

2019 ANNUAL REPORT to Shareholders



Saul Centers is a self-managed, self-administered equity REIT headquartered in Bethesda, Maryland. Saul Centers currently operates and manages a real estate portfolio comprised of 60 properties including (a) 56 community and neighborhood Shopping Centers and Mixed-Use properties with approximately 9.3 million square feet of leasable area and (b) four land and development properties. Approximately 85% of the Company's property operating income is generated from properties in the metropolitan Washington, DC/Baltimore area.



TOTAL REVENUE^(a)

(In millions)

2019		\$231.5
2018		\$227.2
2017		\$226.3
2016		\$215.5
2015		\$208.1

NET INCOME

Available to Common Stockholders

(In millions)

2019		\$36.3
2018		\$36.0
2017		\$35.9
2016		\$32.9
2015		\$30.1

FUNDS FROM OPERATIONS

Available to Common Shareholders^(b)

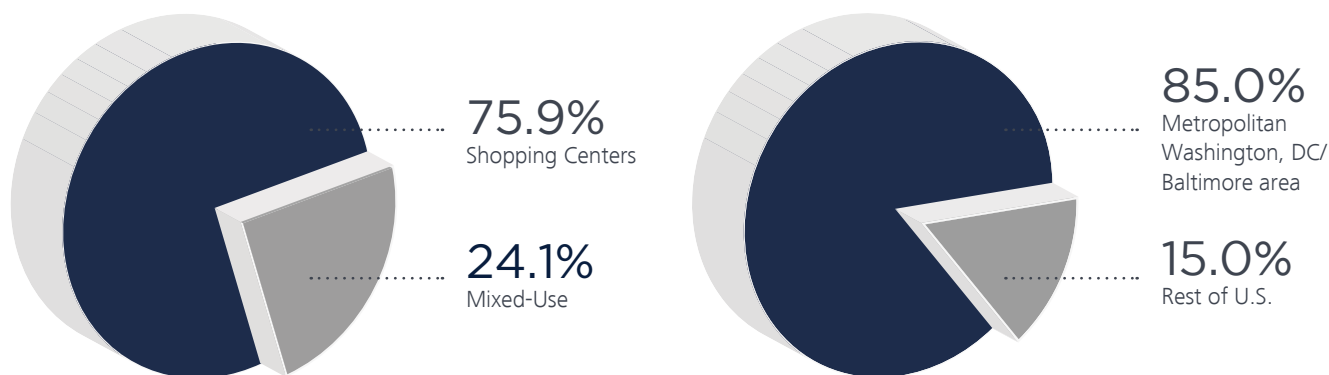
(In millions)

2019		\$95.1
2018		\$93.8
2017		\$94.0
2016		\$87.7
2015		\$83.8

^(a) Certain reclassifications have been made to prior years to conform to the presentation used for year ended December 31, 2019.

^(b) Funds From Operations (FFO) is a non-GAAP financial measure. The term Common Shareholders means common stockholders and holders of noncontrolling interests. See page 21 for a definition of FFO and reconciliation from Net Income.

PORTFOLIO COMPOSITION BASED ON 2019 PROPERTY OPERATING INCOME⁽¹⁾



⁽¹⁾ Property Operating Income equals total property revenue (net of provision for credit losses) less the sum of property operating expenses and real estate taxes.

	Year ended December 31,				
	2019	2018	2017	2016	2015
Summary Financial Data					
Total Revenue ^(a)	\$ 231,525,000	\$ 227,219,000	\$ 226,299,000	\$ 215,524,000	\$ 208,111,000
Net Income Available to Common Stockholders	\$ 36,253,000	\$ 35,964,000	\$ 35,882,000	\$ 32,904,000	\$ 30,093,000
FFO Available to Common Shareholders	\$ 95,059,000	\$ 93,821,000	\$ 93,987,000	\$ 87,749,000	\$ 83,815,000
Weighted Average Common Stock Outstanding (Diluted)	23,053,000	22,425,000	22,008,000	21,615,000	21,196,000
Weighted Average Common Stock and Units Outstanding	30,913,000	30,156,000	29,511,000	28,990,000	28,449,000
Net Income Per Share Available to Common Stockholders (Diluted)	\$ 1.57	\$ 1.60	\$ 1.63	\$ 1.52	\$ 1.42
FFO Per Share Available to Common Shareholders (Diluted)	\$ 3.08	\$ 3.11	\$ 3.18	\$ 3.03	\$ 2.95
Common Dividend as a Percentage of FFO	69%	66%	64%	61%	57%
Interest Expense Coverage ^(b)	3.77 x	3.53 x	3.35 x	3.29 x	3.24 x
Property Data					
Number of Operating Properties ^(c)	56	56	55	55	56
Total Portfolio Square Feet	9,335,000	9,300,000	9,230,000	9,362,000	9,350,000
Shopping Center Square Feet	7,855,000	7,750,000	7,750,000	7,882,000	7,897,000
Mixed-Use Square Feet	1,480,000	1,550,000	1,480,000	1,480,000	1,453,000
Average Percentage Leased ^(d)	95%	95%	95%	95%	95%

^(a) Certain reclassifications have been made to prior years to conform to the presentation used for year ended December 31, 2019.

^(b) Interest expense coverage equals (i) operating income before the sum of interest expense and amortization of deferred debt costs, predevelopment expenses, acquisition related costs, and depreciation and amortization of deferred leasing costs divided by (ii) interest expense.

^(c) Excludes land and development parcels (Ashland Square Phase II, New Market and Park Van Ness in 2015, Ashland Square Phase II, New Market and N. Glebe Road in 2016, 2017, and 2018, and Ashland Square Phase II, New Market, N. Glebe Road and 7316 Wisconsin Avenue in 2019). Burtonsville Town Square was acquired in January 2017 and 7316 Wisconsin Avenue was acquired September 2018. Crosstown Business Center was sold in December 2016 and Great Eastern was sold in September 2017.

^(d) Average percentage leased includes commercial space only.

2019

MESSAGE to Shareholders

2019 was another year of moderate domestic economic growth with a historically low interest rate environment. However, despite continuing global economic and political uncertainty, consumer confidence endured. As a result, our portfolio's same property operating income increased a modest 1.2% over the prior year. Leasing activity continued to be solid, with an overall commercial space average percentage leased for 2019 of 95% for the fifth consecutive year. While we are firmly committed to well-located neighborhood shopping centers offering grocery, dining, fitness and service uses, we believe that overall retail challenges will continue for years to come. As a result, we are now allocating our resources and capital to our transit-centric, urban, mixed-use development pipeline, as we have over the past several years with Park Van Ness and, most recently, The Waycroft.



CAPITAL MARKETS ACCOMPLISHMENTS

In September 2019, we were able to take advantage of the historically low interest rate environment and the resulting attractive preferred stock market, and issued 6.000% Series E preferred stock, using the proceeds to redeem the remaining shares of our 6.875% Series C preferred stock. Additionally, since December 2018, we have repaid \$95.0 million of fixed-rate loans on six of our properties, which were maturing either during 2019 or early 2020. During 2019, we completed two 15-year mortgage refinancings, totaling \$50.6 million, at a weighted average interest rate of 4.40%. As of December 31, 2019, 30% of our total property operating income was being generated from unencumbered assets, compared to 22% five years ago, allowing us to increase our unsecured revolving credit line and term loan facility from \$275 million to the current \$400

million. Our weighted average cost of debt and preferred equity capital was 4.94% at December 31, 2019, a decrease from one year earlier, resulting in a savings of \$3.8 million annually in combined interest and preferred stock dividends. Over the next five years, \$145 million of our mortgage debt will mature, which has a weighted average interest rate of 6.7%, representing an opportunity to further lower our weighted average cost of capital.

Our revolving credit line availability was \$237.3 million at year-end 2019. Equity raised through our dividend reinvestment plan has averaged \$22.4 million per year over the past three years. Thus, we believe that the combination of our credit facility, unencumbered assets outside of our revolver pool, proceeds from our dividend reinvestment plan, and our operating cash flow will provide adequate liquidity to fund our proposed development pipeline over the coming years.



DEVELOPMENTS AND ACQUISITIONS

The enhancement of liquidity through our 2018 and 2019 capital markets initiatives allows us to continue supplementing our core operating performance with mixed-use and pad site developments as opportunities are identified.

The Waycroft, located at the corner of two major thoroughfares, Glebe Road and Wilson Boulevard, is within three blocks of the Ballston Metro Station in Arlington, Virginia. It is our largest mixed-use development to date. The Waycroft features three separate buildings, each with its own entrance and lobby, but internally connected with easy access throughout the entire property. Amenities shared amongst the three buildings include an interior courtyard, business center/work-from-home area, resident lounge and library, fitness center, clubroom,

an expansive roof deck with a rooftop swimming pool and an indoor dog grooming and exercise facility. Construction is substantially complete with approximately 50% of the 491 apartment units expected to be ready for occupancy by April 2020, and the balance delivering later in the second quarter. The retail space is approximately 90% leased. A Target store (with a CVS pharmacy), which is scheduled to open in July 2020, accounts for 40,000 of the total 60,000 square feet. The leasing office and model units opened in late February 2020, and we have begun signing residential leases.

We anticipate Metro Tower, located at 7316 Wisconsin Avenue in downtown Bethesda, Maryland, will be our next mixed-use development. The future 25-story high-rise will contain 366 residential units and 10,300 square feet of retail space. It is adjacent to both the new south entrance to the Red Line Metro Station and eastern terminus of the

2019 MESSAGE to Shareholders

Purple Line, which are both under construction. The property is well-located, just blocks from the future 1 million square foot Marriott International headquarters. The building currently encumbering the site is vacant, and we expect to begin demolition during the second quarter of 2020. We have completed development plans, and in July 2019, the Montgomery County Planning Board unanimously approved the site plan. Design and construction documents are being prepared and a site plan amendment has been submitted incorporating final design parameters. Additional approvals from the Washington Metropolitan Area Transit Authority and the Maryland Transit Administration are in process and are expected to be received by the fourth quarter of 2020.

In November 2019, we entered into an agreement to acquire additional land in Rockville, Maryland, adjacent to the Twinbrook Metro Station. We have filed with the City of Rockville a site plan for Phase I of the Twinbrook Quarter development and that plan is currently undergoing community and governmental reviews. Combined with our adjacent 10.3 acre site, the redevelopment plan comprises 18.4 acres, and will contain 1,865 residential units, 431,000 square feet of office space and 473,000

square feet of retail space, including an 80,000 square foot Wegmans grocery store. Combining all three of our Montgomery County, Maryland development sites – Metro Tower, Twinbrook Quarter and our 7.6 acres at the White Flint (Red Line) Metro Station – the approved development potential of these sites includes up to 3,700 apartments and 975,000 square feet of retail and office space, which is further evidence of our focus on transit-centric, mixed-use properties.

While we expect our mixed-use development pipeline to be our long term growth engine, in the near term, we will supplement these mixed-use developments with selective shopping center development and free-standing pad site buildings within our shopping center portfolio. Construction continues through 2020 on our 85,000 square foot Ashbrook Marketplace, where the Lidl grocery store opened for business prior to Thanksgiving. Overall, the Ashbrook shop space and four pads are 100% pre-leased, with initial tenant openings expected to occur during the second quarter, and stabilization expected in late 2020. Pad site development continues to be a driver of our shopping center operating income growth, requiring relatively less tenant improvement capital. In addition to pads in



Ashbrook Marketplace, we have executed leases, as well as leases under negotiation, for a total of 12 additional pads, with aggregate annualized rents of \$1.7 million. These pad deals are projected to become operational during 2020 and 2021. With these expansions, we expect to incur approximately \$12.0 million in total capital costs, which would result in cash-on-cash return on investment in excess of 14%.

During 2019, the 16,000 square foot small shop expansion of our Giant Food anchored Burtonsville Town Square shopping center in Montgomery County, Maryland came online, with the first tenant openings occurring during the first quarter of 2019. All new shop spaces are leased, with the last tenants scheduled to open during the second quarter of 2020. In addition, a lease has been executed with Taco Bell, which commenced construction on a free-standing building, scheduled to open in spring of 2020.

At Lansdowne Town Center in Leesburg, Virginia, a Chick-fil-A and a Starbucks, both with drive-up windows, opened during the first quarter of 2020. We expect these two store openings will significantly increase traffic to that center.

2019 FINANCIAL RESULTS

Total revenue increased to \$231.5 million, a \$4.3 million increase over the prior year. Operating income was \$64.2 million, compared to \$63.1 million a year earlier, and net income available to common stockholders was \$36.3 million, compared to \$36.0 million in 2018. The public real estate industry's key performance measure, Funds From Operations (FFO) available to common stockholders and non-controlling interests (after deducting preferred stock dividends and preferred stock redemption costs), increased 1.3% to \$95.1 million in 2019 from \$93.8 million in 2018. The 2019 FFO increase was primarily due to (a) higher other revenue, primarily lease termination fees, exclusive of the impact of 7316 Wisconsin Avenue (\$2.4 million), and (b) lower interest expense, net and amortization of deferred debt costs, exclusive of the impact of 7316 Wisconsin Avenue (\$3.3 million), partially offset by (c) higher general and administrative expenses primarily due to a GAAP change requiring expensing of previously capitalized leasing compensation costs (\$2.2 million), (d) the impact of the operations of 7316 Wisconsin Avenue as we terminated leases to prepare for redevelopment (\$1.7 million), and (e) higher extinguishment in 2019 of issuance costs



2019 MESSAGE to Shareholders

upon redemption of preferred shares (\$0.9 million). Although absolute FFO increased, on a per diluted share basis, FFO decreased to \$3.08 in 2019 from \$3.11 in 2018, due to an increase in shares outstanding, primarily from shares issued through the dividend reinvestment plan.

Same property operating income increased 1.2% in 2019 as compared to 2018. Mixed-use same property operating income remained flat, year over year, while shopping center same property operating income increased \$2.0 million or 1.6%, primarily due to termination fees received from recaptured tenant spaces.

MIXED-USE HIGHLIGHTS

Workforce trends, globalization, and urbanization are reshaping tenant preferences, changing the way people work, live, play and shop. Our mixed-use portfolio (including The Waycroft), contains over 2.0 million square feet of gross leasable area, comprised of over 1,000 apartment units, over 1.0 million square feet of office and 160,000 square feet of retail space. As such, entering 2020, our mixed-use assets represent a larger portion of the overall portfolio's asset value and square footage than in the past. For the year ended December 31, 2019, mixed-use same property revenue increased 0.9%, while same property operating income increased

0.2%. The commercial average percentage leased on a same property basis in our mixed-use portfolio ended 2019 at over 90% for the fifth straight year. Within these totals, our 2019 residential same property operating income increased by 6.1% over the prior year. During 2019, we entered into 431 new or renewed apartment leases, with rents increasing by 2.3% over expiring leases.

SHOPPING CENTER HIGHLIGHTS

Types and sizes of retail tenants continued to evolve throughout 2019 in order to remain competitive with internet competition and changes in consumer demand. Grocers that are new or expanding in our market, such as Lidl and Aldi, are increasingly absorbing market share, while the increased presence of Target, Walmart and Wegmans in the grocery business, and pricing pressure from on-line grocery shopping options continue to make competition tight within the market. In spite of these pressures, since late 2018, we were able to retenant 3 underperforming grocery anchors with a Giant Food at Seven Corners, 99 Ranch at Shops at Fairfax, and an Aldi and LA Fitness at Broadlands Village, increasing annualized base rent on these spaces by over 10%. We believe these tenants will be better traffic generating anchors for these centers.



METRO TOWER, BETHESDA, MD (RENDERING)



LANSDOWNE TOWN CENTER, LEESBURG, VA

Our shopping centers rely heavily on the traffic generated from grocery anchors. Twenty-six centers are anchored by national grocers, collectively reporting an average sales volume of over \$500 per square foot. Twenty-one of these grocery-anchored centers are anchored by market leaders Giant, Publix and Kroger/Harris Teeter, which provide 56% of our shopping center property operating income.

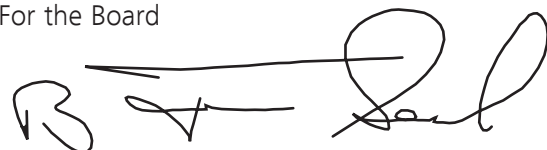
Our 2019 same center property operating income increased by \$2.0 million (or 1.6%) as compared to 2018, despite not having a full year of anchor tenant income from a combined 179,000 square feet of space at Seven Corners, Shops at Fairfax and Broadlands Village. All of these anchor spaces are under construction and scheduled for rent commencement during the first half of 2020. Same space rents on signed renewals or new leases in 2019 decreased by 0.2% over previous expiring rents for 1.3 million square feet of space. However, this rent growth has been suppressed because certain of our shopping centers are planned for redevelopment, including our properties at Twinbrook and White Flint on Rockville Pike. We often accept lower rents at these properties in exchange for increased flexibility and control, as we have been deliberate in signing leases that have shorter terms and require minimal tenant improvements. When excluding these leases, same store rental rates for renewed or new tenants increased by 1.7% from expiring lease rates during 2019.

Looking forward, we anticipate the successful lease-up of The Waycroft. This development will increase our transit-oriented luxury apartment inventory to over 1,000 units. In addition, while continuing to develop urban, transit-centric, mixed-use projects, we will deploy capital into selective grocery anchored shopping center construction, including small shop and pad site expansion of existing shopping centers, as opportunities arise. With 76% of our current property operating income derived from shopping centers in 2019, neighborhood and community shopping center operations remain our core business. However, we are reacting to changes in the market place, shifting our focus away from grocery anchored shopping centers, to become a Washington, DC based diversified REIT. With each mixed-use development added to our portfolio, our cash flow generation becomes less concentrated on shopping centers, moving towards our goal of a more balanced cash flow stream.

