

SAUL CENTERS INC
Form 10-K
March 06, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the fiscal year ended December 31, 2014

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the transition period from _____ to _____

Commission File number 1-12254

SAUL CENTERS, INC.

(Exact name of registrant as specified in its charter)

Maryland

52-1833074

(State or other jurisdiction of

(I.R.S. Employer

incorporation or organization)

Identification No.)

7501 Wisconsin Avenue, Suite 1500, Bethesda, Maryland 20814-6522

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (301) 986-6200

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, Par Value \$0.01 Per Share	New York Stock Exchange
Depository Shares each representing 1/100 th of a share of 6.875% Series C Cumulative Redeemable Preferred Stock, Par Value \$0.01 Per Share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: N/A

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No .

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer," "large accelerated filer" and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input type="radio"/>	Accelerated filer	<input checked="" type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input type="radio"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No .

The number of shares of Common Stock, \$0.01 par value, issued and outstanding as of February 27, 2015 was 20,797,898.

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the closing price of the registrant's Common Stock on the New York Stock Exchange on June 30, 2014 was \$560.5 million.

DOCUMENTS INCORPORATED BY REFERENCE:

Registrant incorporates by reference into Part III (Items 10, 11, 12, 13 and 14) of this Annual Report on Form 10-K portions of registrant's definitive Proxy Statement for the 2015 Annual Meeting of Stockholders to be filed with the Securities Exchange Commission pursuant to Regulation 14A. The definitive Proxy Statement will be filed with the Commission not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

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PART I

Cautionary Statement Regarding Forward-Looking Statements

Certain statements contained herein constitute forward-looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

Forward-looking statements are not guarantees of performance. Our future results, financial condition and business may differ materially from those expressed in these forward-looking statements. You can find many of these statements by looking for words such as “plans,” “intends,” “estimates,” “anticipates,” “expects,” “believes” or similar expressions in this Form 10-K. These forward-looking statements are subject to numerous assumptions, risks and uncertainties.

Many of the factors that will determine these items are beyond our ability to control or predict. For further discussion of these factors, see “Item 1A. Risk Factors” in this Form 10-K.

For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date of this Form 10-K or the date of any document incorporated by reference. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances after the date of this Form 10-K.

Item 1. Business

General

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 and Chief Executive Officer of Saul Centers.

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

Saul Centers was formed to continue and expand the shopping center business previously owned and conducted by the B.F. Saul Real Estate Investment Trust, the B.F. Saul Company and certain other affiliated entities, each of which is controlled by B. Francis Saul II and his family members (collectively, the “Saul Organization”). On August 26, 1993, members of the Saul Organization transferred to Saul Holdings Limited Partnership, a newly formed Maryland limited partnership (the “Operating Partnership”), and two newly formed subsidiary limited partnerships (the “Subsidiary Partnerships,” and collectively with the Operating Partnership, the “Partnerships”), shopping center and mixed-use properties, and the management functions related to the transferred properties. Since its formation, the Company has developed and purchased additional properties.

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The following table lists the significant properties acquired, developed and/or disposed of by the Company since January 1, 2012.

Name of Property	Location	Type	Square Footage	Year of Acquisition/ Development/ Disposal
Acquisitions				
1500 Rockville Pike	Rockville, Maryland	Shopping Center	52,700	December 2012
5541 Nicholson Lane	Rockville, Maryland	Shopping Center	20,100	December 2012
1580 Rockville Pike	Rockville, Maryland	Shopping Center	12,100	January 2014
1582 Rockville Pike	Rockville, Maryland	Shopping Center	40,700	April 2014
750 N. Glebe Road	Arlington, Virginia	Shopping Center	16,900	August 2014
730 N. Glebe Road	Arlington, Virginia	Shopping Center	2,000	December 2014
1584 Rockville Pike	Rockville, Maryland	Shopping Center	4,600	December 2014
Developments				
Park Van Ness	Washington, DC	Mixed-Use		2013/2014
Dispositions				
West Park	Oklahoma City, Oklahoma	Shopping Center	77,000	July 2012
Belvedere	Baltimore, Maryland	Shopping Center	54,900	December 2012
Giant Center	Milford Mill, Maryland	Shopping Center	70,040	April 2014

As of December 31, 2014, the Company's properties (the "Current Portfolio Properties") consisted of 50 shopping center properties (the "Shopping Centers"), six mixed-use properties which are comprised of office, retail and multi-family residential uses (the "Mixed-Use Properties") and three (non-operating) development properties. Shopping Centers and Mixed-Use Properties represent reportable business segments for financial reporting purposes. Revenue, net income, total assets and other financial information of each reportable segment are described in Note 16 to the Consolidated Financial Statements contained in Item 8 of this Form 10-K.

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Organizational Structure

The Company conducts its business through the Operating Partnership and/or directly or indirectly owned subsidiaries. The following diagram depicts the Company's organizational structure and beneficial ownership of the common and preferred stock of Saul Centers calculated pursuant to Rule 13d-3 of the Exchange Act as of December 31, 2014.

The Saul Organization's ownership percentage in Saul Centers reported above does not include units of limited partnership interest of the Operating Partnership held by the Saul Organization. In general, most units are convertible into shares of the Company's common stock on a one-for-one basis. However, not all of the units may (1) be convertible into the Company's common stock because (i) the articles of incorporation limit beneficial and constructive ownership (defined by reference to various Code provisions) to 39.9% in value of the Company's issued and outstanding common and preferred equity securities, which comprise the ownership limit and (ii) the convertibility of some of the outstanding units is subject to approval of the Company's stockholders.

Management of the Current Portfolio Properties

The Operating Partnership manages the Current Portfolio Properties and will manage any subsequently acquired or developed properties. The management of the properties includes performing property management, leasing, design, renovation, development and accounting duties for each property. The Operating Partnership provides each property with a fully integrated property management capability, with approximately 65 full-time equivalent employees at its headquarters office and 29 employees at its properties and with an extensive and mature network of relationships with tenants and potential tenants as well as with members of the brokerage and property owners' communities. The Company currently does not, and does not intend to, retain third party managers or provide management services to third parties.

The Company augments its property management capabilities by sharing with the Saul Organization certain ancillary functions, at cost, such as information technology and payroll services, benefits administration and in-house legal services. The Company also shares insurance administration expenses on a pro rata basis with the Saul Organization. Management believes that these arrangements result in lower costs than could be obtained by contracting with third parties. These arrangements permit the Company to capture greater economies of scale in purchasing from third party vendors than would otherwise be available to the Company alone and to capture internal economies of scale by avoiding payments

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representing profits with respect to functions provided internally. The terms of all sharing arrangements with the Saul Organization, including payments related thereto, are specified in a written agreement and are reviewed annually by the Audit Committee of the Company's Board of Directors.

The Company subleases its corporate headquarters space from the Saul Organization at the Company's share of the cost. A discussion of the lease terms are provided in Note 7, Long Term Lease Obligations, of the Notes to Consolidated Financial Statements.

Principal Offices

The principal offices of the Company are located at 7501 Wisconsin Avenue, Suite 1500, Bethesda, Maryland 20814-6522, and the Company's telephone number is (301) 986-6200. The Company's internet web address is www.saulcenters.com. Information contained on the Company's website is not part of this report. The Company makes available free of charge on its website its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after the reports are electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC"). Alternatively, you may access these reports at the SEC's website: www.sec.gov.

Policies with Respect to Certain Activities

The following is a discussion of the Company's operating strategy and certain of its investment, financing and other policies. These strategies and policies have been determined by the Board of Directors and, in general, may be amended or revised from time to time by the Board of Directors without a vote of the Company's stockholders.

Operating Strategies

The Company's primary operating strategy is to focus on its community and neighborhood shopping center business and to operate its properties to achieve both cash flow growth and capital appreciation. Community and neighborhood shopping centers typically provide reliable cash flow and steady long-term growth potential. Management actively manages its property portfolio by engaging in strategic leasing activities, tenant selection, lease negotiation and shopping center expansion and reconfiguration. The Company seeks to optimize tenant mix by selecting tenants for its shopping centers that provide a broad spectrum of goods and services, consistent with the role of community and neighborhood shopping centers as the source for day-to-day necessities. Management believes that such a synergistic tenanting approach results in increased cash flow from existing tenants by providing the Shopping Centers with consistent traffic and a desirable mix of shoppers, resulting in increased sales and, therefore, increased cash flows. Management believes there is potential for long term growth in cash flow as existing leases for space in the Shopping Centers expire and are renewed, or newly available or vacant space is leased. The Company intends to renegotiate leases where possible and seek new tenants for available space in order to optimize the mix of uses to improve foot traffic through the Shopping Centers. As leases expire, management expects to revise rental rates, lease terms and conditions, relocate existing tenants, reconfigure tenant spaces and introduce new tenants with the goals of increasing occupancy, improving overall retail sales, and ultimately increasing cash flow as economic conditions improve. In those circumstances in which leases are not otherwise expiring, management selectively attempts to increase cash flow through a variety of means, or in connection with renovations or relocations, recapturing leases with below market rents and re-leasing at market rates, as well as replacing financially troubled tenants. When possible, management also will seek to include scheduled increases in base rent, as well as percentage rental provisions, in its leases.

The Company will also seek growth opportunities in its Washington, D.C. metropolitan area mixed-use portfolio, primarily through development and redevelopment, as evidenced by the commencement in 2013 of the redevelopment of Park Van Ness (formerly Van Ness Square). Management also intends to negotiate lease renewals or to re-lease available space in the Mixed-Use Properties, while considering the strategic balance of optimizing short-term cash flow and long-term asset value.

It is management's intention to hold properties for long-term investment and to place strong emphasis on regular maintenance, periodic renovation and capital improvement. Management believes that characteristics such as cleanliness, lighting and security are particularly important in community and neighborhood shopping centers, which are frequently visited by shoppers during hours outside of the normal work-day. Management believes that the

Shopping Centers and Mixed-Use Properties generally are attractive and well maintained. The Shopping Centers and Mixed-Use Properties will undergo expansion, renovation, reconfiguration and modernization from time to time when management believes that such action is warranted by opportunities or changes in the competitive environment of a property. The Company will continue its practice of expanding existing properties by undertaking new construction on outparcels suitable for development as free standing retail or office facilities.

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Investment in Real Estate or Interests in Real Estate

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

In December 2012, the Company purchased for \$23.0 million, including acquisition costs, approximately 52,700 square feet of retail space located on the east side of Rockville Pike near the Twinbrook Metro station. In 2014, in separate transactions, the Company purchased three adjacent properties, with approximately 57,400 square feet of retail space, for an aggregate \$25.2 million. Combined, the four properties total 10.3 acres and are zoned for up to 1.2 million square feet of rentable mixed-use space. The Company is actively engaged in a plan for redevelopment but has not committed to any timetable for commencement of construction.

Also in 2012, the Company purchased, for \$12.2 million, including acquisition costs, approximately 20,100 square feet of retail space located on the east side of Rockville Pike near the White Flint Metro station and adjacent to 11503 Rockville Pike, which was purchased in 2010. The property, when combined with 11503 Rockville Pike, will provide zoning for up to 331,000 square feet of rentable mixed-use space. When combining these two properties with our Metro Pike Center on the west side of Rockville Pike, the Company's holdings at White Flint total 7.6 acres which are zoned for a development potential of up to 1.5 million square feet of mixed-use space. The Company is actively engaged in a plan for redevelopment but has not committed to any timetable for commencement of construction.

In 2014, in separate transactions, the Company purchased two adjacent properties, with approximately 18,900 square feet of retail space, on North Glebe Road in Arlington, Virginia, for an aggregate \$42.8 million. Combined, the properties total 2.3 acres and are zoned for up to 450,000 square feet of rentable mixed-use space. The Company is actively engaged in a plan for redevelopment but has not committed to any timetable for commencement of construction.

In light of the limited amount of quality properties for sale and the escalated pricing of properties that the Company has been presented with or has inquired about over the past year, management believes acquisition opportunities for investment in existing and new Shopping Center and Mixed-Use Properties in the near future is uncertain. 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 located 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.

In evaluating a particular redevelopment, renovation, acquisition, or development, management will consider a variety of factors, including (i) the location and accessibility of the property; (ii) the geographic area (with an emphasis on the Washington, D.C./Baltimore metropolitan area and the southeastern region of the United States) and demographic characteristics of the community, as well as the local real estate market, including potential for growth and potential regulatory impediments to development; (iii) the size of the property; (iv) the purchase price; (v) the non-financial terms of the proposed acquisition; (vi) the availability of funds or other consideration for the proposed acquisition and the cost thereof; (vii) the "fit" of the property with the Company's existing portfolio; (viii) the potential for, and current extent of, any environmental problems; (ix) the current and historical occupancy rates of the property or any comparable or competing properties in the same market; (x) the quality of construction and design and the current physical condition of the property; (xi) the financial and other characteristics of existing tenants and the terms of existing leases; and (xii) the potential for capital appreciation.

