
2003

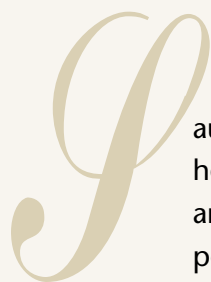
Annual Report

to shareholders



Saul Centers

SAUL CENTERS, INC.



Saul Centers, Inc. is a self-managed, self-administered equity real estate investment trust headquartered in Bethesda, Maryland. After the February 2004 acquisitions of the Countryside and Boca Valley Plaza shopping centers, Saul Centers operates and manages a real estate portfolio of 38 community and neighborhood shopping center and office properties totaling approximately 6.8 million square feet of leasable area. Over 83% of our cash flow is generated from properties in the metropolitan Washington, DC/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.

PORTFOLIO COMPOSITION

Based on 2003 Operating Income



69.2% Shopping Centers
30.8% Office

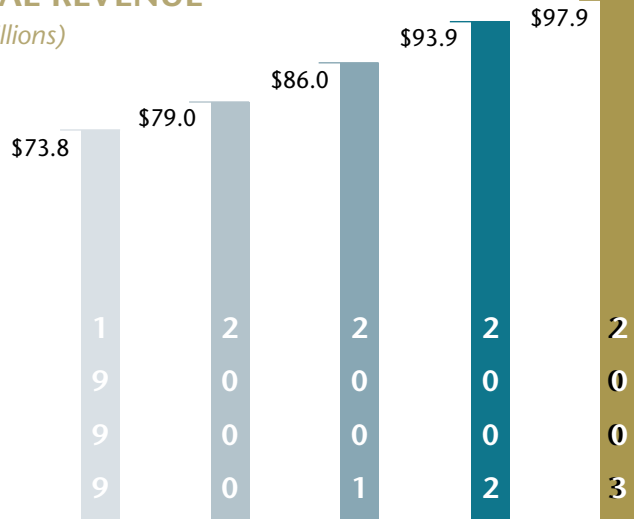
83.2% Metropolitan
Washington, DC/Baltimore Area
16.8% Rest of U.S.

HISTORIC

Operating Performance

TOTAL REVENUE

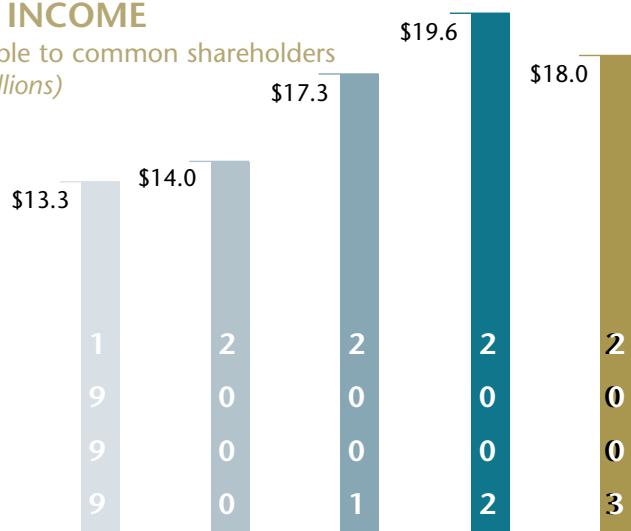
(in millions)



Washington Square

NET INCOME

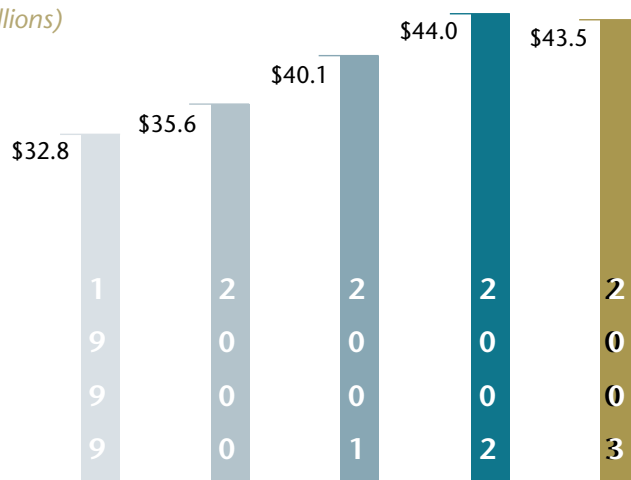
available to common shareholders
(in millions)



Leesburg Pike

FUNDS FROM OPERATIONS*

(in millions)



Boca Valley Plaza

* Funds From Operations (FFO) is a non-GAAP financial measure. See page 44 for a definition of FFO and reconciliation to net income available to common shareholders.

COMPARATIVE Analysis

	Year ended December 31,				
	2003	2002	2001	2000	1999
Summary Financial Data					
Total Revenue	\$ 97,884,000	\$ 93,963,000	\$ 86,308,000	\$ 79,029,000	\$ 73,791,000
Net Income Available to Common Shareholders	\$ 17,998,000	\$ 19,566,000	\$ 17,314,000	\$ 14,045,000	\$ 13,297,000
FFO	\$ 43,474,000	\$ 44,031,000	\$ 40,141,000	\$ 35,648,000	\$ 32,830,000
Average Common Stock Outstanding	15,607,890	14,886,505	14,210,470	13,623,330	13,100,295
Average Shares and Units Outstanding	20,790,216	20,059,264	19,382,720	18,795,571	18,147,954
FFO Per Share (Diluted)	\$ 2.10	\$ 2.20	\$ 2.07	\$ 1.90	\$ 1.81
Net Income Available to Common Shareholders Per Share (Diluted)	\$ 1.15	\$ 1.31	\$ 1.22	\$ 1.03	\$ 1.01
Dividend as a Percentage of FFO	74%	71%	75%	82%	86%
Interest Expense Coverage ^a	2.78	2.78	2.63	2.51	2.47
Property Data					
Number of Properties ^b	36	34	33	33	33
Total Portfolio Square Feet	6,532,000	6,272,000	6,159,000	6,143,000	6,108,000
Shopping Center Square Feet	5,328,000	5,069,000	4,956,000	4,941,000	4,936,000
Office Square Feet	1,204,000	1,203,000	1,203,000	1,202,000	1,172,000
Average Percentage Leased	93%	94%	93%	93% ^c	92% ^c

(a) Interest expense coverage is defined as operating income before interest expense, amortization of deferred debt expense, depreciation and amortization, divided by interest expense.

(b) Excludes development land parcels (Shops at Monocacy, Lansdowne and Clarendon Center).

(c) Excludes Washington Square, which was under development.



Thruway

MESSAGE to our Shareholders

In August 2003, Saul Centers completed its tenth year as a public company. Our total debt and equity market capitalization increased to over \$1 billion at year end 2003, from an initial value of \$480 million in August 1993. Since 1993, we have increased total revenue from \$57 million to over \$97 million and net income from \$7 million to over \$18 million. Funds From Operations (FFO), a widely accepted non-GAAP financial measure of operating performance for REIT's has increased from \$24 million to over \$43 million. Our FFO has grown by a compounded annual rate of 6.7% during this ten year period. Our portfolio includes over 6.5 million square feet of community and neighborhood shopping center and office space leased at a historical high of 94.4% at year end. Our capital structure includes \$100 million of preferred stock, the result of a successful offering completed in November 2003. The net proceeds from the offering coupled with the potential of our unused \$125 million credit line will allow us to continue to expand and improve our property portfolio.

During the past year, the Company and the real estate industry continued to benefit from low interest rates and the availability of capital. As we begin the new year, the national economy shows signs of recovery. While many national office markets remain oversupplied due to a low demand for space, the Washington, DC metropolitan area has been a bright spot with relatively low vacancy rates. Throughout 2003, retail continued to be a property sector with healthy supply/demand characteristics and generally stable performance. Retail properties and Washington, DC area office buildings produce over 99% of our cash flow.

2003 Financial Results

For the year ending December 31, 2003, total revenue increased by 4.2% to \$97,884,000 compared to 2002. For 2003, net income available to common stockholders decreased by 8.7% to \$17,998,000. On a per share basis



Ravenwood

M E S S A G E

to our Shareholders

net income available to common stockholders decreased by 12.2% to \$1.15 per share (fully diluted).

For the quarter ending December 31, 2003, total revenue increased by 6.6% to \$26,129,000 compared to the 2002 quarter. For the 2003 quarter, net income available to common stockholders decreased by 15.0% to \$4,471,000. On a per share basis net income available to common stockholders decreased by 20.0% to \$.28 per share (fully diluted).

The initial dilutive impact of the preferred stock offering decreased 2003 annual and fourth quarter net income, but provided cash and credit line availability to fund acquisitions and developments as the Company continues to pursue investment opportunities.

FFO decreased 0.7% to \$43,740,000 compared to \$44,031,000 for 2002. The decrease in FFO was primarily attributable to decreased operating income at the Company's 601 Pennsylvania Avenue office building and the initial dilutive impact of the Company's November 2003 preferred stock offering. On a fully diluted per share basis, FFO was \$2.10 per share for 2003, a 4.5% decrease from \$2.20 per share for 2002. For the fourth quarter, FFO increased 0.5% to \$11,274,000 compared to \$11,221,000 for the same quarter in 2002. On a fully diluted per share basis, FFO was \$0.54 per share for the 2003 quarter and \$0.55 per share for the 2002 fourth quarter.

Shareholder Returns

The Company's common stock finished 2003 at a price of \$28.67 per share. We paid four equal quarterly dividends of \$0.39 per share, for a total of \$1.56 per share in 2003. Approximately 18% of the dividend was classified as return of capital while 82% was taxable as ordinary income. The combination of the common stock's yield (5.4% at December 31, 2003) with its share price appreciation produced a 28.0% total return to our shareholders last year. This favorable

investment performance was somewhat below the average annual total return of 37.1% for the 144 equity REIT stocks comprising the NAREIT Equity Index, but our 5-year compounded annual total return of 23.0% ranked Saul Centers in the top 20 of these 144 REITs. Within the community and neighborhood shopping center sector of REITs, Saul Centers ranks at the median 5-year total return. Since the Company's 1993 initial public offering, our investors have received a compounded annual ten-year return of over 13%.

The Company's Series A Preferred Stock was issued in November 2003 at a share price of \$25.00 per depositary share and a dividend yield of 8.0%. The December 31, 2003 closing price was \$26.55 per share, yielding 7.5%. The Series A Preferred is listed on the New York Stock Exchange as "BFS.PrA".



View from 601 Pennsylvania Avenue

Portfolio Performance

The Saul Centers core portfolio operating income decreased slightly from 2002 totals. While shopping center operating income, on a same center basis, increased 0.5% for the year, the office portfolio decreased 2.1% for 2003 over 2002. Performance of the office group was adversely impacted by the February 2003 expiration of a major tenant lease at 601 Pennsylvania Avenue. A total of 53% of the building had been occupied by the Federal Trade Commission. The tenant's decision to

MESSAGE to our Shareholders

consolidate facilities at another location resulted in a short-term leasing and income decline at the Company's most significant office asset. By December 31, 2003, the building was again 100% leased.

Shopping Center Results

Retail market conditions in the trade areas surrounding our shopping centers continue to be favorable. The tenants in our centers generally serve the needs of the surrounding neighborhood and provide goods and services such as groceries, prescription drugs, sundries and routine services such as hair care, dry cleaning and dining. Our centers are located within communities having attractive demographic characteristics. The one-mile and three-mile average household incomes surrounding our shopping centers are \$86,000 and \$90,000, respectively with

The leasing percentage for the shopping center portfolio increased to 94.1% from 93.9% at the previous year end. During 2003, the Company signed new retail leases for 499,000 square feet of space at average initial cash rental rates of 7.0% over rents paid on expiring leases. Tenants generally want to continue doing business in our centers; over 450,000 square feet of leases expired in 2003, and 75% of these tenants renewed their leases. This was the highest renewal rate achieved by us during the past three years.

Retail market conditions in the trade areas surrounding our shopping centers continue to be favorable.



Kentlands Square



Leesburg Pike

populations of 28,000 and 118,000 people, respectively. Overall, the 19 grocers in our retail portfolio produced an average 2003 sales volume of \$480 per square foot, a decrease of 1.7% over the prior year but a compound average annual increase of 2.3% over the past five years. Eighty percent of our shopping center operating income is from centers in the Washington, DC and Baltimore metropolitan areas. Within our 23 core Washington, DC and Baltimore metropolitan centers, 15 are grocery anchored with grocers producing \$520 per square foot in average sales.

Overall retail sales, including anchor and shop space, for those tenants required to report sales, totaled \$281 per square foot in 2003. On a same store basis, sales levels increased 2.1% compared to 2002 levels, with average annual increases of 0.6% over the past three years.

MESSAGE to our Shareholders

We believe diversity is an important factor in minimizing tenant credit risk. Only three retailers pay annualized base rents that total more than 2% of our December 2003 annualized base rents. These tenants are Giant at 5.0% and Safeway at 2.5%, the top two market share grocers in the Company's principal market area, metropolitan Washington, DC and Baltimore, and Lowe's Home Improvement at 2.1%.

Washington, DC office market, which compared favorably to national averages with an overall vacancy rate of less than 8.0% at year end. While the Federal Trade Commission's relocation had a negative impact on 2003 results, the subsequent releasing of the space to such tenants as the National Gallery of Art, the American Association of Health Plans and the Pharmaceutical Care Association positions the building with a strong tenant base for the balance of this decade.

Office properties were 95.8% leased at year end 2003.

Washington Square, our 235,000 square foot Class A office building, built in 2000 and located in Old Town Alexandria, Virginia, contributed over \$1.2 million of our increase in operating income as it approaches stabilized occupancy. The property was 93% leased at year end.



Avenel Business Park



Washington Square Interior

Office Highlights

The office/industrial segment contributed 31% of Saul Centers' 2003 operating income. The office division's most significant asset is 601 Pennsylvania Avenue, which contributed approximately 30% of the office operating income. The Company leased over 130,000 square feet of space in the building over the past eighteen months due in part to the superior location of this asset within the downtown

The Company's 380,000 square foot Avenel Business Park ended 2003 at 100% leased. Avenel Business Park, located adjacent to I-270 in Gaithersburg, Maryland, continues to attract tenants in the life science and biomedical research industry.

Overall, the Company's 1.2 million square feet of office space is well positioned with long term leases. Our office portfolio is currently 95.8% leased. Over 90% of the office leases have fixed annual escalations averaging over 2.5% per year. Leases representing only 10% of the Company's December 2003 annualized base rents expire during 2004 and 2005. Tenant leases in the

MESSAGE to our Shareholders

office portfolio representing over 65% of the current annualized base rents have expiration dates in 2009 and beyond.

Only two office tenants, the U.S. Government at 4.0% and the American Association of Health Plans at 2.7%, accounted for more than 2% of our December 2003 annualized base rents. We are well positioned, with a diverse tenant base and long term escalating leases, to provide stable cash flow growth.

