recent Accounting Pronouncement

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities." In June 2000, the FASB issued SFAS No. 138, which amends certain provisions of SFAS 133 to clarify areas causing difficulties in implementation. The Company has adopted SFAS 133/138, the adoption of which has no impact on the Company's results of operation, financial position or cash flow.

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, 2000 and 1999 are as follows:

Construction in Progress (In thousands)	December 31,	
	2000	1999
Washington Square	\$ 38,588	\$ 18,009
Ashburn Village III & IV	2,105	--
Crosstown Business Center	455	357
Ashburn Village II	--	2,326
French Market	--	509
Balance	<u>\$ 41,148</u>	<u>\$ 21,201</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 18,795,571, 18,147,954 and 17,233,047, shares for the years ended December 31, 2000, 1999 and 1998, respectively. Per share data relating to net income after minority interests is computed on the basis of 13,623,330, 13,100,295 and 12,643,639, weighted average common shares for the years ended December 31, 2000, 1999 and 1998, respectively.

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

The Saul Organization has a 27.2% limited partnership interest, represented by 5,172,241 convertible limited partnership units, in the Operating Partnership, as of December 31, 2000. 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 29.9% of the outstanding equity securities of Saul Centers. The impact of the Saul Organization's 27.2% limited partnership interest in the Operating Partnership is reflected as minority interests in the accompanying consolidated financial statements.

4. NOTES PAYABLE

December 31, 2000

During 2000 the Company obtained a \$14,300,000 mortgage loan secured by the recently renovated Shops At Fairfax and Boulevard shopping centers. The loan requires monthly payments of principal and interest based upon a 22 year amortization period and a fixed 8.33% interest rate. The Company also extended its unsecured revolving credit facility for a new three-year term and increased the amount available to borrow by \$10,000,000 to \$70,000,000. Borrowings on the line of credit totaled \$34,500,000 at December 31, 2000, leaving \$35,500,000 available for future use. Notes payable totaled \$343,453,000 at December 31, 2000, as follows:

Notes Payable			
(In thousands)	Principal Outstanding	Interest Rate *	Scheduled Maturity *
Fixed Rate Mortgages:	\$ 140,597 (a)	7.67 %	Oct 2012
	74,342 (b)	8.52 %	Dec 2011
	36,279 (c)	7.88 %	Jan 2013
	14,184 (d)	8.33 %	May 2015
	10,227 (e)	6.88 %	May 2004
Total Fixed Rate	275,629	7.93 %	11.4 Years
Variable Rate Loans:			
Construction Loan	33,324 (f)	8.47 %	Jan 2002
Line of Credit	34,500 (g)	8.62 %	Jul 2003
Total Variable Rate	67,824	8.54 %	1.8 Years
Total Notes Payable	\$ 343,453	8.05 %	9.5 Years

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

(a) The loan is collateralized by nine shopping centers and requires monthly principal and interest payments based upon a 25 year amortization schedule. Principal of \$2,175,000 was amortized during 2000.

(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%. The 8.52% blended interest rate is the weighted average of the initial loan rate and the additional borrowings rate. Monthly principal and interest payments are based upon a weighted average 18.2 year amortization schedule. Principal of \$2,572,000 was amortized during 2000.

(c) The loan is collateralized by 601 Pennsylvania Avenue and requires monthly principal and interest payments based upon a 25 year amortization schedule. Principal of \$595,000 was amortized during 2000.

(d) The loan is collateralized by Shops at Fairfax and Boulevard shopping centers and requires monthly principal and interest payments based upon a 22 year amortization. Principal of \$116,000 was amortized during 2000.

(e) The loan is collateralized by The Glen shopping center and requires monthly principal and interest payments based upon a 23 year amortization schedule. Principal of \$203,000 was amortized during 2000.

(f) The loan is a construction loan totaling \$42,000,000. Interest expense is calculated based upon the 1,2,3 or 6 month LIBOR rate 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, 2000 was based on a weighted average LIBOR of 6.72% and spread of 1.9%.