During 2013, the Company completed negotiation of lease termination agreements with the tenants of Van Ness Square. Costs incurred related to those termination arrangements were amortized to expense using the straight-line method over the remaining terms of the leases, are included in "Predevelopment Expenses" in the Consolidated Statements of Operations, totaled \$2.7 million in 2012 and \$3.3 million in 2013. The Company is in the process of developing a primarily residential project with street-level retail. In connection with the demolition of the existing

structure, approximately \$580,000 and \$503,000 of predevelopment expenses were recognized in 2013 and 2014, respectively.

Although it is management's present intention to concentrate future acquisition and development activities on community and neighborhood shopping centers and mixed-use properties in the Washington, D.C./Baltimore metropolitan area and the southeastern region of the United States, the Company may, in the future, also acquire other types of real estate in other areas of the country as opportunities present themselves. While the Company may diversify in terms of property locations, size and market, 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.

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The Company intends to engage in such future investment or development activities in a manner that is consistent with the maintenance of its status as a REIT for federal income tax purposes and that will not make the Company become regulated as an investment company under the Investment Company Act of 1940, as amended. Equity investments in acquired properties may be subject to existing mortgage financings and other indebtedness or to new indebtedness which may be incurred in connection with acquiring or refinancing these investments.

Investments in Real Estate Mortgages

While the Company's current portfolio and business objectives emphasize equity investments in commercial and neighborhood shopping centers and mixed-use properties, the Company may, at the discretion of the Board of Directors, invest in mortgages, participating or convertible mortgages, deeds of trust and other types of real estate interests consistent with its qualification as a REIT. The Company does not presently invest, nor does it intend to invest, in real estate mortgages.

Investments in Securities of or Interests in Persons Engaged in Real Estate Activities and Other Issues

Subject to the requirements to maintain REIT qualification, the Company may invest in securities of other REITs, other entities engaged in real estate activities or securities of other issuers, including for the purpose of exercising control over such entities. The Company does not presently invest, nor does it intend to invest, in any securities of other REITs.

Dispositions

In 2012, the Company sold for \$2.0 million the 77,000 square foot West Park shopping center in Oklahoma City, Oklahoma and recognized a \$1.1 million gain and sold for \$4.0 million the 54,900 square feet Belvedere shopping center in Baltimore, Maryland and recognized a gain of \$3.4 million.

In April 2014, the Company sold for \$7.5 million the 70,040 square foot Giant Center located in Milford Mill, Maryland and recognized a \$6.1 million gain.

The Company may elect to dispose of other properties if, based upon management's periodic review of the Company's portfolio, the Board of Directors determines that such action would be in the best interest of the Company's stockholders.

Capital Policies

The Company has established a debt capitalization policy relative to asset value, which is computed by reference to the aggregate annualized cash flow from the properties in the Company's portfolio rather than relative to book value. The Company has used a measure tied to cash flow because it believes that the book value of its portfolio properties, which is the depreciated historical cost of the properties, does not accurately reflect the Company's ability to incur indebtedness. Asset value, however, is somewhat more variable than book value, and may not at all times reflect the fair market value of the underlying properties. 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. Given the Company's current debt level, it is management's belief that the ratio of the Company's debt to total asset value is below 50% as of December 31, 2014. The organizational documents of the Company do not limit the absolute amount or percentage of indebtedness that it may incur. The Board of Directors may, from time to time, reevaluate the Company's debt capitalization policy in light of current economic conditions, relative costs of capital, market values of the Company property portfolio, opportunities for acquisition, development or expansion, and such other factors as the Board of Directors then deems relevant. The Board of Directors may modify the Company's debt capitalization policy based on such a reevaluation without shareholder approval and consequently, may increase or decrease the Company's debt to total asset ratio above or below 50% or may waive the policy for certain periods of time, subject to maintaining compliance with financial covenants within existing debt agreements. The Company selectively continues to refinance or renegotiate the terms of its outstanding debt in order to achieve longer maturities, and obtain generally more favorable loan terms, whenever management determines the financing environment is favorable.

The Company intends to finance future acquisitions and developments and to make debt repayments by utilizing the sources of capital then deemed to be most advantageous. Such sources may include undistributed operating cash flow, secured or unsecured bank and institutional borrowings, proceeds from the Company's Dividend Reinvestment and Stock Purchase Plan, proceeds from the sale of properties and private and public offerings of debt or equity securities.

Borrowings may be at the Operating Partnership or Subsidiary Partnerships' level and securities offerings may include (subject to certain limitations) the issuance of Operating Partnership interests convertible into common stock or other equity securities.

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Other Policies

The Company has the authority to offer equity or debt securities in exchange for property and to repurchase or otherwise acquire its common stock or other securities in the open market or otherwise, and may engage in such activities in the future. The Company expects, but is not obligated, to issue common stock to holders of units of the Operating Partnership upon exercise of their redemption rights. The Company has not engaged in trading, underwriting or agency distribution or sale of securities of other issuers other than the Operating Partnership and does not intend to do so. The Company has not made any loans to third parties, although the Company may in the future make loans to third parties. In addition, the Company has policies relating to related party transactions discussed in “Item 1A. Risk Factors.”

Competition

As an owner of, or investor in, community and neighborhood shopping centers and mixed-use properties, the Company is subject to competition from an indeterminate number of companies in connection with the acquisition, development, ownership and leasing of similar properties. These investors include investors with access to significant capital, such as domestic and foreign corporations and financial institutions, publicly traded and privately held REITs, private institutional investment funds, investment banking firms, life insurance companies and pension funds.

Competition may reduce properties available for acquisition or development or increase prices for raw land or developed properties of the type in which the Company invests. The Company faces competition in providing leases to prospective tenants and in re-letting space to current tenants upon expiration of their respective leases. If tenants decide not to renew or extend their leases upon expiration, the Company may not be able to re-let the space. Even if the tenants do renew or the Company can re-let the space, the terms of renewal or re-letting, including the cost of required renovations, may be less favorable than current lease terms or than expectations for the space. This risk may be magnified if the properties owned by our competitors have lower occupancy rates than the Company’s properties. As a result, these competitors may be willing to make space available at lower prices than the space in the Current Portfolio Properties.

Management believes that success in the competition for ownership and leasing property is dependent in part upon the geographic location of the property, the tenant mix, the performance of property managers, the amount of new construction in the area and the maintenance and appearance of the property. Additional competitive factors impacting the Company’s properties include the ease of access to the properties, the adequacy of related facilities such as parking, and the demographic characteristics in the markets in which the properties compete. Overall economic circumstances and trends and new properties in the vicinity of each of the Current Portfolio Properties are also competitive factors. Finally, retailers at our Shopping Centers face increasing competition from outlet stores, discount shopping clubs and other forms of marketing goods, such as direct mail, internet marketing and telemarketing. This competition may reduce percentage rents payable to us and may contribute to lease defaults or insolvency of tenants.

Environmental Matters

The Current Portfolio Properties are subject to various laws and regulations relating to environmental and pollution controls. The impact upon the Company from the application of such laws and regulations either prospectively or retrospectively is not expected to have a materially adverse effect on the Company’s property operations. As a matter of policy, the Company requires an environmental study be performed with respect to a property that may be subject to possible environmental hazards prior to its acquisition to ascertain that there are no material environmental hazards associated with such property.

Employees

As of March 1, 2015, the Company had approximately 65 full-time equivalent employees at its headquarters office, including seven leasing officers, and 29 employees at its properties. None of the Company’s employees are covered by collective bargaining agreements. Management believes that its relationship with employees is good.

Recent Developments

During the most recent downturn in the national real estate market, which began in 2008, the effects on the office and retail markets in the metropolitan Washington, D.C. area initially were less severe than in many other areas of the country. Even though economic conditions in the local economies, where the majority of the Company’s properties are located, have improved over recent years, issues facing the Federal government relating to spending cuts and budget

policies have resulted in continued elevated vacancy rates in many sub-markets, thus pressuring rental rate growth. While overall consumer confidence appears to have improved, retailers continue to be cautious about new store openings. However, the Company's overall leasing percentage, on a comparative same property basis, which excludes the impact of properties not in operation for the entirety of

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the comparable periods, continues to improve and increased to 94.4% at December 31, 2014, from 93.9% at December 31, 2013.

The Company's tenants were further impacted by winter weather, as heavy snowfall in the Mid-Atlantic states during the first quarter of 2014 hindered the ability of customers to shop. The cost of removing snow from the Company's properties during the three months ended March 31, 2014, was approximately \$2.0 million, approximately 60% of which is recoverable from tenants.

On November 12, 2014, Saul Centers sold, in an underwritten public offering, 1.6 million depositary shares, each representing 1/100th of a share of 6.875% Series C Cumulative Redeemable Preferred Stock, providing net cash proceeds of approximately \$39.3 million. The depositary shares, which represent a new issuance of additional depositary shares that were first issued on February 12, 2013, may be redeemed at the Company's option, in whole or in part, at the \$25.00 liquidation preference, plus accumulated dividends to but not including the redemption date, on or after February 12, 2018. 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 preferred stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and is not convertible into any other securities of the Company 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. The proceeds from the offering were used to redeem all outstanding shares of the Company's 8% Series A Cumulative Redeemable Preferred Stock and related depositary shares.

The Company had access to debt and preferred equity at attractive terms and pricing during 2012, 2013 and 2014. The Company maintains a ratio of total debt to total asset value of under 50%, which allows it to obtain additional secured borrowings if necessary. And, as of December 31, 2014, amortizing fixed-rate mortgage debt with staggered maturities from 2015 to 2034, represented approximately 91.5% of the Company's notes payable, thus minimizing refinancing risk. The Company had one fixed-rate debt maturity scheduled for 2015, which was refinanced on March 3, 2015. The floating-rate debt of the Company is comprised of a \$14.5 million loan secured by Northrock shopping center, a \$15.1 million loan secured by Metro Pike Center and \$43.0 million outstanding under the Company's revolving credit facility.

Acquisition and Development Activity

A significant contributor to the Company's recent growth in its Shopping Center portfolio has been its land acquisitions and subsequent development, redevelopment of existing centers and operating property acquisition activities. Redevelopment activities reposition the Company's centers to be competitive in the current retailing environment. These redevelopments typically include an update of the facade, site improvements and reconfiguring tenant spaces to accommodate tenant size requirements and merchandising evolution. During the period January 1, 2012 through December 31, 2014, the Company acquired nine real estate assets. Below is a discussion of significant activities.

2014 / 2013 / 2012 Acquisitions, Developments and Redevelopments

1500, 1580, 1582, 1584 Rockville Pike

In December 2012, the Company purchased for \$23.0 million, including acquisition costs, approximately 52,700 square feet of retail space located on the east side of Rockville Pike near the Twinbrook Metro station. In 2014, in separate transactions, the Company purchased three adjacent properties, with approximately 57,400 square feet of retail space for an aggregate \$25.2 million. Combined, the four properties total 10.3 acres and are zoned for up to 1.2 million square feet of rentable mixed-use space. The Company is actively engaged in a plan for redevelopment but has not committed to any timetable for commencement of construction.

5541 Nicholson Lane

In December 2012, the Company purchased for \$12.2 million, including acquisition costs, approximately 20,100 square feet of retail space, located on the east side of Rockville Pike near the White Flint Metro station and adjacent to 11503 Rockville Pike, which was purchased in 2010. The property, when combined with 11503 Rockville Pike, will provide zoning for up to 331,000 square feet of rentable mixed-use space. When combining these two properties with our Metro Pike Center on the west side of Rockville Pike, the Company's holdings at White Flint total 7.6 acres which

are zoned for a development potential of up to 1.5 million square feet of mixed-use space. The Company is actively engaged in a plan for redevelopment but has not committed to any timetable for commencement of construction.

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730, 750 North Glebe Road

In 2014, in separate transactions, the Company purchased two adjacent properties, with approximately 18,900 square feet of retail space, on North Glebe Road in Arlington, Virginia, for an aggregate \$42.8 million. Combined, the properties total 2.3 acres and are zoned for up to 450,000 square feet of rentable mixed-use space. The Company is actively engaged in a plan for redevelopment but has not committed to any timetable for commencement of construction.