Acquisitions & Developments

During 2003 and continuing into early 2004, the Company has actively pursued new property investments. In July 2003, we acquired Olde



Countryside

Forte Village, a 161,000 square foot neighborhood retail center constructed in the early 1980's and located near the entrance to the Tantallon community in Fort Washington, Maryland. The property is approximately 5 miles south of I-495, the Washington Beltway and is anchored by a newly constructed 58,000 square foot Safeway which opened in March 2003. The balance of the center consists of approximately 48,000 square feet of in-line shop space, 16,000 square feet of pad site buildings and the 39,000 square foot former Safeway space. We have filed for permits and plan to begin redeveloping the center in March 2004.

We expect total redevelopment costs, including the initial property acquisition cost, to be approximately \$22 million and project completion of the redevelopment to occur in the fall of 2004. Olde Forte Village is currently 67% leased.

In October 2003, we completed construction of the first phase of the Broadlands Village shopping center located in Loudoun County, Virginia. The 58,000 square foot Safeway supermarket opened in October 2003 and a Chevy Chase Bank pad building and many in-line small shops also opened during the fourth quarter. This 105,000 square foot first phase is 100% leased. We have applied for permits and plan to begin construction of a 30,000 square foot second phase in March 2004. We expect total development costs of both phases, including land acquisition costs, to be approximately \$22 million and project substantial completion of phase two of the center to occur in the fall of 2004. The second phase is currently 12% pre-leased.

Also in the fourth quarter of 2003, we acquired 13 acres of undeveloped land in Frederick, Maryland at the southeast corner of Maryland Route 26 and Monocacy Boulevard. We commenced construction in early December of the 102,000 square foot Shops at Monocacy to be anchored by a 57,000 square foot Giant grocery store. The Company expects development costs including the land acquisition, to total approximately \$21.3 million and projects substantial completion of the center to occur in the fall of 2004. The property is currently 61% pre-leased.

In January 2004, we purchased 3.4 acres of undeveloped land adjacent to our 109,000 square foot Kentlands Square shopping center in Gaithersburg, Maryland. The Company plans to build a 41,300 square foot retail/office property comprised of 24,400 square feet of in-line retail space and 16,900 square feet of professional office suites. Construction is expected to commence in spring 2004. Development costs, including the land acquisition, are projected to total \$7.1 million, and substantial completion of the project is scheduled for the fall of 2004.

MESSAGE to our Shareholders

In mid-February 2004, we completed the acquisition of the 130,000 square foot Safeway-anchored Countryside shopping center, our fourth neighborhood shopping center investment in fast-growing Loudoun County, Virginia. The center is 95% leased and was acquired for a purchase price of \$29.7 million. Loudoun County has



Boca Valley Plaza

experienced strong population and income growth in the past decade. Our retail investments in Ashburn Village, Broadlands Village and Countryside shopping centers and the Lansdowne land parcel are the dominant retail sites in their respective planned communities, with existing residential units totaling between 1,500 and 5,000 homes each, and average household incomes of over \$98,000.

We added Publix as one of our grocery tenants with the February 2004 acquisition of Boca Valley Plaza in Boca Raton, Florida. Boca Valley Plaza is a 121,000 square foot neighborhood shopping center on U.S. Highway 1 in a very attractive demographic area of South Florida. Household incomes within a three-mile radius average over \$83,000. The center was constructed in 1988, is 90% leased and is anchored by a 42,000 square foot Publix supermarket. Publix is the dominant grocer in South Florida with an estimated 50% market share of grocery store sales in the Miami-Dade, Broward and Palm Beach tri-county area.

The property was acquired for a purchase price of \$17.5 million, subject to the assumption of a \$9.2 million mortgage.

The acquisitions of Olde Forte Village, Countryside and Boca Valley Plaza and our development of Broadlands Village and Shops at Monocacy demonstrate the execution of our strategy to focus on centers located in neighborhoods with favorable demographic characteristics which are anchored by the number one or two market share grocers in their geographic areas.

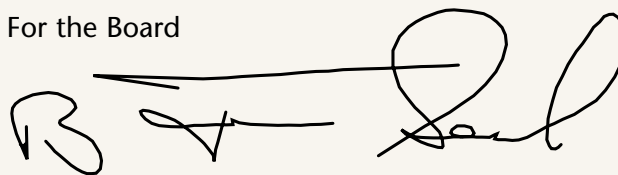
Capital Structure

We enlarged and diversified our capital structure during 2003 with the issuance of \$100 million of perpetual preferred stock. The initial annual dividend was equivalent to an 8% yield to investors. Net proceeds from the issuance were used to to acquire the Shops at Monocacy development land in November and the Countryside and Boca Valley Plaza shopping centers during the first quarter of 2004 and to pay down all of the balances outstanding on the Company's revolving credit line.

At year end 2003, Saul Centers' outstanding debt totaled \$357 million. All debt was fixed rate with an average maturity of 9.6 years and a weighted average interest rate of 7.5%. The Company had prudent leverage of less than 40% debt to total capitalization at December 31, 2003, and interest expense coverage of 2.8 times for the year.

The Company's financial results during the fourth quarter of 2003 were temporarily impacted by the dilutive effect of the November 2003 preferred stock offering; however, we remain confident that we can continue to effectively invest capital to produce long-term cash flow growth.

For the Board

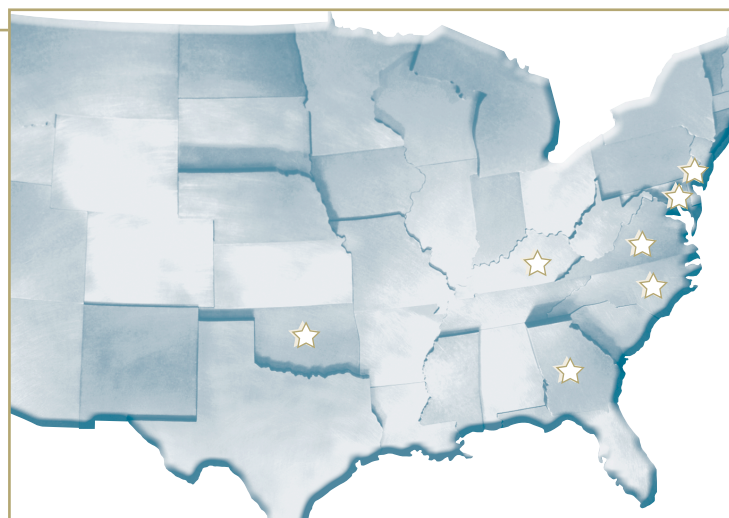


B. Francis Saul II
March 4, 2004

PORTFOLIO

Properties

As of December 31, 2003, Saul Centers' portfolio properties are located in Virginia, Maryland, Washington, DC, North Carolina, Oklahoma, New Jersey, Georgia and Kentucky. In February 2004, a property in Boca Raton, Florida was added to the portfolio. Properties in the metropolitan Washington, DC/Baltimore area represent 70% of the portfolio's gross leasable area.



Property/Location	Gross Leasable Square Feet
Shopping Centers	
Ashburn Village, Ashburn, VA	185,537
Ashburn Village IV, Ashburn, VA	25,790
Beacon Center, Alexandria, VA	352,915
Belvedere, Baltimore, MD	54,941
Boulevard, Fairfax, VA	56,350
Broadlands Village, Loudoun County, VA	104,492
Clarendon, Arlington, VA	6,940
Clarendon Station, Arlington, VA	4,868
Flagship Center, Rockville, MD	21,500
French Market, Oklahoma City, OK	244,724
Germantown, Germantown, MD	26,241
Giant, Baltimore, MD	70,040
The Glen, Lake Ridge, VA	112,639
Great Eastern, District Heights, MD	255,398
Hampshire Langley, Langley Park, MD	131,700
Kentlands Square, Gaithersburg, MD	109,922
Leesburg Pike, Baileys Crossroads, VA	97,752
Lexington Mall, Lexington, KY	314,535
Lumberton Plaza, Lumberton, NJ	193,544
Olde Forte Village, Ft. Washington, MD	160,990

Property/Location	Gross Leasable Square Feet
Olney, Olney, MD	53,765
Ravenwood, Baltimore, MD	85,958
Seven Corners, Falls Church, VA	560,998
Shops at Fairfax, Fairfax, VA	68,743
Southdale, Glen Burnie, MD	484,115
Southside Plaza, Richmond, VA	341,891
South Dekalb Plaza, Atlanta, GA	163,418
Thruway, Winston-Salem, NC	338,774
Village Center, Centreville, VA	143,109
West Park, Oklahoma City, OK	76,610
White Oak, Silver Spring, MD	480,156
Total Shopping Centers	5,328,355

Office Properties

Avenel Business Park, Gaithersburg, MD	388,684
Crosstown Business Center, Tulsa, OK	197,135
601 Pennsylvania Ave, Washington, DC	226,604
Van Ness Square, Washington, DC	156,493
Washington Square, Alexandria, VA	234,775
Total Office Properties	1,203,691

Total Portfolio
(as of December 31, 2003) **6,532,046**

The Company purchased 13 acres of vacant land in Frederick, Maryland which is being developed as Shops at Monocacy. The 102,000-square-foot shopping center is under construction, is approximately 60% preleased and is expected to be operational by November 2004. The Company also purchased 19 acres of vacant land in the Lansdowne community in Loudoun County, Virginia and a 1.25 acre site in the Clarendon area of Arlington, Virginia, as future development and redevelopment properties.

R E P O R T O F

Independent Public Accountants

Board of Directors and Stockholders
Saul Centers, Inc.:

We have audited the accompanying consolidated balance sheets of Saul Centers, Inc. as of December 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the years then ended. Our audits also included the financial statement schedule listed in Item 15 of Form 10-K. These financial statements and the schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits. The financial statements of Saul Centers, Inc. as of December 31, 2001, and for the year ended December 31, 2001, were audited by other auditors who have ceased operations and whose report dated February 13, 2002, expressed an unqualified opinion on those statements.

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 2003 and 2002 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Saul Centers, Inc. at December 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

Ernst & Young LLP
McLean, Virginia
February 3, 2004,
except as to Note 13,
for which the date is
February 17, 2004.

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, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the years then ended. 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, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP
Vienna, Virginia
February 13, 2002

Note: As permitted by Rule 2-02 (e) of Regulation S-X promulgated under the Securities Act of 1933, this is a copy of the audit report previously issued by Arthur Andersen LLP in connection with the filing of our Form 10-K for the year ended December 31, 2001. After reasonable efforts, we have been unable to have Arthur Anderson LLP reissue this audit report in connection with the filing of our Form 10-K for the years ended December 31, 2003 and 2002.

SAUL CENTERS, INC.

Consolidated Balance Sheets

(Dollars in thousands)	December 31, 2003	2002
Assets		
Real estate investments		
Land	\$ 110,624	\$ 95,786
Buildings and equipment	437,086	405,153
Construction in progress	4,405	2,975
	552,115	503,914
Accumulated depreciation	(164,823)	(150,286)
	387,292	353,628
Cash and cash equivalents	45,244	1,309
Accounts receivable and accrued income, net	14,642	12,505
Prepaid expenses	18,977	15,712
Deferred debt costs, net	4,224	4,125
Other assets	1,237	1,408
Total assets	\$ 471,616	\$ 388,687
Liabilities		
Notes payable	\$ 357,248	\$ 380,743
Dividends and distributions payable	9,454	7,942
Accounts payable, accrued expenses and other liabilities	7,793	8,785
Deferred income	4,478	4,484
Total liabilities	378,973	401,954
Stockholders' equity (deficit)		
Series A Cumulative Redeemable Preferred stock, 1,000,000 shares authorized and 40,000 shares issued and outstanding in 2003	100,000	--
Common stock, \$0.01 par value, 30,000,000 shares authorized, 15,861,234 and 15,196,582 shares issued and outstanding, respectively	159	152
Additional paid-in capital	91,469	79,131
Accumulated deficit	(98,985)	(92,550)
Total stockholders' equity (deficit)	92,643	(13,267)
Total liabilities and stockholders' equity (deficit)	\$ 471,616	\$ 388,687

SAUL CENTERS, INC.

Consolidated Statements of Operations

(Dollars in thousands,
except per share amounts)

For the Year Ended December 31,

	2003	2002	2001
Revenue			
Base rent	\$ 78,167	\$ 75,699	\$ 69,662
Expense recoveries	14,438	12,680	11,456
Percentage rent	1,695	1,850	2,113
Other	3,584	3,734	3,077
Total revenue	97,884	93,963	86,308
Operating expenses			
Property operating expenses	11,363	10,115	8,503
Provision for credit losses	171	421	617
Real estate taxes	8,580	8,021	7,226
Interest expense	25,772	25,113	24,920
Amortization of deferred debt expense	801	725	566
Depreciation and amortization	17,838	17,821	14,758
General and administrative	6,213	5,537	4,335
Total operating expenses	70,738	67,753	60,925
Operating income	27,146	26,210	25,383
Non-operating item			
Gain on sale of property	182	1,426	--
Income before minority interests	27,328	27,636	25,383
Minority interests			
Minority share of income	(6,495)	(7,130)	(6,777)
Distributions in excess of earnings	(1,591)	(940)	(1,292)
Total minority interests	(8,086)	(8,070)	(8,069)
Net income	19,242	19,566	17,314
Preferred dividends	(1,244)	--	--
Net income available to common shareholders	\$ 17,998	\$ 19,566	17,314
Per Share – Net income available to common shareholders			
Basic	\$ 1.15	\$ 1.32	\$ 1.22
Fully diluted	\$ 1.15	\$ 1.31	\$ 1.22

The accompanying notes are an integral part of these statements.

SAUL CENTERS, INC.

Consolidated Statements of Stockholders' Equity (Deficit)

<i>(Dollars in thousands, except per share amounts)</i>	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total
Stockholders' equity (deficit)					
Balance, December 31, 2000	\$ --	\$ 139	\$ 52,594	\$ (83,888)	\$ (31,859)
Issuance of 666,268 shares of common stock:					
645,423 shares - dividend reinvestment plan	--	6	11,609	--	11,615
20,845 shares - directors' deferred compensation	--	--	361	--	361
Net income	--	--	--	17,314	17,314
Distributions – common stock	--	--	--	(16,588)	(16,588)
Distributions payable common stock (\$.39 per share)	--	--	--	(5,670)	(5,670)
Balance, December 31, 2001	--	145	64,564	(88,832)	(24,123)
Issuance of 660,779 shares of common stock:					
556,872 shares - dividend reinvestment plan	--	6	12,469	--	12,475
103,907 shares - employee stock options and directors deferred stock plan	--	1	2,098	--	2,099
Net income	--	--	--	19,566	19,566
Distributions – common stock	--	--	--	(17,360)	(17,360)
Distributions payable common stock (\$.39 per share)	--	--	--	(5,924)	(5,924)
Balance, December 31, 2002	--	152	79,131	(92,550)	(13,267)
Issuance of 664,651 shares of common stock:					
552,170 shares - dividend reinvestment plan	--	6	13,697	--	13,703
112,481 shares - employee stock options and directors deferred stock plan	--	1	2,314	--	2,315
Issuance of 40,000 shares of preferred stock	100,000	--	(3,673)	--	96,327
Net income	--	--	--	19,242	19,242
Distributions payable preferred stock (\$.31 per share)	--	--	--	(1,244)	(1,244)
Distributions – common stock	--	--	--	(18,247)	(18,247)
Distributions payable common stock (\$.39 per share)	--	--	--	(6,186)	(6,186)
Balance, December 31, 2003	\$ 100,000	\$ 159	\$ 91,469	\$ (98,985)	\$ 92,643

SAUL CENTERS, INC.