Since our initial public offering, our compounded annual total return at December 31, 2019 was 10.0%, slightly higher than the S&P's 9.9% over the same period. For 2019, our dividend payout ratio, defined as dividends paid divided by FFO, was a conservative 69%, while our leverage ratio, as measured by debt to total capitalization, was 37.5%.

Although local and global political and economic conditions continue to be challenging, we believe that through the continued efforts of our diligent management team and our geographic concentration in the metropolitan Washington, DC area, Saul Centers will generate cash flow growth and asset value creation from its core assets, while adding incremental growth through our thoughtful approach to development. We express our thanks to our professional staff and to our shareholders for their loyalty and trust throughout the years.

For the Board



B. Francis Saul II
March 5, 2020



Portfolio Properties

As of December 31, 2019, Saul Centers' portfolio properties were located in Virginia, Maryland, Washington, DC, North Carolina, Delaware, Florida, Georgia, New Jersey and Oklahoma. Properties in the metropolitan Washington, DC/ Baltimore area represent over 81% of the portfolio's gross leasable area.



GROSS LEASABLE PROPERTY/LOCATION

SQUARE FEET

Shopping Centers

Ashbrook Marketplace, Ashburn, VA,	78,453
Ashburn Village, Ashburn, VA,	221,596
Ashland Square Phase I, Dumfries, VA	23,120
Beacon Center, Alexandria, VA,	356,971
BJ's Wholesale Club, Alexandria, VA,	115,660
Boca Valley Plaza, Boca Raton, FL	121,269
Boulevard, Fairfax, VA	49,140
Briggs Chaney Marketplace, Silver Spring, MD	194,258
Broadlands Village, Ashburn, VA	174,438
Burtonsville Town Square, Burtonsville, MD	138,021
Countryside Marketplace, Sterling, VA	138,804
Cranberry Square, Westminister, MD	141,450
Cruse Marketplace, Cumming, GA	78,686
Flagship Center, Rockville, MD	21,500
French Market, Oklahoma City, OK	246,148
Germantown, Germantown, MD	18,982
The Glen, Woodbridge, VA	136,440
Great Falls Center, Great Falls, VA	91,666
Hampshire Langley, Takoma Park, MD	131,700
Hunt Club Corners, Apopka, FL	107,103
Jamestown Place, Altamonte Springs, FL	96,201
Kentlands Square I, Gaithersburg, MD	114,381
Kentlands Square II, Gaithersburg, MD	253,052
Kentlands Place, Gaithersburg, MD	40,697
Lansdowne Town Center, Leesburg, VA	189,422
Leesburg Pike Plaza, Baileys Crossroads, VA	97,752
Lumberton Plaza, Lumberton, NJ	192,718
Metro Pike Center, Rockville, MD	67,488
Shops at Monocacy, Frederick, MD	111,316
Northrock, Warrenton, VA	100,032
Olde Forte Village, Ft. Washington, MD	143,577
Olney, Olney, MD	53,765
Orchard Park, Dunwoody, GA	87,365
Palm Springs Center, Altamonte Springs, FL,	126,446
Ravenwood, Baltimore, MD	93,328

GROSS LEASABLE PROPERTY/LOCATION

SQUARE FEET

Shopping Centers

11503 Rockville Pike/5541 Nicholson Lane, Rockville, MD	40,249
1500/1580/1582/1584 Rockville Pike, Rockville, MD	110,128
Seabreeze Plaza, Palm Harbor, FL	146,673
Marketplace at Sea Colony, Bethany Beach, DE	21,677
Seven Corners, Falls Church, VA	573,481
Severna Park Marketplace, Severna Park, MD	254,011
Shops at Fairfax, Fairfax, VA	68,762
Smallwood Village Center, Waldorf, MD	173,341
Southdale, Glen Burnie, MD	485,628
Southside Plaza, Richmond, VA	371,761
South Dekalb Plaza, Atlanta, GA	163,418
Thruway, Winston-Salem, NC	365,816
Village Center, Centreville, VA	145,651
Westview Village, Frederick, MD	101,058
White Oak, Silver Spring, MD	480,676

TOTAL SHOPPING CENTERS	7,855,275
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Mixed-Use Properties

Avenel Business Park, Gaithersburg, MD	390,683
Clarendon Center – North, Arlington, VA	108,386
Clarendon Center – South, Arlington, VA	293,565
(includes 244 apartments comprising 188,671 square feet)	
Park Van Ness, Washington, DC	223,447
(includes 271 apartments comprising 214,600 square feet)	
601 Pennsylvania Ave., Washington, DC	227,651
Washington Square, Alexandria, VA	236,376

TOTAL MIXED-USE PROPERTIES	1,480,108
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Land and Development Parcels

7316 Wisconsin Avenue, Bethesda, MD
Ashland Square Phase II, Dumfries, VA
The Waycroft, Arlington, VA
New Market, New Market, MD

TOTAL PORTFOLIO	9,335,383
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SELECTED FINANCIAL DATA

(Dollars in thousands, except per share data)

	2019	2018	2017	2016	2015
Operating data					
Total revenue	\$ 231,525	\$ 227,219	\$ 226,299	\$ 215,524	\$ 208,111
Total expenses	(166,893)	(164,666)	(165,701)	(159,811)	(155,181)
Change in fair value of derivatives	(436)	(3)	70	(6)	(10)
Gains on sales of properties	—	509	—	1,013	11
Net income	64,196	63,059	60,668	56,720	52,931
Income attributable to noncontrolling interests	(12,473)	(12,505)	(12,411)	(11,441)	(10,463)
Net income attributable to Saul Centers, Inc.	51,723	50,554	48,257	45,279	42,468
Preferred stock dividends	(12,235)	(12,262)	(12,375)	(12,375)	(12,375)
Extinguishment of issuance costs upon redemption of preferred shares	(3,235)	(2,328)	—	—	—
Net income available to common stockholders	\$ 36,253	\$ 35,964	\$ 35,882	\$ 32,904	\$ 30,093
Per Share Data (diluted)					
Net income available to common stockholders	\$ 1.57	\$ 1.60	\$ 1.63	\$ 1.52	\$ 1.42
Basic and Diluted Shares Outstanding:					
Weighted average common shares - basic	23,009	22,383	21,901	21,505	21,127
Effect of dilutive options	44	42	107	110	69
Weighted average common shares - diluted	23,053	22,425	22,008	21,615	21,196
Weighted average convertible limited partnership units	7,860	7,731	7,503	7,375	7,253
Weighted average common shares and fully converted limited partnership units - diluted	30,913	30,156	29,511	28,990	28,449
Dividends Paid					
Cash dividends to common stockholders ¹	\$ 48,568	\$ 46,306	\$ 44,576	\$ 39,472	\$ 35,645
Cash dividends per share	\$ 2.12	\$ 2.08	\$ 2.04	\$ 1.84	\$ 1.69
Balance Sheet Data					
Real estate investments (net of accumulated depreciation)	\$ 1,518,123	\$ 1,422,647	\$ 1,315,034	\$ 1,242,534	\$ 1,197,340
Total assets	1,618,340	1,527,489	1,422,452	1,343,025	1,295,408
Total debt, including accrued interest	1,094,715	1,025,255	962,162	903,709	869,652
Preferred stock	185,000	180,000	180,000	180,000	180,000
Total equity	443,356	425,220	393,103	373,249	353,727
Other Data					
Cash flow provided by (used in):					
Operating activities	\$ 115,383	\$ 110,339	\$ 103,450	\$ 89,090	\$ 88,896
Investing activities	\$ (135,663)	\$ (128,650)	\$ (113,306)	\$ (86,274)	\$ (69,587)
Financing activities	\$ 19,607	\$ 21,981	\$ 12,442	\$ (4,497)	\$ (21,434)
Funds from operations ² :					
Net income	\$ 64,196	\$ 63,059	\$ 60,668	\$ 56,720	\$ 52,931
Real property depreciation and amortization	46,333	45,861	45,694	44,417	43,270
Gain on sale of property	—	(509)	—	(1,013)	(11)
Funds from operations	110,529	108,411	106,362	100,124	96,190
Preferred stock dividends	(12,235)	(12,262)	(12,375)	(12,375)	(12,375)
Extinguishment of issuance costs upon redemption of preferred shares	(3,235)	(2,328)	—	—	—
Funds from operations available to common stockholders and noncontrolling interests	\$ 95,059	\$ 93,821	\$ 93,987	\$ 87,749	\$ 83,815

⁽¹⁾ During 2019, 2018, 2017, 2016, and 2015, shareholders reinvested \$22.5 million, \$28.8 million, \$15.8 million, \$10.3 million and \$10.6 million, respectively, in newly issued common stock through the Company's dividend reinvestment plan.

⁽²⁾ Funds from operations (FFO) is a non-GAAP financial measure and is defined in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Funds From Operations."

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND 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 13, discusses the Company's results of operations for the past two years. Beginning on page 16, 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 21, the Company discusses funds from operations, or FFO, which is a 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 other sections of this Annual Report, including the consolidated financial statements and notes thereto beginning on page 29. We make statements in this section that are forward-looking statements within the meaning of the federal securities laws. For a complete discussion of forward-looking statements, refer to the Company's Form 10-K section entitled "Forward-Looking Statements." Certain risks may cause our actual results, performance or achievements to differ materially from those expressed or implied by the following discussion. For a discussion of such risk factors, refer to the Company's Form 10-K "Item 1A. Risk Factors."

OVERVIEW

The Company's primary strategy is to continue to focus on diversification of its assets through development of transit-centric, residential mixed-use projects in the Washington, D.C. metropolitan area. The Company's operating strategy also includes improvement of the operating performance and internal growth of its Shopping Centers and will supplement its development of residential mixed-used projects with selective redevelopment and renovations of its core Shopping Centers.

The Company's primary strategy is to continue to focus on diversification of its assets through development of transit-centric, residential mixed-use projects in the Washington, D.C. metropolitan area. Construction of The Waycroft, a project with 491 apartment units and 60,000 square feet of retail space, is nearing substantial completion on North Glebe Road, within two blocks of the Ballston Metro Station, in Arlington, Virginia. The Company also has a development pipeline of zoned sites, either in its portfolio (some of which are currently shopping center operating properties) or under contract, for development of up to 3,700 apartment units and 975,000 square feet of retail and office space. All such sites are located adjacent to red line Metro stations in Montgomery County, Maryland.

The Company's operating strategy also includes improvement of the operating performance and internal growth of its Shopping Centers and will supplement its development of residential mixed-used projects with selective redevelopment and renovations of its core Shopping Centers. It intends to selectively add free-standing pad site buildings within its Shopping Center portfolio, and replace underperforming tenants with tenants that generate strong traffic, generally anchor stores such as supermarkets, drug stores and fitness centers, as evidenced by the coming additions of a 69,000 square foot Giant Food at Seven Corners and a 36,000 square foot LA Fitness at Broadlands Village. Exclusive of four pads under development within Ashbrook Marketplace, the Company currently has signed leases or leases under negotiation for 12 pad sites within its core portfolio. The pad sites are expected to be completed and operational by late 2021.

In recent years, there has been a limited amount of quality properties for sale and pricing of those properties has escalated. Accordingly, management believes acquisition opportunities for investment in existing and new shopping center and mixed-use properties in the near future is uncertain. Nevertheless, because of the Company's conservative capital structure, including its cash and capacity under its revolving credit facility, management believes that the Company is positioned to take advantage of additional investment opportunities as attractive properties are identified and market conditions improve. (See "Item 1. Business - Capital Policies".) It is management's view that several of the sub-markets in which the Company operates have, or are expected to have in the future, attractive supply/demand characteristics. The Company will continue to evaluate acquisition, development and redevelopment as integral parts of its overall business plan.

Economic conditions within the local Washington, DC metropolitan area have remained relatively stable. Issues facing the Federal government relating to taxation, spending and interest rate policy will likely continue to impact the office, retail and residential real estate markets over the coming years. Because the majority of the Company's property operating income is produced by our Shopping Centers, we continually monitor the implications of government policy changes, as well as shifts in consumer demand between on-line and in-store shopping, on future shopping center construction and retailer store expansion plans. Based on our observations, we continue to adapt our marketing and merchandising strategies in a way to maximize our future performance. The Company's commercial leasing percentage, on a comparable property basis, which excludes the impact of properties not in operation for the entirety of the comparable periods, decreased to 95.1% at December 31, 2019, from 95.7% at December 31, 2018.

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The Company maintains a ratio of total debt to total asset value of under 50%, which allows the Company to obtain additional secured borrowings if necessary. As of December 31, 2019, amortizing fixed-rate mortgage debt with staggered maturities from 2020 to 2035 represented approximately 85.2% of the Company's notes payable, thus minimizing refinancing risk. The Company's variable-rate debt consists of \$162.5 million outstanding under the credit facility. As of December 31, 2019, the Company has loan availability of approximately \$237.3 million under its \$325.0 million revolving credit facility.

Although it is management's present intention to concentrate future acquisition and development activities on transit-centric, primarily residential mixed-use properties in the Washington, D.C./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. The Company plans to continue to diversify in terms of property types, locations, size and market, and it does not set any limit on the amount or percentage of assets that may be invested in any one property or any one geographic area.

CRITICAL ACCOUNTING POLICIES

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), which requires management to make certain estimates and assumptions that affect the reporting of financial position and results of operations. See Note 2 to the Consolidated Financial Statements in this report. The Company has identified the following policies that, due to estimates and assumptions inherent in those policies, involve a relatively high degree of judgment and complexity.

Real Estate Investments

Real estate investment properties are stated at historic cost less depreciation. Although the Company intends to own its real estate investment properties over a long term, from time to time it will evaluate its market position, market conditions, and other factors and may elect to sell properties that do not conform to the Company's investment profile. Management believes that the Company's real estate assets have generally appreciated in value since their acquisition or development 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 the financial statements. Because the financial statements are prepared in conformity with GAAP, they do not report the current value of the Company's real estate investment properties.

If there is an event or change in circumstance that indicates a potential impairment in the value of a real estate investment property, the Company prepares an analysis to determine whether the carrying value of the real estate investment property exceeds its estimated fair value. The Company considers both quantitative and qualitative factors in identifying impairment indicators including recurring operating losses, significant decreases in occupancy, and significant adverse changes in market conditions, legal factors and business climate. If impairment indicators are present, the Company compares the projected cash flows of the property over its remaining useful life, on an undiscounted basis, to the carrying value of that property. The Company assesses its undiscounted projected cash flows based upon estimated capitalization rates, historic operating results and market conditions that may affect the property. If the carrying value is greater than the undiscounted projected cash flows, the Company would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to its then estimated fair value. The fair value of any property is sensitive to the actual results of any of the aforementioned estimated factors, either individually or taken as a whole. Should the actual results differ from management's projections, the valuation could be negatively or positively affected.

Legal Contingencies

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business, which are generally covered by insurance. While the resolution of these matters cannot be predicted with certainty, the Company believes the final outcome of current matters will not have a material adverse effect on its financial position or the results of operations. Upon determination 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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RESULTS OF OPERATIONS

The following is a discussion of the components of revenue and expense for the entire Company. This section generally discusses 2019 and 2018 items and year-to-year comparisons between 2019 and 2018. For year-to-year comparison between 2018 and 2017, refer to the Company's Form 10-K "Management's Discussion and Analysis of Financial Condition and Results of Operations" Part II, Item 7.

(Dollars in thousands)	Revenue			Percentage Change	
	Year ended December 31,			2019 from 2018	
	2019	2018	2017	2019 from 2018	2018 from 2017
Base rent	\$ 185,724	\$ 184,684	\$ 181,141	0.6 %	2.0 %
Expense recoveries	36,521	35,537	35,347	2.8 %	0.5 %
Percentage rent	910	994	1,458	(8.5) %	(31.8) %
Other property revenue	1,423	1,204	1,145	18.2 %	5.2 %
Credit losses on operating lease receivables	(1,226)	(685)	(906)	79.0 %	(24.4) %
Rental revenue	223,352	221,734	218,185	0.7 %	1.6 %
Other revenue	8,173	5,485	8,114	49.0 %	(32.4) %
Total revenue	\$ 231,525	\$ 227,219	\$ 226,299	1.9 %	0.4 %

Base rent includes \$(1.4) million and \$(0.9) million, for the years 2019 and 2018, respectively, to recognize base rent on a straight-line basis. In addition, base rent includes \$1.4 million and \$1.5 million for the years 2019 and 2018, respectively, to recognize income from the amortization of in-place leases.

Total revenue increased 1.9% in 2019 compared to 2018.

Base rent

The \$1.0 million increase in base rent in 2019 compared to 2018 was attributable to (a) a 110,187 square foot increase in leased space (\$2.2 million) and (b) higher residential base rent (\$0.7 million), partially offset by (c) a \$0.22 per square foot decrease in base rent (\$1.8 million).

erable property operating expenses, largely repairs and maintenance and snow removal.

Credit losses on operating lease receivables

Credit losses increased \$0.5 million in 2019 compared to 2018 primarily due to two office tenants.

Expense recoveries

Expense recovery income increased \$1.0 million in 2019 compared to 2018 primarily due to an increase in recov-

Other revenue

Other revenue increased \$2.7 million in 2019 compared to 2018 primarily due to higher lease termination fees.