Park Van Ness (formerly Van Ness Square)

During 2013, the Company completed negotiation of lease termination agreements with the tenants of Van Ness Square and the building became vacant in April 2013. Costs incurred related to those termination arrangements were amortized to expense using the straight-line method over the remaining terms of the leases and are included in "Predevelopment Expenses" in the Consolidated Statements of Operations. Lease termination costs and demolition costs totaled approximately \$2.7 million in 2012, \$3.9 million in 2013 and \$0.5 million in 2014. The Company is developing a 271-unit residential project with approximately 9,000 square feet of street-level retail, below street-level structured parking and amenities including a community room, landscaped courtyards, a fitness room and a rooftop pool and deck. Construction is expected to be completed in the first quarter of 2016. When complete, the structure will compromise 11 levels, five of which will be below street level. Concrete is currently being poured on the seventh level. The total cost of the project, excluding predevelopment expense and land (which the Company has owned), is expected to be approximately \$93.0 million, a portion of which will be financed with a \$71.6 million construction-to-permanent loan. Costs incurred through December 31, 2014, total approximately \$27.0 million, of which \$5.4 million has been financed by the loan.

Item 1A. Risk Factors

RISK FACTORS

Carefully consider the following risks and all of the other information set forth in this Annual Report on Form 10-K, including the consolidated financial statements and the notes thereto. If any of the events or developments described below were actually to occur, the Company's business, financial condition or results of operations could be adversely affected.

In this section, unless the context indicates otherwise, the terms "Company," "we," "us" and "our" refer to Saul Centers, Inc., and its subsidiaries, including the Operating Partnership.

Financial and economic conditions may have an adverse impact on us, our tenants' businesses and our results of operations.

Global financial and macro-economic conditions continue to be challenging and volatile, and a prolonged continuation or worsening of such conditions, including any disruption in the capital markets, could adversely affect our business, financial condition, results of operations or real estate values, as well as the financial condition of our tenants and lenders, which may expose us to increased risks of default by these parties.

Potential consequences of a prolonged continuation or worsening of current financial and economic conditions include:

the financial condition of our tenants, many of which operate in the retail industry, may be adversely affected, which may result in tenant defaults under their leases due to bankruptcy, lack of liquidity, operational failures or for other reasons;

the ability to borrow on terms and conditions that we find acceptable, or at all, may be limited, which could reduce our ability to pursue acquisition and development opportunities and refinance existing debt, reduce our returns from acquisition and development activities and increase our future interest expense;

reduced values of our properties may limit our ability to dispose of assets at attractive prices and may reduce the ability to refinance loans; and

one or more lenders under our credit facility could fail and we may not be able to replace the financing commitment of any such lenders on favorable terms, or at all.

Revenue from our properties may be reduced or limited if the retail operations of our tenants are not successful. The global and domestic economies have recently experienced a significant contraction of credit markets and resulting slowdown in business and consumer spending. We believe that consumers in recent years have cut back their discretionary spending in response to credit constraints, unemployment, a reduction in home equity values, highly volatile fuel

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and other commodity prices, and general economic uncertainty. Revenue from our properties depends primarily on the ability of our tenants to pay the full amount of rent due under their leases on a timely basis. The amount of rent we receive from our tenants generally will depend in part on the success of our tenants' retail operations, making us vulnerable to general economic downturns and other conditions affecting the retail industry. Some tenants may terminate their occupancy due to an inability to operate profitably for an extended period of time, impacting the Company's ability to maintain occupancy levels.

Any reduction in our tenants' ability to pay base rent or percentage rent may adversely affect our financial condition and results of operations. Small business tenants and anchor retailers which lease space in the Company's properties may experience a deterioration in their sales or other revenue, or experience a constraint on the availability of credit necessary to fund operations, which in turn may adversely impact those tenants' ability to pay contractual base rents and operating expense recoveries. Some of our leases provide for the payment, in addition to base rent, of additional rent above the base amount according to a specified percentage of the gross sales generated by the tenants. Decreasing sales revenue by retail tenants could adversely impact the Company's receipt of percentage rents required to be paid by tenants under certain leases.

Our ability to increase our net income depends on the success and continued presence of our shopping center "anchor" tenants and other significant tenants.

Our net income could be adversely affected in the event of a downturn in the business, or the bankruptcy or insolvency, of any anchor store or anchor tenant. Our largest shopping center anchor tenant is Giant Food, which accounted for 4.5% of our total revenue for the year ended December 31, 2014. The closing of one or more anchor stores prior to the expiration of the lease of that store or the termination of a lease by one or more of a property's anchor tenants could adversely affect that property and result in lease terminations by, or reductions in rent from, other tenants whose leases may permit termination or rent reduction in those circumstances or whose own operations may suffer as a result. This could reduce our net income.

We may experience difficulty or delay in renewing leases or leasing vacant space.

We derive most of our revenue directly or indirectly from rent received from our tenants. We are subject to the risks that, upon expiration, leases for space in our properties may not be renewed, the space and other vacant space may not be re-leased, or the terms of renewal or re-lease, including the cost of required renovations or concessions to tenants, may be less favorable than previous lease terms. Constraints on the availability of credit to office and retail tenants, necessary to purchase and install improvements, fixtures and equipment, and fund start-up business expenses, could impact the Company's ability to procure new tenants for spaces currently vacant in existing operating properties or properties under development. As a result, our results of operations and our net income could be reduced.

We have substantial relationships with members of the Saul Organization whose interests could conflict with the interests of other stockholders.

Influence of Officers, Directors and Significant Stockholders.

Three of our executive officers, Mr. Saul II, our President and Chief Operating Officer, J. Page Lansdale, and our Executive Vice President-Chief Legal and Administrative Officer, Christine Nicolaidis Kearns, are members of the Saul Organization, and persons associated with the Saul Organization constitute five of the 14 members of our Board of Directors. In addition, as of December 31, 2014, Mr. Saul II had the potential to exercise control over 9,119,309 shares of our common stock representing 44.0% of our issued and outstanding shares of common stock. Mr. Saul II also beneficially owned, as of December 31, 2014, 7,198,721 units of the Operating Partnership. In general, these units are convertible into shares of our common stock on a one-for-one basis. The ownership limitation set forth in our articles of incorporation is 39.9% in value of our issued and outstanding equity securities (which includes both common and preferred stock). As of December 31, 2014, Mr. Saul II and members of the Saul Organization owned common stock representing approximately 37.9% in value of all our issued and outstanding equity securities.

Members of the Saul Organization are permitted under our articles of incorporation to convert Operating Partnership units into shares of common stock or acquire additional shares of common stock until the Saul Organization's actual ownership of common stock reaches 39.9% in value of our equity securities. As of December 31, 2014, 814,000 of the 7,198,721 units of the Operating Partnership would have been permitted to convert into additional shares of common stock, and would have resulted in Mr. Saul II and members of the Saul Organization owning common stock

representing approximately 39.9% in value of all our issued and outstanding equity securities.

As a result of these relationships, members of the Saul Organization will be in a position to exercise significant influence over our affairs, which influence might not be consistent with the interests of some, or a majority, of our stockholders. Except as discussed below, we do not have any written policies or procedures for the review, approval or ratification of transactions with related persons.

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Management Time.

Our Chief Executive Officer, President and Chief Operating Officer, Executive Vice President-Chief Legal and Administrative Officer and Senior Vice President-Chief Accounting Officer are also officers of various entities of the Saul Organization. Although we believe that these officers spend sufficient management time to meet their responsibilities as our officers, the amount of management time devoted to us will depend on our specific circumstances at any given point in time. As a result, in a given period, these officers may spend less than a majority of their management time on our matters. Over extended periods of time, we believe that our Chief Executive Officer will spend less than a majority of his management time on Company matters, while our President and Chief Operating Officer, Executive Vice President-Chief Legal and Administrative Officer and Senior Vice President-Chief Accounting Officer may or may not spend less than a majority of their time on our matters.

Exclusivity and Right of First Refusal Agreements.

We will acquire, develop, own and manage shopping center properties and will own and manage other commercial properties, and, subject to certain exclusivity agreements and rights of first refusal to which we are a party, the Saul Organization will continue to develop, acquire, own and manage commercial properties and own land suitable for development as, among other things, shopping centers and other commercial properties. Therefore, conflicts could develop in the allocation of acquisition and development opportunities with respect to commercial properties other than shopping centers and with respect to development sites, as well as potential tenants and other matters, between us and the Saul Organization. The agreement relating to exclusivity and the right of first refusal between us and the Saul Organization generally requires the Saul Organization to conduct its shopping center business exclusively through us and to grant us a right of first refusal to purchase commercial properties and development sites in certain market areas that become available to the Saul Organization. The Saul Organization has granted the right of first refusal to us, acting through our independent directors, in order to minimize potential conflicts with respect to commercial properties and development sites. We and the Saul Organization have entered into this agreement in order to minimize conflicts with respect to shopping centers and certain of our commercial properties.

We own real estate assets in the Twinbrook area of Rockville, Maryland, which are adjacent to real estate assets owned by the B. F. Saul Real Estate Investment Trust (the "Saul Trust"), a member of the Saul Organization. We have entered into an agreement with the Saul Trust, which expires on December 31, 2015, and which may be extended to December 31, 2016, to share, on a pro rata basis, third-party predevelopment costs related to the planning of the future development of the adjacent sites. Conflicts with respect to payments and allocations of costs may arise under the agreement.

Shared Services.

We share with the Saul Organization certain ancillary functions, such as computer and payroll services, benefits administration and in-house legal services. The terms of all sharing arrangements, including payments related thereto, are reviewed periodically by our Audit Committee, which is comprised solely of independent directors. Included in our general and administrative expenses or capitalized to specific development projects, for the year ended December 31, 2014, are charges totaling \$7.4 million, related to such shared services, which included rental payments for the Company's headquarters lease, which were billed by the Saul Organization. Although we believe that the amounts allocated to us for such shared services represent a fair allocation between us and the Saul Organization, we have not obtained a third party appraisal of the value of these services.

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 our insurance program. Such commissions and fees amounted to approximately \$427,300 for the year ended December 31, 2014.

Related Party Rents.

We sublease space for our corporate headquarters from a member of the Saul Organization, the building of which is owned by another member of the Saul Organization. The lease commenced in March 2002, expires in March 2017, and provides for base rent escalated at 3% per year, with payment of a pro-rata share of operating expenses over a base year amount. The Company and the Saul Organization entered into a Shared Services Agreement whereby each party pays a portion of the total rental payments based on a percentage proportionate to the number of employees

employed by each party. The Company's rent expense for the year ended December 31, 2014 was \$840,800. Although the Company believes that this lease has terms comparable to what would have been obtained from a third party landlord, it did not seek bid proposals from any independent third parties when entering into its new corporate headquarters lease.

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Conflicts Based on Individual Tax Considerations.

The tax basis of members of the Saul Organization in our portfolio properties which were contributed to certain partnerships at the time of our initial public offering in 1993 was substantially less than the fair market value thereof at the time of their contribution. In the event of our disposition of such properties, a disproportionately large share of the gain for federal income tax purposes would be allocated to members of the Saul Organization. In addition, future reductions of the level of our debt, or future releases of the guarantees or indemnities with respect thereto by members of the Saul Organization, would cause members of the Saul Organization to be considered, for federal income tax purposes, to have received constructive distributions. Depending on the overall level of debt and other factors, these distributions could be in excess of the Saul Organization's bases in their Partnership units, in which case such excess constructive distributions would be taxable.

Consequently, it is in the interests of the Saul Organization that we continue to hold the contributed portfolio properties, that a portion of our debt remains outstanding or is refinanced and that the Saul Organization guarantees and indemnities remain in place, in order to defer the taxable gain to members of the Saul Organization. Therefore, the Saul Organization may seek to cause us to retain the contributed portfolio properties, and to refrain from reducing our debt or releasing the Saul Organization guarantees and indemnities, even when such action may not be in the interests of some, or a majority, of our stockholders. In order to minimize these conflicts, decisions as to sales of the portfolio properties, or any refinancing, repayment or release of guarantees and indemnities with respect to our debt, will be made by the independent directors.

Ability to Block Certain Actions.

Under applicable law and the limited partnership agreement of the Operating Partnership, consent of the limited partners is required to permit certain actions, including the sale of all or substantially all of the Operating Partnership's assets. Therefore, members of the Saul Organization, through their status as limited partners in the Operating Partnership, could prevent the taking of any such actions, even if they were in the interests of some, or a majority, of our stockholders.

The amount of debt we have and the restrictions imposed by that debt could adversely affect our business and financial condition.