(g) The loan is a revolving credit facility totaling \$70,000,000. Interest expense is calculated based upon the 1,2,3 or 6 month LIBOR rate plus a spread of 1.625% to 1.875% (determined by certain debt service coverage and leverage tests) or upon the bank's reference rate 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, 2000 was based on a weighted average LIBOR of 6.72% and spread of 1.75%.

Notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Notes payable balances outstanding at December 31, 2000 have a weighted average remaining term of 9.5 years, and a weighted average interest rate of 8.05%. Of the \$343,453,000 total debt at December 31, 2000, \$275,629,000 was fixed rate (80.3% of the total notes payable) and \$67,824,000 was variable rate (19.7% of the total notes payable). The December 31, 2000 depreciation adjusted cost of properties collateralizing the mortgage notes payable totaled \$218,415,000. Certain loans are subject to financial covenant tests. The Company believes it is in compliance with all such covenants.

Notes payable of \$275,628,000 at December 31, 2000 require monthly installments of principal and interest, with principal amortization on schedules averaging approximately 22 years. The remaining notes payable totaling \$67,824,000 at December 31, 2000 require monthly installments of interest only. Notes payable at December 31, 2000 totaling \$225,616,000 are guaranteed by members of The Saul Organization.

As of December 31, 2000, the scheduled maturities of all debt for years ended December 31, are as follows:

Debt Maturity Schedule		
<i>(In thousands)</i>		
2001	\$	6,083
2002		39,346
2003		41,025
2004		16,317
2005		7,375
Thereafter		233,307
	\$	<u>343,453</u>

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. Notes payable totaled \$310,268,000 at December 31, 1999.

Notes payable balances outstanding at December 31, 1999 had 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 depreciation adjusted cost of properties collateralizing the mortgage notes payable totaled \$193,696,000. Certain loans were subject to covenant tests. The Company believes it was in compliance with all such covenant tests.

Notes payable of \$266,990,000 at December 31, 1999 required 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 required monthly installments of interest only. Notes payable at December 31, 1999 totaling \$221,075,000 were guaranteed by members of The Saul Organization.

5. LEASE AGREEMENTS

Lease income includes primarily base rent arising from noncancelable commercial leases. Base rent for the years ended December 31, 2000, 1999 and 1998, amounted to \$63,837,000, \$59,200,000 and \$55,542,000, respectively. Future base rent under noncancelable leases for years ended December 31, is as follows:

Future Base Rental Income	
<i>(In thousands)</i>	
2001	\$ 64,266
2002	57,048
2003	50,619
2004	45,102
2005	38,907
Thereafter	<u>254,705</u>
	<u>\$ 510,647</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, 2000, 1999 and 1998 amounted to \$11,129,000, \$10,176,000 and \$9,911,000, 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 \$2,097,000, \$2,222,000 and \$2,755,000, for the years ended December 31, 2000, 1999 and 1998, respectively.

6. LONG-TERM LEASE OBLIGATIONS

Certain properties are subject to noncancelable 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 \$157,000, \$154,000 and \$152,000, for each of the years ended December 31, 2000, 1999 and 1998, respectively. The minimum future rental commitments under these ground leases are as follows:

Ground Lease Rental Commitments

(In thousands)

	Annual Rent		Total
	2001	2002-2005	Thereafter
Beacon Center	\$ 51	\$ 53	\$ 3,342
Olney	50	50	4,524
Southdale	60	60	3,725
Total	<u>\$ 161</u>	<u>\$ 163</u>	<u>\$ 11,591</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, 2000 includes a charge for minority interests of \$8,069,000, consisting of \$6,081,000 related to The Saul Organization's share of the net income for the year and \$1,988,000 related to distributions to minority interests in excess of allocated net income for the year. The charge for the year ended December 31, 1999 of \$7,923,000 consists of \$5,899,000 related to The Saul Organization's share of 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 the net income for the year and \$2,886,000 related to distributions to minority interests in excess of allocated net income for the year.

8. RELATED-PARTY TRANSACTIONS

In October 2000, the Company purchased, through its Operating Partnership, Avenel VI, a 30,000 square foot office/flex property for \$4,200,000. The seller was a member of The Saul Organization.