(Dollars in thousands)	Operating Expenses			Percentage Change	
	Year ended December 31,			2019 from 2018	
	2019	2018	2017	2019 from 2018	2018 from 2017
Property operating expenses	\$ 29,946	\$ 28,202	\$ 27,689	6.2 %	1.9 %
Real estate taxes	27,987	27,376	26,997	2.2 %	1.4 %
Interest expense, net and amortization of deferred debt costs	41,834	44,768	47,145	(6.6) %	(5.0) %
Depreciation and amortization of deferred leasing costs	46,333	45,861	45,694	1.0 %	0.4 %
General and administrative	20,793	18,459	18,176	12.6 %	1.6 %
Total expenses	\$ 166,893	\$ 164,666	\$ 165,701	1.4 %	(0.6) %

Total expenses increased 1.4% in 2019 compared to 2018.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Property operating expenses

Property operating expenses increased \$1.7 million in 2019 compared to 2018 primarily due to (a) higher repairs and maintenance expenses throughout the portfolio (\$0.3 million), (b) higher snow removal costs (\$0.3 million), and (c) initial direct costs related to leasing activities that, in accordance with ASU 2016-02, are no longer capitalized (\$0.7 million).

Real estate taxes

Real estate taxes increased \$0.6 million in 2019 compared to 2018 primarily due to increased tax assessments at 601 Pennsylvania Avenue and Clarendon Center (\$0.4 million).

Interest expense, net and amortization of deferred debt costs

Interest expense and amortization of deferred debt costs decreased by \$2.9 million in 2019 compared to 2018 primarily due to increased capitalized interest (\$5.3 million), partially offset by higher interest incurred due to higher outstanding debt balances (\$2.4 million).

Depreciation and amortization

Depreciation and amortization of deferred leasing costs increased by \$0.5 million in 2019 compared to 2018 primarily due to the write off of the remaining assets at 7316 Wisconsin Avenue when the property was moved to development (\$0.6 million).

General and administrative

General and administrative costs increased \$2.3 million in 2019 compared to 2018 primarily due to higher compensation and benefits expense related to leasing activities that, in accordance with ASU 2016-02, are no longer capitalized (\$1.5 million).

SAME PROPERTY REVENUE AND SAME PROPERTY OPERATING INCOME

Same property revenue and same property operating income are non-GAAP financial measures of performance and improve the comparability of these measures by excluding the results of properties which were not in operation for the entirety of the comparable reporting periods.

We define same property revenue as total revenue minus the revenue of properties not in operation for the entirety of the comparable reporting periods, and we define same property operating income as net income plus (a) interest expense, net and amortization of deferred debt costs, (b) depreciation and amortization of deferred leasing costs, (c) general and administrative expenses, and (d) change in fair value of derivatives, minus (e) gains on sale of property and (f) the operating income of properties which were not in operation for the entirety of the comparable periods.

Other REITs may use different methodologies for calculating same property revenue and same property operating income. Accordingly, our same property revenue and same property operating income may not be comparable to those of other REITs.

Same property revenue and same property operating income are used by management to evaluate and compare the operating performance of our properties, and to determine trends in earnings, because these measures are not affected by the cost of our funding, the impact of depreciation and amortization expenses, gains or losses from the acquisition and sale of operating real estate assets, general and administrative expenses or other gains and losses that relate to ownership of our properties. We believe the exclusion of these items from revenue and operating income is useful because the resulting measures capture the actual revenue generated and actual expenses incurred by operating our properties.

Same property revenue and same property operating income are measures of the operating performance of our properties but do not measure our performance as a whole. Such measures are therefore not substitutes for total revenue, net income or operating income as computed in accordance with GAAP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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The tables below provide reconciliations of property revenue and property operating income under GAAP to same property revenue and same property operating income for the indicated periods. The same property results include 49 Shopping Centers and six Mixed-Use properties for each period.

Same Property Revenue		
	Year ended December 31,	
(Dollars in thousands)	2019	2018
Total revenue	\$ 231,525	\$ 227,219
Less: Acquisitions, dispositions and development properties	(1,209)	(973)
Total same property revenue	\$ 230,316	\$ 226,246
Shopping centers	\$ 167,834	\$ 164,344
Mixed-Use properties	62,482	61,902
Total same property revenue	\$ 230,316	\$ 226,246
Total Shopping Center revenue	\$ 167,888	\$ 164,344
Less: Shopping Center acquisitions, dispositions and development properties	(54)	—
Total same Shopping Center revenue	\$ 167,834	\$ 164,344
Total Mixed-Use property revenue	\$ 63,637	\$ 62,875
Less: Mixed-Use acquisitions, dispositions and development properties	(1,155)	(973)
Total same Mixed-Use revenue	\$ 62,482	\$ 61,902

The \$4.1 million increase in same property revenue for 2019 compared to 2018 was primarily due to (a) higher other revenue (\$2.4 million), (b) a 63,023 square foot increase in leased space (\$1.3 million), and (c) higher expense recovery income (\$1.0 million), partially offset by (d) an \$0.11 per square foot decrease in base rent (\$0.9 million).

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Same Property Operating Income

(Dollars in thousands)	Year ended December 31,	
	2019	2018
Net income	64,196	63,059
Add: Interest expense, net and amortization of deferred debt costs	41,834	44,768
Add: Depreciation and amortization of deferred leasing costs	46,333	45,861
Add: General and administrative	20,793	18,459
Add: Change in fair value of derivatives	436	3
Less: Gain on sale of property	—	(509)
Property operating income	173,592	171,641
Add (Less): Acquisitions, dispositions and development properties	(568)	(727)
Total same property operating income	\$ 173,024	\$ 170,914
Shopping Centers	\$ 131,720	\$ 129,701
Mixed-Use properties	41,304	41,213
Total same property operating income	\$ 173,024	\$ 170,914
Shopping Center operating income	\$ 131,769	\$ 129,701
Less: Shopping Center acquisitions, dispositions and development properties	(49)	—
Total same Shopping Center operating income	\$ 131,720	\$ 129,701
Mixed-Use property operating income	\$ 41,823	\$ 41,940
Add (Less): Mixed-Use acquisitions, dispositions and development properties	(519)	(727)
Total same Mixed-Use property operating income	\$ 41,304	\$ 41,213

Same property operating income increased \$2.1 million for 2019 compared to 2018 due primarily to (a) higher other revenue (\$2.4 million) and (b) a 63,023 square foot increase in leased space (\$1.3 million), partially offset by (c) an \$0.11 per square foot decrease in base rent (\$0.9 million) and (d) initial direct costs related to leasing activities that, in accordance with ASU 2016-02, are no longer capitalized (\$0.7 million).

IMPACT OF INFLATION

Inflation has remained relatively low during 2019 and 2018. The impact of rising operating expenses due to inflation on the operating performance of the Company's portfolio would have been mitigated by terms in substantially all of the Company's leases, which contain provisions designed to increase revenues to offset 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 the change in the consumer price index, commonly referred to as the CPI.

In addition, substantially all of the Company's properties are leased to tenants under long-term leases, which provide for reimbursement of operating expenses by tenants. These 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 \$13.9 million and \$14.6 million at December 31, 2019 and 2018, respectively. The changes in cash and cash equivalents during the years ended December 31, 2019 and 2018 were attributable to operating, investing and financing activities, as described below.

(Dollars in thousands)	Year Ended December 31,	
	2019	2018
Net cash provided by operating activities	\$ 115,383	\$ 110,339
Net cash used in investing activities	(135,663)	(128,650)
Net cash provided in financing activities	19,607	21,981
Increase (decrease) in cash and cash equivalents	\$ (673)	\$ 3,670

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Operating Activities

Net cash provided by operating activities represents cash received primarily from rental revenue, plus other revenue, less property operating expenses, leasing costs, normal recurring general and administrative expenses and interest payments on debt outstanding.

Investing Activities

Net cash used in investing activities includes property acquisitions, developments, redevelopments, tenant improvements and other property capital expenditures. The \$7.0 million increase in cash used in investing activities is primarily due to (a) development expenditures, primarily related to The Waycroft (\$37.5 million) and (b) increased additions to real estate investments throughout the portfolio (\$9.0 million) partially offset by (c) lower acquisitions of real estate investments (\$40.8 million).

Financing Activities

Net cash provided by financing activities represents (a) cash received from loan proceeds and issuance of common stock, preferred stock and limited partnership units minus (b) cash used to repay and curtail loans, redeem preferred stock and pay dividends and distributions to holders of common stock, preferred stock and limited partnership units. See note 5 to the Consolidated Financial Statements for a discussion of financing activity.

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, available cash and its existing line of credit.

Long-term liquidity requirements consist primarily of obligations under our long-term debt and dividends paid to our preferred shareholders. We anticipate that long-term liquidity requirements will also include amounts required for property acquisitions and developments. The Company is developing a primarily residential project with street-level retail at 750 N. Glebe Road in Arlington, Virginia. The total cost of the project, including acquisition of land, is expected to be approximately \$275.0 million. The Company had incurred costs totaling \$255.4 million as of December 31, 2019. The remaining cost will be funded by a \$157.0 million construction-to-permanent loan. The Company may also re-develop certain of the Current Portfolio Properties and may develop additional freestanding outparcels or expansions within certain of the Shopping Centers.

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, developments, expansions or acquisitions (if any) are expected to be funded with available cash, bank borrowings from the Company's credit line, construction and permanent financing, proceeds from the operation of the Company's dividend reinvestment plan or other external debt or equity capital resources available to the Company. Any future 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.

Management believes that the Company's capital resources, which at December 31, 2019 included cash balances of approximately \$13.9 million and borrowing availability of approximately \$237.3 million on its unsecured revolving credit facility, will be sufficient to meet its liquidity needs for the foreseeable future.

Contractual Payment Obligations

As of December 31, 2019, the Company had unfunded contractual payment obligations of approximately \$116.1 million, excluding operating obligations, due within the next 12 months. The table below shows the total contractual payment obligations as of December 31, 2019.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Contractual Payment Obligations

(Dollars in thousands)

	Payments Due By Period				
	One Year or Less	More than 1 and up to 3 Years	More than 3 and up to 5 Years	After 5 Years	Total
Notes Payable:					
Interest	\$ 46,166	\$ 85,156	\$ 72,305	\$ 162,323	\$ 365,950
Scheduled Principal	28,421	58,670	58,762	125,809	271,662
Balloon Payments	16,074	135,014	150,874	527,297	829,259
Subtotal	90,661	278,840	281,941	815,429	1,466,871
Corporate Headquarters Lease ⁽¹⁾	901	1,883	—	—	2,784
Development and Predevelopment Obligations	14,785	1,973	—	—	16,758
Tenant Improvements	9,729	4,513	—	—	14,242
Total Contractual Obligations	\$ 116,076	\$ 287,209	\$ 281,941	\$ 815,429	\$ 1,500,655

⁽¹⁾ See Note 7 to Consolidated Financial Statements. Corporate Headquarters Lease amounts represent an allocation to the Company based upon employees' time dedicated to the Company's business as specified in the Shared Services Agreement. Future amounts are subject to change as the number of employees employed by each of the parties to the lease fluctuates.

Dividend Reinvestments

In December 1995, the Company established a Dividend Reinvestment 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 425,956 and 566,435 shares under the Plan at a weighted average discounted price of \$52.27 and \$50.31 per share during the years ended December 31, 2019 and 2018, respectively. The Company issued 60,936 and 107,433 limited partnership units under the Plan at a weighted average price of \$52.99 and \$50.56 per unit during the years ended December 31, 2019 and 2018, respectively. The Company also credited 4,506 and 6,493 shares to directors pursuant to the reinvestment of dividends specified by the Directors' Deferred Compensation Plan at a weighted average discounted price of \$52.28 and \$50.28 per share, during the years ended December 31, 2019 and 2018, 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, 2019.

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 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 continues to refinance or renegotiate the terms of its outstanding debt in order to extend maturities and obtain generally more favorable loan terms, whenever management determines the financing environment is favorable.

The Company's financing activity is described within note 5 to the Consolidated Financial Statements. The following is a summary of notes payable as of December 31, 2019 and 2018.

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The following is a summary of notes payable as of December 31, 2019 and 2018.

Notes Payable				
(Dollars in thousands)	Year Ended December 31,		Interest	Scheduled
	2019	2018	Rate*	Maturity*
Fixed rate mortgages:				
Olde Forte Village	\$ —	\$ 9,159	5.76%	May-2019
Countryside Marketplace	—	12,676	5.62%	Jul-2019
Briggs Chaney Marketplace	—	12,714	5.79%	Sep-2019
Shops at Monocacy	—	11,295	5.22%	Jan-2020
Boca Valley Plaza	9,234	9,601	5.60%	May-2020
Palm Springs Center	7,262	7,766	5.30%	Jun-2020
Thruway	—	36,711	5.83%	Jul-2020
Jamestown Place	6,539	6,943	5.81%	Feb-2021
Hunt Club Corners	5,300	5,480	6.01%	Aug-2021
Lansdowne Town Center	30,719	31,723	5.62%	Jun-2022
Orchard Park	9,441	9,728	6.08%	Sep-2022
BJ's Wholesale Club	10,323	10,609	6.43%	Apr-2023
Great Falls Center	10,774	11,702	6.28%	Feb-2024
Leesburg Pike Center	14,414	14,952	7.35%	Jun-2024
Village Center	12,555	13,013	7.60%	Jun-2024
White Oak	22,475	23,198	7.45%	Jul-2024
Avenel Business Park	26,260	27,222	7.02%	Jul-2024
Ashburn Village	26,245	27,168	7.30%	Jan-2025
Ravenwood	13,606	14,086	6.18%	Jan-2026
Clarendon Center	98,611	102,310	5.31%	Apr-2026
Severna Park Marketplace	29,710	30,888	4.30%	Oct-2026
Kentlands Square II	33,952	35,258	4.53%	Nov-2026
Cranberry Square	15,917	16,515	4.70%	Dec-2026
Seven Corners	60,677	62,630	5.84%	May-2027
Hampshire-Langley	14,810	15,345	4.04%	Apr-2028
Beacon Center	36,206	38,120	3.51%	Jun-2028
Seabreeze Plaza	15,019	15,547	3.99%	Sep-2028
Shops at Fairfax / Boulevard	26,205	27,060	3.69%	Mar-2030
Northrock	14,085	14,526	3.99%	Apr-2030
Burtonsville Town Square	36,975	38,076	3.39%	Feb-2032
Park Van Ness	68,095	69,691	4.88%	Sep-2032
Washington Square	56,990	58,523	3.75%	Dec-2032
Broadlands Village	31,221	31,941	4.41%	Nov-2033
The Glen	22,448	22,900	4.69%	Jan-2034
Olde Forte Village	21,702	—	4.65%	Feb-2034
Olney	11,952	11,781	8.00%	Apr-2034
Shops at Monocacy	28,500	—	4.14%	Dec-2034
The Waycroft	110,199	23,332	4.67%	Sep-2035
Total fixed rate	938,421	910,189	5.04%	9.3 Years
Variable rate loans:				
Revolving credit facility	87,500	47,000	LIBOR + 1.35%	Jan-2022
Term loan facility	75,000	75,000	LIBOR + 1.30%	Jan-2023
Total variable rate	162,500	122,000	3.09%	2.5 Years
Total notes payable	\$ 1,100,921	\$ 1,032,189	4.75%	8.3 Years

* Interest rate and scheduled maturity data presented as of December 31, 2019. Totals computed using weighted averages.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

At December 31, 2019, the Company had a \$400.0 million credit facility comprised of a \$325.0 million revolving facility and a \$75.0 million term loan. As of December 31, 2019, the applicable spread for borrowings is 135 basis points under the revolving credit facility and 130 basis points under the term loan. Saul Centers and certain consolidated subsidiaries of the Operating Partnership have guaranteed the payment obligations of the Operating Partnership under the credit facility. Letters of credit may be issued under the revolving credit facility. As of December 31, 2019, based on the value of the Company's unencumbered properties, approximately \$237.3 million was available under the revolving credit facility, \$87.5 million was outstanding and approximately \$185,000 was committed for letters of credit.

The Company's credit facility requires the Company and its subsidiaries to maintain certain financial covenants, which are summarized below. As of December 31, 2019, the Company was in compliance with all such covenants:

- limit the amount of debt as a percentage of gross asset value, as defined in the loan agreement, to less than 60% (leverage ratio);
- limit the amount of debt so that interest coverage will exceed 2.0x on a trailing four-quarter basis (interest expense coverage); and
- limit the amount of debt so that interest, scheduled principal amortization and preferred dividend coverage exceeds 1.4x on a trailing four-quarter basis (fixed charge coverage).