As of December 31, 2014, we had approximately \$857.4 million of debt outstanding, \$784.8 million of which was long-term fixed-rate debt secured by 35 of our properties and \$72.6 million of which was variable-rate debt due under two secured bank loans and our revolving credit facility.

We currently have a general policy of limiting our borrowings to 50 percent of asset value, i.e., the value of our portfolio, as determined by our Board of Directors by reference to the aggregate annualized cash flow from our portfolio. Our organizational documents contain no limitation on the amount or percentage of indebtedness which we may incur. Therefore, the Board of Directors could alter or eliminate the current limitation on borrowing at any time. If our debt capitalization policy were changed, we could increase our leverage, resulting in an increase in debt service that could adversely affect our operating cash flow and our ability to make expected distributions to stockholders, and in an increased risk of default on our obligations.

We have established our debt capitalization policy relative to asset value, which is computed by reference to the aggregate annualized cash flow from the properties in our portfolio rather than relative to book value. We have used a measure tied to cash flow because we believe that the book value of our portfolio properties, which is the depreciated historical cost of the properties, does not accurately reflect our ability to borrow. Asset value, however, is somewhat more variable than book value, and may not at all times reflect the fair market value of the underlying properties.

The amount of our debt outstanding from time to time could have important consequences to our stockholders. For example, it could:

- require us to dedicate a substantial portion of our cash flow from operations to payments on our debt, thereby reducing funds available for operations, property acquisitions and other appropriate business opportunities that may arise in the future;
- limit our ability to obtain any additional financing we may need in the future for working capital, debt refinancing, capital expenditures, acquisitions, development or other general corporate purposes;
- make it difficult to satisfy our debt service requirements;

• limit our ability to make distributions on our outstanding common and preferred stock;
• require us to dedicate increased amounts of our cash flow from operations to payments on our variable rate, unhedged debt if interest rates rise;

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limit our flexibility in planning for, or reacting to, changes in our business and the factors that affect the profitability of our business, which may place us at a disadvantage compared to competitors with less debt or debt with less restrictive terms; and

limit our ability to obtain any additional financing we may need in the future for working capital, debt refinancing, capital expenditures, acquisitions, development or other general corporate purposes.

Our ability to make scheduled payments of the principal of, to pay interest on, or to refinance, our indebtedness will depend primarily on our future performance, which to a certain extent is subject to economic, financial, competitive and other factors described in this section. If we are unable to generate sufficient cash flow from our business in the future to service our debt or meet our other cash needs, we may be required to refinance all or a portion of our existing debt, sell assets or obtain additional financing to meet our debt obligations and other cash needs. Our ability to refinance, sell assets or obtain additional financing may not be possible on terms that we would find acceptable.

We are obligated to comply with financial and other covenants in our debt that could restrict our operating activities, and the failure to comply could result in defaults that accelerate the payment under our debt.

Our secured debt generally contains customary covenants, including, among others, provisions:

relating to the maintenance of the property securing the debt;

restricting our ability to assign or further encumber the properties securing the debt; and

restricting our ability to enter into certain new leases or to amend or modify certain existing leases without obtaining consent of the lenders.

Our unsecured debt generally contains various restrictive covenants. The covenants in our unsecured debt include, among others, provisions restricting our ability to:

incur additional unsecured debt;

guarantee additional debt;

make certain distributions, investments and other restricted payments, including distribution payments on our outstanding stock;

create certain liens;

increase our overall secured and unsecured borrowing beyond certain levels; and

consolidate, merge or sell all or substantially all of our assets.

Our ability to meet some of the covenants in our debt, including covenants related to the condition of the property or payment of real estate taxes, may be dependent on the performance by our tenants under their leases.

In addition, our line of credit requires us and our subsidiaries to satisfy financial covenants. The material financial covenants require us, on a consolidated basis, to:

maintain tangible net worth, as defined in the loan agreement, of at least \$542.1 million plus 80% of the Company's net equity proceeds received after March 2014;

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 1.3x on a trailing four-quarter basis (fixed charge coverage).

As of December 31, 2014, we were in compliance with all such covenants. If we were to breach any of our debt covenants and did not cure the breach within any applicable cure period, our lenders could require us to repay the debt immediately, and, if the debt is secured, could immediately begin proceedings to take possession of the property securing the loan. Some of our debt arrangements are cross-defaulted, which means that the lenders under those debt arrangements can put us in default and require immediate repayment of their debt if we breach and fail to cure a covenant under certain of our other debt obligations. As a result, any default under our debt covenants could have an adverse effect on our financial condition, our results of operations, our ability to meet our obligations and the market value of our shares.

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Our development activities are inherently risky.

The ground-up development of improvements on real property, which is different from the renovation and redevelopment of existing improvements, presents substantial risks. In addition to the risks associated with real estate investment in general as described elsewhere, the risks associated with our remaining development activities include: significant time lag between commencement and completion subjects us to greater risks due to fluctuation in the general economy; failure or inability to obtain construction or permanent financing on favorable terms; expenditure of money and time on projects that may never be completed; inability to achieve projected rental rates or anticipated pace of lease-up; higher-than-estimated construction costs, including labor and material costs; and possible delay in completion of the project because of a number of factors, including weather, labor disruptions, construction delays or delays in receipt of zoning or other regulatory approvals, or acts of God (such as fires, earthquakes or floods).

Redevelopments and acquisitions may fail to perform as expected.

Our investment strategy includes the redevelopment and acquisition of community and neighborhood shopping centers that are anchored by supermarkets, drugstores or high volume, value-oriented retailers that provide consumer necessities. The redevelopment and acquisition of properties entails risks that include the following, any of which could adversely affect our results of operations and our ability to meet our obligations:

- our estimate of the costs to improve, reposition or redevelop a property may prove to be too low, and, as a result, the property may fail to achieve the returns we have projected, either temporarily or for a longer time;
- we may not be able to identify suitable properties to acquire or may be unable to complete the acquisition of the properties we identify;
- we may not be able to integrate new developments or acquisitions into our existing operations successfully;
- properties we redevelop or acquire may fail to achieve the occupancy or rental rates we project at the time we make the decision to invest, which may result in the properties' failure to achieve the returns we projected;
- our pre-acquisition evaluation of the physical condition of each new investment may not detect certain defects or identify necessary repairs until after the property is acquired, which could significantly increase our total acquisition costs; and
- our investigation of a property or building prior to our acquisition, and any representations we may receive from the seller, may fail to reveal various liabilities, which could reduce the cash flow from the property or increase our acquisition cost.

Our ability to grow will be limited if we cannot obtain additional capital.

Our growth strategy includes the redevelopment of properties we already own and the acquisition of additional properties. Because we are required to distribute to our stockholders at least 90% of our taxable income each year to continue to qualify as a real estate investment trust, or REIT, for federal income tax purposes, in addition to our undistributed operating cash flow, we rely upon the availability of debt or equity capital to fund our growth, which financing may or may not be available on favorable terms or at all. The debt could include mortgage loans from third parties or the sale of debt securities. Equity capital could include our common stock or preferred stock. Additional financing, refinancing or other capital may not be available in the amounts we desire or on favorable terms. Our access to debt or equity capital depends on a number of factors, including the general state of the capital markets, the market's perception of our growth potential, our ability to pay dividends, and our current and potential future earnings. Depending on the outcome of these factors, we could experience delay or difficulty in implementing our growth strategy on satisfactory terms, or be unable to implement this strategy.

Our performance and value are subject to general risks associated with the real estate industry.

Our economic performance and the value of our real estate assets, and, consequently, the value of our investments, are subject to the risk that if our properties do not generate revenue sufficient to meet our operating expenses, including debt service and capital expenditures, our cash flow and ability to pay distributions to our stockholders will be adversely affected. As a real estate company, we are susceptible to the following real estate industry risks:

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economic downturns in the areas where our properties are located;
adverse changes in local real estate market conditions, such as oversupply or reduction in demand;
changes in tenant preferences that reduce the attractiveness of our properties to tenants;
zoning or regulatory restrictions;
decreases in market rental rates;
weather conditions that may increase energy costs and other operating expenses;
costs associated with the need to periodically repair, renovate and re-lease space; and
increases in the cost of adequate maintenance, insurance and other operating costs, including real estate taxes, associated with one or more properties, which may occur even when circumstances such as market factors and competition cause a reduction in revenue from one or more properties, although real estate taxes typically do not increase upon a reduction in such revenue.

Many real estate costs are fixed, even if income from our properties decreases.

Our financial results depend primarily on leasing space in our properties to tenants on terms favorable to us. Costs associated with real estate investment, such as real estate taxes and maintenance costs, generally are not reduced even when a property is not fully occupied, rental rates decrease, or other circumstances cause a reduction in income from the investment. As a result, cash flow from the operations of our properties may be reduced if a tenant does not pay its rent or we are unable to rent our properties on favorable terms. Under those circumstances, we might not be able to enforce our rights as landlord without delays, and may incur substantial legal costs. Additionally, new properties that we may acquire or develop may not produce any significant revenue immediately, and the cash flow from existing operations may be insufficient to pay the operating expenses and debt service associated with that property until the property is fully leased.

Competition may limit our ability to purchase new properties and generate sufficient income from tenants.

Numerous commercial developers and real estate companies compete with us in seeking tenants for properties and properties for acquisition. This competition may:

- reduce properties available for acquisition;
- increase the cost of properties available for acquisition;
- reduce rents payable to us;
- interfere with our ability to attract and retain tenants;
- lead to increased vacancy rates at our properties; and
- adversely affect our ability to minimize expenses of operation.

Retailers at our shopping center properties also face increasing competition from outlet stores, discount shopping clubs, and other forms of marketing of goods, such as direct mail, internet marketing and telemarketing. This competition may reduce percentage rents payable to us and may contribute to lease defaults and insolvency of tenants. If we are unable to continue to attract appropriate retail tenants to our properties, or to purchase new properties in our geographic markets, it could materially affect our ability to generate net income, service our debt and make distributions to our stockholders.

We may be unable to sell properties when appropriate because real estate investments are illiquid.

Real estate investments generally cannot be sold quickly. In addition, there are some limitations under federal income tax laws applicable to real estate and to REITs in particular that may limit our ability to sell our assets. We may not be able to alter our portfolio promptly in response to changes in economic or other conditions. Our inability to respond quickly to adverse changes in the performance of our investments could have an adverse effect on our ability to meet our obligations and make distributions to our stockholders.

Our insurance coverage on our properties may be inadequate.

We carry comprehensive insurance on all of our properties, including insurance for liability, earthquake, fire, flood, terrorism and rental loss. These policies contain coverage limitations. We believe this coverage is of the type and amount customarily obtained for or by an owner of real property assets. We intend to obtain similar insurance coverage on subsequently acquired properties.

As a consequence of the September 11, 2001 terrorist attacks and other significant losses incurred by the insurance industry, the availability of insurance coverage has decreased and the prices for insurance have increased. As a result,

we may be unable to renew or duplicate our current insurance coverage in adequate amounts or at reasonable prices.
In addition,

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insurance companies may no longer offer coverage against certain types of losses, such as losses due to terrorist acts and toxic mold, or, if offered, the expense of obtaining these types of insurance may not be justified. We therefore may cease to have insurance coverage against certain types of losses and/or there may be decreases in the limits of insurance available. If an uninsured loss or a loss in excess of our insured limits occurs, we could lose all or a portion of the capital we have invested in a property, as well as the anticipated future revenue from the property, but still remain obligated for any mortgage debt or other financial obligations related to the property. Material losses in excess of insurance proceeds may occur in the future. Also, due to inflation, changes in codes and ordinances, environmental considerations and other factors, it may not be feasible to use insurance proceeds to replace a building after it has been damaged or destroyed. Events such as these could adversely affect our results of operations and our ability to meet our obligations, including distributions to our stockholders.

Environmental laws and regulations could reduce the value or profitability of our properties.

All real property and the operations conducted on real property are subject to federal, state and local laws, ordinances and regulations relating to hazardous materials, environmental protection and human health and safety. Under various federal, state and local laws, ordinances and regulations, we and our tenants may be required to investigate and clean up certain hazardous or toxic substances released on or in properties we own or operate, and also may be required to pay other costs relating to hazardous or toxic substances. This liability may be imposed without regard to whether we or our tenants knew about the release of these types of substances or were responsible for their release. The presence of contamination or the failure to properly remediate contamination at any of our properties may adversely affect our ability to sell or lease those properties or to borrow using those properties as collateral. The costs or liabilities could exceed the value of the affected real estate. We are not aware of any environmental condition with respect to any of our properties that management believes would have a material adverse effect on our business, assets or results of operations taken as a whole. The uses of any of our properties prior to our acquisition of the property and the building materials used at the property are among the property-specific factors that will affect how the environmental laws are applied to our properties. If we are subject to any material environmental liabilities, the liabilities could adversely affect our results of operations and our ability to meet our obligations.