In August 2000 and October 1999, the Company purchased land parcels of 7.11 and 6.47 acres, located within the 1,580 acre community of Ashburn Village in Loudoun County, Virginia, adjacent to its Ashburn Village neighborhood shopping center at a price of \$1,580,000 and \$1,438,000, respectively. The land is being developed to expand the existing shopping center. 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, a member of The Saul Organization, leases space in 12 of the Company's properties. Total rental income from Chevy Chase Bank amounted to \$1,223,000, \$1,169,000 and \$1,192,000, for the years ended December 31, 2000, 1999 and 1998, 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, 2000, 1999 and 1998, are charges totaling \$2,091,000, \$1,798,000 and \$1,685,000, related to shared services, of which \$2,056,000, \$1,773,000 and \$1,480,000, were paid during the years ended December 31, 2000, 1999 and 1998, 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, 2000, 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

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 2000 or 1998 years.

11. EXTRAORDINARY ITEM - EARLY EXTINGUISHMENT OF DEBT

The consolidated statement of operations for the year ending December 31, 1998 includes a \$50,000 extraordinary loss related to the write-off of deferred financing costs on a loan that was prepaid. There were no such write-offs for the years ended December 31, 2000 and 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 2000, \$1.41 per share represented ordinary dividend income and \$0.15 per share represented return of capital to the shareholders. The following summarizes distributions paid during the years ended December 31, 2000, 1999 and 1998, including activity in the Plan:

(Dollars in thousands, except per share prices)

	Total Distributions to		Dividend Reinvestment Plan		
	Common Stockholders	Limited Partnership Unitholders	Common Stock Issued	Units Issued	Discounted Share Price
Distributions during 2000					
October 31	\$ 5,356	\$ 2,018	133,435	--	\$ 14.85
July 31	5,305	2,017	125,705	--	15.34
April 28	5,254	2,017	125,558	--	14.97
January 31	5,202	2,017	129,789	--	14.43
	<u>\$ 21,117</u>	<u>\$ 8,069</u>	<u>514,487</u>	<u>--</u>	
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>	

In December 2000, 1999 and 1998, the Board of Directors of the Company authorized a distribution of \$0.39 per share payable in January 2001, 2000 and 1999, to holders of record on January 17, 2001, January 17, 2000 and January 15, 1999, respectively. As a result, \$5,410,000, \$5,202,000 and \$4,985,000 were paid to common shareholders on January 31, 2001, January 31, 2000 and January 29, 1999, respectively.

Also, \$2,017,000, \$2,017,000 and \$1,921,000, were paid to limited partnership unitholders on January 31, 2001, January 31, 2000 and January 29, 1999 (\$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.

Notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. INTERIM RESULTS (UNAUDITED)

The following summary presents the results of operations of the Company for the quarterly periods of years 2000 and 1999.

	Three Months Ended			
<i>(In thousands, except per share amounts)</i>	<u>12/31/2000</u>	<u>9/30/2000</u>	<u>6/30/2000</u>	<u>3/31/2000</u>
Revenues	\$ 20,910	\$ 19,724	\$ 18,988	\$ 19,407
Net income before extraordinary item and minority interests	5,539	5,859	5,183	5,533
Minority interests	(2,018)	(2,017)	(2,017)	(2,017)
Net income	<u>\$ 3,521</u>	<u>\$ 3,842</u>	<u>\$ 3,166</u>	<u>\$ 3,516</u>
Per Share Data:				
Net income before extraordinary item and minority interests	<u>\$ 0.29</u>	<u>\$ 0.31</u>	<u>\$ 0.28</u>	<u>\$ 0.30</u>
Net income	<u>\$ 0.25</u>	<u>\$ 0.28</u>	<u>\$ 0.24</u>	<u>\$ 0.26</u>
	<u>12/31/1999</u>	<u>9/30/1999</u>	<u>6/30/1999</u>	<u>3/31/1999</u>
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	<u>\$ 4,086</u>	<u>\$ 3,127</u>	<u>\$ 2,964</u>	<u>\$ 3,120</u>
Per Share Data:				
Net income before extraordinary item and minority interests	<u>\$ 0.33</u>	<u>\$ 0.28</u>	<u>\$ 0.27</u>	<u>\$ 0.28</u>
Net income	<u>\$ 0.31</u>	<u>\$ 0.24</u>	<u>\$ 0.23</u>	<u>\$ 0.24</u>