On September 17, 2019, Saul Centers sold, in an underwritten public offering, 4.0 million depositary shares, each representing 1/100th of a share of 6.000% Series E Cumulative Redeemable Preferred Stock (the "Series E Stock"), providing net cash proceeds of approximately \$96.8 million. The depositary shares may be redeemed in whole or in part, on or after September 17, 2024, at the \$25.00 liquidation preference, plus accrued but unpaid dividends to, but not including the redemption date. The depositary shares pay an annual dividend of \$1.50 per share, equivalent to 6.000% of the \$25.00 liquidation preference. The Series E 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 except in connection with certain changes in control or delisting events. 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. On September 23, 2019, Saul Centers sold, as a result of the exercise by the underwriters of their over-allotment option, an additional 0.4 million depositary shares of Series E Stock, providing net cash proceeds of approximately \$9.5 million. On October 17, 2019, the Company used the proceeds from the Series E Stock offering to redeem the outstanding 4.2 million depositary shares of its Series C Stock, including all accumulated and unpaid distributions to, but not including the redemption date. In the fourth quarter, approximately \$3.2 million of costs associated with the redemption were charged against Net income available to common stockholders.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FUNDS FROM OPERATIONS

In 2019, the Company reported Funds From Operations ("FFO")¹ available to common stockholders and noncontrolling interests of \$95.1 million, a 1.3% increase from 2018 FFO available to common stockholders and noncontrolling interests of \$93.8 million. The following table presents a reconciliation from net income to FFO available to common stockholders and noncontrolling interests for the periods indicated:

(Dollars in thousands except per share amounts)	Year ended December 31,				
	2019	2018	2017	2016	2015
Net income	\$ 64,196	\$ 63,059	\$ 60,668	\$ 56,720	\$ 52,931
Subtract:					
Gains on sales of properties	—	(509)	—	(1,013)	(11)
Add:					
Real estate depreciation and amortization	46,333	45,861	45,694	44,417	43,270
FFO	110,529	108,411	106,362	100,124	96,190
Subtract:					
Preferred stock dividends	(12,235)	(12,262)	(12,375)	(12,375)	(12,375)
Extinguishment of issuance costs upon redemption of preferred shares	(3,235)	(2,328)	—	—	—
FFO available to common stockholders and noncontrolling interests	\$ 95,059	\$ 93,821	\$ 93,987	\$ 87,749	\$ 83,815
Average shares and units used to compute FFO per share	30,913	30,156	29,511	28,990	28,449
FFO per share	\$ 3.08	\$ 3.11	\$ 3.18	\$ 3.03	\$ 2.95

¹ The National Association of Real Estate Investment Trusts (NAREIT) developed FFO as a relative non-GAAP financial measure of performance of an equity REIT in order to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP. FFO is defined by NAREIT as net income, computed in accordance with GAAP, plus real estate depreciation and amortization, and excluding impairment charges on depreciable real estate assets and gains or losses from property dispositions. 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 Company's 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 meaningful supplemental measure of operating performance because it primarily excludes the assumption that the value of the real estate assets diminishes predictably over time (i.e. depreciation), which is contrary to what we believe occurs with our assets, and because industry analysts have accepted it as a performance measure. FFO may not be comparable to similarly titled measures employed by other REITs.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ACQUISITIONS AND REDEVELOPMENTS

Management anticipates that during the coming year, the Company will complete its development activities at The Waycroft, may redevelop certain of the Current Portfolio Properties and may develop additional freestanding outparcels or expansions within certain of the Shopping Centers. 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 bank borrowings from the Company's credit line, construction financing, proceeds from the operation of the Company's dividend reinvestment plan or other external capital resources available to the Company.

The Company has been selectively involved in acquisition, development, redevelopment and renovation activities. It continues to evaluate the acquisition of land parcels for retail and mixed-use development and acquisitions of operating properties for opportunities to enhance operating income and cash flow growth. The Company also continues to analyze redevelopment, renovation and expansion opportunities within the portfolio.

In September 2018, the Company purchased for \$35.5 million, plus \$0.7 million of acquisition costs, an office building and the underlying ground located at 7316 Wisconsin Avenue in Bethesda, Maryland. In December 2018, the Company purchased for \$4.5 million, including acquisition costs, an interest in an adjacent parcel of land and retail

building. The purchase price was funded through the Company's revolving credit facility. The Company has completed development plans for the combined property for the development of up to 366 apartment units and 10,300 square feet of retail space. In July 2019, the Montgomery County Planning Commission unanimously approved the Company's site plan. Design and construction documents are being prepared and a site plan amendment has been submitted incorporating final design parameters. Additional approvals from the Washington Metropolitan Area Transit Authority and the Maryland Transit Administration are in process and are expected to be received by the fourth quarter of 2020. The Company has executed lease termination agreements with the final office tenants and, effective September 1, 2019, the asset was removed from service and transferred to construction in progress.

The Company, as contract purchaser, has filed with the City of Rockville a site plan for Phase I of the Twinbrook Quarter development and is conducting community hearings and awaiting design review committee comments on its plan. The plan includes an 80,000 square foot Wegmans grocery store, 29,000 square feet of retail shop space, 460 residential units and 237,000 square feet of office space. The phasing of these improvements and the timing of construction will depend on removal of contingencies, final site plan approval, building permit approval and market conditions. The total development potential of this 8.1 acre site, when combined with the Company's adjacent 10.3 acre site, totals 1,865 residential units, 473,000 square feet of retail space, and 431,000 square feet of office space.

Portfolio Leasing Status

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

As of December 31,	Total Properties		Total Square Footage		Percentage Leased	
	Shopping Centers	Mixed-Use	Shopping Centers	Mixed-Use	Shopping Centers	Mixed-Use
2019	50	6	7,855,275	1,076,837	95.5%	91.6%
2018	49	7	7,750,271	1,146,438	96.0%	92.3%

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The residential components of Clarendon Center and Park Van Ness were 95.5% and 97.0% leased, respectively, at December 31, 2019. The residential components of Clarendon Center and Park Van Ness were 99.6% and 97.0% leased, respectively, at December 31, 2018. On a same property basis, which excludes the impact of properties not in operation for the entirety of the comparable periods, the Shopping Center leasing percentage decreased to 95.6% from 96.0% and the Mixed-Use leasing percentage decreased to 91.6% from 93.6%. The overall portfolio leasing percentage, on a comparative same property basis, decreased to 95.1% at December 31, 2019 from 95.7% at December 31, 2018.

The following table shows selected data for leases executed in the indicated periods. The information is based on executed leases without adjustment for the timing of occupancy, tenant defaults, or landlord concessions. The base rent for an expiring lease is the annualized contractual base rent, on a cash basis, as of the expiration date of the lease. The base rent for a new or renewed lease is the annualized contractual base rent, on a cash basis, as of the expected rent commencement date. Because tenants that execute leases may not ultimately take possession of their space or pay all of their contractual rent, the changes presented in the table provide information only about trends in market rental rates. The actual changes in rental income received by the Company may be different.

Selected Leasing Data

Year ended December 31,	Square Feet	Number of Leases	Base Rent per Square Foot	
			New/Renewed Leases	Expiring Leases
2019	1,471,429	255	\$ 18.24	\$ 18.39
2018	1,555,620	281	19.52	19.26

Certain of the Company's operating properties are planned for redevelopment, including its properties at Twinbrook and White Flint. Prior to the commencement of redevelopment, the Company continues to operate the properties. However, in order to provide the greatest amount of flexibility, the Company generally enters into leases with shorter terms at these "pre-development" properties. The shorter-term leases require less capital, but also yield lower rents. The impact of these leases with shorter terms and lower rents can impact the averages shown for all leasing activity. During 2019, the Company entered into six new or renewed leases, for 53,400 square feet of retail space, at pre-development properties that

have shorter terms and lower rents than typical market conditions would suggest. Excluding these leases, the base rent on the 249 new or renewed leases on a same space basis would have been \$18.26 per square foot compared to \$18.10 per square foot for expiring leases.

Additional information about commercial leasing activity during the three months ended December 31, 2019, is set forth below. The below information includes leases for space which had not been previously leased during the period of the Company's ownership, either as a result of acquisition or development.

Commercial Leasing Activity

	New Leases	First Generation/ Development	Renewed Leases
Number of leases	13	6	53
Square feet	54,300	11,381	430,858
Per square foot average annualized:			
Base rent	\$ 32.01	\$ 43.12	\$ 12.84
Tenant improvements	(4.82)	(9.70)	(1.19)
Leasing costs	(0.38)	(1.60)	(0.10)
Rent concessions	(0.63)	(0.31)	(0.30)
Effective rents	\$ 26.18	\$ 31.51	\$ 11.25

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

During 2019, the Company entered into 431 new or renewed apartment leases. The monthly rent per square foot for these leases increased to \$3.53 from \$3.45. During 2018, the Company entered into 465 new or renewed apartment leases. The monthly rent per square foot for these leases was unchanged at \$3.44. As of December 31, 2019, 746,234 square feet of commercial space was subject to leases scheduled to expire in 2020. Below is information about existing and estimated market base rents per square foot for that space.

Expiring Leases	
	Total
Square feet	764,234
Average base rent per square foot	\$ 22.29
Estimated market base rent per square foot	\$ 22.35

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to certain financial market risks, the most predominant being fluctuations in interest rates. Interest rate fluctuations are monitored by management as an integral part of the Company's overall risk management program, which recognizes the unpredictability of financial markets and seeks to reduce the potentially adverse effect on the Company's results of operations.

The Company may, where appropriate, employ derivative instruments, such as interest rate swaps, to mitigate the risk of interest rate fluctuations. The Company does not enter into derivatives or other financial instruments for trading or speculative purposes. On June 29, 2010, the Company entered into an interest rate swap agreement with a \$45.6 million notional amount to manage the interest rate risk associated with \$45.6 million of variable-rate mortgage debt. The swap agreement was terminated on November 21, 2019, and the Company incurred a \$0.4 million charge to change in fair value of derivatives.

The Company is exposed to interest rate fluctuations which will affect the amount of interest expense of its variable rate debt and the fair value of its fixed rate debt. As of December 31, 2019, the Company had variable rate indebtedness totaling \$162.5 million. If the interest rates on the Company's variable rate debt instruments outstanding at December 31, 2019 had been one percent higher, our annual interest expense relating to these debt instruments would have increased by \$1.6 million, based on those balances. As of December 31, 2019, the Company had fixed-rate indebtedness totaling \$938.4 million with a weighted average interest rate of 5.04%. If interest rates on the Company's fixed-rate debt instruments at December 31, 2019 had been one percent higher, the fair value of those debt instruments on that date would have decreased by approximately \$51.7 million.

Assessment of Effectiveness of Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework (2013 Framework) to assess the effectiveness of the Company's internal control over financial reporting. Based upon the assessments, the Company's management has concluded that, as of December 31, 2019, the Company's internal control over financial reporting was effective. The Company's independent registered public accounting firm has issued a report on the effectiveness of the Company's internal control over financial reporting, which appears on page 27 in this Annual Report.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Saul Centers, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Saul Centers, Inc. and subsidiaries (the “Company”) as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, equity and cash flows for the years ended December 31, 2019 and 2018, and the related notes and the schedule listed in the Index at Item 15(a)2(b) (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years ended December 31, 2019 and 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2020, expressed an unqualified opinion on the Company’s internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Critical Audit Matters

Critical audit matters are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

/s/ Deloitte & Touche LLP
McLean, Virginia
February 27, 2020

We have served as the Company’s auditor since 2018.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Saul Centers, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Saul Centers, Inc. and subsidiaries (the “Company”) as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company has maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2019, of the Company and our report dated February 27, 2020, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Assessment of Effectiveness of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP
McLean, Virginia
February 27, 2020

REPORT OF PREVIOUS INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Saul Centers, Inc.

Opinion on the 2017 Financial Statements

We have audited the accompanying consolidated statements of operations, comprehensive income, equity and cash flows of Saul Centers, Inc. (the Company) for the year ended December 31, 2017, and the related notes and financial statement schedule for the year ended December 31, 2017 listed in the Index at Item 15(a)2(b) (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated results of the Company at December 31, 2017, and the results of its operations and its cash flows for the year ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We served as the Company’s auditor from 2002 to 2018.

Tysons, Virginia
February 27, 2018

CONSOLIDATED BALANCE SHEETS

	December 31, 2019	December 31, 2018
<i>(Dollars in thousands, except per share amounts)</i>		
Assets		
Real estate investments		
Land	\$ 453,322	\$ 488,918
Buildings and equipment	1,292,631	1,273,275
Construction in progress	335,644	185,972
	2,081,597	1,948,165
Accumulated depreciation	(563,474)	(525,518)
	1,518,123	1,422,647
Cash and cash equivalents	13,905	14,578
Accounts receivable and accrued income, net	52,311	53,876
Deferred leasing costs, net	24,083	28,083
Prepaid expenses, net	5,363	5,175
Other assets	4,555	3,130
Total assets	\$ 1,618,340	\$ 1,527,489
Liabilities		
Mortgage notes payable	\$ 821,503	\$ 880,271
Term loan facility payable	74,691	74,591
Revolving credit facility payable	86,371	45,329
Construction loan payable	108,623	21,655
Dividends and distributions payable	19,291	19,153
Accounts payable, accrued expenses and other liabilities	35,199	32,419
Deferred income	29,306	28,851
Total liabilities	1,174,984	1,102,269
Equity		
Preferred stock, 1,000,000 shares authorized:		
Series C Cumulative Redeemable, 0 and 42,000 shares issued and outstanding, respectively	—	105,000
Series D Cumulative Redeemable, 30,000 shares issued and outstanding, respectively	75,000	75,000
Series E Cumulative Redeemable, 44,000 and 0 shares issued and outstanding, respectively	110,000	—
Common stock, \$0.01 par value, 40,000,000 shares authorized, 23,231,240 and 22,739,207 shares issued and outstanding, respectively	232	227
Additional paid-in capital	410,926	384,533
Distributions in excess of accumulated earnings	(221,177)	(208,593)
Accumulated other comprehensive loss	—	(255)
Total Saul Centers, Inc. equity	374,981	355,912
Noncontrolling interests	68,375	69,308
Total equity	443,356	425,220
Total liabilities and equity	\$ 1,618,340	\$ 1,527,489

The Notes to Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

	For The Year Ended December 31,		
(Dollars in thousands, except per share amounts)	2019	2018	2017
Revenue			
Rental revenue	\$ 223,352	\$ 221,734	\$ 218,185
Other	8,173	5,485	8,114
Total revenue	231,525	227,219	226,299
Expenses			
Property operating expenses	29,946	28,202	27,689
Real estate taxes	27,987	27,376	26,997
Interest expense, net and amortization of deferred debt costs	41,834	44,768	47,145
Depreciation and amortization of deferred leasing costs	46,333	45,861	45,694
General and administrative	20,793	18,459	18,176
Total expenses	166,893	164,666	165,701
Change in fair value of derivatives	(436)	(3)	70
Gains on sale of property	—	509	—
Net Income	64,196	63,059	60,668
Noncontrolling interests			
Income attributable to noncontrolling interests	(12,473)	(12,505)	(12,411)
Net income attributable to Saul Centers, Inc.	51,723	50,554	48,257
Preferred stock dividends	(12,235)	(12,262)	(12,375)
Extinguishment of issuance costs upon redemption of preferred shares	(3,235)	(2,328)	—
Net income available to common stockholders	\$ 36,253	\$ 35,964	\$ 35,882
Per share net income available to common stockholders			
Basic	\$1.58	\$1.61	\$ 1.64
Diluted	\$1.57	\$1.60	\$ 1.63

The Notes to Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For The Year Ended December 31,		
	2019	2018	2017
<i>(Dollars in thousands)</i>			
Net income	\$ 64,196	\$ 63,059	\$ 60,668
Other comprehensive income			
Unrealized gain on cash flow hedge	93	594	812
Total comprehensive income	64,289	63,653	61,480
Comprehensive income attributable to noncontrolling interests	(12,561)	(12,658)	(12,620)
Total comprehensive income attributable to Saul Centers, Inc.	51,728	50,995	48,860
Preferred stock dividends	(12,235)	(12,262)	(12,375)
Extinguishment of issuance costs upon redemption of preferred shares	(3,235)	(2,328)	—
Total comprehensive income available to common stockholders	\$ 36,258	\$ 36,405	\$ 36,485

The Notes to Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF EQUITY

<i>(Dollars in thousands, except per share amounts)</i>	Preferred Stock	Common Stock	Additional Paid-in Capital	Distributions in Excess of Accumulated Earnings	Accumulated Other Comprehensive (Loss)	Total Saul Centers, Inc.	Noncontrolling Interests	Total
Balance, December 31, 2016	\$ 180,000	\$ 217	\$ 328,171	\$(188,584)	\$ (1,299)	\$ 318,505	\$ 54,744	\$ 373,249
Issuance of common stock:								
266,011 shares pursuant to dividend reinvestment plan	—	2	15,748	—	—	15,750	—	15,750
152,758 shares due to exercise of employee stock options and issuance of directors' deferred stock	—	2	8,671	—	—	8,673	—	8,673
Issuance of 111,351 partnership units pursuant to dividend reinvestment plan	—	—	—	—	—	—	6,735	6,735
Net income	—	—	—	48,257	—	48,257	12,411	60,668
Change in unrealized loss on cash flow hedge	—	—	—	—	603	603	209	812
Series C preferred stock distributions	—	—	—	(9,282)	—	(9,282)	—	(9,282)
Common stock distributions	—	—	—	(33,490)	—	(33,490)	(11,479)	(44,969)
Distributions payable on Series C preferred stock, \$42.97 per share	—	—	—	(3,093)	—	(3,093)	—	(3,093)
Distributions payable common stock (\$0.52/share) and partnership units (\$0.52/unit)	—	—	—	(11,518)	—	(11,518)	(3,922)	(15,440)
Balance, December 31, 2017	180,000	221	352,590	(197,710)	(696)	334,405	58,698	393,103
Issuance of 30,000 shares of Series D Cumulative preferred stock	75,000	—	(2,633)	—	—	72,367	—	72,367
Redemption of 30,000 shares of Series C Cumulative preferred stock	(75,000)	—	2,311	(2,328)	—	(75,017)	—	(75,017)
Issuance of common stock:								
572,928 shares pursuant to dividend reinvestment plan	—	6	28,817	—	—	28,823	—	28,823
43,150 shares due to exercise of employee stock options and issuance of directors' deferred stock	—	—	3,448	—	—	3,448	—	3,448
Issuance of 284,113 partnership units	—	—	—	—	—	—	14,159	14,159
Net income	—	—	—	50,554	—	50,554	12,505	63,059
Change in unrealized loss on cash flow hedge	—	—	—	—	441	441	153	594
Preferred stock distributions:								
Series C	—	—	—	(6,145)	—	(6,145)	—	(6,145)
Series D	—	—	—	(3,164)	—	(3,164)	—	(3,164)
Common stock distributions	—	—	—	(34,841)	—	(34,841)	(12,059)	(46,900)
Distributions payable on Series C preferred stock, \$42.97 per share	—	—	—	(1,805)	—	(1,805)	—	(1,805)
Distributions payable on Series D preferred stock, \$38.28 per share	—	—	—	(1,148)	—	(1,148)	—	(1,148)
Distributions payable common stock (\$0.53/share) and partnership units (\$0.53/unit)	—	—	—	(12,006)	—	(12,006)	(4,148)	(16,154)
Balance, December 31, 2018	180,000	227	384,533	(208,593)	(255)	355,912	69,308	425,220
Issuance of 44,000 shares of Series E Cumulative preferred stock	110,000	—	(3,735)	—	—	106,265	—	106,265
Redemption of 42,000 shares of Series C Cumulative preferred stock	(105,000)	—	3,235	(3,235)	—	(105,000)	—	(105,000)
Issuance of common stock:								
430,462 shares pursuant to dividend reinvestment plan	—	4	22,494	—	—	22,498	—	22,498
61,571 shares due to exercise of employee stock options and issuance of directors' deferred stock	—	1	4,399	—	—	4,400	—	4,400
Issuance of 60,936 partnership units	—	—	—	—	—	—	3,180	3,180
Net income	—	—	—	51,723	—	51,723	12,473	64,196
Change in unrealized loss on cash flow hedge	—	—	—	—	255	255	88	343
Preferred stock distributions:								
Series C	—	—	—	(5,736)	—	(5,736)	—	(5,736)
Series D	—	—	—	(3,444)	—	(3,444)	—	(3,444)
Series E	—	—	—	(257)	—	—	—	(257)
Common stock distributions	—	—	—	(36,562)	—	(36,562)	(12,494)	(49,056)
Distributions payable on Series D preferred stock, \$38.28 per share	—	—	—	(1,148)	—	(1,148)	—	(1,148)
Distributions payable on Series E preferred stock, \$37.50 per share	—	—	—	(1,650)	—	(1,650)	—	(1,650)
Distributions payable common stock (\$0.53/share) and partnership units (\$0.53/unit)	—	—	—	(12,275)	—	(12,275)	(4,180)	(16,455)
Balance, December 31, 2019	\$ 185,000	\$ 232	\$ 410,926	\$(221,177)	\$ —	\$ 374,981	\$ 68,375	\$ 443,356