Consolidated Statements of Cash Flows

	For the Year Ended December 31,		
(Dollars in thousands)	2003	2002	2001
Cash flows from operating activities			
Net income	\$ 19,242	\$ 19,566	\$ 17,314
Adjustments to reconcile net income to net cash provided by operating activities:			
Minority interests	8,086	8,070	8,069
Gain on sale of property	(182)	(1,426)	--
Depreciation and amortization	18,639	18,546	15,324
Provision for credit losses	171	421	617
Increase in accounts receivable	(2,308)	(2,283)	(823)
Increase in prepaid expenses	(6,454)	(7,661)	(5,568)
Decrease in other assets	171	15	347
Increase (decrease) in accounts payable, accrued expenses and other liabilities	(992)	1,522	(5,155)
Increase (decrease) in dividends payable	6	254	260
Increase (decrease) in deferred income	(6)	475	1,449
Net cash provided by operating activities	36,373	37,499	31,834
Cash flows from investing activities			
Acquisitions of real estate investments	(25,474)	(36,677)	--
Additions to real estate investments	(9,286)	(6,660)	(13,055)
Additions to construction in progress	(13,371)	(5,768)	(8,745)
Net cash used in investing activities	(48,131)	(49,105)	(21,800)
Cash flows from financing activities			
Proceeds from notes payable	128,134	53,547	51,218
Repayments on notes payable	(151,629)	(24,624)	(42,851)
Additions to deferred debt costs	(900)	(1,287)	(17)
Proceeds from the issuance of preferred stock	96,327	--	--
Proceeds from the issuance of common stock and convertible limited partnership units in the Operating Partnership	16,018	14,574	11,976
Distributions to common stockholders and holders of convertible limited partnership units in the Operating Partnership	(32,257)	(31,100)	(30,327)
Net cash provided by financing activities	55,693	11,110	(10,001)
Net increase (decrease) in cash and cash equivalents	43,935	(496)	33
Cash and cash equivalents, beginning of period	1,309	1,805	1,772
Cash and cash equivalents, end of period	\$ 45,244	\$ 1,309	\$ 1,805
Supplemental disclosures of cash flow information:			
Cash paid for interest, net of amount capitalized	\$ 25,496	\$ 25,089	\$ 24,419

The accompanying notes are an integral part of these statements.

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to Consolidated Financial Statements

1. ORGANIZATION, FORMATION, AND BASIS OF PRESENTATION

Organization

Saul Centers, Inc. ("Saul Centers") was incorporated under the Maryland General Corporation Law on June 10, 1993. Saul Centers operates as a real estate investment trust (a "REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). Saul Centers generally will not be subject to federal income tax, provided it annually distributes at least 90% of its REIT taxable income to its stockholders and meets certain organizational and other requirements. Saul Centers has made and intends to continue to make regular quarterly distributions to its stockholders. 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". B. Francis Saul II serves as Chairman of the Board of Directors and Chief Executive Officer of Saul Centers.

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, each of which is controlled by B. Francis Saul II and his family members (collectively, "The Saul Organization"). On August 26, 1993, members of 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", and collectively with the Operating Partnership, the "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, including seven properties during 2002 and 2003. In November 2003, the Company acquired approximately 13 acres of undeveloped land in Frederick, Maryland where it is developing Shops at Monocacy, a 102,000 square foot grocery anchored neighborhood shopping center. The property was approximately 60% pre-leased at purchase. In October 2003, the Company

completed the first phase of the Broadlands Village development, a grocery anchored neighborhood shopping center in Loudoun County, Virginia. In July 2003, the Company purchased Olde Forte Village, a grocery anchored neighborhood shopping center in Fort Washington, Maryland. In November 2002, the Company purchased a 19 acre parcel of land in the Lansdowne community in Loudoun County, Virginia. The Company plans to develop the Lansdowne parcel into a grocery anchored neighborhood shopping center. In September 2002, the Company purchased 109,642 square feet of retail space known as Kentlands Square. In the summer of 2002, the Company completed development of Ashburn Village IV, an in-line retail and pad building expansion to the Ashburn Village shopping center. In June 2002, the Company purchased Clarendon Center for future redevelopment. As of December 31, 2003, the Company's properties (the "Current Portfolio Properties") consisted of 31 operating shopping center properties (the "Shopping Centers"), five predominantly office operating properties (the "Office Properties") and three development and/or redevelopment properties.

The Company established Saul QRS, Inc., a wholly owned subsidiary of Saul Centers, to facilitate the placement of collateralized mortgage debt. Saul QRS, Inc. was created to succeed to the interest of Saul Centers 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.

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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 Washington, DC/Baltimore metropolitan area. Because the properties are located primarily in the Washington, DC/Baltimore metropolitan area, the Company is subject to a concentration of credit risk related to these properties. A majority of the Shopping Centers are anchored by several major tenants. Nineteen of the Shopping Centers are anchored by a grocery store and offer primarily day-to-day necessities and services. As of December 31, 2003, no single property accounted for more than 8.6% of the total gross leasable area of the portfolio. Only the United States Government (4.1%), a tenant of six properties, and Giant Food (5.7%), a tenant of eight Shopping Centers, individually accounted for more than 2.4% of the Company's total revenues for the year ending December 31, 2003.

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 accounting principles generally accepted in the United States 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Real Estate Investment Properties

The Company purchases real estate investment properties from time to time and allocates the purchase price to various components, such as land, buildings, and intangibles related to in-place leases and customer relationships in accordance with Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") 141, "Business Combinations." The purchase price is allocated based on the relative fair value of each component. The fair value of buildings is determined as if the buildings were vacant upon acquisition and subsequently leased at market rental rates. As such, the determination of fair value considers the present value of all cash flows expected to be generated from the property including an initial lease-up period. The Company determines the fair value of above and below market intangibles associated with in-place leases by assessing the net effective rent and remaining term of the leases relative to market terms for similar leases at acquisition. In the case of below market leases, the Company considers the remaining contractual lease period and renewal periods, taking into consideration the likelihood of the tenant exercising its renewal options. The fair value of a below market lease component is recorded as deferred income and amortized as additional lease revenue over the remaining contractual lease period and any renewal option periods included in the valuation analysis. The fair value of above market lease intangibles is recorded as a deferred asset and is amortized as a reduction of lease revenue over the remaining contractual lease term. The Company determines the fair value of at-market in-place leases considering the cost of acquiring similar leases, the foregone rents associated with the lease-up period and carrying costs associated with the lease-up period. Intangible assets associated with at-market in-place leases are amortized as additional lease expense over the remaining contractual lease term. To the extent customer relationship intangibles are present in an acquisition, the fair value of the intangibles are amortized over the life of the customer relationship.

NOTES to Consolidated Financial Statements

The Company applied SFAS 141 when it recorded the July 2003 acquisition of Olde Forte Village and the November 14, 2003 acquisition of Shops at Monocacy. Approximately \$760,000 of the \$16,670,000 total cost of the Olde Forte acquisition was allocated as lease intangible assets and included in prepaid expenses at acquisition. Approximately \$141,000 of the \$9.3 million total cost of the Shops at Monocacy acquisition was allocated as lease intangible assets and included as prepaid expenses. The lease intangible assets are being amortized over the remaining periods of the leases acquired.

Real estate investment properties are reviewed for potential impairment losses whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If there is an event or change in circumstance that indicates an impairment in the value of a real estate investment property, the Company's policy is to assess any impairment in value by making a comparison of the current and projected operating cash flows of the property over its remaining useful life, on an undiscounted basis, to the carrying amount of that property. If such carrying amount is in excess of the estimated projected operating cash flows of the property, the Company would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to its estimated fair market value. Saul Centers adopted SFAS 144, "Accounting for Impairment or Disposal of Long-Lived Assets," effective January 1, 2002. This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The Company has not recognized an impairment loss in 2003, 2002 or 2001 on any of its real estate.

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, which includes contract services such

as grounds maintenance, lot sweeping and snow removal, are charged to operations as incurred. Repairs and maintenance expense totaled \$4,943,000, \$3,852,000 and \$2,913,000, for 2003, 2002 and 2001, respectively, and is included in operating expenses in the accompanying consolidated financial statements. Interest expense capitalized totaled \$1,382,000, \$548,000 and \$1,640,000, for 2003, 2002 and 2001, 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 35 to 50 years for base buildings and up to 20 years for certain other improvements. Depreciation expense for the years ended December 31, 2003, 2002 and 2001 was \$14,649,000, \$15,526,000 and \$12,748,000, respectively. Leasehold improvements are amortized over the lives of the related leases using the straight-line method.

Lease Acquisition Costs

Certain initial direct costs incurred by the Company in negotiating and consummating a successful lease are capitalized and amortized over the initial base term of the lease. These costs are included in prepaid expenses and total \$15,345,000 and \$12,140,000, net of accumulated amortization of \$6,671,000 and \$5,259,000, as of December 31, 2003 and 2002, respectively. Capitalized leasing costs consist of commissions paid to third party leasing agents as well as internal direct costs such as employee compensation and payroll related fringe benefits directly related to time spent performing leasing related activities. Such activities include evaluating the prospective tenant's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating lease terms, preparing lease documents and closing the transaction.

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Construction in Progress

Construction in progress includes predevelopment costs and development costs of active projects. Predevelopment costs associated with these active projects include legal, zoning and permitting costs and other project carrying costs incurred prior to the commencement of construction. Development costs include direct construction costs and indirect costs incurred subsequent to the start of construction 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, 2003 and 2002 are as follows:

Construction in Progress		
(In thousands)	December 31,	
	2003	2002
Broadlands Village	\$ --	\$ 875
Shops at Monocacy	277	--
Clarendon Center	1,675	512
Other	2,453	1,588
Balance	\$ 4,405	\$ 2,975

Accounts Receivable and Accrued Income

Accounts receivable primarily represent amounts currently due from tenants in accordance with the terms of the respective leases. Receivables are reviewed monthly and reserves are established with a charge to current period operations when, in the opinion of management, collection of the receivable is doubtful. Accounts receivable in the accompanying consolidated financial statements are shown net of an allowance for doubtful accounts of \$561,000 and \$681,000, at December 31, 2003 and 2002, respectively.

Allowance for Doubtful Accounts		
(In thousands)	For the Year Ended	
	December 31,	
	2003	2002
Beginning Balance	\$ 681	\$ 559
Provision for Credit Losses	171	421
Charge-offs	(291)	(299)
Ending Balance	\$ 561	\$ 681

In addition to rents due currently, accounts receivable include \$9,370,000 and \$6,262,000, at December 31, 2003 and 2002, respectively, representing minimum rental income accrued on a straight-line basis to be paid by tenants over the remaining term of their respective leases. These amounts are presented after netting allowances of \$548,000 and \$693,000, respectively, for tenants whose rent payment history or financial condition cast doubt upon the tenant's ability to perform under its lease obligations.

Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term investments with maturities of three months or less measured from the acquisition date.

Deferred Debt Costs

Deferred debt costs consist 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 totaled \$4,224,000 and \$4,125,000, and are presented net of accumulated amortization of \$3,300,000 and \$2,499,000, at December 31, 2003 and 2002, respectively.

Deferred Income

Deferred income consists of payments received from tenants prior to the time they are earned and recognized by the Company as revenue. These payments include prepayment of the following month's rent, prepayment of real estate taxes when the taxing jurisdiction has a fiscal year differing from the calendar year reimbursements specified in the lease agreement and advance payments by tenants for tenant construction work provided by the Company.

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 accounting principles generally accepted in the United States. 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.

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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 90% 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, 2003 and 2002, the total tax basis of the Company's assets was \$501,594,000 and \$410,497,000, and the tax basis of the liabilities was \$470,105,000 and \$392,157,000, respectively.

Stock Based Employee Compensation

Effective January 2003, the Company adopted the fair value method to value employee stock options using the prospective transition method specified under SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." The Company had no options eligible for valuation prior to the grant of the 2003 Options. The fair value of the 2003 Options was determined at the time of the award using the Black-Scholes model, a widely used method for valuing stock based employee compensation, and the following assumptions: expected volatility was determined using the ten year trading history of the Company's common stock (month-end closing prices), an average expected term outstanding of seven years, expected dividend yield throughout the option term of 7% and risk-free interest rate of 4% based upon an assumed 10-year US Treasury rate. Using the Black-Scholes model, the Company determined the total fair value of the 2003 Options to be \$332,000 and recognizes compensation expense monthly during the four years the options vest. Compensation expense attributed to the 2003 Options during the year ended December 31, 2003 was \$50,000. The 2003 Options are due to expire May 22, 2013 and as of December 31, 2003, none of the 2003 Options are vested.

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 of Directors. 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, 2003, 170,000 shares were authorized and registered for use under the Plan, and 149,000 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.

Per Share Data

Per share data is calculated in accordance with SFAS No. 128, "Earnings Per Share." Per share data for net income (basic and diluted) is computed using weighted average shares of common stock. Convertible limited partnership units and employee stock options are the Company's potentially dilutive securities. For all periods presented, the convertible limited partnership units are anti-dilutive. For the years ended December 31, 2003 and 2002, the options are dilutive because the average share price of the Company's common stock exceeded the exercise prices. The options were not dilutive for the year ended December 31, 2001. The Company granted 180,000 stock options to five executive officers in 1993 and 1994, of which no shares, 93,210 shares and 180,000 shares were unexercised as of December 31, 2003, 2002 and 2001, respectively. The Company granted 220,000 stock options to six executive officers in May 2003, of which all 220,000 shares remained unexercised as of December 31, 2003. The treasury share method was used to measure the effect of the dilution.

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Basic and Diluted Shares Outstanding			
(In thousands)	December 31,		
	2003	2002	2001
Weighted average common shares outstanding – Basic	15,591	14,865	14,210
Effect of dilutive options	17	22	--
Weighted average common shares outstanding – Diluted	15,608	14,887	14,210
Average Share Price	\$ 25.77	\$ 22.90	*

* The option exercise price exceeded the average share price for these periods.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. The reclassifications have no impact on operating results previously reported.