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)

2000

Real estate rental operations:

	Shopping Centers	Office Properties	Corporate and Other	Consolidated Totals
Revenues	\$ 56,969	\$ 21,837	\$ 223	\$ 79,029
Expenses	(10,252)	(4,937)	--	(15,189)
Income from real estate	46,717	16,900	223	63,840
Interest expense & amortization of debt costs	--	--	(24,301)	(24,301)
General and administrative	--	--	(3,891)	(3,891)
Subtotal	46,717	16,900	(27,969)	35,648
Depreciation and amortization	(9,453)	(4,079)	(2)	(13,534)
Minority interests	--	--	(8,069)	(8,069)
Net income	\$ 37,264	\$ 12,821	\$ (36,040)	\$ 14,045
Capital investment	\$ 14,886	\$ 28,540	\$ --	\$ 43,426
Total assets	\$ 185,518	\$ 117,497	\$ 31,435	\$ 334,450

1999

Real estate rental operations:

Revenues	\$ 54,510	\$ 19,183	\$ 98	\$ 73,791
Expenses	(9,604)	(4,618)	--	(14,222)
Income from real estate	44,906	14,565	98	59,569
Interest expense & amortization of debt costs	--	--	(22,984)	(22,984)
General and administrative	--	--	(3,755)	(3,755)
Subtotal	44,906	14,565	(26,641)	32,830
Depreciation and amortization	(8,414)	(3,749)	--	(12,163)
Gain on property sale	553	--	--	553
Minority interests	--	--	(7,923)	(7,923)
Net income	\$ 37,045	\$ 10,816	\$ (34,564)	\$ 13,297
Capital investment	\$ 16,939	\$ 21,699	\$ --	\$ 38,638
Total assets	\$ 186,769	\$ 90,185	\$ 22,711	\$ 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

Report

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity and cash flows for the three years ended December 31, 2000, 1999 and 1998. 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, 2000 and 1999, and the results of their operations and their cash flows for each of the three years ended December 31, 2000, 1999 and 1998 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 2, 2001

MD&A

MANAGEMENT'S DISCUSSION & ANALYSIS

of Financial Condition & Results of Operations

General

The following discussion is based on the consolidated financial statements of the Company as of December 31, 2000 and for the year ended December 31, 2000. Prior year data is based on the Company's consolidated financial statements as of December 31, 1999 and 1998 and for the years ended December 31, 1999 and 1998.

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% (90% for tax years beginning on or after January 1, 2001) of its "real estate investment trust taxable income," as defined in the Code. 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: i) redevelop certain of the Shopping Centers, ii) develop additional freestanding outparcels or expansions within certain of the Shopping Centers, iii) acquire existing neighborhood and community shopping centers and/or office properties, and iv) 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 \$35,500,000 of the Company's credit line, which was available for borrowing as of December 31, 2000, 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 77% of the Company's debt balances as of December 31, 2000 have maturities beyond the year 2010. The Company's interest expense coverage ratio increased to 2.51 during the past year from 2.48 in 1999.

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 construction 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 May 2000 the Company closed on a \$14,300,000 fixed rate mortgage loan secured by the recently renovated Shops At Fairfax and Boulevard shopping centers. The loan term is 15 years, maturing in May 2015, and requires monthly principal and interest payments based on a 22-year amortization schedule and a rate of 8.33%.

In July 2000, the Company closed on a three year renewal and amendment of its unsecured revolving credit facility, which increased the borrowing availability from \$60,000,000 under the former line, to \$70,000,000. The new line requires monthly interest payments either at the London Interbank Offer Rate (LIBOR) plus a spread of 1.625% to 1.875% (determined by certain debt service coverage and leverage tests) or at the bank's reference rate, at the Company's option. The credit line matures July 18, 2003 or may be extended one additional year, at the Company's option, by paying a 1/4% extension fee.