The Notes to Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For The Year Ended December 31,		
(Dollars in thousands)	2019	2018	2017
Cash flows from operating activities:			
Net income	\$ 64,196	\$ 63,059	\$ 60,668
Adjustments to reconcile net income to net cash provided by operating activities:			
Change in fair value of derivatives	436	3	(70)
Gain on sale of property	—	(509)	—
Depreciation and amortization of deferred leasing costs	46,333	45,861	45,694
Amortization of deferred debt costs	1,518	1,610	1,392
Non cash compensation costs of stock grants and options	1,859	1,766	1,672
Provision for credit losses	1,226	685	906
(Increase) decrease in accounts receivable and accrued income	339	(336)	(1,643)
Additions to deferred leasing costs	(1,843)	(6,034)	(4,615)
Increase (decrease) in prepaid expenses	(188)	73	(294)
Decrease in other assets	894	3,681	1,374
Increase in accounts payable, accrued expenses and other liabilities	158	225	1,125
Increase (decrease) in deferred income	455	255	(2,759)
Net cash provided by operating activities	115,383	110,339	103,450
Cash flows from investing activities:			
Acquisitions of real estate investments ⁽¹⁾	—	(40,836)	(79,499)
Additions to real estate investments	(21,891)	(12,883)	(17,653)
Additions to development and redevelopment projects	(113,772)	(76,257)	(22,842)
Proceeds from sale of property ⁽²⁾	—	1,326	6,688
Net cash used in investing activities	(135,663)	(128,650)	(113,306)
Cash flows from financing activities:			
Proceeds from mortgage notes payable	50,600	54,900	100,000
Repayments on mortgage notes payable	(109,235)	(72,572)	(55,679)
Proceeds from term loan facility	—	75,000	—
Proceeds from revolving credit facility	152,500	102,000	63,000
Repayments on revolving credit facility	(112,000)	(116,000)	(51,000)
Proceeds from construction loans payable	86,868	23,332	1,437
Additions to deferred debt costs	(1,010)	(3,233)	(2,583)
Proceeds from the issuance of:			
Common stock	25,039	30,503	22,751
Partnership units ⁽¹⁾	3,180	5,383	6,735
Series D preferred stock	—	72,369	—
Series E preferred stock	106,265	—	—
Series C preferred stock redemption	(105,000)	(75,000)	—
Preferred stock redemption costs	—	(12)	—
Distributions to:			
Series C preferred stockholders	(7,541)	(9,238)	(12,375)
Series D preferred stockholders	(4,592)	(3,164)	—
Series E preferred stockholders	(257)	—	—
Common stockholders	(48,568)	(46,306)	(44,576)
Noncontrolling interests	(16,642)	(15,981)	(15,268)
Net cash provided by financing activities	19,607	21,981	12,442
Net increase (decrease) in cash and cash equivalents	(673)	3,670	2,586
Cash and cash equivalents, beginning of year	14,578	10,908	8,322
Cash and cash equivalents, end of year	\$ 13,905	\$ 14,578	\$ 10,908
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 40,434	\$ 43,561	\$ 45,713
Increase (decrease) in accrued real estate investments and development costs	\$ 303	\$ 9,663	\$ 2,097

⁽¹⁾ The 2018 acquisition of real estate and proceeds from the issuance of partnership units each excludes \$8,776 in connection with the acquisition of Ashbrook Marketplace in exchange for limited partnership units.

⁽²⁾ Proceeds from sales of property in 2017 excludes \$1,275 of seller financing in connection with the sale of the Company's Great Eastern property, which were received in 2018, plus accrued interest of \$51.

The Notes to Financial Statements are an integral part of these statements.

1. ORGANIZATION, BASIS OF PRESENTATION

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"). The Company is required to annually distribute at least 90% of its REIT taxable income (excluding net capital gains) to its stockholders and meet 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, Chief Executive Officer and President of Saul Centers.

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 "Saul Trust"), the B. F. Saul Company 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 Centers and Mixed-Used Properties, and the management functions related to the transferred properties. Since its formation, the Company has developed and purchased additional properties.

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 mixed-used properties, primarily in the Washington, DC/Baltimore metropolitan area.

Because the properties are located primarily in the Washington, DC/Baltimore metropolitan area, a disproportionate economic downturn in the local economy would have a greater negative impact on our overall financial performance than on the overall financial performance of a company with a portfolio that is more geographically diverse. A majority of the Shopping Centers are anchored by several major tenants. As of December 31, 2019, 33 of the Shopping Centers were anchored by a grocery store and offer primarily day-to-day necessities and services. One retail tenant, Giant Food (4.7%), a tenant at ten Shopping Centers, individually accounted for 2.5% or more of the Company's total revenue for the year ended December 31, 2019.

As of December 31, 2019, the Current Portfolio Properties consisted of 50 Shopping Centers, six Mixed-Use Properties, and four (non-operating) development properties.

The accompanying consolidated financial statements of the Company include the accounts of Saul Centers and its subsidiaries, including the Operating Partnership and Subsidiary Partnerships, which are majority owned by Saul Centers. Substantially all assets and liabilities of the Company as of December 31, 2019 and December 31, 2018, are comprised of the assets and liabilities of the Operating Partnership. The debt arrangements which are subject to recourse are described in Note 5. All significant intercompany balances and transactions have been eliminated in consolidation.

The Operating Partnership is a variable interest entity ("VIE") of the Company because the limited partners do not have substantive kick-out or participating rights. The Company is the primary beneficiary of the Operating Partnership because it has the power to direct the activities of the Operating Partnership and the rights to absorb 74.6% of the net income of the Operating Partnership. Because the Operating Partnership was already consolidated into the financial statements of the Company, the identification of it as a VIE has no impact on the consolidated financial statements of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain 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. The most significant estimates and assumptions relate to impairment of real estate properties. Actual results could differ from those estimates.

Real Estate Investment Properties

Real estate investment properties are stated at historic cost less depreciation. Although the Company intends to own its real estate investment properties over a long term, from time to time it will evaluate its market position, market conditions, and other factors and may elect to sell properties that do not conform to the Company's investment profile. Management believes that the Company's real estate assets have generally appreciated in value since their acquisition or development 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 the financial statements. Because the financial statements are prepared in conformity with GAAP, they do not report the current value of the Company's real estate investment properties.

If there is an event or change in circumstance that indicates a potential impairment in the value of a real estate investment property, the Company prepares an analysis to determine whether the carrying value of the real estate investment property exceeds its estimated fair value. The Company considers both quantitative and qualitative factors including recurring operating losses, significant decreases in occupancy, and significant adverse changes in legal factors and business climate. If impairment indicators are present, the Company compares the projected cash flows of the property over its remaining useful life, on an undiscounted basis, to the carrying value of that property. The Company assesses its undiscounted projected cash flows based upon estimated capitalization rates, historic operating results and market conditions that may affect the property. If the carrying value is greater than the undiscounted projected cash flows, the Company would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to its then estimated fair value. The fair value of any property is sensitive to the actual results of any of the aforementioned estimated factors, either individually or taken as a whole. Should the actual results differ from management's projections, the valuation could be negatively or positively affected. The Company did not recognize an impairment loss on any of its real estate in 2019, 2018, or 2017.

Depreciation is calculated using the straight-line method and estimated useful lives of generally between 35 and 50 years for base buildings, or a shorter period if management determines that the building has a shorter useful life, and up to 20 years for certain other improvements that extend the useful lives. Leasehold improvements expenditures are capitalized when certain criteria are met, including when the Company supervises construction and will own the improvements. Tenant improvements are amortized, over the shorter of the lives of the related leases or the useful life of the improvement, using the straight-line method. Depreciation expense, which is included in Depreciation and amortization of deferred leasing costs in the Consolidated Statements of Operations, for the years ended December 31, 2019, 2018, and 2017, was \$40.5 million, \$39.8 million, and \$40.2 million, respectively. Repairs and maintenance expense totaled \$12.5 million, \$11.9 million, and \$11.6 million for 2019, 2018, and 2017, respectively, and is included in property operating expenses in the accompanying consolidated financial statements.

Assets Held for Sale

The Company considers properties to be assets held for sale when all of the following criteria are met:

- management commits to a plan to sell a property;
- it is unlikely that the disposal plan will be significantly modified or discontinued;
- the property is available for immediate sale in its present condition;

- actions required to complete the sale of the property have been initiated;
- sale of the property is probable and the Company expects the completed sale will occur within one year; and
- the property is actively being marketed for sale at a price that is reasonable given its current market value.

The Company must make a determination as to the point in time that it is probable that a sale will be consummated, which generally occurs when an executed sales contract has no contingencies and the prospective buyer has significant funds at risk to ensure performance. Upon designation as an asset held for sale, the Company records the carrying value of each property at the lower of its carrying value or its estimated fair value, less estimated costs to sell, and ceases depreciation. As of December 31, 2019 and 2018, the Company had no assets designated as held for sale.

Revenue Recognition

Rental and interest income are accrued as earned. Recognition of rental income commences when control of the space has been given to the tenant. 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. 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 in which the expenses are incurred. Rental income based on a tenant's revenue ("percentage rent") is accrued when a tenant reports sales that exceed a specified break-point, pursuant to the terms of their respective leases.

Accounts Receivable, Accrued Income, and Allowance for Doubtful Accounts

Accounts receivable primarily represent amounts currently due from tenants in accordance with the terms of their respective leases. Lease related receivables are reduced for credit losses. Such losses are recognized as a reduction of rental revenue in the consolidated statements of operations.

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 \$0.4 million and \$0.6 million, at December 31, 2019 and 2018, respectively.

In addition to rents due currently, accounts receivable also includes \$42.1 million and \$43.3 million, at December 31, 2019 and 2018, respectively, net of allowance for doubtful accounts totaling \$30,000 and \$58,500, respectively, representing minimum rental income accrued on a straight-line basis to be paid by tenants over the remaining term of their respective leases.

Deferred Leasing Costs

Deferred leasing costs consist of commissions paid to third-party leasing agents, internal direct costs such as employee compensation and payroll-related fringe benefits directly related to time spent performing leasing-related activities for successful commercial leases and amounts attributed to in place leases associated with acquired properties and are amortized, using the straight-line method, over the term of the lease or the remaining term of an acquired lease. Leasing related 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. Unamortized deferred costs are charged to expense if the applicable lease is terminated prior to expiration of the initial lease term. Collectively, deferred leasing costs totaled \$24.1 million and \$28.1 million, net of accumulated amortization of approximately \$41.6 million and \$37.7 million, as of December 31, 2019 and 2018, respectively. Amortization expense, which is included in Depreciation and amortization of deferred leasing costs in the Consolidated Statements of Operations, totaled approximately \$5.8 million, \$6.1 million, and \$5.5 million, for the years ended December 31, 2019, 2018, and 2017, respectively.

Cash and Cash Equivalents

Cash and cash equivalents include short-term investments. Short-term investments include money market accounts and other investments which generally mature within three months, measured from the acquisition date, and/or are readily convertible to cash. Substantially all of the Company's cash balances at December 31, 2019 are held in non-interest bearing accounts at various banks. From time to time the Company may maintain deposits with financial institutions in amounts in excess of federally insured limits. The Company has not experienced any losses on such deposits and believes it is not exposed to any significant credit risk on those deposits.

Deferred Income

Deferred income consists of payments received from tenants prior to the time they are earned and recognized by the Company as revenue, including tenant prepayment of rent for future periods, real estate taxes when the taxing jurisdiction has a fiscal year differing from the calendar year reimbursements specified in the lease agreement and tenant construction work provided by the Company. In addition, deferred income includes the fair value of certain below market leases.

Derivative Financial Instruments

The Company may, when appropriate, employ derivative instruments, such as interest-rate swaps, to mitigate the risk of interest rate fluctuations. The Company does not enter into derivative or other financial instruments for trading or speculative purposes. Derivative financial instruments are carried at fair value as either assets or liabilities on the consolidated balance sheets. For those derivative instruments that qualify, the Company may designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge or a cash flow hedge. Derivative instruments that are designated as a hedge are evaluated to ensure they continue to qualify for hedge accounting. The effective portion of any gain or loss on the hedge instruments is reported as a component of accumulated other comprehensive income (loss) and recognized in earnings within the same line item associated with the forecasted transaction in the same period or periods during which the hedged transaction affects earnings. Any ineffective portion of the change in fair value of a derivative instrument is immediately recognized in earnings. For derivative instruments that do not meet the criteria for hedge accounting, or that qualify and are not designated, changes in fair value are immediately recognized in earnings.

Income Taxes

The Company made an election to be treated, and intends to continue operating so as to qualify, as a REIT under the Code, commencing with its taxable year ended December 31, 1993. A REIT generally will not be subject to federal income taxation, provided that distributions to its stockholders equal or exceed its REIT taxable income 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, 2019, the Company had no material unrecognized tax benefits and there exist no potentially significant unrecognized tax benefits which are reasonably expected to occur within the next twelve months. The Company recognizes penalties and interest accrued related to unrecognized tax benefits, if any, as general and administrative expense. No penalties and interest have been accrued in years 2019, 2018, and 2017. The tax basis of the Company's real estate investments was approximately \$1.33 billion and \$1.35 billion as of December 31, 2019 and 2018, respectively. With few exceptions, the Company is no longer subject to U.S. federal, state, and local tax examinations by tax authorities for years before 2016.

Legal Contingencies

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business, which are generally covered by insurance. Upon determination that a loss is probable to occur and can be reasonably estimated, the estimated amount of the loss is recorded in the financial statements.

Recently Issued Accounting Standards

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, "Leases" ("ASU 2016-02"). ASU 2016-02 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU 2016-02 is effective for annual periods beginning after December 15, 2018, interim periods within those years, and requires a modified retrospective transition approach for all leases existing at the date of initial application, with an option to use certain practical expedients for those existing leases. Upon adoption of ASU 2016-02 effective January 1, 2019, we elected the practical expedient for all leases with respect to lease identification, lease classification, and initial direct costs. We made a policy election not to separate lease and nonlease components and have accounted for each lease component and the related non-lease components together as a single component. There have been no significant changes to our lessor accounting for operating leases as a result of ASU 2016-02.

We lease Shopping Centers and Mixed-Use Properties to lessees in exchange for monthly payments that cover rent, and where applicable, reimbursement for property taxes, insurance, and certain property operating expenses. Our leases were determined to be operating leases and generally range in term from one to 15 years.

Some of our leases have termination options and/or extension options. Termination options allow the lessee to terminate the lease prior to the end of the lease term, provided certain conditions are met. Termination options generally require advance notification from the lessee and payment of a termination fee. Termination fees are recognized as revenue over the modified lease term. Extension options are subject to terms and conditions stated in the lease.

On January 1, 2019, a right of use asset and corresponding lease liability related to our headquarters lease were recorded in other assets and other liabilities, respectively. The lease expires on February 28, 2022, with one option to renew for an additional five years. The right of use asset and corresponding lease liability totaled \$1.6 million and \$1.6 million, respectively, at December 31, 2019.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments-Credit Losses" ("ASU 2016-13"). ASU 2016-13 replaces the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of information to support credit loss estimates. ASU 2016-13 is effective for annual periods beginning after December 15, 2019, including interim periods within those years. Management has determined that the adoption of ASU 2016-13 will not have a material impact on our consolidated financial statements and related disclosures because the vast majority of the Company's receivables relate to operating leases which are accounted for under ASC 842.

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging" ("ASU 2017-12"). ASU 2017-12 amends financial reporting for hedging activities to better align that reporting with risk management activities. ASU 2017-12 expands and refines hedge accounting for both financial and nonfinancial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. Effective with the adoption of ASU 2017-12 on January 1, 2019, changes in the fair value of the Company's interest rate swap related to changes in the cash flow of the hedged item are reported as a component of interest expense and amortization of deferred debt costs in the Statements of Operations.