Recent Accounting Pronouncements

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB No. 4, 44 and 64, Amendment of FASB No. 13 and Technical Corrections." SFAS No. 145, among other things, changes the financial reporting requirements for the gains or losses recognized from the extinguishment of debt. Under SFAS No. 4, all gains and losses from the extinguishment of debt were required to be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. SFAS No. 145 eliminates SFAS No. 4 and as a result, the criteria in APB Opinion No. 30 now will be used to classify those gains and losses. The Company has no gains or losses from debt extinguishment that would require restatement. The Company does not expect the adoption of SFAS No. 145 to have a material impact on its financial condition or results of operations.

In November 2002, the Financial Accounting Standards Board ("FASB") issued Interpretation No. ("FIN") 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Direct Guarantees of Indebtedness of Others." FIN 45 outlines the disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees. It states that a guarantor is

required to recognize, at the inception of a guarantee, a liability for the fair value of its obligation. Saul Centers has guaranteed portions of its Operating Partnership debt obligations, all of which are presented on the consolidated financial statements as mortgage notes payable. Saul Centers has guaranteed \$2,964,000 of the notes payable which are recourse loans made by the Operating Partnership as of December 31, 2003. The balance of the mortgage notes payable totaling \$354,284,000 are non-recourse, however, as is customary when obtaining long term non-recourse financing, borrowers such as Saul Centers make certain representations to lenders, for example, that no fraud exists and the officers are authorized to execute loan documents. Borrowers, including Saul Centers, typically agree to assume obligations arising from reliance upon these representations should a third party suffer damages related to individual mortgages. No additional liabilities were recognized as a result of the adoption of FIN 45 and the Company does not expect the adoption of FIN 45 to have a material impact on its financial condition or results of operations.

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities." FIN 46 is an Interpretation of Accounting Research Bulletin No. 51 and addresses consolidation by business enterprises of variable interest entities ("VIEs"). FIN 46 is based on the theory that an enterprise controlling another entity through interests other than voting interests should consolidate the controlled entity. Business enterprises are required under the provisions of FIN 46 to identify VIEs, based on specified characteristics, and then determine whether they should be consolidated. Generally, an enterprise that holds a majority variable interest in another enterprise is considered the primary beneficiary of that enterprise and, therefore, should consolidate the VIE. The primary beneficiary of a VIE is also required to include various disclosures in interim and annual financial statements. Additionally, an enterprise that holds a significant variable interest in a VIE, but that is not the primary beneficiary, is also required to make certain disclosures. In December 2003, the FASB issued a revised Interpretation No. 46 which modifies and clarifies various aspects of the original Interpretation. The adoption of this statement and of the revised interpretation did not have a material impact on our financial condition or results of operations.

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In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," ("SFAS 150"). SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 requires an issuer to classify certain financial instruments as liabilities, which may have been previously classified as equity, because those instruments embody obligations of the issuer. SFAS 150 also requires disclosure of the nature and terms of the financial instruments and the rights and obligations embodied in those instruments. SFAS 150 was effective for financial instruments entered into or modified after May 31, 2003, and is otherwise effective as of the first interim period beginning after June 15, 2003. On October 29, 2003, the FASB indefinitely delayed the provision of the statement related to non-controlling interests in limited life subsidiaries that are consolidated. The adoption of SFAS 150, given this deferral, did not have a material impact on the Company's financial condition or results of operations.

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

The Saul Organization has a 24.6% limited partnership interest, represented by 5,188,000 convertible limited partnership units, in the Operating Partnership, as of December 31, 2003. 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 beneficially owns, directly or indirectly, in the aggregate more than 24.9% of the outstanding equity securities of Saul Centers. The limited partnership units were not convertible as of December 31, 2003 because The Saul Organization owned in excess of 24.9% of the Company's equity securities. The impact of The Saul Organization's 24.6% limited partnership interest in the Operating Partnership is reflected as minority interests in the accompanying consolidated financial statements. Fully converted partnership units and diluted weighted average shares outstanding for the years ended December 31, 2003, 2002 and 2001, were 20,790,000, 20,059,000 and 19,383,000, respectively.

4. NOTES PAYABLE

Notes payable totaled \$357,248,000 at December 31, 2003, all of which was fixed rate debt. At the prior year's end notes payable totaled \$380,743,000, of which \$294,619,000 was fixed rate debt and \$86,124,000 was variable rate debt. At December 31, 2003, the Company had a \$125 million unsecured revolving credit facility with no outstanding borrowings. The facility matures August 2005 and requires monthly interest payments, if applicable, at a rate of LIBOR 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. Loan availability is determined by operating income from the Company's unencumbered properties, which, as of December 31, 2003, allowed the Company to borrow up to \$75 million for general corporate use. An additional \$50 million is available for funding working capital and operating property acquisitions supported by the unencumbered properties' internal cash flow growth and operating income of future acquisitions.

In January 2003, the Company replaced its \$42 million construction loan used to finance the building of Washington Square with a \$42.5 million, 15-year mortgage. In March 2003, the Company executed a \$15 million loan to finance the construction of Broadlands Village shopping center, which was paid off in December 2003 using proceeds from a \$17.45 million, 15-year mortgage. Also in December 2003, the Company refinanced a \$9.6 million mortgage secured by The Glen shopping center with a new \$12.35 million, 15-year mortgage. In August 2003, the Company executed an \$8 million increase to a fixed-rate mortgage loan collateralized by Ashburn Village shopping center.

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to Consolidated Financial Statements

The following is a summary of notes payable as of December 31, 2003 and 2002:

Notes Payable (Dollars in thousands)	December 31,		Interest Rate *	Scheduled Maturity *
	2003	2002		
Fixed Rate Mortgages:	\$ 132,859 (a)	\$ 135,641	7.67 %	Oct 2012
	98,103 (b)	93,044	8.00 %	Dec 2011
	29,800 (c)	--	5.94 %	Jan 2019
	41,982 (d)	--	6.01 %	Feb 2018
	34,017 (e)	34,830	7.88 %	Jan 2013
	13,375 (f)	13,667	8.33 %	Jun 2015
	-- (g)	9,797	6.88 %	May 2004
	7,112 (h)	7,640	8.18 %	Feb 2004
Total Fixed Rate	357,248	294,619	7.48 %	9.6 Years
Variable Rate Loans:				
Construction Loan	-- (i)	39,374	--	--
Line of Credit	-- (j)	46,750	LIBOR plus 1.625%	Aug 2005
Total Variable Rate	--	86,124	--	--
Total Notes Payable	\$ 357,248	\$ 380,743	7.48 %	9.6 Years

*Interest rate and scheduled maturity data presented for December 31, 2003. Totals computed using weighted averages.

(a) The loan is collateralized by nine shopping centers (Seven Corners, Thruway, White Oak, Hampshire Langley, Great Eastern, Southside Plaza, Belvedere, Giant and Ravenwood) and requires equal monthly principal and interest payments of \$1,103,000 based upon a 25-year amortization schedule and a balloon payment of \$96,300,000 at loan maturity. Principal of \$2,782,000 was amortized during 2003.

(b) The loan is collateralized by Avenel Business Park, Van Ness Square, Ashburn Village, Leesburg Pike, Lumberton Plaza and Village Center. The loan has been increased on four occasions since its inception in 1997, most recently, an \$8 million increase in September 2003. The 8.00% blended interest rate is the weighted average of the initial loan rate and additional borrowings rates. The loan requires equal monthly principal and interest payments of \$920,000 based upon a weighted average 23-year amortization schedule and a balloon payment of \$63,153,000 at loan maturity. Principal of \$2,941,000 was amortized during 2003.

(c) The loan, consisting of two notes dated December 2003, is currently collateralized by two shopping centers, Broadlands Village and The Glen and requires equal monthly principal and interest payments of \$191,000 based upon a 25-year amortization schedule and a balloon payment of \$17,706,000 at loan maturity. Payments commenced February 2004. The loan was increased by \$10,200,000 in February 2004 (see (h) below).

(d) The loan is collateralized by Washington Square and requires equal monthly principal and interest payments of \$264,000 based upon a 27.5-year amortization schedule and a balloon payment of \$27,872,000 at loan maturity. Principal of \$518,000 was amortized during 2003. The proceeds from this loan were used to pay-off and retire the construction loan on this property in January 2003 (see (i) below).

(e) The loan is collateralized by 601 Pennsylvania Avenue and requires equal monthly principal and interest payments of \$294,000 based upon a 25-year amortization schedule and a balloon payment of \$22,808,000 at loan maturity. Principal of \$813,000 was amortized during 2003.

(f) The loan is collateralized by Shops at Fairfax and Boulevard shopping centers and requires monthly principal and interest payments of \$118,000 based upon a 22-year amortization schedule and a balloon payment of \$7,630,000 at loan maturity. Principal of \$292,000 was amortized during 2003.

(g) The loan, which was collateralized by The Glen shopping center and a corporate guarantee, was paid off and retired in December 2003 (see (c) above).

(h) The loan was collateralized by Kentlands Square shopping center and requires monthly principal and interest payments based upon a 15-year amortization schedule. Principal of \$528,000 was amortized during 2003. This loan was repaid and retired in February 2004 with additional loan proceeds added to the \$29,800,000, 5.94% loan (see (c) above) (See Note 13-Subsequent Events).

(i) The \$42,000,000 Washington Square construction loan was paid off and retired in January 2003 through a permanent financing (see (d) above).

(j) The loan is an unsecured revolving credit facility totaling \$125,000,000. Loan availability for working capital and general corporate uses is determined by operating income from the Company's unencumbered properties, with a portion available only for funding qualified operating property acquisitions. 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. There were no outstanding borrowings as of December 31, 2003. Monthly payments, if applicable, are interest only and will vary depending upon the amount outstanding and the applicable interest rate for any given month.

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The December 31, 2003 and 2002 depreciation adjusted cost of properties collateralizing the mortgage notes payable totaled \$295,506,000 and \$280,051,000, respectively. The Company's credit facility requires the Company and its subsidiaries to maintain certain financial covenants. The Company's material covenants require the Company, on a consolidated basis, to:

- limit the amount of debt so as to maintain a gross asset value in excess of liabilities of at least \$250 million;
- limit the amount of debt as a percentage of gross asset value (leverage ratio) to less than 60%;
- limit the amount of debt so that interest coverage will exceed 2.1 to 1 on a trailing four quarter basis; and
- limit the amount of debt so that interest, scheduled principal amortization and preferred dividend coverage exceeds 1.6 to 1.

As of December 31, 2003, the Company was in compliance with all such covenants.

Notes payable at December 31, 2003 and 2002, totaling \$166,876,000 and \$266,392,000, respectively, are guaranteed by members of The Saul Organization.

As of December 31, 2003, the scheduled maturities of all debt including scheduled principal amortization for years ended December 31, are as follows:

Debt Maturity Schedule		
<i>(In thousands)</i>		
2004 *	\$	15,741
2005		9,397
2006		10,149
2007		10,963
2008		11,815
Thereafter		299,183
Total	\$	357,248

* A total of \$7,112 of the 2004 maturities was refinanced in February 2004.

5. LEASE AGREEMENTS

Lease income includes primarily base rent arising from noncancelable commercial leases. Base rent for the years ended December 31, 2003, 2002 and 2001, amounted to \$78,167,000, \$75,699,000 and \$69,662,000, respectively. Future contractual payments under noncancelable leases for years ended December 31, are as follows:

Future Contractual Payments		
<i>(In thousands)</i>		
2004	\$	78,294
2005		71,575
2006		64,891
2007		58,540
2008		50,077
Thereafter		262,694
Total	\$	586,071

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, 2003, 2002 and 2001 amounted to \$14,438,000, \$12,680,000 and \$11,456,000, 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 \$1,695,000, \$1,850,000 and \$2,113,000, for the years ended December 31, 2003, 2002 and 2001, 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 \$164,000, \$164,000 and

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\$167,000, for each of the years ended December 31, 2003, 2002 and 2001, respectively. The future minimum rental commitments under these ground leases are as follows:

Ground Lease Rental Commitments		
<i>(In thousands)</i>	Annually 2004-2008	Total Thereafter
Beacon Center	\$ 53	\$ 3,183
Olney	51	4,373
Southdale	60	3,545
Total	\$ 164	\$ 11,101

In addition to the above, 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.

The Company's corporate headquarters lease commenced in March 2002. The 10-year lease provides for an initial annual rental payment of \$513,000, escalated at 3% per year, with payment of a pro-rata share of operating expenses over a base year amount. Reflected in the accompanying financial statements is straight-lined rental expense of \$584,000 for the year ended December 31, 2003. The future minimum rental commitments under this lease are \$584,000 annually for the five years from 2004 through 2008, and \$1,849,000 thereafter. This lease expense is included in the shared services portion of general and administrative expense (see Note 8 – Related Party Transactions).

7. STOCKHOLDERS' EQUITY AND MINORITY INTERESTS

The consolidated statement of operations for the year ended December 31, 2003 includes a charge for minority interests of \$8,086,000, consisting of \$6,495,000 related to The Saul Organization's share of the net income for the year and \$1,591,000 related to distributions to minority interests in excess of allocated net income for the year. The charge for the year ended December 31, 2002 of \$8,070,000, consisting of \$7,130,000 related to The Saul Organization's share of the net income for the year and \$940,000 related to distributions to minority interests in excess of allocated net income for the

year. The charge for the year ended December 31, 2001 of \$8,069,000 consists of \$6,777,000 related to The Saul Organization's share of the net income for the year and \$1,292,000 related to distributions to minority interests in excess of allocated net income for the year.

On July 16, 2003, the Company filed a shelf registration statement (the "Shelf Registration Statement") with the SEC relating to the future offering of up to an aggregate of \$100 million of preferred stock and depositary shares. On November 5, 2003 the Company sold 3,500,000 depositary shares, each representing 1/100th of a share of 8% Series A Cumulative Redeemable Preferred Stock. The underwriters exercised an over-allotment option, purchasing an additional 500,000 depositary shares on November 26, 2003.

The depositary shares may be redeemed, in whole or in part, at the \$25.00 liquidation preference at the Company's option on or after November 5, 2008. The depositary shares will pay an annual dividend of \$2.00 per share, equivalent to 8% of the \$25.00 liquidation preference. The first dividend, paid on January 15, 2004 was for less than a full quarter and covered the period from November 5 through December 31, 2003. The Series A preferred stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and is not convertible into any other securities of the Company. Investors in the depositary shares generally have no voting rights, but will have limited voting rights if the Company fails to pay dividends for six or more quarters (whether or not declared or consecutive) and in certain other events.

Net proceeds from the issuance were approximately \$96.3 million and initially were used to fully repay \$52.5 million outstanding under the Company's revolving credit facility and the remaining balance was invested in short-term certificates of deposit.

The cash and credit line availability will be used to fund acquisitions and developments as the Company identifies investment opportunities.