We cannot predict what other environmental legislation or regulations will be enacted in the future, how existing or future laws or regulations will be administered or interpreted or what environmental conditions may be found to exist on the properties in the future. Compliance with existing and new laws and regulations may require us or our tenants to spend funds to remedy environmental problems. Our tenants, like many of their competitors, have incurred, and will continue to incur, capital and operating expenditures and other costs associated with complying with these laws and regulations, which will adversely affect their potential profitability. Generally, our tenants must comply with environmental laws and meet remediation requirements. Our leases typically impose obligations on our tenants to indemnify us from any compliance costs we may incur as a result of the environmental conditions on the property caused by the tenant. If a tenant fails to or cannot comply, we could be forced to pay these costs. If not addressed, environmental conditions could impair our ability to sell or re-lease the affected properties in the future or result in lower sales prices or rent payments.

The Americans with Disabilities Act of 1990 (the "ADA") could require us to take remedial steps with respect to newly acquired properties.

The properties, as commercial facilities, are required to comply with Title III of the ADA. Investigation of a property may reveal non-compliance with the ADA. The requirements of the ADA, or of other federal, state or local laws, also may change in the future and restrict further renovations of our properties with respect to access for disabled persons. Future compliance with the ADA may require expensive changes to the properties.

The revenue generated by our tenants could be negatively affected by various federal, state and local laws to which they are subject.

We and our tenants are subject to a wide range of federal, state and local laws and regulations, such as local licensing requirements, consumer protection laws and state and local fire, life-safety and similar requirements that affect the use of the properties. The leases typically require that each tenant comply with all regulations. Failure to comply could result in fines by governmental authorities, awards of damages to private litigants, or restrictions on the ability to conduct business on such properties. Non-compliance of this sort could reduce our revenue from a tenant, could

require us to pay penalties or fines relating to any non-compliance, and could adversely affect our ability to sell or lease a property.

Failure to qualify as a REIT for federal income tax purposes would cause us to be taxed as a corporation, which would substantially reduce funds available for payment of distributions.

We believe that we are organized and qualified as a REIT, and currently intend to operate in a manner that will allow us to continue to qualify as a REIT for federal income tax purposes under the Code. However, the IRS could successfully assert that we are not qualified as such. In addition, we may not remain qualified as a REIT in the future.

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Qualification as a REIT involves the application of highly technical and complex Code provisions. The complexity of these provisions and of the applicable income tax regulations that have been issued under the Code by the United States Department of Treasury is greater in the case of a REIT that holds its assets in partnership form. Certain facts and circumstances not entirely within our control may affect our ability to qualify as a REIT. For example, in order to qualify as a REIT, at least 95% of our gross income in any year must be derived from qualifying rents and other income. Satisfying this requirement could be difficult, for example, if defaults by tenants were to reduce the amount of income from qualifying rents. Also, we must make annual distributions to stockholders of at least 90% of our net taxable income (excluding capital gains). In addition, new legislation, new regulations, new administrative interpretations or new court decisions may significantly change the tax laws with respect to qualification as a REIT or the federal income tax consequences of such qualification. If we fail to qualify as a REIT:

- we would not be allowed a deduction for dividend distributions to stockholders in computing taxable income;
- we would be subject to federal income tax at regular corporate rates;
- we could be subject to the federal alternative minimum tax;
- unless we are entitled to relief under specific statutory provisions, we could not elect to be taxed as a REIT for four taxable years following the year during which we were disqualified;
- we could be required to pay significant income taxes, which would substantially reduce the funds available for investment and for distribution to our stockholders for each year in which we failed to qualify; and
- we would no longer be required by law to make any distributions to our stockholders.

We believe that the Operating Partnership is treated as a partnership, and not as a corporation, for federal income tax purposes. If the IRS were to challenge successfully the status of the Operating Partnership as a partnership for federal income tax purposes:

- the Operating Partnership would be taxed as a corporation;
- we would cease to qualify as a REIT for federal income tax purposes; and
- the amount of cash available for distribution to our stockholders would be substantially reduced.

We may be required to incur additional debt to qualify as a REIT.

As a REIT, we must make annual distributions to stockholders of at least 90% of our REIT taxable income. We are subject to income tax on amounts of undistributed REIT taxable income and net capital gain. In addition, we would be subject to a 4% excise tax if we fail to distribute sufficient income to meet a minimum distribution test based on our ordinary income, capital gain and aggregate undistributed income from prior years. We intend to make distributions to stockholders to comply with the Code's distribution provisions and to avoid federal income and excise tax. We may need to borrow funds to meet our distribution requirements because:

- our income may not be matched by our related expenses at the time the income is considered received for purposes of determining taxable income; and
- non-deductible capital expenditures or debt service requirements may reduce available cash but not taxable income.

In these circumstances, we might have to borrow funds on unfavorable terms and even if our management believes the market conditions make borrowing financially unattractive.

The structure of our leases may jeopardize our ability to qualify as a REIT.

If the IRS were to challenge successfully the characterization of one or more of our leases of properties as leases for federal income tax purposes, the Operating Partnership would not be treated as the owner of the related property or properties for federal income tax purposes. As a result, the Operating Partnership would lose tax depreciation and cost recovery deductions with respect to one or more of our properties, which in turn could cause us to fail to qualify as a REIT. Although we will use our best efforts to structure any leasing transaction for properties acquired in the future so the lease will be characterized as a lease and the Operating Partnership will be treated as the owner of the property for federal income tax purposes, we will not seek an advance ruling from the IRS and do not intend to seek an opinion of counsel that the Operating Partnership will be treated as the owner of any leased properties for federal income tax purposes. Thus, the IRS could successfully assert that future leases will not be treated as leases for federal income tax purposes, which could adversely affect our financial condition and results of operations.

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To maintain our status as a REIT, we limit the amount of shares any one stockholder can own.

The Code imposes certain limitations on the ownership of the stock of a REIT. For example, not more than 50% in value of our outstanding shares of capital stock may be owned, actually or constructively, by five or fewer individuals (as defined in the Code). To protect our REIT status, our articles of incorporation restrict beneficial and constructive ownership (defined by reference to various Code provisions) to no more than 2.5% in value of our issued and outstanding equity securities by any single stockholder with the exception of members of the Saul Organization, who are restricted to beneficial and constructive ownership of no more than 39.9% in value of our issued and outstanding equity securities.

The constructive ownership rules are complex. Shares of our capital stock owned, actually or constructively, by a group of related individuals and/or entities may be treated as constructively owned by one of those individuals or entities. As a result, the acquisition of less than 2.5% or 39.9% in value of our issued and outstanding equity securities, by an individual or entity could cause that individual or entity (or another) to own constructively more than 2.5% or 39.9% in value of the outstanding stock. If that happened, either the transfer or ownership would be void or the shares would be transferred to a charitable trust and then sold to someone who can own those shares without violating the respective ownership limit.

As of December 31, 2014, Mr. Saul II and members of the Saul Organization owned common stock representing approximately 37.9% in value of all our issued and outstanding equity securities. In addition, members of the Saul Organization beneficially owned Operating Partnership units that are, in general, convertible into our common stock on a one-for-one basis. Members of the Saul Organization are permitted under our articles of incorporation to convert Operating Partnership units into shares of common stock or acquire additional shares of common stock until the Saul Organization's actual ownership of common stock reaches 39.9% in value of our equity securities.

The Board of Directors may waive these restrictions on a case-by-case basis. The Board has authorized the Company to grant waivers to look-through entities, such as mutual funds, in which shares of equity stock owned by the entity are treated as owned proportionally by individuals who are the beneficial owners of the entity. Even though these entities may own stock in excess of the 2.5% ownership limit, no individual beneficially or constructively would own more than 2.5%. The Board of Directors has agreed to waive the ownership limit with respect to certain mutual funds and similar investors. In addition, the Board of Directors has agreed to waive the ownership limit with respect to certain bank pledgees of shares of our common stock and units issued by the Operating Partnership and held by members of the Saul Organization.

The ownership restrictions may delay, defer or prevent a transaction or a change of our control that might involve a premium price for our equity stock or otherwise be in the stockholders' best interest.

We cannot assure you we will continue to pay dividends at historical rates.

Our ability to continue to pay dividends on our common stock at historical rates or to increase our common stock dividend rate will depend on a number of factors, including, among others, the following:

- our financial condition and results of future operations;
- the performance of lease terms by tenants;
- the terms of our loan covenants; and
- our ability to acquire, finance, develop or redevelop and lease additional properties at attractive rates.

If we do not maintain or increase the dividend rate on our common stock, it could have an adverse effect on the market price of our common stock and other securities. Payment of dividends on our common stock may be subject to payment in full of the dividends on any preferred stock or depositary shares and payment of interest on any debt securities we may offer.

Certain tax and anti-takeover provisions of our articles of incorporation and bylaws may inhibit a change of our control.

Certain provisions contained in our articles of incorporation and bylaws and the Maryland General Corporation Law may discourage a third party from making a tender offer or acquisition proposal to us. If this were to happen, it could delay, deter or prevent a change in control or the removal of existing management. These provisions also may delay or prevent the stockholders from receiving a premium for their stock over then-prevailing market prices. These provisions include:

- the REIT ownership limit described above;
- authorization of the issuance of our preferred stock with powers, preferences or rights to be determined by the Board of Directors;
- a staggered, fixed-size Board of Directors consisting of three classes of directors;

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special meetings of our stockholders may be called only by the Chairman of the Board, the president, by a majority of the directors or by stockholders possessing no less than 25% of all the votes entitled to be cast at the meeting; the Board of Directors, without a stockholder vote, can classify or reclassify unissued shares of preferred stock; a member of the Board of Directors may be removed only for cause upon the affirmative vote of 75% of the Board of Directors or 75% of the then-outstanding capital stock; advance notice requirements for proposals to be presented at stockholder meetings; and the terms of our articles of incorporation regarding business combinations and control share acquisitions.

We face risks relating to cybersecurity attacks that could cause loss of confidential information and other business disruptions.

We rely extensively on computer systems to process transactions and manage our business, and our business is at risk from and may be impacted by cybersecurity attacks. These could include attempts to gain unauthorized access to our data and computer systems. Attacks can be both individual and/or highly organized attempts organized by very sophisticated hacking organizations. We employ a number of measures to prevent, detect and mitigate these threats; however, there is no guarantee such efforts will be successful in preventing a cybersecurity attack. A cybersecurity attack could compromise the confidential information of our employees, tenants and vendors. A successful attack could disrupt and otherwise adversely affect our business operations.

We may amend or revise our business policies without your approval.

Our Board of Directors may amend or revise our operating policies without stockholder approval. Our investment, financing and borrowing policies and policies with respect to all other activities, such as growth, debt, capitalization and operations, are determined by the Board of Directors or those committees or officers to whom the Board of Directors has delegated that authority. The Board of Directors may amend or revise these policies at any time and from time to time at its discretion. A change in these policies could adversely affect our financial condition and results of operations, and the market price of our securities.

Item 1B. Unresolved Staff Comments

We have received no written comments from the Securities and Exchange Commission staff regarding our periodic or current reports in the 180 days preceding December 31, 2014 that remain unresolved.

Item 2. Properties

Overview

As of December 31, 2014, the Company is the owner, developer and operator of a real estate portfolio composed of 56 operating properties, totaling approximately 9.3 million square feet of gross leasable area (“GLA”), and three development parcels. The properties are located primarily in the Washington, D.C./Baltimore, Maryland metropolitan area. The operating property portfolio is composed of 50 neighborhood and community Shopping Centers, and six predominantly Mixed-Use Properties totaling approximately 7.9 million and 1.4 million square feet of GLA, respectively. No single property accounted for more than 6.5% of the total gross leasable area. A majority of the Shopping Centers are anchored by several major tenants. Thirty-two of the Shopping Centers were anchored by a grocery store and offer primarily day-to-day necessities and services. Two retail tenants, Giant Food (4.5%), a tenant at nine Shopping Centers and Safeway (2.5%), a tenant at eight Shopping Centers, individually accounted for 2.5% or more of the Company’s total revenue for the year ended December 31, 2014.

The following table sets forth average annualized base rent per square foot and average annualized effective rent per square foot for the Company's Commercial properties (all properties except for the Clarendon Center apartments). For purposes of this table, annualized effective rent is annualized base rent minus amortized tenant improvements and amortized leasing commissions.