As of February 23, 2001, outstanding borrowings on the Company's \$70,000,000 unsecured credit line totaled \$40,250,000, leaving \$29,750,000 of credit availability. The Company has fixed interest rates on approximately 78.6% of its total debt outstanding, which now has a weighted remaining term of 11.2 years.

Financial Information

In 2000, the Company reported Funds From Operations (FFO) of \$35,648,000 on a fully converted basis. This represents a 8.6% increase over 1999 FFO of \$32,830,000. The following table represents a reconciliation from net income before minority interests to FFO:

Funds from Operations Schedule			
<i>(Dollars in thousands)</i>	For the Years ended December 31,		
	2000	1999	1998
Net income before minority interests	\$ 22,114	\$ 21,220	\$ 16,369
Subtract: Gain on sale of property	--	(553)	--
Add: Depreciation and amortization of real property	13,534	12,163	12,578
Extraordinary Item:			
Write-off of unamortized loan costs	--	--	50
	<u>35,648</u>	<u>32,830</u>	<u>28,997</u>
Add: Retroactive impact of change in accounting method ¹	--	--	771
Funds From Operations ²	<u>\$ 35,648</u>	<u>\$ 32,830</u>	<u>\$ 29,768</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, 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 gains and losses from property sales, extraordinary items, and before real estate depreciation and amortization. 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 flows from operating activities, investing activities and financing activities are as follows:

<i>(Dollars in thousands)</i>	For the Years Ended December 31,		
	2000	1999	1998
Cash flows provided by (used in):			
Operating activities	\$ 33,310	\$ 31,645	\$ 29,686
Investing activities	(43,426)	(36,920)	(14,776)
Financing activities	10,931	3,837	(13,203)

Redevelopments, 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 in 2000 at Washington Square, Ashburn Village, French Market, Avenel Business Park and Crosstown Business Center. The Company also completed development activity during 1999 at Beacon Center, Shops at Fairfax and Avenel Business Park.

During the year 2000 the Company continued 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 leasable area and is well located on a two-acre site along Alexandria's main street. The project consists of two identical buildings separated by a landscaped brick courtyard. Base building construction is substantially completed. Work continues on the building tenants' fixturing and interior areas. The Company has delivered substantially all of the leased retail space to tenants, several of which were operating by year end 2000. The Company has successfully negotiated and signed leases on 49% of the 235,000 square feet of tenant space. The 45,000 square feet of street level retail space is 83% leased and 40% of the office space is leased.

During late 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. The land was developed into Ashburn Village II, a 40,200 square foot in-line and pad expansion to the existing shopping center, containing 23,600 square feet of retail space and 16,600 square feet of professional office suites. Pad sites are being leased to restaurant and other users for free-standing buildings. Base building construction and site work was completed in June 2000. Approximately 92% of the new space has been leased. The entire shopping center is currently 98% leased. During the third quarter of 2000, the Company purchased an additional 7.1 acres of land adjacent to Ashburn Village II for \$1,579,000. The Company has begun developing 4.0 acres of the land as Ashburn Village III, consisting of an 18,000 square foot in-line expansion to the retail area of the existing shopping center. Ashburn III will also include several free standing pad sites. Construction is scheduled to be completed for occupancy in the spring of 2001. The remaining 3.1 acres provide the Company with the ability to develop up to 40,000 square feet of additional commercial space.