Reclassifications

Certain reclassifications have been made to prior years to conform to the presentation used for year ended December 31, 2019.

3. REAL ESTATE

Construction in Progress

Construction in progress includes land, preconstruction and development costs of active projects. Preconstruction costs 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. The following table shows the components of construction in progress.

	December 31,	
(In thousands)	2019	2018
The Waycroft	\$ 255,443	\$ 162,176
7316 Wisconsin Avenue	44,638	—
Ashbrook Marketplace	19,128	11,124
Other	16,435	12,672
Total	\$ 335,644	\$ 185,972

Acquisitions**Burtonsville Town Square**

In January 2017, the Company purchased for \$76.4 million, including acquisition costs, Burtonsville Town Square located in Burtonsville, Maryland.

Olney Shopping Center

In March 2017, the Company purchased for \$3.1 million, including acquisition costs, the land underlying Olney Shopping Center. The land was previously leased by the Company with an annual rent of approximately \$56,000. The purchase price was funded by the revolving credit facility.

Ashbrook Marketplace

In May 2018, the Company acquired from the Saul Trust, in exchange for 176,680 limited partnership units, approximately 13.7 acres of land located at the intersection of Ashburn Village Boulevard and Russell Branch Parkway in Loudoun County, Virginia. Based on the closing price of the Company's common stock, the land and the limited partnership units were recorded at a value of \$8.8 million. Acquisition costs related to the transaction totaled approximately \$0.2 million.

7316 Wisconsin Avenue

In September 2018, the Company purchased for \$35.5 million, plus \$0.7 million of acquisition costs, an office building and the underlying ground located at 7316 Wisconsin Avenue in Bethesda, Maryland. In December 2018, the Company purchased for \$4.5 million, including acquisition costs, an interest in an adjacent parcel of land and retail building. The purchase price was funded through the Company's credit facility. The Company has executed lease termination agreements with the final two office tenants and, effective September 1, 2019, the asset was removed from service and transferred to construction in progress at its carrying value of \$42.6 million.

Allocation of Purchase Price of Real Estate Acquired

The Company allocates the purchase price of real estate investment properties to various components, such as land, buildings and intangibles related to in-place leases and customer relationships, based on their relative fair values.

During 2018, the Company acquired properties that had an aggregate cost of \$49.5 million, including acquisition costs. The purchase price was allocated to assets acquired and liabilities assumed based on their relative fair values as shown in the following table.

Purchase Price Allocation of Acquisitions

(In thousands)	Ashbrook Marketplace	7316 Wisconsin Avenue	
			Total
Land	\$ 8,776	\$ 38,662	\$ 47,438
Buildings	—	979	979
In-place Leases	—	886	886
Above Market Rent	—	168	—
Below Market Rent	—	(21)	(21)
Total Purchase Price	\$ 8,776	\$ 40,674	\$ 49,450

During 2017, the Company purchased one property, Burtonsville Town Square, at a cost of \$76.4 million, including acquisition costs. Of the total acquisition cost, \$28.4 million was allocated to land, \$45.8 million was allocated to buildings, \$2.2 million was allocated to in-place leases, \$0.6 million was allocated to above-market rent, and \$(0.6) million was allocated to below-market rent, based on their relative fair values.

The gross carrying amount of lease intangible assets included in deferred leasing costs as of December 31, 2019 and 2018 was \$11.7 million and \$12.5 million, respectively, and accumulated amortization was \$8.5 million and \$8.1 million, respectively. Amortization expense totaled \$0.9 million, \$1.3 million and \$1.1 million, for the years ended December 31, 2019, 2018, and 2017, respectively. The gross carrying amount of below market lease intangible liabilities included in deferred income as of December 31, 2019 and 2018 was \$24.1 million and \$24.8 million, respectively, and accumulated amortization was \$13.9 million and \$13.1 million, respectively. Accretion income totaled \$1.5 million, \$1.7 million, and \$1.7 million, for the years ended December 31, 2019, 2018, and 2017, respectively. The gross carrying amount of above market lease intangible assets included in accounts receivable as of December 31, 2019 and 2018 was \$0.6 million and \$0.8 million, respectively, and accumulated amortization was \$108,300 and \$143,900, respectively. Amortization expense totaled \$109,600, \$110,500 and \$31,600, for the years ended December 31, 2019, 2018 and 2017, respectively. The remaining weighted-average amortization period as of December 31, 2019 is 4.5 years, 7.6 years, and 5.3 years for lease acquisition costs, above market leases and below market leases, respectively.

As of December 31, 2019, scheduled amortization of intangible assets and deferred income related to in place leases is as follows:

Amortization of Intangible Assets and Deferred Income Related to In-Place Leases			
<i>(Dollars in thousands)</i>	Lease acquisition costs	Above-market leases	Below-market leases
2020	\$ 708	\$ 43	\$ 1,434
2021	535	33	1,409
2022	383	33	1,306
2023	317	33	1,297
2024	198	33	878
Thereafter	996	343	3,853
Total	\$ 3,137	\$ 518	\$ 10,177

4. NONCONTROLLING INTERESTS – HOLDERS OF CONVERTIBLE LIMITED PARTNERSHIP UNITS IN THE OPERATING PARTNERSHIP

Saul Centers is the sole general partner of the Operating Partnership, owning a 74.6% common interest as of December 31, 2019. Noncontrolling interest in the Operating Partnership is comprised of limited partnership units owned by the Saul Organization. Noncontrolling interest reflected on the accompanying consolidated balance sheets is increased for earnings allocated to limited partnership interests and distributions reinvested in additional units, and is decreased for limited partner distributions. Noncontrolling interest reflected on the consolidated statements of operations represents earnings allocated to limited partnership interests held by the Saul Organization.

The Saul Organization holds a 25.4% limited partnership interest in the Operating Partnership represented by 7,886,916 limited partnership units, as of December 31, 2019. The units are convertible into shares of Saul Centers' common stock, at the option of the unit holder, on a one-for-one basis provided that, in accordance with the Saul Centers, Inc. Articles of Incorporation, the rights may not be exercised at any time that the Saul Organization beneficially owns, directly or indirectly, in the aggregate more than 39.9% of the value of the outstanding common stock and preferred stock of Saul Centers (the "Equity Securities"). As of December 31, 2019, approximately 925,000 units were eligible for conversion.

The impact of the Saul Organization's 25.4% limited partnership interest in the Operating Partnership is reflected as Noncontrolling Interests in the accompanying consolidated financial statements. Fully converted partnership units and diluted weighted average shares outstanding for the years

ended December 31, 2019, 2018, and 2017, were 30.9 million, 30.2 million, and 29.5 million, respectively.

5. MORTGAGE NOTES PAYABLE, REVOLVING CREDIT FACILITY, INTEREST EXPENSE AND AMORTIZATION OF DEFERRED DEBT COSTS

At December 31, 2019, the principal amount of outstanding debt totaled \$1.1 billion, of which \$938.4 million was fixed rate debt and \$162.5 million was variable rate debt. The principal amount of the Company's outstanding debt totaled \$1.0 billion at December 31, 2018, of which \$910.2 million was fixed rate debt and \$122.0 million was variable rate debt.

At December 31, 2019, the Company had a \$400.0 million unsecured credit facility, which can be used for working capital, property acquisitions or development projects, of which \$325.0 million is a revolving credit facility and \$75.0 million is a term loan. The revolving credit facility matures on January 26, 2022, and may be extended by the Company for one additional year subject to the Company's satisfaction of certain conditions. The term loan matures on January 26, 2023, and may not be extended. Saul Centers and certain consolidated subsidiaries of the Operating Partnership have guaranteed the payment obligations of the Operating Partnership under the credit facility. Letters of credit may be issued under the revolving credit facility. On December 31, 2019, based on the value of the Company's unencumbered properties, approximately \$237.3 million was available under the revolving credit facility, \$87.5 million was outstanding and approximately \$185,000 was committed for letters of credit. Interest at a rate equal to the sum of one-month LIBOR and a margin that is based on the Company's leverage ratio and which can range from 135 basis points to 195 basis points under the revolving facility and from 130 basis points to 190 basis points under the term loan. As of December 31, 2019, the margin was 135 basis points under the revolving facility and 130 basis points under the term loan.

Saul Centers is a guarantor of the credit facility, of which the Operating Partnership is the borrower. The Operating Partnership is the guarantor of (a) a portion of the Park Van Ness mortgage (approximately \$6.7 million of the \$68.1 million outstanding balance at December 31, 2019, which guarantee will be reduced to (i) \$3.3 million on October 1, 2020 and (ii) zero on October 1, 2021), (b) a portion of the Kentlands Square II mortgage (approximately \$8.5 million of the \$34.0 million outstanding balance at December 31, 2019), (c) a portion of the Broadlands mortgage (approximately \$3.9 million of the \$31.2 million outstanding balance at December 31, 2019), and (d) a portion of the Avenel Business Park mortgage (approximately \$6.3 million of the \$26.3 million outstanding balance at December 31, 2019). All other notes payable are non-recourse.

On January 18, 2017, the Company closed on a 15-year, non-recourse \$40.0 million mortgage loan secured by Burtonsville Town Square. The loan matures in 2032, bears interest at a fixed rate of 3.39%, requires monthly principal and interest payments of \$197,900 based on a 25-year amortization schedule and requires a final payment of \$20.3 million at maturity.

On August 14, 2017, the Company closed on a \$157.0 million construction-to-permanent loan, the proceeds of which will be used to partially fund The Waycroft development project. The loan matures in 2035, bears interest at a fixed rate of 4.67%, requires interest only payments, which will be funded by the loan, until conversion to permanent. The conversion is expected in the fourth quarter of 2021, and thereafter, monthly principal and interest payments of \$887,900 based on a 25-year amortization schedule will be required.

Effective September 1, 2017, the Company's \$71.6 million construction-to-permanent loan, which is fully drawn and secured by Park Van Ness, converted to permanent financing. The loan matures in 2032, bears interest at a fixed rate of 4.88%, requires monthly principal and interest payments of \$413,460 based on a 25-year amortization schedule and requires a final payment of \$39.6 million at maturity.

On November 20, 2017, the Company closed on a 15-year, non-recourse \$60.0 million mortgage loan secured by Washington Square. The loan matures in 2032, bears interest at a fixed rate of 3.75%, requires monthly principal and interest payments of \$308,500 based on a 25-year amortization schedule and requires a final payment of \$31.1 million. Proceeds were used to repay the remaining balance of approximately \$28.1 million on the existing mortgage and reduce the outstanding balance of the revolving credit facility.

On October 3, 2018, the Company closed on a 15-year, non-recourse \$32.0 million mortgage loan secured by Broadlands Village. The loan matures in 2033, bears interest at a fixed-rate of 4.41%, requires monthly principal and interest payments of \$176,200 based on a 25-year amortization schedule and requires a final payment of \$17.3 million at maturity. Proceeds were used to repay the remaining principal balance of approximately \$15.2 million on the existing mortgage, the remaining balance of approximately \$7.3 million on the existing mortgage collateralized by the Glen, the remaining balance of approximately \$6.1 million on the existing mortgage collateralized by Kentlands Square I, and reduce the outstanding balance of the revolving credit facility.

On December 18, 2018, the Company closed on a 15-year, non-recourse \$22.9 million mortgage loan secured by The Glen. The loan matures in 2034, bears interest at a fixed-rate of 4.69%, requires monthly principal and interest payments of \$129,800 based on a 25-year amortization schedule and requires a final payment of \$12.5 million at maturity.

On January 4, 2019, the Company repaid in full the remaining principal balance of \$12.7 million of the mortgage loan secured by Countryside Marketplace, which was scheduled to mature in July 2019.

On January 10, 2019, the Company closed on a 15-year, non-recourse \$22.1 million mortgage loan secured by Olde Forte Village. The loan matures in 2034, bears interest at a fixed-rate of 4.65%, requires monthly principal and interest payments of \$124,700 based on a 25-year amortization schedule and requires a final payment of \$12.1 million. Proceeds were partially used to repay in full the existing mortgage secured by Olde Forte Village, which was scheduled to mature in May 2019.

On June 3, 2019, the Company repaid in full the remaining principal balance of \$12.4 million of the mortgage loan secured by Briggs Chaney Marketplace, which was scheduled to mature in September 2019.

On November 12, 2019, the Company closed on a 15-year, non-recourse \$28.5 million mortgage loan secured by Shops at Monocacy. The loan matures in 2034, bears interest at a fixed-rate of 4.14%, requires monthly principal and interest payments of \$152,600 based on a 25-year amortization schedule and requires a final payment of \$15.1 million. Proceeds were partially used to repay in full the existing mortgage secured by Shops at Monocacy, which was scheduled to mature in January 2020.

On November 21, 2019, the Company repaid in full the remaining principal balance of \$35.6 million of the mortgage loan secured by Thruway, which was scheduled to mature in July 2020. The Company's corresponding swap agreement was terminated on the same day.

The carrying value of the properties collateralizing the mortgage notes payable totaled \$1.1 billion and \$1.1 billion, as of December 31, 2019 and 2018, respectively. The Company's credit facility requires the Company and its subsidiaries to maintain certain financial covenants, which are summarized below. The Company was in compliance as of December 31, 2019.

- limit the amount of debt as a percentage of gross asset value, as defined in the loan agreement, to less than 60% (leverage ratio);
- limit the amount of debt so that interest coverage will exceed 2.0 x on a trailing four-quarter basis (interest expense coverage); and
- limit the amount of debt so that interest, scheduled principal amortization and preferred dividend coverage exceeds 1.4x on a trailing four-quarter basis (fixed charge coverage).

Mortgage notes payable at December 31, 2019 and 2018, totaling \$41.0 million and \$51.0 million, respectively, are guaranteed by members of the Saul Organization. As of December 31, 2019, the scheduled maturities of all debt including scheduled principal amortization for years ended December 31 are as follows:

(In thousands)	Balloon Payments	Scheduled Principal Amortization	Total
2020	\$ 16,074	\$ 28,421	\$ 44,495
2021	11,012	29,025	40,037
2022	124,002 ^(a)	29,645	153,647
2023	84,225	30,065	114,290
2024	66,649	28,697	95,346
Thereafter	527,297	125,809	653,106
Principal amount	\$ 829,259	\$ 271,662	\$ 1,100,921
Unamortized deferred debt costs			9,733
Net			\$ 1,091,188

(a) Includes \$87.5 million outstanding under the revolving facility.

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 on a straight-line basis over the terms of the respective loans or agreements, which approximates the effective interest method. Deferred debt costs totaled \$9.7 million and \$10.3 million, net of accumulated amortization of \$7.5 million and \$7.3 million at December 31, 2019 and 2018, respectively, and are reflected as a reduction of the related debt in the Consolidated Balance Sheets.

The components of interest expense are set forth below.

Interest Expense			
(In thousands)	Year ended December 31,		
	2019	2018	2017
Interest incurred	\$ 52,044	\$ 49,652	\$ 49,322
Amortization of deferred debt costs	1,518	1,610	1,392
Capitalized interest	(11,480)	(6,222)	(3,489)
Interest expense	42,082	45,040	47,225
Less: Interest income	248	272	80
Interest expense, net and amortization of deferred debt costs	\$ 41,834	\$ 44,768	\$ 47,145

Deferred debt costs capitalized during the years ending December 31, 2019, 2018 and 2017 totaled \$1.0 million, \$3.2 million and \$2.6 million, respectively.

6. LEASE AGREEMENTS

Lease income includes primarily base rent arising from non-cancelable leases. Base rent (including straight-line rent) for the years ended December 31, 2019, 2018, and 2017, amounted to \$185.7 million, \$184.7 million, and \$181.1 million, respectively. Future contractual payments under noncancelable leases for years ended December 31 (which exclude the effect of straight-line rents), are as follows:

Future Contractual Rent Payments	
(In thousands)	
2020	\$ 166,227
2021	149,949
2022	126,101
2023	104,489
2024	75,172
Thereafter	260,141
Total	\$ 882,079

The majority of the leases provide for rental increases based on fixed annual increases or increases in the Consumer Price Index and expense recoveries based on increases in operating expenses. The expense recoveries 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, 2019, 2018, and 2017, amounted to \$36.5 million, \$35.5 million, and \$35.3 million, 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 \$0.9 million, \$1.0 million, and \$1.5 million, for the years ended December 31, 2019, 2018, and 2017, respectively.

7. LONG-TERM LEASE OBLIGATIONS

At December 31, 2018 and 2019, no properties are subject to noncancelable long-term leases which apply to underlying land.

Flagship Center consists of two developed out parcels 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. Countryside shopping center was acquired in February 2004. Because of certain land use considerations, approximately 3.4% of the underlying land is held under a 99-year ground

lease. The lease requires the Company to pay minimum rent of one dollar per year as well as its pro-rata share of the real estate taxes.

The Company's corporate headquarters space is leased by a member of the Saul Organization. The lease commenced in March 2002, and expires in February 2022. The Company and the Saul Organization entered into a Shared Services Agreement whereby each party pays an allocation of total rental payments based on a percentage proportionate to the number of employees employed by each party. The Company's rent expense for the years ended December 31, 2019, 2018, and 2017 was \$806,500, \$779,800, and \$774,700, respectively. Expenses arising from the lease are included in general and administrative expense (see Note 9 – Related Party Transactions).

8. EQUITY AND NONCONTROLLING INTEREST

The Consolidated Statements of Operations for the years ended December 31, 2019, 2018, and 2017 reflect noncontrolling interest of \$12.5 million, \$12.5 million, and \$12.4 million, respectively, representing the Saul Organization's share of the net income for the year.