	Year ended December 31,				
	2014	2013	2012	2011	2010
Base rent	\$18.07	\$17.77	\$17.05	\$15.81	\$15.92
Effective rent	\$16.45	\$15.98	\$15.47	\$14.42	\$14.58

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The Company expects to hold its properties as long-term investments, and it has no maximum period for retention of any investment. It plans to selectively acquire additional income-producing properties and to expand, renovate, and improve its properties when circumstances warrant. See “Item 1. Business—Operating Strategies” and “Business—Capital Policies.”

The Shopping Centers

Community and neighborhood shopping centers typically are anchored by one or more grocery stores, discount department stores or drug stores. These anchors offer day-to-day necessities rather than apparel and luxury goods and, therefore, generate consistent local traffic. By contrast, regional malls generally are larger and typically are anchored by one or more full-service department stores.

In general, the Shopping Centers are seasoned community and neighborhood shopping centers located in well established, highly developed, densely populated, middle and upper income areas. The 2014 average estimated population within a one- and three-mile radius of the Shopping Centers is approximately 15,700 and 96,300, respectively. The 2014 average household income within the one- and three-mile radius of the Shopping Centers is approximately \$105,400 and \$106,600, respectively, compared to a national average of \$72,800. Because the Shopping Centers generally are located in highly developed areas, management believes that there is little likelihood that significant numbers of competing centers will be developed in the future.

The Shopping Center properties range in size from approximately 18,900 to 574,800 square feet of GLA, with six in excess of 300,000 square feet, and average approximately 157,700 square feet. A majority of the Shopping Centers are anchored by several major tenants and other tenants offering primarily day-to-day necessities and services. Thirty-two of the Shopping Centers are anchored by a grocery store.

Lease Expirations of Shopping Center Properties

The following table sets forth, by year of expiration, the aggregate amount of base rent and leasable area for leases in place at the Shopping Centers that the Company owned as of December 31, 2014, for each of the next ten years beginning with 2015, assuming that none of the tenants exercise renewal options and excluding an aggregate of 394,329 square feet of unleased space, which represented 5.0% of the GLA of the Shopping Centers as of December 31, 2014.

Lease Expirations of Shopping Center Properties

Year of Lease Expiration	Leasable Area Represented by Expiring Leases		Percentage of Leasable Area Represented by Expiring Leases		Annual Base Rent Under Expiring Leases (1)	Percentage of Annual Base Rent Under Expiring Leases	Annual Base Rent per Square Foot
2015	720,700	sf	9.1	%	\$12,340,029	10.1	% \$17.12
2016	1,330,160		16.9	%	15,498,896	12.7	% 11.65
2017	991,087		12.6	%	18,057,995	14.9	% 18.22
2018	953,655		12.1	%	16,505,207	13.6	% 17.31
2019	1,034,062		13.1	%	18,766,603	15.4	% 18.15
2020	416,300		5.3	%	7,006,117	5.8	% 16.83
2021	179,367		2.3	%	3,011,906	2.5	% 16.79
2022	546,703		6.9	%	6,958,472	5.7	% 12.73
2023	394,529		5.0	%	6,086,402	5.0	% 15.43
2024	208,690		2.6	%	4,507,739	3.7	% 21.60
Thereafter	716,722		9.1	%	12,906,696	10.6	% 18.01
Total	7,491,975	sf	95.0	%	\$121,646,062	100.0	% 16.24

(1) Calculated using annualized contractual base rent payable as of December 31, 2014 for the expiring GLA, excluding expenses payable by or reimbursable from tenants.

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The Mixed-Use Properties

Five of the six Mixed-Use Properties are located in the Washington, D.C. metropolitan area and contain an aggregate GLA of approximately 1.3 million square feet, comprised of 1.0 million and 96.4 thousand square feet of office and retail space, respectively, and 244 apartments. The sixth Mixed-Use Property is located in Tulsa, Oklahoma and contains GLA of 197,000 square feet. The Mixed-Use Properties represent three distinct styles of facilities, are located in differing commercial environments with distinctive demographic characteristics, and are geographically removed from one another. Accordingly, management believes that the Washington, D.C. area mixed-use properties compete for tenants in different commercial and geographic sub-markets of the metropolitan Washington, D.C. market and do not compete with one another.

601 Pennsylvania Avenue is a nine-story, 227,000 square foot Class A office building (with a small amount of street level retail space) built in 1986 and situated in a prime location in downtown Washington, D.C. Washington Square at Old Town is a 236,000 square foot Class A mixed-use office/retail complex completed in 2000 and located on a two-acre site along Alexandria's main street, North Washington Street, in historic Old Town Alexandria, Virginia.

Avenel Business Park is a 391,000 square foot research park located in the suburban Maryland, I-270 biotech corridor. The business park consists of twelve one-story buildings built in six phases, completed between 1981 and 2000.

Clarendon Center is a recently constructed mixed-use Class A commercial and residential project located at the Clarendon Metro station in Arlington County, Virginia, which contains 171,600 square feet of office, 41,700 square feet of retail and 244 apartment units.

Crosstown Business Center is a 197,000 square foot flex office/warehouse property located in Tulsa, Oklahoma. The property is located in close proximity to Tulsa's international airport and major roadways and has attracted tenants requiring light industrial and distribution facilities.

During 2013, the Company completed negotiation of lease termination agreements with the tenants of Van Ness Square and the building became vacant in April 2013. Costs incurred related to those termination arrangements were amortized to expense using the straight-line method over the remaining terms of the leases and are included in "Predevelopment Expenses" in the Consolidated Statements of Operations. Lease termination costs and demolition costs totaled approximately \$2.7 million in 2012, \$3.9 million in 2013 and \$0.5 million in 2014. The Company is developing a 271-unit residential project with approximately 9,000 square feet of street-level retail, below street-level structured parking and amenities including a community room, landscaped courtyards, a fitness room and a rooftop pool and deck. Construction is expected to be completed in the first quarter of 2016. When complete, the structure will comprise 11 levels, five of which will be below street level. Concrete is currently being poured on the seventh level. The total cost of the project, excluding predevelopment expense and land (which the Company has owned), is expected to be approximately \$93.0 million, a portion of which will be financed with a \$71.6 million construction-to-permanent loan. Costs incurred through December 31, 2014, total approximately \$27.0 million, of which \$5.4 million has been financed by the loan.

Lease Expirations of Mixed-Use Properties

The following table sets forth, by year of expiration, the aggregate amount of base rent and leasable area for commercial leases in place at the Mixed-Use Properties that the Company owned as of December 31, 2014, for each of the next ten years beginning with 2015, assuming that none of the tenants exercise renewal options and excluding an aggregate of 116,256 square feet of unleased office and retail space, which represented 9.2% of the GLA of the commercial space within the Mixed-Use Properties as of December 31, 2014.

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Commercial Lease Expirations of Mixed-Use Properties

Year of Lease Expiration	Leasable Area Represented by Expiring Leases		Percentage of Leasable Area Represented by Expiring Leases	Annual Base Rent Under Expiring Leases (1)	Percentage of Annual Base Rent Under Expiring Leases	Annual Base Rent per Square Foot
2015	117,540	sf	9.3	% \$2,151,633	6.1	% \$18.31
2016	140,077		11.1	% 2,954,387	8.4	% 21.09
2017	109,077		8.6	% 2,207,987	6.3	% 20.24
2018	97,854		7.7	% 3,001,620	8.5	% 30.67
2019	139,919		11.1	% 5,238,454	14.9	% 37.44
2020	155,611		12.3	% 2,856,416	8.1	% 18.36
2021	102,279		8.1	% 4,333,790	12.3	% 42.37
2022	79,675		6.3	% 2,756,263	7.8	% 34.59
2023	107,940		8.5	% 5,540,751	15.7	% 51.33
2024	20,651		1.6	% 1,445,570	4.1	% 70.00
Thereafter	77,609		6.1	% 2,753,444	7.8	% 35.48
Total	1,148,232	sf	90.8	% \$35,240,315	100.0	% 30.69

(1) Calculated using annualized contractual base rent payable as of December 31, 2014, for the expiring GLA, excluding expenses payable by or reimbursable from tenants.

As of December 31, 2014, the Company had 234 apartment leases, 227 of which will expire in 2015 and seven of which will expire in 2016. Annual base rent due under these leases is \$3.3 million and \$0.3 million for the years ending December 31, 2015 and 2016, respectively.

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Current Portfolio Properties

The following table sets forth, at the dates indicated, certain information regarding the Current Portfolio Properties:

Property	Location	Leasable Area (Square Feet)	Year Acquired or Developed (Renovated)	Land Area (Acreage)	Percentage Leased as of December					Anchor / Significant Tenants	
					2014	2013	2012	2011	2010		
Shopping Centers											
Ashburn Village	Ashburn, VA	221,273	1994-01-02	26.4	93 %	91 %	92 %	88 %	93 %		Giant Food, Hallmark Cards, McDonald's, Burger King, Dunkin' Donuts, Kinder Care Capital One Bank, CVS Pharmacy, The All American Steakhouse, Lowe's Home Improvement Center, Giant Food, Home Goods, Outback Steakhouse, Marshalls, Hancock Fabrics, Party Depot, Panera Bread, TGI Fridays, Starbucks, Famous Dave's, Chipotle
Ashland Square Phase I	Dumfries, VA	23,120	2007	2.0	100 %	100 %	100 %	100 %	100 %		BJ's Wholesale Club, Publix, Wachovia Bank, Jaco Hybrid
Beacon Center	Alexandria, VA	358,071	1972 (1993/99/07)	32.3	100 %	100 %	100 %	100 %	100 %		BJ's Wholesale Club, Publix, Wachovia Bank, Jaco Hybrid
BJ's Wholesale Club	Alexandria, VA	115,660	2008	9.6	100 %	100 %	100 %	100 %	100 %		BJ's Wholesale Club
Boca Valley Plaza	Boca Raton, FL	121,269	2004	12.7	89 %	91 %	87 %	80 %	82 %		Publix, Wachovia Bank, Jaco Hybrid

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Boulevard	Fairfax, VA	49,140	1994 (1999/09)	5.0	98	%	100	%	100	%	100	%	100	%	100	%	Training, Subway, Panera Bread, Party City, Petco, Safeway, Ross Dress For Less, Family Dollar, Advance Auto, McDonald's, Wendy's, Chuck E Cheese's, Safeway, The All American Steakhouse, Bonefish Grill, Dollar Tree, Starbucks, Safeway, CVS
Briggs Chaney MarketPlace	Silver Spring, MD	194,347	2004	18.2	99	%	99	%	99	%	99	%	99	%	99	%	Pharmacy, Starbucks, McDonalds, Giant Food, Staples, Party City, Pier 1 Imports, Jos. A. Bank, Wendy's, Giant Gas, Publix, Subway, Orange Theory, Capital One Bank
Broadlands Village	Ashburn, VA	159,734	2003/04/06	24.0	97	%	87	%	85	%	91	%	87	%		%	Starbucks, Safeway, CVS
Countryside MarketPlace	Sterling, VA	137,662	2004	16.0	91	%	91	%	92	%	90	%	92	%		%	Starbucks, McDonalds, Giant Food, Staples, Party City, Pier 1 Imports, Jos. A. Bank, Wendy's, Giant Gas, Publix, Subway, Orange Theory, Capital One Bank
Cranberry Square	Westminster, MD	141,450	2011	18.9	97	%	95	%	92	%	91	%	N/A		%		Starbucks, Safeway, CVS
Cruse MarketPlace	Cumming, GA	78,686	2004	10.6	88	%	84	%	84	%	88	%	86	%		%	Starbucks, Safeway, CVS
Flagship Center	Rockville, MD	21,500	1972, 1989	0.5	100	%	100	%	100	%	100	%	100	%		%	Starbucks, Safeway, CVS
French Market	Oklahoma City, OK	244,718	1974 (1984/98)	13.8	100	%	100	%	87	%	94	%	98	%		%	Starbucks, Safeway, CVS