8. RELATED PARTY TRANSACTIONS

Chevy Chase Bank, an affiliate of The Saul Organization, leases space in 15 of the Company's properties. Total rental income from Chevy Chase Bank amounted to \$1,495,000, \$1,368,000 and \$1,330,000, for the years ended December 31, 2003, 2002 and 2001, respectively.

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The Company utilizes Chevy Chase Bank for its various checking accounts and as of December 31, 2003 had \$45.2 million deposited in cash and short-term investment accounts.

Philip D. Caraci, the Company's President and director until March 2003 and current Vice Chairman, received a cash consulting fee of \$75,886 during 2003. Additionally, an entity controlled by Mr. Caraci's son leased space in one of the Company's shopping centers during 2003 and four different Company shopping centers during 2002. The total rental income for this leased space was \$9,000 and \$143,000 during the years ended December 31, 2003 and 2002, respectively. The leases for the properties under contract during 2002 were assigned to unaffiliated third parties during 2002 and no further rental income was received under these leases from the affiliated party during 2003. The Company believes that all of these leases have comparable terms to leases that would have been obtained from unrelated third parties. Additionally, leasing commission payments of \$5,000 and \$37,000 for the years ended December 31, 2003 and 2002, respectively, were made to this affiliated party for procurement of third party tenant leases at the Company's properties.

The Chairman and Chief Executive Officer, the President and the Chief Accounting Officer of the Company are also officers of various members of The Saul Organization and their management time is shared with The Saul Organization. Their annual compensation is fixed by the Compensation Committee of the Board of Directors.

The Company shares with The Saul Organization on a pro-rata basis the cost of certain ancillary functions such as computer hardware, software and support services and certain direct and indirect administrative payroll based on management's estimate of usage or time incurred, as applicable. Also, The Saul Organization subleases office space to the Company for its corporate headquarters (see Note 6-Long-Term Lease Obligations for the terms of this lease). The terms of all sharing arrangements with The Saul Organization, including payments related thereto, are reviewed periodically by the Audit Committee of the Board of Directors, which consists entirely of independent directors. Billings by the Saul Organization for the Company's share of these ancillary costs and expenses for the years ended December 31, 2003, 2002 and 2001, totaled \$2,628,000, \$2,574,000 and \$1,971,000, of which \$2,313,000, \$2,542,000 and \$2,010,000, were paid during the years ended December 31, 2003, 2002

and 2001, respectively. The amount of billings expensed in the period incurred are primarily reported as general and administrative operating expenses in these consolidated financial statements.

On January 23, 2004, the Company purchased a 3.4 acre site, adjacent to the Company's Kentlands Square property, from a subsidiary of Chevy Chase Bank, for \$1,425,000. The Company plans to develop retail and office improvements on this site. The purchase price of the property was determined by the average of two independent third party appraisals which were contracted, one on behalf of the Company and one on behalf of the bank (see Note 13-Subsequent Events).

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 were initially 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.

During 1993 and 1994, the Compensation Committee 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. No compensation expense was recognized as a result of these grants. During the year ended December 31, 2003, 93,210 option shares were exercised (40,100 incentive stock options and 53,110 nonqualified stock options). As of December 31, 2003, no 1993 and 1994 options remained unexercised.

On May 23, 2003, the Compensation Committee granted options to purchase a total of 220,000 shares (80,000 shares from incentive stock options and 140,000 shares from nonqualified stock options) to six Company officers (the "2003 Options"). The 2003 Options vest 25% per year over four years and have a term of ten years, subject to earlier expiration upon termination of employment. The exercise price of \$24.91 was the market trading price of the Company's common stock at the time of the award.

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Effective January 2003, the Company adopted the fair value method to value employee stock options using the prospective transition method specified under SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." The Company had no options eligible for valuation prior to the grant of the 2003 Options. The fair value of the 2003 Options was determined at the time of the award using the Black-Scholes model, a widely used method for valuing stock based employee compensation, and the following assumptions: expected volatility was determined using the ten year trading history of the Company's common stock (month-end closing prices), an average expected term outstanding of seven years, expected dividend yield throughout the option term of 7% and risk-free interest rate of 4% based upon an assumed 10-year US Treasury rate. Using the Black-Scholes model, the Company determined the total fair value of the 2003 Options to be \$332,000 and recognizes compensation expense monthly during the four years the options vest. Compensation expense attributed to the 2003 Options during the year ended December 31, 2003 was \$50,000. The 2003 Options are due to expire May 22, 2013 and as of December 31, 2003, none of the 2003 Options are vested.

10. NON-OPERATING ITEMS

Gain on Sale of Property

The gain on sale of property of \$182,000 in 2003 represents the gain recognized as a result of a condemnation of a portion of the land at the Company's Avenel Business Park property. The gain on sale of property of \$1,426,000 in 2002 represents the final proceeds received upon appeal of 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 2001.

11. 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 of financial instruments. The carrying values of cash, accounts receivable, accounts payable and accrued expenses are reasonable estimates of their fair value. Based upon management's estimate of borrowing rates and loan terms currently available to the Company for fixed rate financing, the fair value of

the fixed rate notes payable is in excess of the \$357,248,000 carrying value. Management estimates that the fair value of these fixed rate notes payable, assuming current long term interest rates of approximately 6%, would be approximately \$386,300,000.

12. 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.

13. SUBSEQUENT EVENTS

On January 23, 2004 the Company purchased a 3.4 acre site, adjacent to the Company's Kentlands Square property, from a subsidiary of Chevy Chase Bank, for \$1,425,000. The Company plans to develop retail and office improvements on this site. The purchase price of the property was determined by the average of two independent third party appraisals which were contracted, one on behalf of the Company and one on behalf of the bank.

On February 13, 2004 the Company acquired the 121,000 square foot Publix anchored, Boca Valley Plaza shopping center located in Boca Raton, Florida for a purchase price of \$17.5 million. The property was approximately 90% leased at the date of acquisition.

On February 13, 2004 the Company closed on a new mortgage loan, refinancing a maturing mortgage loan secured by its Kentlands Square center. The new loan, in the amount of \$10,200,000, matures on January 2019 and requires equal monthly interest and principal payments of \$65,345 based upon an interest rate of 5.94% and a 25 year amortization schedule. The loan requires a balloon principal payment of \$6,009,000 at maturity.

On February 17, 2004 the Company acquired the 130,000 square foot Safeway anchored, Countryside shopping center located in Loudoun County, Virginia for a purchase price of \$29.7 million. The property was approximately 95% leased at the date of acquisition.

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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 commissions, service charges or other expenses. All expenses of the Plan are paid by the Company. The Operating Partnership also maintains a similar dividend

reinvestment plan that mirrors the Plan, which allows limited partnership interests the opportunity to buy additional limited partnership units.

During 2003, \$1.28 per share of the distributions paid represented ordinary dividend income and \$0.28 per share represented return of capital to the shareholders. No preferred dividends were paid during 2003. The following summarizes distributions paid during the years ended December 31, 2003, 2002 and 2001, and includes activity in the Plan as well as limited partnership units issued from the reinvestment of unit distributions:

(in thousands)	Total Distributions to Common Stockholders	Limited Partnership Unitholders	Dividend Reinvestments Common Stock Issued	Units Issued	Discounted Share Price
Distributions during 2003					
October 31	\$ 6,135	\$ 2,023	129,319	2,919	\$ 26.38
July 31	6,088	2,023	126,862	2,847	26.67
April 30	6,021	2,020	139,576	3,262	22.88
January 31	5,927	2,020	156,413	3,412	21.49
	\$ 24,171	\$ 8,086	552,170	12,440	
Distributions during 2002					
October 31	\$ 5,839	\$ 2,019	136,107	3,110	\$ 23.18
July 31	5,785	2,017	135,603	--	22.94
April 30	5,736	2,017	119,772	--	22.94
January 31	5,670	2,017	165,390	--	20.39
	\$ 23,030	\$ 8,070	556,872	3,110	
Distributions during 2001					
October 31	\$ 5,599	\$ 2,018	176,319	--	\$ 18.62
July 31	5,529	2,017	175,790	--	18.04
April 30	5,460	2,017	169,753	--	17.95
January 31	5,410	2,017	123,561	--	17.07
	\$ 21,998	\$ 8,069	645,423	--	

In December 2003, 2002 and 2001, the Board of Directors of the Company authorized a distribution of \$0.39 per share payable in January 2004, 2003 and 2002, to holders of record on January 16, 2004, January 17, 2003 and January 17, 2002, respectively. As a result, \$6,187,000, \$5,927,000 and \$5,670,000, were paid to common shareholders on January 30, 2004, January 31, 2003 and January 31, 2002, respectively. Also, \$2,023,000, \$2,020,000 and \$2,017,000, were paid to limited partnership unitholders on January 31, 2004, January 31, 2003 and January 31, 2002 (\$0.39 per Operating Partnership unit), respectively. These amounts are reflected as a reduction of stockholders' equity in the case of common stock dividends and minority interests deductions in the case of limited partner distributions and are included in dividends and distributions payable in the accompanying consolidated financial statements.

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15. INTERIM RESULTS (UNAUDITED)

The following summary presents the results of operations of the
Company for the quarterly periods of years 2003, 2002 and 2001.

(In thousands, except per share amounts)	2003 Calendar Year			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenue	\$ 23,870	\$ 23,226	\$ 24,659	\$ 26,129
Income before minority interests	6,539	6,016	7,035	7,738 ^(a)
Minority interests	(2,020)	(2,020)	(2,023)	(2,023)
Net income	\$ 4,519	\$ 3,996	\$ 5,012	\$ 5,715
Net income per share (basic & diluted)	\$ 0.29	\$ 0.26	\$ 0.32	\$ 0.28

(a) Includes \$182 gain on land condemnation at Avenel Business Park

	2002 Calendar Year			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenue	\$ 23,191	\$ 22,793	\$ 23,471	\$ 24,508
Income before minority interests	8,352 ^(b)	6,499	5,503	7,282
Minority interests	(2,017)	(2,017)	(2,017)	(2,019)
Net income	\$ 6,335	\$ 4,482	\$ 3,486	\$ 5,263
Net income per share (basic & diluted)	\$ 0.43	\$ 0.30	\$ 0.24	\$ 0.35

(b) Includes \$1,426 gain on sale of Park Road property.

	2001 Calendar Year			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenue	\$ 21,236	\$ 20,919	\$ 21,533	\$ 22,620
Income before minority interests	6,051	5,924	6,289	7,119
Minority interests	(2,017)	(2,017)	(2,017)	(2,018)
Net income	\$ 4,034	\$ 3,907	\$ 4,272	\$ 5,101
Net income per share (basic & diluted)	\$ 0.29	\$ 0.28	\$ 0.30	\$ 0.35

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to Consolidated Financial Statements

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.

	Shopping Centers	Office Properties	Corporate and Other	Consolidated Totals
2003				
Real estate rental operations:				
Revenue	\$ 66,070	\$ 31,722	\$ 92	\$ 97,884
Expenses	(12,274)	(7,840)	--	(20,114)
Income from real estate	53,796	23,882	92	77,770
Interest expense & amortization of debt costs	--	--	(26,573)	(26,573)
General and administrative	--	--	(6,213)	(6,213)
Subtotal	53,796	23,882	(32,694)	44,984
Depreciation and amortization	(10,429)	(7,409)	--	(17,838)
Gain on property sale	--	182	--	182
Minority interests	--	--	(8,086)	(8,086)
Net income	\$ 43,367	\$ 16,655	\$ (40,780)	\$ 19,242
Capital investment	\$ 41,357	\$ 6,844	\$ --	\$ 48,201
Total assets	\$ 247,511	\$ 135,653	\$ 88,452	\$ 471,616
2002				
Real estate rental operations:				
Revenue	\$ 61,597	\$ 32,261	\$ 105	\$ 93,963
Expenses	(10,675)	(7,882)	--	(18,557)
Income from real estate	50,922	24,379	105	75,406
Interest expense & amortization of debt costs	--	--	(25,838)	(25,838)
General and administrative	--	--	(5,537)	(5,537)
Subtotal	50,922	24,379	(31,270)	44,031
Depreciation and amortization	(11,295)	(6,526)	--	(17,821)
Gain on property sale	1,426	--	--	1,426
Minority interests	--	--	(8,070)	(8,070)
Net income	\$ 41,053	\$ 17,853	\$ (39,340)	\$ 19,566
Capital investment	\$ 31,769	\$ 17,336	\$ --	\$ 49,105
Total assets	\$ 215,692	\$ 135,836	\$ 37,159	\$ 388,687
2001				
Real estate rental operations:				
Revenue	\$ 58,714	\$ 27,427	\$ 167	\$ 86,308
Expenses	(10,324)	(6,022)	--	(16,346)
Income from real estate	48,390	21,405	167	69,962
Interest expense & amortization of debt costs	--	--	(25,486)	(25,486)
General and administrative	--	--	(4,335)	(4,335)
Subtotal	48,390	21,405	(29,654)	40,141
Depreciation and amortization	(9,751)	(5,007)	--	(14,758)
Minority interests	--	--	(8,069)	(8,069)
Net income	\$ 38,639	\$ 16,398	\$ (37,723)	\$ 17,314
Capital investment	\$ 8,220	\$ 13,580	\$ --	\$ 21,800
Total assets	\$ 192,762	\$ 124,529	\$ 29,112	\$ 346,403

MANAGEMENT'S DISCUSSION & ANALYSIS

of Financial Condition & Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) begins with the Company's primary business strategy to give the reader an overview of the goals of the Company's business. This is followed by a discussion of the critical accounting policies that the Company believes are important to understanding the assumptions and judgments incorporated in the Company's reported financial results. The next section, beginning on page 35, discusses the Company's results of operations for the past two years. Beginning on page 38, the Company provides an analysis of its liquidity and capital resources, including discussions of its cash flows, debt arrangements, sources of capital and financial commitments. Finally, on page 44, the Company discusses funds from operations, or FFO, which is a relative non-GAAP financial measure of performance of an equity REIT used by the REIT industry.

The MD&A should be read in conjunction with the Company's Annual Report on Form 10-K which includes the consolidated financial statements and notes thereto appearing earlier in this annual report to shareholders, as well as the subsection captioned "Forward-looking Statements" below. Historic results set forth in Selected Financial Information, the Financial Statements and Supplemental Data included in Item 6 and Item 8 of the Company's Report on Form 10-K should not be taken as indicative of the Company's future operations.

OVERVIEW

The Company's principal business activity is the ownership, management and development of income-producing properties. The Company's long-term objectives are to increase cash flow from operations and to maximize capital appreciation of its real estate.