At December 31, 2019, the Company had outstanding 3.0 million depositary shares, each representing 1/100th of a share of 6.125% Series D Cumulative Redeemable Preferred Stock (the "Series D Stock"). The depositary shares may be redeemed at the Company's option, in whole or in part, on or after January 23, 2023, at the \$25.00 liquidation preference, plus accrued but unpaid dividends to but not including the redemption date. The depositary shares pay an annual dividend of \$1.53125 per share, equivalent to 6.125% of the \$25.00 liquidation preference. The Series D 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 except in connection with certain changes in control or delisting events. 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.

On September 17, 2019, Saul Centers sold, in an underwritten public offering, 4.0 million depositary shares, each representing 1/100th of a share of 6.000% Series E Cumulative Redeemable Preferred Stock (the "Series E Stock"), providing net cash proceeds of approximately \$96.8 million.

The depositary shares may be redeemed in whole or in part, on or after September 17, 2024, at the \$25.00 liquidation preference, plus accrued but unpaid dividends to but not including the redemption date. The depositary shares pay an annual dividend of \$1.50 per share, equivalent to 6.000% of the \$25.00 liquidation preference. The Series E 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 except in connection with certain changes in control or delisting events. 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. On September 23, 2019, Saul Centers sold, as a result of the exercise by the underwriters of their over-allotment option, an additional 0.4 million depositary shares of Series E Stock, providing net cash proceeds of approximately \$9.5 million.

At December 31, 2018, the Company had outstanding 4.2 million depositary shares, each representing 1/100th of a share of 6.875% Series C Cumulative Redeemable Preferred Stock (the "Series C Stock"). The depositary shares are redeemable at the Company's option, in whole or in part, at the \$25.00 liquidation preference plus accrued but unpaid dividends. The depositary shares pay an annual dividend of \$1.71875 per share, equivalent to 6.875% of the \$25.00 liquidation preference. The Series C 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 except in connection with certain changes of control or delisting events. 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. In September 2019, the Company announced the redemption of all outstanding depositary shares representing interests in its Series C Stock. The depositary shares were redeemed on October 17, 2019 at \$25.00 per depositary share, plus all accrued and unpaid dividends to, but not including, the redemption date, for an aggregate redemption price of \$25.07638 per depositary share. In the fourth quarter, costs associated with the redemption were charged against Net income available to common stockholders. After the redemption date, dividends on the depositary shares representing interests in the Series C Stock ceased to accrue.

Per Share Data

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. The treasury stock method was used to measure the effect of the dilution.

	December 31,		
(Shares in thousands)	2019	2018	2017
Weighted average common shares outstanding - Basic	23,009	22,383	21,901
Effect of dilutive options	44	42	107
Weighted average common shares outstanding - Diluted	23,053	22,425	22,008
Average share price	\$ 53.41	\$ 52.50	\$ 61.63
Non-dilutive options	633	492	—
Years non-dilutive options were issued	2016, 2017 and 2019	2015, 2016 and 2017	

9. RELATED PARTY TRANSACTIONS

The Chairman, Chief Executive Officer and President, the Executive Vice President of Real Estate, the Executive Vice President-Chief Legal and Administrative Officer and the Senior Vice President-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, with the exception of the Senior Vice President-Chief Accounting Officer whose share of annual compensation allocated to the Company is determined by the shared services agreement (described below).

The Company participates in a multiemployer 401K plan with entities in the Saul Organization which covers those full-time employees who meet the requirements as specified in the plan. Company contributions, which are included in general and administrative expense or property operating expenses in the consolidated statements of operations, at the discretionary amount of up to six percent of the employee's cash compensation, subject to certain limits, were \$322,200, \$345,900, and \$349,500, for 2019, 2018, and 2017, respectively. All amounts deferred by employees and contributed by the Company are fully vested.

The Company also participates in a multiemployer nonqualified deferred compensation plan with entities in the Saul Organization which covers those full-time employees who

meet the requirements as specified in the plan. According to the plan, which can be modified or discontinued at any time, participating employees defer 2% of their compensation in excess of a specified amount. For the years ended December 31, 2019, 2018, and 2017, the Company contributed three times the amount deferred by employees. The Company's expense, included in general and administrative expense, totaled \$345,200, \$282,500, and \$228,500, for the years ended December 31, 2019, 2018, and 2017, respectively. All amounts deferred by employees and the Company are fully vested. The cumulative unfunded liability under this plan was \$3.1 million and \$2.7 million, at December 31, 2019 and 2018, respectively, and is included in accounts payable, accrued expenses and other liabilities in the consolidated balance sheets.

The Company has entered into a shared services agreement (the "Agreement") with the Saul Organization that provides for the sharing of certain personnel and ancillary functions such as computer hardware, software, and support services and certain direct and indirect administrative personnel. The method for determining the cost of the shared services is provided for in the Agreement and is based upon head count, estimates of usage or estimates of time incurred, as applicable. Senior management has determined that the final allocations of shared costs are reasonable. The terms of the Agreement and the payments made thereunder are reviewed annually by the Audit Committee of the Board of Directors, which consists entirely of independent directors. Net billings by the Saul Organization for the Company's share of these ancillary costs and expenses for the years ended December 31, 2019, 2018, and 2017, which included rental expense for the Company's headquarters lease (see Note 7. Long Term Lease Obligations), totaled \$8.4 million, \$8.4 million, and \$8.1 million, respectively. The amounts are expensed when incurred and are primarily reported as general and administrative expenses or capitalized to specific development projects in these consolidated financial statements. As of December 31, 2019 and 2018, accounts payable, accrued expenses and other liabilities included \$918,700 and \$933,400, respectively, representing billings due to the Saul Organization for the Company's share of these ancillary costs and expenses.

The Company has entered into a shared third-party predevelopment cost agreement with the Saul Trust (the "Predevelopment Agreement"). The Predevelopment Agreement, which expired on December 31, 2015 and was extended to December 31, 2016, relates to the sharing of third-party predevelopment costs incurred in connection with the planning of the future redevelopment of certain adjacent real estate assets in the Twinbrook area of Rockville, Maryland. On December 8, 2016, the Company entered into a replacement agreement with the Saul Trust which extended the expiration date to December 31, 2017 and

provides for automatic twelve month renewals unless either party provides notice of termination. The costs will be shared on a pro rata basis based on the acreage owned by each entity and neither party is obligated to advance funds to the other.

On November 5, 2019, the Company entered into an agreement (the "Contribution Agreement") to acquire from the Saul Trust, approximately 6.8 acres of land and its leasehold interest in approximately 1.3 acres of contiguous land, together in each case with the improvements located thereon, located at the Twinbrook Metro Station in Rockville, Maryland (the "Contributed Property"). In exchange for the Contributed Property, the Company will issue to the Saul Trust 1,416,071 limited partnership units in the Operating Partnership ("OP Units") at an agreed upon value of \$56.00 per OP Unit, representing an aggregate value of \$79.3 million for the Contributed Property. Deed to the Contributed Property and the OP Units have been placed in escrow until certain conditions of the Contribution Agreement are satisfied.

The B. F. Saul Insurance Agency of Maryland, Inc., a subsidiary of the B. F. Saul Company and a member of the Saul Organization, is a general insurance agency that receives commissions and counter-signature fees in connection with the Company's insurance program. Such commissions and fees amounted to approximately \$399,600, \$407,900, and \$288,400, for the years ended December 31, 2019, 2018, and 2017, respectively.

In August 2016, the Company entered into an agreement to acquire from the Saul Trust, approximately 13.7 acres of land located at the intersection of Ashburn Village Boulevard and Russell Branch Parkway in Ashburn, Virginia. The transaction closed on May 9, 2018, and the Company issued 176,680 limited partnership units to the Saul Trust. The Company intends to construct a shopping center and, upon stabilization, may be obligated to issue additional limited partnership units to the Saul Trust.

10. STOCK OPTION PLAN

Stock Based Employee Compensation, Deferred Compensation and Stock Plan for Directors

In 2004, the Company established a stock incentive plan (the "Plan"), as amended. Under the Plan, options were granted at an exercise price not less than the market value of the common stock on the date of grant and expire ten years from the date of grant. Officer options vest ratably over four years following the grant and are charged to expense using the straight-line method over the vesting period. Director options vest immediately and are charged to expense as of the date of grant.

The Company uses the fair value method to value and account for employee stock options. The fair value of options granted is determined at the time of each award using the Black-Scholes model, a widely used method for valuing stock-based employee compensation, and the following assumptions: (1) Expected Volatility determined using the most recent trading history of the Company's common stock (month-end closing prices) corresponding to the average expected term of the options; (2) Average Expected Term of the options is based on prior exercise history, scheduled vesting and the expiration date; (3) Expected Dividend Yield determined by management after considering the Company's current and historic dividend yield rates, the Company's yield in relation to other retail REITs and the Company's market yield at the grant date; and (4) a Risk-free Interest Rate based upon the market yields of US Treasury obligations with maturities corresponding to the average expected term of the options at the grant date. The Company amortizes the value of options granted ratably over the vesting period and includes the amounts as compensation expense in general and administrative expenses.

Pursuant to the Plan, the Compensation Committee established a Deferred Compensation Plan for Directors for the benefit of the Company's directors and their beneficiaries, which replaced a previous Deferred Compensation and Stock Plan for Directors. Annually, directors are given the ability to make an election to defer all or part of their fees and have the option to have their fees paid in cash, in shares of common stock or in a combination of cash and shares of common stock upon separation from the Board. If a director elects to have their fees paid in stock, fees earned during a calendar quarter are aggregated and divided by the closing market price of the Company's common stock on the first trading day of the following quarter to determine the number of shares to be credited to the director. During the twelve months ended December 31, 2019, 6,822 shares were credited to director's deferred fee accounts and 7,058 shares were issued. As of December 31, 2019, the director's deferred fee accounts comprise 114,408 shares.

The Compensation Committee has also approved an annual award of shares of the Company's common stock 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 awarded as of each Annual Meeting of Stockholders, and their issuance may not be deferred.

At the annual meeting of the Company's stockholders in 2004, the stockholders approved the adoption of the 2004 stock plan for the purpose of attracting and retaining executive officers, directors and other key personnel. The 2004 stock plan was subsequently amended by the Company's stockholders at the 2008 Annual Meeting, further amended

at the 2013 Annual Meeting, and further amended at the 2019 Annual Meeting (the "Amended 2004 Plan"). The Amended 2004 Plan, which terminates in 2029, provides for grants of options to purchase up to 3,400,000 shares of common stock. The Amended 2004 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.

Effective May 5, 2017, the Compensation Committee granted options to purchase 232,500 shares (21,492 incentive stock options and 211,008 nonqualified stock options) to 20 Company officers and 11 Company Directors (the "2017 options"), which expire on May 4, 2027. The officers' 2017 Options vest 25% per year over four years and are subject to early expiration upon termination of employment. The directors' 2017 Options were immediately exercisable. The exercise price of \$59.41 per share was the closing market price of the Company's common stock on the date of award. Using the Black-Scholes model, the Company determined the total fair value of the 2017 Options to be \$1.4 million, of which \$1.2 million and \$165,600 were assigned to the officer options and director options, respectively. Because the directors' options vested immediately, the entire \$165,600 was expensed as of the date of grant. The expense for the officers' options is being recognized as compensation expense monthly during the four years the options vest.

Effective May 11, 2018, the Compensation Committee granted options to purchase 245,000 shares (25,914 incentive stock options and 219,086 nonqualified stock options) to 22 Company officers and 11 Company Directors (the "2018 options"), which expire on May 10, 2028. The officers' 2018 Options vest 25% per year over four years and are subject to early expiration upon termination of employment. The directors' 2018 Options were immediately exercisable. The exercise price of \$49.46 per share was the

closing market price of the Company's common stock on the date of award. Using the Black-Scholes model, the Company determined the total fair value of the 2018 Options to be \$1.4 million, of which \$1.2 million and \$169,400 were assigned to the officer options and director options, respectively. Because the directors' options vested immediately, the entire \$169,400 was expensed as of the date of grant. The expense for the officers' options is being recognized as compensation expense monthly during the four years the options vest.

Effective May 3, 2019, the Compensation Committee granted options to purchase 260,000 shares (34,651 incentive stock options and 225,349 nonqualified stock options) to 23 Company officers and 11 Company Directors (the "2019 options"), which expire on May 2, 2029. The officers' 2019 Options vest 25% per year over four years and are subject to early expiration upon termination of employment. The directors' 2018 Options were immediately exercisable. The exercise price of \$55.71 per share was the closing market price of the Company's common stock on the date of award. Using the Black-Scholes model, the Company determined the total fair value of the 2019 Options to be \$1.9 million, of which \$1.7 million and \$226,600 were assigned to the officer options and director options, respectively. Because the directors' options vested immediately, the entire \$226,600 was expensed as of the date of grant. The expense for the officers' options is being recognized as compensation expense monthly during the four years the options vest.

The following table summarizes the assumptions used in the valuation of the 2017, 2018, and 2019 option grants. During the twelve months ended December 31, 2019, stock option expense totaling \$1.6 million was included in general and administrative expense in the Consolidated Statements of Operations. As of December 31, 2019, the estimated future expense related to unvested stock options was \$2.6 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Directors			Officers		
Grant date	May 5, 2017	May 11, 2018	May 3, 2019	May 5, 2017	May 11, 2018	May 3, 2019
Exercise price	\$ 59.41	\$ 49.46	\$ 55.71	\$ 59.41	\$ 49.46	\$ 55.71
Volatility	0.173	0.192	0.236	0.170	0.177	0.206
Expected life (years)	5.0	5.0	5.0	7.0	7.0	7.0
Assumed yield	3.45 %	3.70 %	3.75 %	3.50 %	3.75 %	3.80 %
Risk-free rate	1.89 %	2.84 %	2.33 %	2.17 %	2.94 %	2.43 %

The table below summarizes the option activity for the years 2019, 2018, and 2017:

	2019		2018		2017	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at January 1	1,114,169	\$ 52.40	913,320	\$ 52.80	833,630	\$ 49.92
Granted	260,000	55.71	245,000	49.46	232,500	59.41
Exercised	(57,055)	44.53	(39,151)	42.98	(149,060)	46.97
Expired/Forfeited	(7,500)	56.07	(5,000)	54.78	(3,750)	53.73
Outstanding December 31	1,309,614	53.38	1,114,169	52.40	913,320	52.80
Exercisable at December 31	763,614	\$ 52.43	600,919	\$ 50.93	430,945	\$ 48.94

The intrinsic value of options exercised in 2019, 2018, and 2017, was \$0.6 million, \$0.5 million and \$2.2 million, respectively. The intrinsic value of options outstanding and exercisable at year end 2019 was \$2.5 million and \$2.0 million, respectively. The intrinsic value measures the difference between the options' exercise price and the closing share price quoted by the New York Stock Exchange as of the date of measurement. The date of exercise was the measurement date for shares exercised during the period. At December 31, 2019, the final trading day of calendar 2019, the closing price of \$52.78 per share was used for the calculation of aggregate intrinsic value of options outstanding and exercisable at that date. The weighted average remaining contractual life of the Company's exercisable and outstanding options at December 31, 2019 are 5.9 and 7.0 years, respectively.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and floating rate debt are reasonable estimates of their fair value. The aggregate fair value of the notes payable with fixed-rate payment terms was determined using Level 3 data in a discounted cash flow approach, which is based upon management's estimate of borrowing rates and loan terms currently available to the Company for fixed rate financing, and assuming long term interest rates of approximately 3.55% and 4.40%, would be approximately \$957.4 million and \$927.0 million as of December 31, 2019 and 2018, respectively, compared to the principal balance of \$938.4 million and \$910.2 million at December 31, 2019 and 2018, respectively. A change in any of the significant inputs may lead to a change in the Company's fair value measurement of its debt.

Effective June 30, 2011, the Company determined that one of its interest-rate swap arrangements was a highly effective hedge of the cash flows under one of its variable-rate mortgage loans and designated the swap as a cash flow hedge of that mortgage. The swap was carried at fair value with changes in fair value recognized either in income or comprehensive income depending on the effectiveness of the swap. The swap was terminated on November 21, 2019.

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. 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 holders of limited partnership interests the opportunity to buy either additional limited partnership units or common stock shares of the Company.

The Company paid common stock distributions of \$2.12 per share in 2019, \$2.08 per share in 2018, and \$2.04 per share in 2017, Series C preferred stock dividends of \$1.80, \$1.72, and \$1.72, respectively, per depositary share during each of 2019, 2018, and 2017, Series D preferred stock dividends of \$1.53 and \$1.05, respectively, per depositary share in 2019 and 2018, and Series E preferred stock dividends of \$0.06 per depositary share in 2019. Of the common stock dividends paid, \$2.00 per share, \$1.61 per share, and \$1.70 per share, represented ordinary dividend income in 2019, 2018, and 2017, respectively, and \$0.12 per share, \$0.47 per share, and \$0.34 per share represented return of capital to the shareholders in 2019, 2018, and 2017, respectively. All of the preferred stock dividends paid were considered ordinary dividend income.