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Germantown 750/730 N. Glebe Road	Germantown, MD Arlington, VA	27,241 18,874	1992 2014	2.7 2.3	86 % 100 %	81 % N/A	81 % N/A	82 % N/A	74 % N/A	Tree Jiffy Lube Rosenthal Mazda Safeway Marketplace, The All American Steakhouse, Panera Bread, Five Guys, Chipotle Pep Boys, No Excuse Workout, Room Style Furniture, Kool Smile Safeway, CVS Pharmacy, Capital One Bank, Starbucks, Subway, Long & Foster Expo E Mart, Radio Shack, Starbucks, Chuck E. Cheese's, Sardi's Chicken Publix, Walgreens, Radio Shack, Hallmark Publix, Carrabas Italian Grill Lowe's Home Improvement Center, Chipotle
The Glen	Woodbridge, VA	136,440	1994 (2005)	14.7	94 %	97 %	96 %	96 %	98 %	
Great Eastern	District Heights, MD	255,398	1972 (1995)	31.9	73 %	74 %	75 %	98 %	98 %	
Great Falls Center	Great Falls, VA	91,666	2008	11.0	98 %	96 %	98 %	95 %	93 %	
Hampshire Langley	Takoma Park, MD	131,700	1972 (1979)	9.9	100 %	100 %	100 %	98 %	100 %	
Hunt Club Corners	Apopka, FL	101,522	2006	13.9	94 %	97 %	94 %	94 %	94 %	
Jamestown Place	Altamonte Springs, FL	96,341	2005	10.9	92 %	89 %	93 %	90 %	91 %	
Kentlands Square I	Gaithersburg, MD	114,381	2002	11.5	100 %	100 %	100 %	100 %	100 %	

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Property	Location	Leasable Year		Percentage Leased as of December						Anchor / Significant Tenants
		Area (Square Feet)	Acquired or Developed (Renovated)	Land 31, (1) Area (Acreage)	2014	2013	2012	2011	2010	
Shopping Centers (Continued)										
Kentlands Square II	Gaithersburg, MD	247,783	2011, 2013	23.4	98 %	96 %	96 %	100 %	N/A	Giant Food, Kmart, Party City, Panera Bread, Not Your Average Joe's, Payless Shoes, Hallmark, Chick-Fil-A, Coal Fire Pizza, Brasserie Beck, Cava Mezze Grill, Zengo Cycle, Fleet Feet, Elizabeth Arden's Red Door Salon, Bonfish Grill, Subway, Harris Teeter, CVS Pharmacy, Panera Bread, Not Your Average Joe's, Starbucks, Lansdowne Tavern, Capital One Bank, Pike's Fish House, CVS Pharmacy, Party Depot, FedEx Kinko's, Radio Shack, Verizon Wireless
Kentlands Place	Gaithersburg, MD	40,648	2005	3.4	100 %	100 %	100 %	97 %	90 %	Door Salon, Bonfish Grill, Subway, Harris Teeter, CVS Pharmacy, Panera Bread, Not Your Average Joe's, Starbucks, Lansdowne Tavern, Capital One Bank, Pike's Fish House, CVS Pharmacy, Party Depot, FedEx Kinko's, Radio Shack, Verizon Wireless
Lansdowne Town Center	Leesburg, VA	189,422	2006	23.4	97 %	97 %	93 %	96 %	90 %	Bottom Dollar Food, Rite Aid, Virtua Health
Leesburg Pike Plaza	Baileys Crossroads, VA	97,752	1966 (1982/95)	9.4	100 %	100 %	100 %	95 %	97 %	Bottom Dollar Food, Rite Aid, Virtua Health
Lumberton Plaza	Lumberton, NJ	192,718	1975 (1992/96)	23.3	94 %	94 %	93 %	76 %	90 %	Bottom Dollar Food, Rite Aid, Virtua Health

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Metro Pike Center	Rockville, MD	67,488	2010	4.6	80	%	92	%	84	%	76	%	89	%	Center, Radio Shack, Family Dollar, Retro Fitness, Big Lots McDonald's, Fed ExKinko's, Dunkin' Donuts, 7-Eleven Giant Food, Giant Gas Station, Panera Bread, Starbucks, Five Guys, California Tortilla, Firehouse Subs, Comcast Harris Teeter, Longhorn Steakhouse, Ledo's Pizza, Capital One Bank, Jos. A. Bank Safeway, Advance Auto, Dollar Tree, Radio Shack, McDonalds, Wendy's, Ledo's Pizza Rite Aid, Olney Grill, Ledo's Pizza, Popeye's Kroger, GNC, Subway, Jett Ferry Dental Albertson's, Mimi's Cafe, Toojay's Deli, The Tile Shop Giant Food, Starbucks, Sleepy's, Dominos, Bank of America Staples, Casual Male
Shops at Monocacy	Frederick, MD	109,144	2004	13.0	98	%	93	%	92	%	91	%	99	%	
Northrock	Warrenton, VA	99,789	2009	15.4	95	%	87	%	81	%	81	%	75	%	
Olde Forte Village	Ft. Washington, MD	143,577	2003	16.0	98	%	97	%	96	%	94	%	93	%	
Olney	Olney, MD	53,765	1975 (1990)	3.7	92	%	93	%	94	%	96	%	95	%	
Orchard Park	Dunwoody, GA	87,885	2007	10.5	98	%	94	%	92	%	90	%	89	%	
Palm Springs Center	Altamonte Springs, FL	126,446	2005	12.0	91	%	98	%	98	%	94	%	91	%	
Ravenwood	Baltimore, MD	93,328	1972 (2006)	8.0	96	%	94	%	91	%	93	%	91	%	
11503 Rockville Pike/5541 Nicholson	Rockville, MD	40,249	2010/2012	3.0	63	%	70	%	70	%	100	%	100	%	

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1500/1580/1582/1584 Rockville Pike	Rockville, MD	110,128	2012/2014	10.3	99 %	100%	91 %	N/A	N/A	Party City, CVS Pharmacy, Sheffield Furniture, Hooters Publix, Earth Origins Health Food, Petco, Planet Fitness, Vision Works Seacoast Realty, Armand's Pizza, Candy Kitchen, Turquoise Restaurant The Home Depot, Shoppers Food & Pharmacy, Michaels Arts & Crafts, Barnes & Noble, Ross Dress For Less, Ski Chalet, G Street Fabrics, Off-Broadway Shoes, JoAnn Fabrics, Dress Barn, Starbucks, Dogfishhead Ale House, Red Robin Gourmet Burgers, Chipotle, Wendy's, Burlington Coat Factory Giant Food, Kohl's, Office Depot, A.C. Moore, Goodyear, Chipotle, McDonalds, Jos. A Bank, Radio Shack,
Seabreeze Plaza	Palm Harbor, FL	146,673	2005	18.4	97 %	97 %	97 %	95 %	94 %	
Marketplace at Sea Colony	Bethany Beach, DE	21,677	2008	5.1	91 %	91 %	90 %	95 %	82 %	
Seven Corners	Falls Church, VA	574,831	1973 (1994 - 7/07)	31.6	100%	100%	100%	91 %	100 %	
Severna Park Marketplace	Severna Park, MD	254,174	2011	20.6	100%	100%	100%	100 %	N/A	

													Atlanta Bread Company, Five Guys, Unleashed (Petco)
Shops at Fairfax	Fairfax, VA	68,762	1975 (1993/99)	6.7	98 %	100%	100%	95 %	93 %				Super H Mart
Smallwood Village Center	Waldorf, MD	174,749	2006	25.1	72 %	74 %	70 %	68 %	64 %				Safeway, CVS Pharmacy, Family Dollar

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Property Location	Leasable Area (Square Feet)	Year Acquired or Developed (Renovated)	Land Area (Acres)	Percentage Leased as of December 31, (1)					Anchor / Significant Tenants	
				2014	2013	2012	2011	2010		
Shopping Centers (Continued)										
Southdale	Glen Burnie, MD	1972 (1986)	39.6	89 %	87 %	93 %	83 %	94 %		The Home Depot, Michaels Arts & Crafts, Marshalls, PetSmart, Value City Furniture, Athletic Warehouse, Starbucks, Gallo Clothing, Office Depot, The Tile Shop, Community Supermarket, Maxway, Citi Trends, City of Richmond, McDonalds, Burger King, Kool Smiles, Anna's Linens, Hibachi Grill Maxway, Big Lots, Emory Clinic, Deal\$ (Dollar Tree), Shoe Land
Southside Plaza	Richmond, VA	1972	32.8	98 %	98 %	92 %	92 %	92 %		Richmond, McDonalds, Burger King, Kool Smiles, Anna's Linens, Hibachi Grill Maxway, Big Lots, Emory Clinic, Deal\$ (Dollar Tree), Shoe Land
South Dekalb Plaza	Atlanta, GA	1976	14.6	94 %	94 %	88 %	88 %	82 %		Shoe Land
Thruway	Winston-Salem, NC	1972 (1997)	30.5	97 %	96 %	93 %	87 %	97 %		Harris Teeter, Trader Joe's, Stein Mart, Talbots, Hanes Brands, Jos. A Bank, Bonafish Grill, Chico's, Ann Taylor Loft, Rite Aid, FedEx/Kinkos, Plow & Hearth, New Balance, Aveda Salon, Christies

Village Center	Centreville, VA	146,032	1990	17.2	98	%	96	%	99	%	90	%	90	%	Hallmark, Carter's Kids, McDonalds, Chick-Fil-A, Wells Fargo Bank, Francesca's Collections, Great Outdoor Provision Company, White House / Black Market, Soma Giant Food, Tuesday Morning, Starbucks, McDonald's, Pet Supplies Plus, Bikram Yoga Mimi's Cafe, Sleepy's, Music & Arts, Firehouse Subs, CiCi's Pizza, Café Rio, Five Guys, Regus Giant Food, Sears, Walgreens, Radio Shack, Boston Market, Sarku
Westview Village	Frederick, MD	97,145	2009	10.4	90	%	88	%	85	%	57	%	36	%	
White Oak	Silver Spring, MD	480,676	1972 (1993)	28.5	100	%	100	%	100	%	99	%	99	%	
Total Shopping Centers	(3)7,886,304			759.3	95.0	%	94.5	%	93.4	%	91.6	%	92.9	%	

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Property	Location	Leasable Area (Square Feet)	Year Acquired or Developed (Renovated)	Land Area (Acres)	Percentage Leased as of December 31, (1)					Anchor /
					2014	2013	2012	2011	2010	
Mixed-Use Properties										
Avenel Business Park	Gaithersburg, MD	390,683	1981-2000	37.1	88 %	91 %	83 %	80 %	81 %	General S Gene Dx,
Clarendon Center-North Block	Arlington, VA	108,387	2010	0.6	96 %	96 %	96 %	86 %	75 %	Pete's Ne Airline R
Clarendon Center-South Block	Arlington, VA	104,894	2010	1.3	100 %	100 %	100 %	99 %	42 %	Trader Jo Herbert B Cannon D Keppler S Managem Institute,
Clarendon Center Residential-South Block (244 units)		188,671	2010		96 %	99 %	100 %	100 %	44 %	
Crosstown Business Center	Tulsa, OK	197,127	1975 (2000)	22.4	94 %	81 %	77 %	87 %	87 %	Roxtec, K Freedom Baldor National Assn. of I Union Na Company Forum, C Vanderw Decoratin Cooper C Marketing Economic Joe's, Fe Teaism R The Busi
601 Pennsylvania Ave.	Washington, DC	227,021	1973 (1986)	1.0	96 %	95 %	95 %	95 %	100 %	
Washington Square	Alexandria, VA	236,376	1975 (2000)	2.0	82 %	86 %	89 %	92 %	92 %	
Total Mixed Use Properties		(3) 1,453,159		64.4	90.8 % (2)	90.5 % (2)	87.7 % (2)	88.2 % (2)	83.8 % (2)	
Total Portfolio		(3) 9,339,463		823.7	94.4 % (2)	93.9 % (2)	92.6 % (2)	91.1 % (2)	91.5 % (2)	
Land and Development Parcels										
Ashland Square Phase II	Manassas, VA		2004	17.3						Marketing to grocers and other retail businesses, v development timetable yet to be finalized.
New Market	New Market, MD		2005	35.5						Parcel will accommodate retail development in ex 120,000 SF near I-70, east of Frederick, Maryland development timetable has not been determined.
Park Van Ness	Washington, DC		1973/2011	1.4						A 271-unit residential building with approximatel street-level retail space is currently under constru

Total Development Properties	54.2
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Percentage leased is a percentage of rentable square feet leased for commercial space and a percentage of units (1) leased for apartments. Includes only operating properties owned as of December 31, 2014. As such, prior year totals do not agree to prior year tables.

(2) Total percentage leased is for commercial space only.

Prior year leased percentages for Total Shopping Centers, Total Mixed-Use Properties and Total Portfolio have (3) been recalculated to exclude the impact of properties sold or removed from service and, therefore, the percentages reported in this table may be different than the percentages previously reported.