During 1998 and 1999, the Company executed a plan to redevelop its 213,000 square foot French Market shopping center, advantageously located in the thriving northwest section of Oklahoma City, Oklahoma. The plan specified the retensing of a 103,000 square foot anchor tenant space and conversion of an outdated mini-mall to an anchor tenant use. The former Venture store space was redemised and leased to Bed Bath and Beyond, Staples, Famous Footwear, BridesMart and Lakeshore Learning. The former enclosed mini-mall was leased to Burlington Coat Factory and during 2000, converted into a two-level 90,000 square foot super store, increasing the center's size to 247,000 square feet. The façade of the center was updated to complement the addition of the new tenants. The Company has recently obtained control of 20,000 square feet of space formerly operated as a grocery store. The Company has begun an exterior and interior renovation and this space is currently 54% pre-leased. As a result of the Company's efforts, approximately 92% of the center is leased as of February 2001.

In October 2000, the Company purchased a newly constructed 30,000 square foot office/flex building adjacent to its Avenel Business Park in Gaithersburg, Maryland. The building is 100% leased to a single tenant. This acquisition increases the size of the Company's Avenel Business Park to 389,000 square feet, all of which was leased as of February 2001.

The conversion and redevelopment of the former Tulsa, Oklahoma shopping center to an office/warehouse facility named Crosstown Business Center continues. Eight tenants have leased 48% of the facility and several other leases are under negotiation.

The Company completed a 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 1999 and the small shop space is 100% leased and occupied. The Company also completed a façade renovation of the adjacent 56,000 square foot Boulevard shopping center, similar in appearance with that of the Shops at Fairfax.

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 November 1999. In addition to the new Lowe's, 8,000 square feet of new small shop space was also constructed and is 100% leased and occupied.

Portfolio Leasing Status

At December 31, 2000, the portfolio consisted of 28 Shopping Centers and five Office Properties, all of which are located in seven states and the District of Columbia.

At December 31, 2000, 92.9% of the Company's 5,900,000 square feet of operating leasable space (excluding properties under development, Ashburn Village III & IV and Washington Square) was leased to tenants, as compared to 92.7% at December 31, 1999. The shopping center portfolio (excluding Ashburn Village III & IV) was 94.1% leased at December 31, 2000 compared to 95.2% at December 31, 1999. The Office Properties (excluding Washington Square) were 86.8% leased at December 31, 2000 compared to 79.3% as of December 31, 1999. The overall improvement in the year-end 2000 leasing percentage resulted primarily from the Company's successful leasing at Avenel Business Park and increased occupancy at Crosstown Business Center.

Results of Operations

The following discussion compares the results of the Company for the year ended December 31, 2000 with the year ended December 31, 1999, and compares the year ended December 31, 1999 with the year ended December 31, 1998. This information should be read in conjunction with the accompanying consolidated financial statements and the notes related thereto.

Years Ended December 31, 2000 and 1999

Base rent increased to \$63,837,000 in 2000 from \$59,200,000 in 1999, representing a \$4,637,000 (7.8%) increase. The increase in base rent resulted primarily from new leases in effect at recently redeveloped shopping centers (Shops At Fairfax/Boulevard, Thruway, French Market and Ashburn Village), a four percent average annual occupancy increase at Avenel Business Park, and a 60,000 square foot tenant paying higher rent while holding over beyond its scheduled lease expiration at 601 Pennsylvania Avenue. The increase in base rent was diminished in part by decreasing occupancy at Lexington Mall and the absence of rent from Park Road, sold in December 1999.

Expense recoveries increased to \$11,129,000 in 2000 from \$10,176,000 in 1999, representing an increase of \$953,000 (9.4%). Expense recovery income increased primarily as a result of substantial snow removal expenses during 2000 which were recovered from many of the Company's shopping center tenants and to a lesser extent, improved occupancy rates which allowed a greater percentage of operating expenses to be recovered from tenants.

Percentage rent was \$2,097,000 in 2000, compared to \$2,222,000 in 1999, representing a decrease of \$125,000 (5.6%). The decrease in percentage rent resulted primarily from the rollover of an anchor tenant lease into higher paying base rent in lieu of percentage rent at Giant shopping center.

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 \$1,966,000 in 2000, compared to \$2,193,000 in 1999, representing a decrease of \$227,000 (10.4%). The decrease in other income resulted from a \$252,000 reduction in lease termination payments compared to the prior year.