The following summarizes distributions paid during the years ended December 31, 2019, 2018, and 2017, and includes activity in the Plan as well as limited partnership units issued from the reinvestment of unit distributions:

(Dollars in thousands, except per share amounts)	Total Distributions to			Dividend Reinvestments			Average Unit Price
	Preferred Stockholders	Common Stockholders	Limited Partnership Unitholders	Common Stock Shares Issued	Discounted Share Price	Limited Partnership Units Issued	
Distributions during 2019							
4th Quarter	\$ 3,531	\$ 12,251	\$ 4,173	104,558	\$ 52.84	13,747	\$ 53.73
3rd Quarter	2,953	12,195	4,166	105,753	53.66	13,406	54.56
2nd Quarter	2,953	12,116	4,155	99,804	51.38	20,041	51.99
1st Quarter	2,953	12,006	4,148	120,347	51.28	13,742	52.16
Total 2019	\$ 12,390	\$ 48,568	\$ 16,642	430,462		60,936	
Distributions during 2018							
4th Quarter	\$ 2,953	\$ 11,706	\$ 4,062	216,476	\$ 49.34	13,867	\$ 50.20
3rd Quarter	2,953	11,590	4,055	201,500	51.68	13,107	52.60
2nd Quarter	2,672	11,545	3,942	85,202	47.54	42,422	47.83
1st Quarter	3,824	11,465	3,922	69,750	52.71	38,037	53.03
Total 2018	\$ 12,402	\$ 46,306	\$ 15,981	572,928		107,433	
Distributions during 2017							
4th Quarter	\$ 3,094	\$ 11,221	\$ 3,838	82,991	\$ 59.33	15,596	\$ 60.08
3rd Quarter	3,094	11,160	3,830	85,731	57.40	16,021	58.13
2nd Quarter	3,094	11,119	3,810	51,003	59.64	40,623	59.96
1st Quarter	3,093	11,076	3,790	46,286	61.85	39,111	62.15
Total 2017	\$ 12,375	\$ 44,576	\$ 15,268	266,011		111,351	

In December 2019, the Board of Directors of the Company authorized a distribution of \$0.53 per common share payable in January 2020 to holders of record on January 17, 2020. As a result, \$12.3 million was paid to common shareholders on January 31, 2020. Also, \$4.2 million was paid to limited partnership unitholders on January 31, 2020 (\$0.53 per Operating Partnership unit). The Board of Directors authorized preferred stock dividends of (a) \$0.3750 per Series E depositary share and (b) \$0.3828 per Series D depositary share to holders of record on January 2, 2020.

As a result, \$2.8 million was paid to preferred shareholders on January 15, 2020. These amounts are reflected as a reduction of stockholders' equity in the case of common stock and preferred stock dividends and noncontrolling interests deductions in the case of limited partner distributions and are included in dividends and distributions payable in the accompanying consolidated financial statements.

14. INTERIM RESULTS (UNAUDITED)

The following summary presents the results of operations of the Company for the quarterly periods of calendar years 2019 and 2018.

(Dollars in thousands, except per share amounts)

2019

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Total revenue	\$ 59,750	\$ 58,141	\$ 57,052	\$ 56,582
Net Income	17,077	16,750	15,328	15,041
Net income attributable to Saul Centers, Inc.	13,447	13,232	12,226	12,818
Net income available to common stockholders	10,494	10,279	9,016	6,464
Net income available to common stockholders per diluted share	0.46	0.45	0.39	0.27

(Dollars in thousands, except per share amounts)

2018

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Total revenue	\$ 56,109	\$ 56,081	\$ 56,910	\$ 58,119
Net Income	14,946	15,902	16,702	15,509
Net income attributable to Saul Centers, Inc.	12,587	12,543	13,155	12,269
Net income available to common stockholders	6,856	9,590	10,202	9,316
Net income available to common stockholders per diluted share	0.31	0.43	0.45	0.41

15. BUSINESS SEGMENTS

The Company has two reportable business segments: Shopping Centers and Mixed-Use Properties. The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 2). The Company evaluates performance based upon income and cash flows from real estate for the combined properties in each segment. All of our properties within each segment generate similar types of revenues and expenses related to

tenant rent, reimbursements and operating expenses. Although services are provided to a range of tenants, the types of services provided to them are similar within each segment. The properties in each portfolio have similar economic characteristics and the nature of the products and services provided to our tenants and the method to distribute such services are consistent throughout the portfolio. Certain re-classifications have been made to prior year information to conform to the 2019 presentation.

<i>(In thousands)</i>	Shopping Centers	Mixed-Use Properties	Corporate and Other	Consolidated Totals
As of or for the year ended December 31, 2019				
Real estate rental operations:				
Revenue	\$ 167,888	\$ 63,637	\$ —	\$ 231,525
Expenses	(36,119)	(21,814)	—	(57,933)
Income from real estate	131,769	41,823	—	173,592
Interest expense, net and amortization of deferred debt costs	—	—	(41,834)	(41,834)
General and administrative	—	—	(20,793)	(20,793)
Depreciation and amortization of deferred leasing costs	(29,112)	(17,221)	—	(46,333)
Change in fair value of derivatives	—	—	(436)	(436)
Net income (loss)	\$ 102,657	\$ 24,602	\$ (63,063)	\$ 64,196
Capital investment	\$ 33,968	\$ 101,695	\$ —	\$ 135,663
Total assets	\$ 980,096	\$ 625,183	\$ 13,061	\$ 1,618,340
As of or for the year ended December 31, 2018				
Real estate rental operations:				
Revenue	\$ 164,344	\$ 62,875	\$ —	\$ 227,219
Expenses	(34,643)	(20,935)	—	(55,578)
Income from real estate				
Interest expense, net and amortization of deferred debt costs	129,701	41,940	—	171,641
General and administrative	—	—	(44,768)	(44,768)
Depreciation and amortization of deferred leasing costs	—	—	(18,459)	(18,459)
Depreciation and amortization of deferred leasing costs	(29,251)	(16,610)	—	(45,861)
Change in fair value of derivatives	—	—	(3)	(3)
Gain on sale of property	509	—	—	509
Net income (loss)	\$ 100,959	\$ 25,330	\$ (63,230)	\$ 63,059
Capital investment	\$ 13,485	\$ 115,165	\$ —	\$ 128,650
Total assets	\$ 971,321	\$ 537,500	\$ 18,668	\$ 1,527,489

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

<i>(In thousands)</i>	Shopping Centers	Mixed-Use Properties	Corporate and Other	Consolidated Totals
As of or for the year ended December 31, 2017				
Real estate rental operations:				
Revenue	\$ 165,232	\$ 61,067	\$ —	\$ 226,299
Expenses	(34,054)	(20,632)	—	(54,686)
Income from real estate	131,178	40,435	—	171,613
Interest expense, net and amortization of deferred debt costs	—	—	(47,145)	(47,145)
General and administrative	—	—	(18,176)	(18,176)
Depreciation and amortization of deferred leasing costs	(29,977)	(15,717)	—	(45,694)
Change in fair value of derivatives	—	—	70	70
Net income (loss)	\$ 101,201	\$ 24,718	\$ (65,251)	\$ 60,668
Capital investment	\$ 90,896	\$ 29,098	\$ —	\$ 119,994
Total assets	\$ 974,061	\$ 438,283	\$ 10,108	\$ 1,422,452

16. SUBSEQUENT EVENTS

The Company has reviewed operating activities for the period subsequent to December 31, 2019 and prior to the date that financial statements are issued, February 27, 2020, and determined there are no subsequent events that are required to be disclosed.

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 average 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 and Trust Company
Attention: Saul Centers, Inc.
Dividend Reinvestment Plan
17 Battery Place
New York, NY 10004

ACQUISITION OF EQUITY SECURITIES BY THE SAUL ORGANIZATION

Through participation in the Company's Dividend Reinvestment Plan, during the quarter ended December 31, 2019, (a) B. Francis Saul II, the Company's Chairman of the Board, Chief Executive Officer, and President (b) his spouse, (c) the Saul Trust and B. F. Saul Company, for each of which Mr. B. F. Saul II serves as either President or Chairman, and (d) B. F. Saul Property Company, Avenel Executive Park Phase II, LLC, SHLP Unit Acquisition Corp. and Dearborn, LLC, which are wholly-owned subsidiaries of either B. F. Saul Company or the Saul Trust, acquired an aggregate of 65,293 shares of common stock and 13,747 limited partnership units at an average price of \$53.00 per share/unit, in respect of the October 31, 2019 dividend distribution. Such limited partnership units were issued in reliance on Section 4(a)(2) of the Securities Act of 1933.

No shares were acquired pursuant to a publicly announced plan or program.

DIVIDENDS AND DISTRIBUTIONS

Under the Code, REITs are subject to numerous organizational and operating requirements, including the requirement to distribute at least 90% of REIT taxable income. The Company distributed more than the required amount in 2019 and 2018. See Notes to Consolidated Financial Statements, No. 13, "Distributions." The Company may or may not elect to distribute in excess of 90% of REIT taxable income in future years.

The Company's estimate of cash flow available for distributions is believed to be based on reasonable assumptions and represents a reasonable basis for setting distributions. However, the actual results of operations of the Company will be affected by a variety of factors, including but not limited to actual rental revenue, operating expenses of the Company, interest expense, general economic conditions, federal, state and local taxes (if any), unanticipated capital expenditures, the adequacy of reserves and preferred dividends. While the Company intends to continue paying regular quarterly distributions, any future payments will be determined solely by the Board of Directors and will depend on a number of factors, including cash flow of the Company, its financial condition and capital requirements, the annual distribution amounts required to maintain its status as a REIT under the Code, and such other factors as the Board of Directors deems relevant. We are obligated to pay regular quarterly distributions to holders of depositary shares, prior to distributions on the common stock.

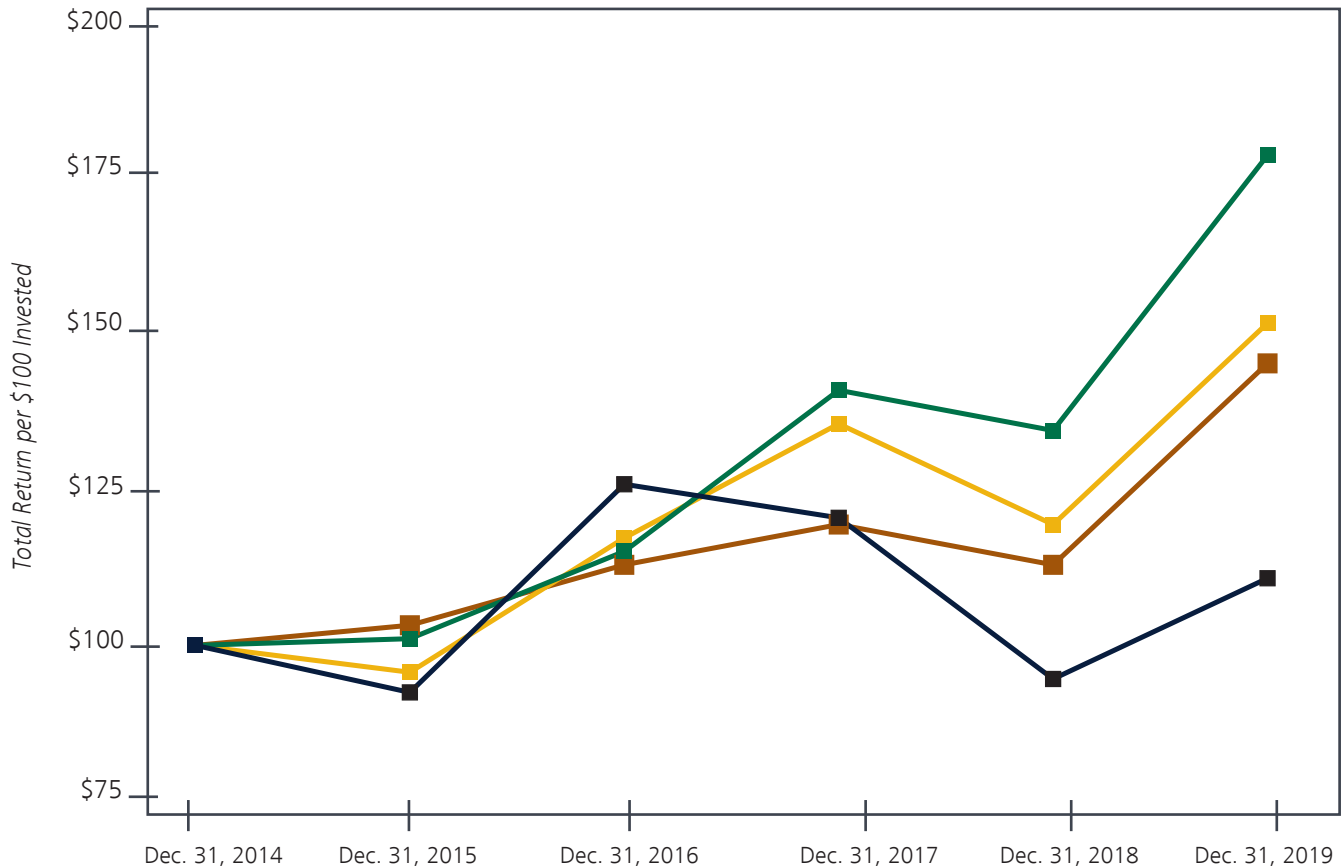
MARKET INFORMATION

Shares of Saul Centers common stock are listed on the New York Stock Exchange under the symbol “BFS”. The composite high and low closing sale prices for the Company’s shares of common stock were reported by the New York Stock Exchange for each quarter of 2019 and 2018 as follows:

COMMON STOCK PRICES		
Period	Share Price	
	High	Low
October 1, 2019 – December 31, 2019	\$ 57.23	\$ 50.09
July 1, 2019 – September 30, 2019	\$ 56.86	\$ 49.30
April 1, 2019 – June 30, 2019	\$ 58.06	\$ 52.09
January 1, 2019– March 31, 2019	\$ 58.11	\$ 45.89
October 1, 2018 – December 31, 2018	\$ 54.39	\$ 45.71
July 1, 2018 – September 30, 2018	\$ 60.00	\$ 52.28
April 1, 2018 – June 30, 2018	\$ 53.74	\$ 47.50
January 1, 2018– March 31, 2018	\$ 61.86	\$ 48.93
On February 20, 2020, the closing price was \$48.37 per share.		
The approximate number of holders of record of the common stock was 128 as of February 20, 2020.		
Many of our shares of common stock are held by brokers and institutions on behalf of stockholders.		
We are unable to estimate the total number of stockholders represented by these record holders.		

Rules promulgated under the Exchange Act require the Company to present a graph comparing the cumulative total stockholder return on its Common Stock with the cumulative total stockholder return of (i) a broad equity market index, and (ii) a published industry index or peer group. The following graph compares the cumulative total stockholder return of the Company's common stock, based on the market price of the common stock and assuming reinvestment of dividends, with the Financial Times Stock Exchange Group National Association of Real Estate Investment Trust Equity Index ("FTSE NAREIT Equity"), the S&P 500 Index ("S&P 500") and the Russell 2000 Index ("Russell 2000"). The graph assumes the investment of \$100 on December 31, 2014.

COMPARISON OF CUMULATIVE TOTAL RETURN



INDEX	Period Ended					
	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2019
■ Saul Centers	\$100	\$92.51	\$124.16	\$118.92	\$94.56	\$110.00
◆ S&P 500	\$100	\$101.38	\$113.51	\$138.29	\$132.23	\$173.34
● Russell 2000	\$100	\$95.59	\$115.95	\$132.94	\$118.30	\$148.49
▲ FTSE NAREIT Equity	\$100	\$103.20	\$111.99	\$117.84	\$112.39	\$141.61

SAUL CENTERS CORPORATE INFORMATION

DIRECTORS

B. Francis Saul II
Chairman, Chief Executive Officer
and President

J. Page Lansdale
President and Chief Operating
Officer, Emeritus

Philip D. Caraci
Vice Chairman

The Honorable John E. Chapoton
Partner, Brown Investment Advisory

George P. Clancy, Jr.
Executive Vice President, Emeritus
Chevy Chase Bank

Willoughby B. Laycock
Senior Vice President,
Residential

H. Gregory Platts
Senior Vice President and
Treasurer, Emeritus,
National Geographic Society

Earl A. Powell III
Director, National Gallery of Art

Andrew M. Saul II
Chief Executive Officer
Genovation Cars

Mark Sullivan III
Financial and Legal Consultant

John R. Whitmore
Financial Consultant

EXECUTIVE OFFICERS

B. Francis Saul II
Chairman, Chief Executive Officer
and President

D. Todd Pearson
Executive Vice President,
Real Estate

Christine N. Kearns
Executive Vice President,
Chief Legal and Administrative Officer

Scott V. Schneider
Executive Vice President,
Chief Financial Officer and
Treasurer

Christopher H. Netter
Executive Vice President,
Retail Leasing

John F. Collich
Senior Vice President,
Chief Acquisitions and
Development Officer

Steven N. Corey
Senior Vice President,
Office Leasing

Joel A. Friedman
Senior Vice President,
Chief Accounting Officer

Bettina Guevara
Senior Vice President,
General Counsel and Secretary

Donald A. Hachey
Senior Vice President,
Construction

Willoughby B. Laycock
Senior Vice President,
Residential

Amitha Prabhu
Senior Vice President,
Internal Audit

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

COUNSEL

Pillsbury Winthrop
Shaw Pittman LLP
Washington, DC 20036

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Deloitte & Touche LLP
McLean, Virginia 22102

WEB SITE

www.saulcenters.com

EXCHANGE LISTING

New York Stock
Exchange (NYSE) Symbol:
Common Stock: BFS
Preferred Stock: BFS.PrD
Preferred Stock: BFS.PrE

TRANSFER AGENT

Continental Stock Transfer and
Trust Company
17 Battery Place
New York, NY 10004

INVESTOR RELATIONS

A copy of the Saul Centers, Inc. annual report to the Securities and Exchange Commission on Form 10-K, which includes as exhibits the Chief Executive Officer and Chief Financial Officer Certifications required by Section 302 of the Sarbanes-Oxley Act, may be printed from the Company's web site or obtained at no cost to stockholders by writing to the address below or calling (301) 986-6016. In 2019, the Company filed with the NYSE the Certification of its Chief Executive Officer confirming that he was not aware of any violation by the Company of the NYSE's corporate governance listing standards.

HEADQUARTERS

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

2020 ANNUAL MEETING of Stockholders

The Annual Meeting of Stockholders will be held at 11:00 a.m., local time, on April 24, 2020, 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.)





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