The Company's primary operating strategy is to focus on its community and neighborhood shopping center business and to operate its properties to achieve both cash flow growth and capital appreciation. Management believes there is potential for growth in cash flow as existing leases for space in the Shopping Centers expire and are renewed, or as newly available or vacant space is leased. The Company intends to renegotiate leases where possible and seek new tenants for available space in order to maximize this potential for increased cash flow. As leases expire, management expects to revise rental rates, lease terms and conditions, relocate existing tenants, reconfigure tenant spaces and introduce new tenants with the

goal of increasing cash flow. In those circumstances in which leases are not otherwise expiring, management selectively attempts to increase cash flow through a variety of means, or in connection with renovations or relocations, recapturing leases with below market rents and re-leasing at market rates, as well as replacing financially troubled tenants. When possible, management also will seek to include scheduled increases in base rent, as well as percentage rental provisions, in its leases.

The Company's redevelopment and renovation objective is to selectively and opportunistically redevelop and renovate its properties by replacing leases with below market rents with strong, traffic-generating anchor stores, such as supermarkets and drug stores, as well as other desirable local, regional and national tenants. The Company's strategy remains focused on continuing the operating performance and internal growth of its existing Shopping Centers, while enhancing this growth with selective retail redevelopments and renovations.

Management believes that attractive acquisition and development opportunities for investment in existing and new shopping center properties will continue to be available from time to time. Management believes that the Company's capital structure will enable it to take advantage of these opportunities as they arise. In addition, management believes its shopping center expertise should permit it to optimize the performance of shopping centers once they have been acquired.

Management also believes that opportunities may arise for investment in new office properties. It is management's view that several of the office sub-markets in which the Company operates have attractive supply/demand characteristics. The Company will continue to evaluate new office development and redevelopment as an integral part of its overall business plan.

Although it is management's present intention to concentrate future acquisition and development activities on community and neighborhood shopping centers and office properties in the Washington, DC/Baltimore metropolitan area, the Company may, in the future, also acquire other types of real estate in other areas of the country as opportunities present themselves. While the Company may diversify in terms of property locations, size and market, the Company does not set any limit on the amount or percentage of Company assets that may be invested in any one property or any one geographic area. In January 2004, the Company acquired a 3.4 acre site,

MANAGEMENT'S DISCUSSION & ANALYSIS

of Financial Condition & Results of Operations

adjacent to the Company's Kentlands Square property, where it plans to develop retail and office improvements. In February 2004, the Company acquired a 121,000 square foot neighborhood shopping center in Boca Raton, Florida anchored by Publix, the dominant grocer in South Florida in addition to another February 2004 acquisition of a 130,000 square foot grocery anchored neighborhood shopping center in Loudoun County, Virginia.

CRITICAL ACCOUNTING POLICIES

The Company's accounting policies are in conformity with accounting principles generally accepted in the United States ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to use judgment in the application of accounting policies, including making estimates and assumptions. These judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the Company's financial statements and the reported amounts of revenue and expenses during the reporting periods. If judgment or interpretation of the facts and circumstances relating to various transactions had been different, it is possible that different accounting policies would have been applied resulting in a different presentation of the financial statements. Below is a discussion of accounting policies which the Company considers critical in that they may require judgment in their application or require estimates about matters which are inherently uncertain. Additional discussion of accounting policies which the Company considers significant, including further discussion of the critical accounting policies described below, can be found in the notes to the Consolidated Financial Statements.

Real Estate Investments

Real estate investment properties are stated at historic cost basis less depreciation. 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. Because these financial statements are prepared in conformity with GAAP, they do not report the current value of the Company's real estate assets. The purchase price of real estate assets acquired is allocated between land, building and in-place acquired leases based on the relative fair values of the components at the date of acquisition. Buildings are depreciated on a straight-line basis over their

estimated useful lives of 35 to 50 years. Intangibles associated with acquired in-place leases are amortized over the remaining base lease terms.

If there is an event or change in circumstance that indicates an impairment in the value of a real estate investment property, the Company assesses an impairment in value by making a comparison of the current and projected operating cash flows of the property over its remaining useful life, on an undiscounted basis, to the carrying amount of that property. If such carrying amount is greater than the estimated projected cash flows, the Company would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to its estimated fair market value.

When incurred, the Company capitalizes the cost of improvements that extend the useful life of property and equipment and all repair and maintenance expenditures are expensed.

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.

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 35 to 50 years for base 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.

Lease Acquisition Costs

Certain initial direct costs incurred by the Company in negotiating and consummating successful leases are capitalized and amortized over the initial base term of the leases. Capitalized leasing costs consist of commissions paid to third party leasing agents as well as internal direct costs such as employee compensation and payroll related fringe benefits directly related to time spent performing leasing related activities. Such activities include evaluating prospective tenants' financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating lease terms, preparing lease documents and closing transactions.

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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 scheduled rent increases, income is recognized on a straight-line basis throughout the initial term of the lease. Expense recoveries represent a portion of property operating expenses billed to 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, known as percentage rent, is accrued when a tenant reports sales that exceed a specified breakpoint.

Allowance for Doubtful Accounts - Current and Deferred Receivables

Accounts receivable primarily represent amounts currently due from tenants in accordance with the terms of the respective leases. Receivables are reviewed monthly and reserves are established with a charge to current period operations when, in the

opinion of management, collection of the receivable is doubtful. In addition to rents due currently, accounts receivable include amounts representing minimum rental income accrued on a straight-line basis to be paid by tenants over the remaining term of their respective leases. Reserves are established with a charge to income for tenants whose rent payment history or financial condition casts doubt upon the tenant's ability to perform under its lease obligations.

Legal Contingencies

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are generally covered by insurance. While the resolution of these matters cannot be predicted with certainty, the Company believes the final outcome of such matters will not have a material adverse effect on the financial position or the results of operations. Once it has been determined that a loss is probable to occur, the estimated amount of the loss is recorded in the financial statements. Both the amount of the loss and the point at which its occurrence is considered probable can be difficult to determine.

RESULTS OF OPERATIONS

REVENUE					
(in thousands)	For the year ended December 31,			Percentage Change	
	2003	2002	2001	2003 to 2002	2002 to 2001
Revenue					
Base rent	\$ 78,167	\$ 75,699	\$ 69,662	3.3%	8.7%
Expense recoveries	14,438	12,680	11,456	13.9%	10.7%
Percentage rent	1,695	1,850	2,113	(8.4%)	(12.4)%
Other	3,584	3,734	3,077	(4.0%)	21.4%
Total	\$ 97,884	\$ 93,963	\$ 86,308	4.2%	8.9%

Base rent

The increase in base rent for 2003 versus 2002 was primarily attributable to leases in effect at recently acquired and developed properties: Ashburn Village IV, Kentlands Square and Olde Forte Village (approximately \$1,890,000), the continued lease-up of space at Washington Square (approximately \$1,200,000), and releasing space at several other properties at rental rates higher than expiring rental rates.

This increase was partially offset by an approximately \$1,920,000 decrease in base rent at 601 Pennsylvania Avenue resulting from the departure of a major tenant whose lease expired during the first quarter of 2003. The major tenant was also paying higher rent under the terms of a short-term lease extension during the prior year, increasing the magnitude of the variance between periods. By December 31, 2003, the former tenant's space was re-leased and 601 Pennsylvania Avenue was 100% leased.

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The increase in base rent for 2002 versus 2001 was primarily attributable to leases in effect at recently acquired and developed properties: Washington Square, Ashburn Village III & IV, Crosstown Business Center and French Market (40% of increase), a major tenant paying higher rent under the terms of a short-term lease extension at 601 Pennsylvania Avenue (30% of increase), and releasing space at several other properties at increased rental rates (30% of increase).

Expense recoveries

Expense recoveries represent a portion of property operating expenses billed to tenants, including common area maintenance, real estate taxes and other recoverable costs. The increase in expense recoveries for 2003 versus 2002 was primarily attributable to income resulting from billings to tenants for their share of increased snow removal expenses during 2003 (25% of increase) and the commencement of operations at the newly acquired and developed properties (28% of increase).

The increase in expense recoveries for 2002 versus 2001 was primarily attributable to the commencement of operations at the newly developed and redeveloped properties (45% of increase), while the balance of the increase resulted from improved occupancy and increases in recoverable property tax expense.

Percentage rent

Percentage rent is rental income calculated on the portion of a tenant's revenues that exceed a specified breakpoint. The decrease in percentage rent for 2003 versus 2002 was primarily attributable to reduced sales reported by the grocery store and a pad building tenant at Beacon Center (27% of decrease) and a drug store tenant at each of Southside Plaza (27% of decrease) and Thruway (20% of decrease) paying higher minimum rent in lieu of percentage rent.

The decrease in percentage rent for 2002 versus 2001 was primarily attributable to the positioning of Lexington Mall for redevelopment (40% of decrease) and lower sales revenue over the prior year reported by a restaurant tenant at French Market (20% of decrease).

Other income

Other income consists primarily of parking income at three of the Office Properties, kiosk leasing, temporary leases and payments associated with early termination of leases. The decrease in other income for 2003 versus 2002 resulted primarily from a \$365,000 decrease in lease termination payments compared to the prior year. The increase in other income for 2002 versus 2001 resulted primarily from a \$500,000 increase in lease termination payments compared to the prior year, approximately half of which was recognized at Washington Square, and a \$300,000 increase in parking income due to the lease-up of office space at Washington Square.

OPERATING EXPENSES					
(in thousands)	For the year ended December 31,			Percentage Change	
	2003	2002	2001	2003 to 2002	2002 to 2001
Operating expenses:					
Property operating expenses	\$ 11,363	\$ 10,115	\$ 8,503	12.3%	19.0%
Provision for credit losses	171	421	617	(59.4)%	(31.8)%
Real estate taxes	8,580	8,021	7,226	7.0%	11.0%
Interest expense	25,772	25,113	24,920	2.6%	0.8%
Amortization of deferred debt	801	725	566	10.5%	28.1%
Depreciation and amortization	17,838	17,821	14,758	0.1%	20.8%
General and administrative	6,213	5,537	4,335	12.2%	27.7%
Total	\$ 70,738	\$ 67,753	\$ 60,925	4.4%	11.2%

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Property operating expenses

Property operating expenses consist primarily of repairs and maintenance, utilities, payroll, insurance and other property related expenses. The increase in property operating expenses for 2003 versus 2002 resulted primarily from an increase in snow removal expense of \$650,000 due to unseasonably severe winter weather primarily in the Mid-Atlantic region. The Company also paid increased property insurance premiums of approximately \$190,000 during 2003. In addition, approximately \$130,000 of the increase resulted from the settlement of a dispute with a former tenant at Crosstown Business Park and related legal expenses.

The increase in property operating expenses for 2002 versus 2001 primarily resulted from the commencement of operations at Washington Square (40% of increase) and an increase in snow removal expenses sustained as a result of two snow storms impacting many of the Company's properties in December 2002 (25% of increase).

Provision for credit losses

The provision for credit losses decreased for 2003 versus 2002 primarily due to the absence of any significant tenant bankruptcy or collection difficulties in 2003 as compared to 2002 when the Company established reserves for two office tenants in bankruptcy and a reserve for a rent dispute with another office tenant.

The provision for credit losses decreased for 2002 versus 2001 primarily because of a smaller number of tenant bankruptcies in 2002 versus 2001. The credit loss provision in 2001 was elevated due primarily to three retail tenants and an office tenant in bankruptcy.

Real estate taxes

The increase in real estate taxes for 2003 versus 2002 was primarily attributable to the commencement of operations at the newly acquired and developed properties (40% of increase) and increased real estate taxes assessed at 601 Pennsylvania Avenue (30% of increase).

The increase in real estate taxes for 2002 versus 2001 was primarily attributable to the commencement of operations at Washington Square (34% of increase) and increased taxes at the Company's two Washington, DC office properties (36% of increase).

Interest expense

The increase in interest expense for 2003 versus 2002 resulted primarily from the placement of a new \$42.5 million, 15-year, 6.01% fixed rate mortgage replacing Washington Square's construction loan which charged interest at a variable rate averaging 3.5% during the prior year. The increase was partially offset by interest expense savings from lower interest rates on the Company's variable rate debt and the repayment of amounts borrowed under the revolving credit agreement in November 2003 using proceeds from the preferred stock offering.

The increase in interest expense for 2002 versus 2001 resulted from the net of increased interest paid on permanent fixed rate financing for recently developed and redeveloped properties, offset by interest expense savings from lower interest rates on the Company's variable rate debt.

Amortization of deferred debt expense

The increase in amortization of deferred debt expense for 2003 versus 2002 resulted primarily from the full year's amortization of additional loan costs in 2003 associated with refinancing the Company's revolving credit agreement during the third quarter of 2002.

The increase in amortization of deferred debt expense for 2002 versus 2001 resulted from the amortization of additional loan costs associated with extending the maturity of the Washington Square construction loan to January 2003 and costs associated with refinancing the Company's revolving credit agreement during the third quarter of 2002.

Depreciation and amortization

Depreciation and amortization expense was virtually unchanged from 2002 to 2003. The Company recorded new depreciation expense on developments and acquisitions placed in service during 2002 and 2003, which was offset by a \$1,311,000 charge-off recorded in 2002, resulting from assets retired based upon a comprehensive review of real estate asset records and the Company's revision of the assets' estimated useful lives.

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The increase in depreciation and amortization expense for 2002 versus 2001 resulted primarily from assets retired based upon a comprehensive review of real estate asset records and the Company's revision of the assets' estimated useful lives (50% of increase). The balance of the change reflects increased depreciation expense on developments and acquisitions placed in service during the past twelve months.

General and administrative

General and administrative expense consists of payroll, administrative and other overhead expenses. The increase in general and administrative expense for 2003 versus 2002 was primarily attributable to increased payroll and employment expenses (57% of increase). Approximately one-half of the increased payroll expense resulted from staffing for the Company's evaluation of property acquisitions. The increase in general and administrative expense resulted also from increased corporate insurance premiums (17% of increase) and increased data processing expenses (14% of increase).

The increase in general and administrative expense for 2002 versus 2001 was primarily attributable to increased corporate office rent (40% of increase), the write-off of abandoned property acquisition costs (15% of increase), increased payroll (15% of increase) and increased legal expense associated with compliance with the Sarbanes-Oxley Act of 2002 (10% of increase).

Gain on Sale of Property

The Company recognized a gain on the sale of real estate of \$182,000 in 2003 and \$1,426,000 in 2002. The 2003 gain resulted from the State of Maryland's condemnation and purchase of a piece of vacant land at Avenel Business Park for improvement of an interchange on I-270, adjacent to the property. The 2002 gain resulted from the 1999 District of Columbia condemnation and purchase of the Company's Park Road property as part of an assemblage of parcels for a neighborhood revitalization project. The Company disputed the original purchase price awarded by the District. The 2002 gain represents additional net proceeds the Company was awarded upon settlement of the dispute.

Impact of Inflation

Inflation has remained relatively low and has had a minimal impact on the operating performance of the Company's portfolio; however, substantially all of the Company's leases contain provisions designed to mitigate the adverse impact of inflation on the

Company's results of operations. These provisions include upward periodic adjustments in base rent due from tenants, usually based on a stipulated increase and to a lesser extent on a factor of the change in the consumer price index, commonly referred to as the CPI.