As a consequence of the foregoing, the 2000 total revenues of \$79,029,000 represented an increase of \$5,238,000 (7.1%) over 1999 total revenues of \$73,791,000.

Operating expenses, which consist mainly of repairs and maintenance, utilities, payroll and insurance expense, increased \$551,000 (7.1%) to \$8,271,000 in 2000 from \$7,720,000 in 1999. The increase was primarily caused by higher snow removal expenses resulting from two severe snowstorms impacting the Mid-Atlantic region during January and February 2000, offset in part by cost savings achieved by reducing maintenance and utility expenses attributable to the elimination of the interior mall area of French Market.

The provision for credit losses was \$467,000 in 2000 compared to \$295,000 in 1999, representing an increase of \$172,000 (58.3%). The comparative credit loss increase resulted from unusually low credit loss activity in 1999, additions to credit loss reserves for two retail tenants in bankruptcy and rent in dispute with an office tenant.

Real estate taxes were \$6,451,000 in 2000 compared to \$6,207,000 in 1999, representing an increase of \$244,000 (3.9%).

Interest expense was \$23,843,000 in 2000 compared to \$22,568,000 in 1999, representing an increase of \$1,275,000 (5.6%). The increase in interest expense resulted from increased borrowings related to newly developed and acquired properties placed in service during 2000 and 1999, and to a lesser extent, the higher costs of borrowing in 2000 resulting from higher interest rates compared to 1999.

Amortization of deferred debt expense was \$458,000 in 2000 compared to \$416,000 in 1999, an increase of \$42,000 (10.1%). The increase resulted from the Company's new \$14,300,000 long term financing secured by the Shops at Fairfax and Boulevard shopping centers and the costs of renewing and amending the Company's revolving credit facility.

Depreciation and amortization expense was \$13,534,000 in 2000 compared to \$12,163,000 in 1999, representing an increase of \$1,371,000 (11.3%). The increase resulted from increased depreciation related to newly developed and acquired properties placed in service during 2000 and 1999.

General and administrative expense, which consists primarily of administrative payroll and other overhead expenses, was \$3,891,000 in 2000 compared to \$3,755,000 in 1999, representing an increase of \$136,000 (3.6%).

There were no property sales in 2000. In 1999 the Company reported a gain on sale of property of \$553,000 resulting 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.

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 at Old Town 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 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.

2000

CORPORATE INFORMATION

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
Board of Trustees,
National Geographic Society

Philip C. Jackson, Jr.

Adjunct Professor Emeritus,
Birmingham-Southern College

General Paul X. Kelley

USMC (Ret.), Partner,
J.F. Lehman & Company

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

B. Francis Saul II

Chairman & Chief Executive Officer

B. Francis Saul III

Vice Chairman

Philip D. Caraci

President

Scott V. Schneider

Senior Vice President,
Chief Financial Officer,
Treasurer & Secretary

Christopher H. Netter

Senior Vice President, Leasing

John F. Collich

Senior Vice President,
Retail Development

Charles W. Sherren, Jr.

Senior Vice President, Management

COUNSEL

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WEB SITE

www.saulcenters.com

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



DIVIDEND REINVESTMENT PLAN

Saul Centers, Inc. offers a dividend reinvestment plan which enables its shareholders to automatically invest some of or all dividends in additional shares. The plan provides shareholders with a convenient and cost-free way to increase their investment in Saul Centers. Shares purchased under the dividend reinvestment plan are issued at a 3% discount from the closing price of the stock on the dividend payment date. The Plan's prospectus is available for review in the Shareholders Information section of the Company's web site.

To receive more information please call 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, 2000	\$18.63	\$15.31
Third Quarter, 2000	\$16.50	\$15.63
Second Quarter, 2000	\$16.81	\$15.38
First Quarter, 2000	\$16.31	\$13.94
Fourth Quarter, 1999	\$15.94	\$14.00
Third Quarter, 1999	\$17.19	\$14.81
Second Quarter, 1999	\$17.13	\$14.75
First Quarter, 1999	\$15.56	\$14.50

On February 23, 2001, the closing price was \$18.75.

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 27, 2001, 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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