Substantially all of the Company's properties are leased to tenants under long-term, triple-net leases. Triple-net leases tend to reduce the Company's exposure to rising property expenses due to inflation. Inflation and increased costs may have an adverse impact on the Company's tenants if increases in their operating expenses exceed increases in their revenue.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were \$45,244,000 and \$1,309,000 at December 31, 2003 and 2002, respectively. The changes in cash and cash equivalents during the years ended December 31, 2003 and 2002 were attributable to operating, investing and financing activities, as described below.

(in thousands)	Year Ended December 31,	
	2003	2002
Cash provided by operating activities	\$ 36,373	\$ 37,499
Cash used in investing activities	(48,131)	(49,105)
Cash provided by financing activities	55,693	11,110
Increase (decrease) in cash	\$ 43,935	\$ (496)

Operating Activities

Cash provided by operating activities for the years ended December 31, 2003 and 2002 was \$36,373,000 and \$37,499,000, respectively, and represents, in each year, cash received primarily from rental income, plus other income, less property operating expenses, normal recurring general and administrative expenses and interest payments on debt outstanding.

Investing Activities

Cash used in investing activities for the years ended December 31, 2003 and 2002 was \$48,131,000 and \$49,105,000, respectively, and primarily reflects the acquisition of properties (the Shops at Monocacy land parcel, and Olde Forte Village in 2003 and Broadlands Village and Lansdowne land parcels,

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Clarendon Center and Kentlands Square in 2002), the construction of Broadlands Village shopping center, tenant improvements and construction in progress during those years.

Management anticipates that during the coming year the Company may: i) redevelop certain of the Current Portfolio Properties, 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 properties are 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 the net proceeds of the Company's November 2003 \$100 million preferred stock offering described under "Preferred Stock Issue" below, 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.

Financing Activities

Cash provided by financing activities for the years ended December 31, 2003 and 2002, was \$55,693,000 and \$11,110,000, respectively. Cash provided by financing activities for the year ended December 31, 2003 primarily reflects:

- \$128,134,000 of proceeds received from notes payable incurred during the year;
- \$96,327,000 of proceeds from the issuance of \$100,000,000 Series A 8% Cumulative Redeemable Preferred Stock after netting issuance costs of \$3,673,000, and
- \$16,018,000 of proceeds received from the issuance of common stock under the dividend reinvestment program and from the exercise of stock options, and from the issuance of convertible limited partnership interests in the Operating Partnership;

which was partially offset by:

- the repayment of borrowings on notes payable totaling \$151,629,000;
- distributions made to common stockholders and holders of convertible limited partnership units in the Operating Partnership during the year totaling \$32,257,000; and
- payments of \$900,000 for financing costs of three mortgage loans during 2003.

Cash provided by financing activities for the year ended December 31, 2002 primarily reflects:

- \$53,547,000 of proceeds received from notes payable incurred during the year; and
- \$14,574,000 of proceeds received from the issuance of common stock under the dividend reinvestment program and from the exercise of stock options, and from the issuance of convertible limited partnership interests in the Operating Partnership;

which was partially offset by:

- the repayment of borrowings on notes payable totaling \$24,624,000;
- distributions made to common stockholders and holders of convertible limited partnership units in the Operating Partnership during the year totaling \$31,100,000; and
- payments of \$1,287,000 for refinancing the Company's line of credit and extending the Washington Square construction loan.

Liquidity Requirements

Short-term liquidity requirements consist primarily of normal recurring operating expenses and capital expenditures, debt service requirements (including debt service relating to additional and replacement debt), distributions to common and preferred stockholders, distributions to unit holders and amounts required for 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 90% of its "real estate investment trust taxable income," as defined in the Code. The Company expects to meet these short-term liquidity requirements (other than amounts required for additional property acquisitions and developments) through cash provided from operations and its existing line of credit. The Company anticipates that any additional property acquisitions and developments in the next 12 months will be funded with the remaining net proceeds of the Company's November 2003 \$100 million preferred stock offering described under "Preferred Stock Issue" below, future long-term secured and unsecured debt and the public or private issuance of common or preferred equity or units, each of which may be initially funded with the Company's existing line of credit.

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Long-term liquidity requirements consisted primarily of obligations under long-term debt and dividends paid to preferred shareholders. The Company anticipates that long-term liquidity requirements will also include amounts required for property acquisitions and developments. It expects to meet long-term liquidity requirements through cash provided from operations, long-term secured and unsecured 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. The availability and terms of any such financing will depend upon market and other conditions.

Contractual Payment Obligations

As of December 31, 2003, the Company had unfunded contractual payment obligations of approximately \$21.3 million due within the next 12 months. The table below specifies the total contractual payment obligations as of December 31, 2003.

Contractual Obligations	Total	Payments Due By Period			
		Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
(in thousands)					
Notes Payable	\$ 357,248	\$ 15,741	\$ 19,546	\$ 22,778	\$ 299,183
Operating Leases ¹	11,921	164	328	328	11,101
Corporate Headquarters Lease ¹	4,785	538	1,125	1,194	1,928
Development Obligations	4,445	4,445	--	--	--
Contractual Operating Obligations	407	407	--	--	--
Total Contractual Cash Obligations	\$ 378,806	\$ 21,295	\$ 20,999	\$ 24,300	\$ 312,212

¹ See Note 6 to Consolidated Financial Statements.

As of December 31, 2003, the scheduled maturities, including scheduled principal amortization, of all debt for years ended December 31, are as follows:

Debt Maturity Schedule

(In thousands)	
2004 *	\$ 15,741
2005	9,397
2006	10,149
2007	10,963
2008	11,815
Thereafter	299,183
Total	\$ 357,248

* A total of \$7,112 of the 2004 maturities was refinanced in February 2004. The new loan expires in 2019.

Management believes that the Company's capital resources, which at December 31, 2003 included cash balances of \$45 million and borrowing availability of \$125 million on its revolving line of credit, (\$75,000,000 for general corporate use and \$50,000,000 for qualified future acquisitions), will be sufficient to meet its liquidity needs for the foreseeable future.

Preferred Stock Issue

On July 16, 2003, the Company filed a shelf registration statement (the "Shelf Registration Statement") with the SEC relating to the future offering of up to an aggregate of \$100 million of preferred stock and depositary shares. On November 5, 2003, the Company sold 3,500,000 depositary shares, each representing 1/100th of a share of 8% Series A Cumulative Redeemable Preferred Stock. The underwriters exercised an over-allotment option, purchasing an additional 500,000 depositary shares on November 26, 2003.

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The depositary shares may be redeemed, in whole or in part, at the \$25.00 liquidation preference at the Company's option on or after November 5, 2008. The depositary shares will pay an annual dividend of \$2.00 per share, equivalent to 8% of the \$25.00 liquidation preference. The first dividend, paid on January 15, 2004, was for less than a full quarter and covered the period from November 5 through December 31, 2003. The Series A preferred stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and is not convertible into any other securities of the Company. Investors in the depositary shares generally have no voting rights, but will have limited voting rights if the Company fails to pay dividends for six or more quarters (whether or not declared or consecutive) and in certain other events.

Net proceeds from the issuance were approximately \$96.3 million and initially were used to fully repay \$52.5 million outstanding under the Company's revolving credit facility and the remaining balance was invested in short-term certificates of deposit.

Dividend Reinvestments

In December 1995, the Company established a Dividend Reinvestment and Stock Purchase Plan (the "Plan") to allow its common 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 commissions, service charges or other expenses. All expenses of the Plan are paid by the Company. The Company issued 552,170 and 556,872 shares under the Plan at a weighted average discounted price of \$24.18 and \$22.25 per share during the years ended December 31, 2003 and 2002, respectively.

Additionally, the Operating Partnership issued 12,440 and 3,110 limited partnership units under a dividend reinvestment plan mirroring the Plan at a weighted average discounted price of \$24.18 and \$22.25 per unit during the years ended December 31, 2003 and 2002, respectively.

CAPITAL STRATEGY AND FINANCING ACTIVITY

As a general policy, the Company intends to maintain a ratio of its 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. Asset value is the aggregate fair market value of the Current Portfolio Properties and any subsequently acquired properties as reasonably determined by management by reference to the properties' aggregate cash flow. Given the Company's current debt level, it is management's belief that the ratio of the Company's debt to total asset value was below 50% as of December 31, 2003.

The organizational documents of the Company do not limit the absolute amount or percentage of indebtedness that it may incur. The Board of Directors may, from time to time, reevaluate the Company's debt capitalization policy in light of current economic conditions, relative costs of capital, market values of the Company property portfolio, opportunities for acquisition, development or expansion, and such other factors as the Board of Directors then deems relevant. The Board of Directors may modify the Company's debt capitalization policy based on such a reevaluation without shareholder approval and consequently, may increase or decrease the Company's debt to total asset ratio above or below 50% or may waive the policy for certain periods of time. The Company selectively continues to refinance or renegotiate the terms of its outstanding debt in order to achieve longer maturities, and obtain generally more favorable loan terms, whenever management determines the financing environment is favorable.

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The following is a summary of notes payable as of December 31, 2003 and 2002:

Notes Payable (Dollars in thousands)	December 31,		Interest Rate *	Scheduled Maturity *
	2003	2002		
Fixed Rate Mortgages:	\$ 132,859 (a)	\$ 135,641	7.67 %	Oct 2012
	98,103 (b)	93,044	8.00 %	Dec 2011
	29,800 (c)	--	5.94 %	Jan 2019
	41,982 (d)	--	6.01 %	Feb 2018
	34,017 (e)	34,830	7.88 %	Jan 2013
	13,375 (f)	13,667	8.33 %	Jun 2015
	-- (g)	9,797	6.88 %	May 2004
	7,112 (h)	7,640	8.18 %	Feb 2004
Total Fixed Rate	357,248	294,619	7.48 %	9.6 Years
Variable Rate Loans:				
Construction Loan	-- (i)	39,374	--	--
Line of Credit	-- (j)	46,750	LIBOR plus 1.625%	Aug 2005
Total Variable Rate	--	86,124	--	--
Total Notes Payable	\$ 357,248	\$ 380,743	7.48 %	9.6 Years

*Interest rate and scheduled maturity data presented for December 31, 2003. Totals computed using weighted averages.

(a) The loan is collateralized by nine shopping centers (Seven Corners, Thruway, White Oak, Hampshire Langley, Great Eastern, Southside Plaza, Belvedere, Giant and Ravenwood) and requires equal monthly principal and interest payments of \$1,103,000 based upon a 25-year amortization schedule and a balloon payment of \$96,300,000 at loan maturity. Principal of \$2,782,000 was amortized during 2003.

(b) The loan is collateralized by Avenel Business Park, Van Ness Square, Ashburn Village, Leesburg Pike, Lumberton Plaza and Village Center. The loan has been increased on four occasions since its inception in 1997, most recently, an \$8 million increase in September 2003. The 8.00% blended interest rate is the weighted average of the initial loan rate and additional borrowings rates. The loan requires equal monthly principal and interest payments of \$920,000 based upon a weighted average 23-year amortization schedule and a balloon payment of \$63,153,000 at loan maturity. Principal of \$2,941,000 was amortized during 2003.

(c) The loan, consisting of two notes dated December 2003, is currently collateralized by two shopping centers, Broadlands Village and The Glen and requires equal monthly principal and interest payments of \$191,000 based upon a 25-year amortization schedule and a balloon payment of \$17,706,000 at loan maturity. Payments commenced February 2004. The loan was increased by \$10,200,000 in February 2004 (see (h) below).

(d) The loan is collateralized by Washington Square and requires equal monthly principal and interest payments of \$264,000 based upon a 27.5-year amortization schedule and a balloon payment of \$27,872,000 at loan maturity. Principal of \$518,000 was amortized during 2003. The proceeds from this loan were used to pay-off and retire the construction loan on this property in January 2003 (see (i) below).

(e) The loan is collateralized by 601 Pennsylvania Avenue and requires equal monthly principal and interest payments of \$294,000 based upon a 25-year amortization schedule and a balloon payment of \$22,808,000 at loan maturity. Principal of \$813,000 was amortized during 2003.

(f) The loan is collateralized by Shops at Fairfax and Boulevard shopping centers and requires monthly principal and interest payments of \$118,000 based upon a 22-year amortization schedule and a balloon payment of \$7,630,000 at loan maturity. Principal of \$292,000 was amortized during 2003.

(g) The loan, which was collateralized by The Glen shopping center and a corporate guarantee, was paid off and retired in December 2003 (see (c) above).

(h) The loan was collateralized by Kentlands Square shopping center and requires monthly principal and interest payments based upon a 15-year amortization schedule. Principal of \$528,000 was amortized during 2003. This loan was repaid and retired in February 2004 with additional loan proceeds added to the \$29,800,000, 5.94% loan (see (c) above) (See Note 13-Subsequent Events).

(i) The \$42,000,000 Washington Square construction loan was paid off and retired in January 2003 through a permanent financing (see (d) above).

(j) The loan is an unsecured revolving credit facility totaling \$125,000,000. Loan availability for working capital and general corporate uses is determined by operating income from the Company's unencumbered properties, with a portion available only for funding qualified operating property acquisitions. 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. There were no outstanding borrowings as of December 31, 2003. Monthly payments, if applicable, are interest only and will vary depending upon the amount outstanding and the applicable interest rate for any given month.

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Notes payable at December 31, 2003 and 2002, totaling \$166,876,000 and \$266,392,000, respectively, are guaranteed by members of The Saul Organization. The Company's interest expense coverage ratio (calculated as operating income before interest expense, amortization of deferred debt expense and depreciation and amortization, divided by interest expense) was 2.78 for both 2003 and 2002. The December 31, 2003 and 2002 depreciation adjusted cost of properties collateralizing the mortgage notes payable totaled \$295,311,000 and \$280,051,000, respectively.

The Company's credit facility requires the Company and its subsidiaries to maintain certain financial covenants. The Company's material covenants require the Company, on a consolidated basis, to:

- limit the amount of debt so as to maintain a gross asset value in excess of liabilities of at least \$250 million;
- limit the amount of debt as a percentage of gross asset value (leverage ratio) to less than 60%;
- limit the amount of debt so that interest coverage will exceed 2.1 to 1 on a trailing four quarter basis; and
- limit the amount of debt so that interest, scheduled principal amortization and preferred dividend coverage exceeds 1.6 to 1.

As of December 31, 2003, the Company was in compliance with all such covenants.

In January 2003, the Company replaced its \$42 million construction loan used to finance the building of Washington Square with a \$42.5 million, 15-year mortgage. In March 2003, the Company executed a \$15 million loan to finance the construction of Broadlands Village shopping center, which was paid off in December 2003 using proceeds from a \$17.45 million, 15-year mortgage.

Also in December 2003, the Company refinanced a \$9.6 million mortgage secured by The Glen shopping center with a new \$12.35 million, 15-year mortgage. In August 2003, the Company executed an \$8 million increase to a fixed-rate mortgage loan collateralized by Ashburn Village shopping center. During 2002, the Company closed a new \$125 million unsecured revolving credit facility to provide working capital and funds for redevelopments and acquisitions. The line has a three-year term and provides for an additional one-year extension at the Company's option. The new line is a \$55 million expansion of a prior revolver. The additional availability under the new facility enables the Company to access capital for future purchases of operating properties as opportunities arise. As of December 31, 2003, there were no amounts outstanding under the line. Interest is currently calculated using LIBOR plus 1.625%. Loan availability is determined by operating income from the Company's unencumbered properties, which, as of December 31, 2003, allowed the Company to borrow \$75 million for general corporate use. An additional \$50 million is available for funding working capital and operating property acquisitions supported by the unencumbered properties' internal cash flow growth and operating income of future acquisitions.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements that are reasonably likely to have a current or future material effect on the Company's financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources.

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FUNDS FROM OPERATIONS

In 2003, the Company reported Funds From Operations (FFO) of \$43,740,000 representing a 0.7% decrease from 2002 FFO of \$44,031,000. The following table presents a reconciliation from net income available to common stockholders to FFO for the periods indicated:

(In thousands)	For the Year Ended December 31,				
	2003	2002	2001	2000	1999
Net income available to common stockholders	\$17,998	\$19,566	\$17,314	\$14,045	\$13,297
Subtract: Gain on sale of property	(182)	(1,426)	--	--	(553)
Add:					
Minority interests	8,086	8,070	8,069	8,069	7,923
Depreciation and amortization of real property	17,838	17,821	14,758	13,534	12,163
FFO ¹	\$43,740	\$44,031	\$40,141	\$35,648	\$32,830
Average shares and units used to compute FFO per share	20,790	20,059	19,383	18,796	18,148

1 FFO is a widely accepted non-GAAP financial measure of operating performance for REITs. FFO is defined by the National Association of Real Estate Investment Trusts as net income, computed in accordance with GAAP, plus minority interests, extraordinary items and real estate depreciation and amortization, excluding gains or losses from property sales. FFO does not represent cash generated from operating activities in accordance with GAAP 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, its most directly comparable GAAP measure, 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.

ACQUISITIONS, REDEVELOPMENTS AND RENOVATIONS

The Company has been selectively involved in acquisition, redevelopment and renovation activities. It continues to evaluate the acquisition of land parcels for retail and office development and 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 recent activities at Thruway and Ashburn Village. The following describes the acquisitions, redevelopments and renovations which affected the Company's results of operations in 2002 and 2003.

Olde Forte Village

In July 2003, the Company acquired Olde Forte Village, a 161,000 square-foot neighborhood shopping center located in Fort Washington, Maryland. The center is anchored by a newly constructed 58,000 square-foot Safeway supermarket which opened in March 2003, relocating from a smaller store within the center. The center contains approximately 50,000 square feet of vacant space, consisting primarily of the former Safeway space, which the Company plans to redevelop in 2004. The Company has filed for permits and plans to begin redevelopment in March 2004. The Company expects total redevelopment costs, including the initial property acquisition cost, to be approximately \$22 million and projects completion of the redevelopment in the fall of 2004. Olde Forte Village is currently 67% leased.

MANAGEMENT'S DISCUSSION & ANALYSIS

of Financial Condition & Results of Operations

Broadlands Village

The Company purchased 24 acres of undeveloped land in the Broadlands section of the Dulles Technology Corridor of Loudoun County, Virginia in April 2002. Broadlands is a 1,500 acre planned community consisting of 3,500 residences, approximately half of which are constructed and currently occupied. In October 2003, the Company completed construction of the first phase of the Broadlands Village shopping center. The 58,000 square foot Safeway supermarket opened in October 2003 with a pad building and many in-line small shops also opening in the fourth quarter of 2003. The 105,000 square foot first phase is 100% leased. Construction of a 30,000 square foot second phase is planned to commence in March 2004. The Company expects total development costs of both phases, including the land acquisition, to be approximately \$22 million and projects substantial completion of phase two of the center in the fall of 2004. The second phase is currently 12% pre-leased.

Thruway

During the fourth quarter of 2003, the Company commenced a 15,725 square foot expansion of the Thruway shopping center located in Winston Salem, North Carolina. The new development includes replacing a former 6,100 square foot single-tenant pad building with a new multi-tenant building. Leases have been executed for 52% of the new space, including Ann Taylor Loft and Chico's. This \$2.5 million expansion is projected to be substantially completed in the spring of 2004.

Shops at Monocacy

In November 2003, the Company acquired 13 acres of undeveloped land in Frederick, Maryland at the southeast corner of Maryland Route 26 and Monocacy Boulevard. Construction commenced in early December of a 102,000 square foot shopping center to be anchored by a 57,000 square foot Giant grocery store. The Company expects total development costs, including the land acquisition, to be approximately \$21.3 million and projects substantial completion of the center in the fall of 2004. The property is currently 63% pre-leased.

Kentlands Square

In January 2004, the Company purchased 3.4 acres of undeveloped land adjacent to its 109,000 square foot Kentlands Square shopping center in Gaithersburg, Maryland. The Company plans to build a 41,300 square foot retail/office property comprised of 24,400 square feet of in-line retail space and 16,900 square feet of professional office suites. Construction is expected to commence in spring 2004. Development costs, including the land acquisition, are projected to total \$7.1 million, and substantial completion of the project is scheduled for the fall of 2004.

Countryside

In mid-February 2004, the Company completed the acquisition of the 130,000 square foot Safeway-anchored Countryside shopping center, its fourth neighborhood shopping center investment in Loudoun County, Virginia. The center is 95% leased and was acquired for a purchase price of \$29.7 million.

Boca Valley Plaza

The Company added Publix as one of its grocery tenants with the February 2004 acquisition of Boca Valley Plaza in Boca Raton, Florida. Boca Valley Plaza is a 121,000 square foot neighborhood shopping center on U.S. Highway 1 in an attractive demographic area of South Florida. The center, constructed in 1988, is 90% leased and anchored by a 42,000 square foot Publix supermarket. The property was acquired for a purchase price of \$17.5 million, subject to the assumption of a \$9.2 million mortgage.

MANAGEMENT'S DISCUSSION & ANALYSIS

of Financial Condition & Results of Operations

PORTFOLIO LEASING STATUS

The following chart sets forth certain information regarding our properties for the periods indicated.

As of December 31,	Total Properties		Total Square Footage		Percent Leased	
	Shopping Centers	Office	Shopping Centers	Office	Shopping Centers	Office
2001	28	5	4,956,000	1,203,000	94.3%	90.4%
2002	29	5	5,069,000	1,203,000	93.9%	92.9%
2003	31	5	5,328,000	1,204,000	94.1%	95.8%

The improvement in the portfolio's leasing percentage in 2003 resulted primarily from improved leasing in the Office Properties at 601 Pennsylvania Avenue, Washington Square and Avenel Business Park.

The improvement in the portfolio's 2002 leasing percentage resulted from increased leasing at the Ashburn Village and Washington Square developments, offset in part by decreased leasing at Lexington Mall and 601 Pennsylvania Avenue. The Company is intentionally not renewing leases at Lexington Mall in order to redevelop the shopping center and a major lease with a US Government tenant expired at 601 Pennsylvania Avenue.

FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are generally characterized by terms such as "believe", "expect" and "may".

Although the Company believes that the expectations reflected in such forward-looking statements are based upon reasonable assumptions, the Company's actual results could differ materially from those given in the forward-looking statements as a result of changes in factors which include among others, the following:

- risks that the Company's tenants will not pay rent;
- risks related to the Company's reliance on shopping center "anchor" tenants and other significant tenants;

- risks related to the Company's substantial relationships with members of The Saul Organization;
- risks of financing, such as increases in interest rates, restrictions imposed by the Company's debt, the Company's ability to meet existing financial covenants and the Company's ability to consummate planned and additional financings on acceptable terms;
- risks related to the Company's development activities;
- risks that the Company's growth will be limited if the Company cannot obtain additional capital;
- risks that planned and additional acquisitions or redevelopments may not be consummated, or if they are consummated, that they will not perform as expected;
- risks generally incident to the ownership of real property, including adverse changes in economic conditions, changes in the investment climate for real estate, changes in real estate taxes and other operating expenses, adverse changes in governmental rules and fiscal policies, the relative illiquidity of real estate and environmental risks; and
- risks related to the Company's status as a REIT for federal income tax purposes, such as the existence of complex regulations relating to the Company's status as a REIT, the effect of future changes in REIT requirements as a result of new legislation and the adverse consequences of the failure to qualify as a REIT.

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 (800) 509-5586 and request to speak with a service representative or write:

Continental Stock Transfer & Trust Company
Attention: Saul Centers, Inc. Dividend Reinvestment Plan
17 Battery Place
New York, NY 10004

COMMON STOCK PRICES

Period	Share Price	
	High	Low
Fourth Quarter, 2003	\$29.04	\$26.62
Third Quarter, 2003	\$27.95	\$25.75
Second Quarter, 2003	\$26.55	\$23.59
First Quarter, 2003	\$24.10	\$21.97
Fourth Quarter, 2002	\$24.51	\$22.52
Third Quarter, 2002	\$25.40	\$21.91
Second Quarter, 2002	\$25.90	\$22.13
First Quarter, 2002	\$22.55	\$21.02

On February 27, 2004, the closing price was \$27.90.
There were approximately 405 holders of record as of that date.

SAUL CENTERS, INC.

Corporate Information

DIRECTORS

B. Francis Saul II
Chairman & Chief
Executive Officer

B. Francis Saul III
President

Philip D. Caraci
Vice Chairman

**The Honorable
John E. Chapoton**
Partner, Brown Investment
Advisory

Gilbert M. Grosvenor
Chairman of the
Board of Trustees,
National Geographic Society

Philip C. Jackson, Jr.
Adjunct Professor Emeritus,
Birmingham-Southern
College

David B. Kay
Chief Financial Officer,
J.E. Robert Companies

General Paul X. Kelley
Chairman, American Battle
Monuments Commission

Charles R. Longworth
Chairman Emeritus, Colonial
Williamsburg Foundation

Patrick F. Noonan
Chairman Emeritus,
The Conservation Fund

**The Honorable
James W. Symington**
Of Counsel, 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
President

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

Kenneth D. Shoop
Vice President,
Chief Accounting Officer

Christopher H. Netter
Senior Vice President, Leasing

John F. Collich
Senior Vice President,
Retail Development

M. Laurence Millspaugh
Senior Vice President,
Acquisitions & Development

Charles W. Sherren, Jr.
Senior Vice President,
Management

COUNSEL
Shaw Pittman LLP
Washington, DC 20037

INDEPENDENT AUDITORS
Ernst & Young LLP
McLean, Virginia 22102

WEB SITE

www.saulcenters.com

EXCHANGE LISTING

New York Stock Exchange

Symbol:

Common Stock: BFS

Preferred Stock: BFS.PrA

TRANSFER AGENT

Continental Stock Transfer &
Trust Company

Attention: Saul Centers, Inc.
Dividend Reinvestment Plan
17 Battery Place
New York, NY 10004
(800) 509-5586

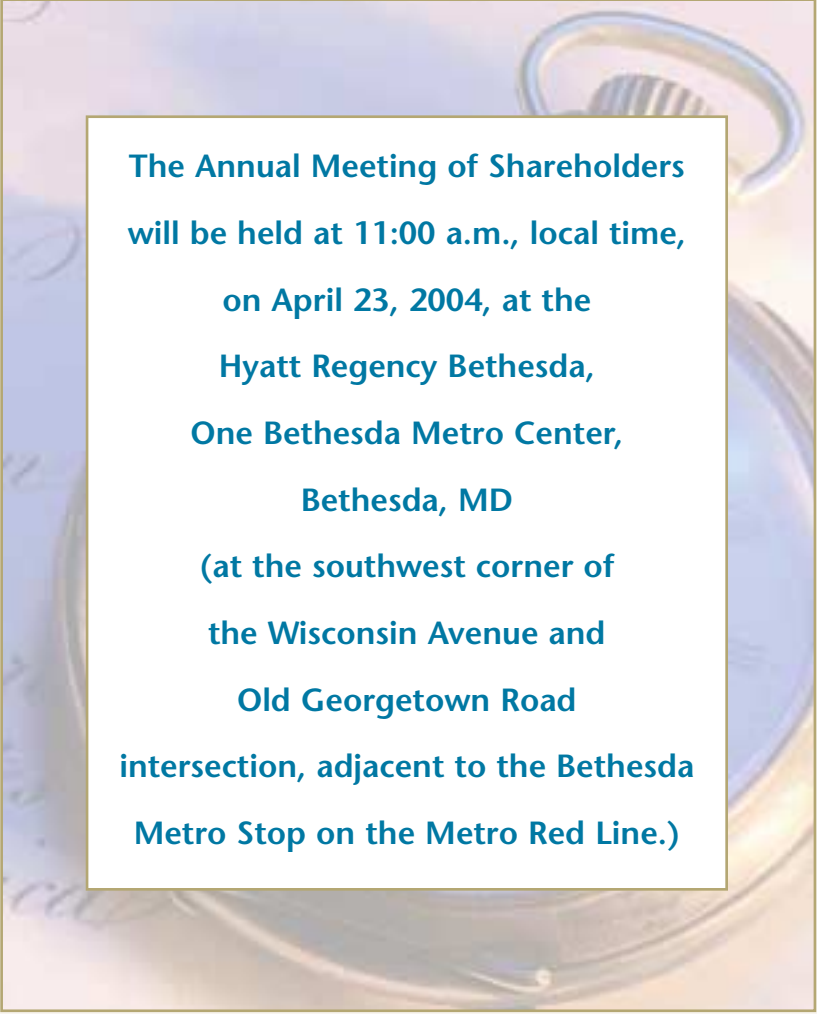
INVESTOR RELATIONS

Saul Centers, Inc.
7501 Wisconsin Ave.
Suite 1500
Bethesda, MD 20814-6522
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
the above address or
calling (301) 986-6016.

HEADQUARTERS

7501 Wisconsin Ave.
Suite 1500
Bethesda, MD 20814-6522
Phone: (301) 986-6200

ANNUAL MEETING of Shareholders



The Annual Meeting of Shareholders
will be held at 11:00 a.m., local time,
on April 23, 2004, at the
Hyatt Regency Bethesda,
One Bethesda Metro Center,
Bethesda, MD
(at the southwest corner of
the Wisconsin Avenue and
Old Georgetown Road
intersection, adjacent to the Bethesda
Metro Stop on the Metro Red Line.)



7501 Wisconsin Avenue, Suite 1500
Bethesda, MD 20814-6522
Phone: (301) 986-6200
Website: www.saulcenters.com