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Item 3. Legal Proceedings

In the normal course of business, the Company is involved in litigation, including litigation arising out of the collection of rents, the enforcement or defense of the priority of its security interests, and the continued development and marketing of certain of its real estate properties. In the opinion of management, litigation that is currently pending should not have a material adverse impact on the financial condition or future operations of the Company.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

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 2014 and 2013 as follows:

Period	Share Price	
	High	Low
October 1, 2014 – December 31, 2014	\$58.56	\$46.83
July 1, 2014 – September 30, 2014	\$50.35	\$45.98
April 1, 2014 – June 30, 2014	\$50.53	\$45.51
January 1, 2014 – March 31, 2014	\$48.20	\$45.06
October 1, 2013 – December 31, 2013	\$49.19	\$45.86
July 1, 2013 – September 30, 2013	\$48.49	\$43.10
April 1, 2013 – June 30, 2013	\$47.83	\$42.66
January 1, 2013– March 31, 2013	\$44.94	\$41.43

On March 3, 2015, the closing price was \$54.64 per share.

Holders

The approximate number of holders of record of the common stock was 205 as of March 3, 2015.

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 2014 and 2013. Distributions by the Company to common stockholders and holders of limited partnership units in the Operating Partnership were \$43.5 million and \$39.2 million in 2014 and 2013, respectively. Distributions to preferred stockholders were \$13.5 million and \$14.6 million in 2014 and 2013, respectively. See Notes to Consolidated Financial Statements, No. 14, "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.

The Company paid four quarterly distributions totaling \$1.56, \$1.44 and \$1.44 per common share during 2014, 2013 and 2012, respectively. The annual distribution amounts paid by the Company exceeded the distribution amounts required for tax purposes. Distributions to the extent of our current and accumulated earnings and profits for federal income tax purposes generally will be taxable to a stockholder as ordinary dividend income. Distributions in excess of current and accumulated earnings and profits will be treated as a nontaxable reduction of the stockholder's basis in such stockholder's shares, to the extent thereof, and thereafter as taxable gain. Distributions that are treated as a reduction of the stockholder's basis in its shares will have the effect of deferring taxation until the sale of the stockholder's shares. All of the 2014 common dividends were treated as taxable dividends. Of the \$1.44 per common share dividend paid in 2013, 67% was treated as a taxable dividend and 33% was treated as a return of capital. Of the \$1.44 per common share dividend paid in 2012, 66% was treated as a taxable dividend income and 34% was treated as

a return of capital. No assurance can be given regarding what

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portion, if any, of distributions in 2015 or subsequent years will constitute a return of capital for federal income tax purposes. All of the preferred stock dividends paid are treated as ordinary dividend income.

Acquisition of Equity Securities by the Saul Organization

Through participation in the Company's Dividend Reinvestment Plan, during the quarter ended December 31, 2014, (a) B. Francis Saul II, the Company's Chairman of the Board and Chief Executive Officer, (b) his spouse, (c) B. F. Saul Real Estate Investment Trust and B. F. Saul Company, for each of which Mr. 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 B. F. Saul Real Estate Investment Trust, acquired an aggregate of 21,776 shares of common stock at an average price of \$52.71 per share, in respect of the October 31, 2014 dividend distribution.

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

Performance Graph

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 National Association of Real Estate Investment Trust Equity Index ("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 January 1, 2010.

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Item 6. Selected Financial Data

The selected financial data of the Company contained herein has been derived from the consolidated financial statements of the Company. The data should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Consolidated Financial Statements included elsewhere in this report.

SELECTED FINANCIAL DATA

(In thousands, except per share data)

	Years Ended December 31,					
	2014	2013	2012	2011	2010	
Operating Data:						
Total revenue	\$207,092	\$197,897	\$190,092	\$173,878	\$163,108	
Total operating expenses	155,163	162,628	154,996	142,442	120,300	
Operating income	51,929	35,269	35,096	31,436	42,808	
Non-operating income:						
Change in fair value of derivatives	(10	) (7	) 36	(1,332) —	
Loss on early extinguishment of debt	—	(497) —	—	(5,405)
Gain on sale of property	6,069	—	—	—	—	
Gain on casualty settlements	—	77	219	245	2,475	
Income from continuing operations	57,988	34,842	35,351	30,349	39,878	
Discontinued operations	—	—	4,429	(55	) 3,307
Net income	57,988	34,842	39,780	30,294	43,185	
Income attributable to noncontrolling interests	(11,045) (3,970) (6,406) (3,561) (6,422)
Net income attributable to Saul Centers, Inc.	46,943	30,872	33,374	26,733	36,763	
Preferred stock redemption	(1,480	) (5,228) —	—	—	
Preferred dividends	(13,361) (13,983) (15,140) (15,140) (15,140)
Net income available to common stockholders	\$32,102	\$11,661	\$18,234	\$11,593	\$21,623	
Per Share Data (diluted):						
Net income available to common stockholders:						
Continuing operations	\$1.54	\$0.57	\$0.70	\$0.61	\$1.00	
Discontinued operations	—	—	0.23	—	0.18	
Total	\$1.54	\$0.57	\$0.93	\$0.61	\$1.18	
Basic and Diluted Shares Outstanding:						
Weighted average common shares - basic	20,772	20,364	19,649	18,889	18,267	
Effect of dilutive options	49	37	51	60	110	
Weighted average common shares - diluted	20,821	20,401	19,700	18,949	18,377	
Weighted average convertible limited partnership units	7,156	6,929	6,914	5,791	5,416	
Weighted average common shares and fully converted limited partnership units - diluted	27,977	27,330	26,614	24,740	23,793	
Dividends Paid:						
Cash dividends to common stockholders (1)	\$32,346	\$29,205	\$28,135	\$27,062	\$26,186	
Cash dividends per share	\$1.56	\$1.44	\$1.44	\$1.44	\$1.44	
Balance Sheet Data:						
Real estate investments (net of accumulated depreciation)	\$1,163,542	\$1,094,776	\$1,112,763	\$1,091,448	\$927,250	
Total assets	1,266,987	1,198,675	1,207,309	1,192,569	1,013,888	
Total debt, including accrued interest	860,601	823,328	831,121	835,459	713,997	

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Preferred stock	180,000	180,000	179,328	179,328	179,328
Total stockholders' equity	339,257	315,126	307,289	293,206	239,813

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SELECTED FINANCIAL DATA

(In thousands, except per share data)

	Years Ended December 31,				
	2014	2013	2012	2011	2010
Other Data					
Cash flow provided by (used in):					
Operating activities	\$86,568	\$73,527	\$78,423	\$55,669	\$62,887
Investing activities	\$(83,589)	\$(26,034)	\$(46,873)	\$(201,500)	\$(98,239)
Financing activities	\$(8,148)	\$(42,329)	\$(31,740)	\$145,186	\$27,713
Funds from operations (2):					
Net income	\$57,988	\$34,842	\$39,780	\$30,294	\$43,185
Real property depreciation and amortization	41,203	49,130	40,112	35,298	28,379
Real property depreciation - discontinued operations	—	—	77	102	198
Gain on property dispositions and casualty settlements	(6,069)	(77)	(4,729)	(245)	(6,066)
Funds from operations	93,122	83,895	75,240	65,449	65,696
Preferred stock redemption	(1,480)	(5,228)	—	—	—
Preferred dividends	(13,361)	(13,983)	(15,140)	(15,140)	(15,140)
Funds from operations available to common shareholders	\$78,281	\$64,684	\$60,100	\$50,309	\$50,556

During 2014, 2013, 2012, 2011, and 2010, shareholders reinvested \$9.3 million, \$20.7 million, \$23.1 million, \$19.8 million and \$16.7 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."

Item 7. 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 36, discusses the Company's results of operations for the past two years. Beginning on page 40, 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 49, 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 on Form 10-K, including the consolidated financial statements and notes thereto appearing in Item 8 of this report. Historical results set forth in Selected Financial Information, the Consolidated Financial Statements and Supplemental Data included in Item 6 and Item 8 and this section should not be taken as indicative of the Company's future operations.

Overview

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

The Company's primary operating strategy is to focus on its community and neighborhood shopping center business and to operate its properties to achieve both cash flow growth and capital appreciation. Management believes there is potential for long term growth in cash flow as existing leases for space in the Shopping Center and Mixed-Use Properties expire and are renewed, or newly available or vacant space is leased. The Company intends to renegotiate leases where possible and seek new tenants for available space in order to optimize the mix of uses to improve foot traffic through the Shopping Centers. As leases expire, management expects to revise rental rates, lease terms and

conditions, relocate existing tenants, reconfigure tenant spaces and introduce new tenants with the goals of increasing occupancy, improving overall retail sales, and ultimately increasing cash flow as economic conditions improve. In those circumstances in which leases are not otherwise expiring, management selectively attempts to increase cash flow through a variety of means, or in connection with renovations

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or relocations, recapturing leases with below market rents and re-leasing at market rates, as well as replacing financially troubled tenants. When possible, management also will seek to include scheduled increases in base rent, as well as percentage rental provisions, in its leases.

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

In December 2012, the Company purchased for \$23.0 million, including acquisition costs, approximately 52,700 square feet of retail space located on the east side of Rockville Pike near the Twinbrook Metro station. In 2014, in separate transactions, the Company purchased three adjacent properties, with approximately 57,400 square feet of retail space, for an aggregate \$25.2 million. Combined, the four properties total 10.3 acres and are zoned for up to 1.2 million square feet of rentable mixed-use space. The Company is actively engaged in a plan for redevelopment but has not committed to any timetable for commencement of construction.

Also in 2012, the Company purchased, for \$12.2 million, including acquisition costs, approximately 20,100 square feet of retail space located on the east side of Rockville Pike near the White Flint Metro station and adjacent to 11503 Rockville Pike, which was purchased in 2010. The property, when combined with 11503 Rockville Pike, will provide zoning for up to 331,000 square feet of rentable mixed-use space. When combining these two properties with our Metro Pike shopping center on the west side of Rockville Pike, the Company's holdings at White Flint total 7.6 acres which are zoned for a development potential of up to 1.5 million square feet of mixed-use space. The Company is actively engaged in a plan for redevelopment but has not committed to any timetable for commencement of construction.

During 2013, the Company completed negotiation of lease termination agreements with the tenants of Van Ness Square. Costs incurred related to those termination arrangements were amortized to expense using the straight-line method over the remaining terms of the leases, are included in "Predevelopment Expenses" in the Consolidated Statements of Operations, totaled \$2.7 million in 2012 and \$3.3 million in 2013. The Company is in the process of developing a primarily residential project with street-level retail. In connection with the demolition of the existing structure, approximately \$580,000 and \$503,000 of predevelopment expenses were recognized in 2013 and 2014, respectively.

In 2014, in separate transactions, the Company purchased two adjacent properties, with approximately 18,900 square feet of retail space, on North Glebe Road in Arlington, Virginia, for an aggregate \$42.8 million. Combined, the properties total 2.3 acres and are zoned for up to 450,000 square feet of rentable mixed-use space. The Company is actively engaged in a plan for redevelopment but has not committed to any timetable for commencement of construction.

In light of the limited amount of quality properties for sale and the escalated pricing of properties that the Company has been presented with or has inquired about over the past year, management believes acquisition opportunities for investment in existing and new Shopping Center and Mixed-Use Properties in the near future is uncertain. Because of its 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 located 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.

During the most recent downturn in the national real estate market, which began in 2008, the effects on the office and retail markets in the metropolitan Washington, D.C. area, where the majority of the Company's properties are located, were initially less severe than in many other areas of the country. Even though economic conditions in the local economies, where the majority of the Company's properties are located, have improved over recent years, issues facing the Federal government relating to spending cuts and budget policies have resulted in continued elevated vacancy rates in many sub-markets, thus pressuring rental rate growth. While overall consumer confidence appears to have

improved, retailers continue to be cautious about new store openings. However, the Company's overall leasing percentage, on a comparative same property basis, which excludes the impact of properties not in operation for the entirety of the comparable periods, continues to improve and increased to 94.4% at December 31, 2014, from 93.9% at December 31, 2013.

Because of the Company's conservative capital structure, its liquidity has not been significantly affected by the recent turmoil in the credit markets. 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, 2014, amortizing fixed-rate mortgage debt with staggered maturities from 2015 to 2034 represented approximately 91.5% of the Company's notes payable, thus minimizing refinancing risk. The Company has one fixed-rate debt maturity scheduled for 2015 and which was refinanced

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on March 3, 2015. The Company's variable-rate debt consists of a \$14.5 million bank term loan secured by the Northrock shopping center, a \$15.1 million bank term loan secured by the Metro Pike Center and \$43.0 million outstanding under the unsecured revolving line of credit. As of December 31, 2014, the Company has loan availability of approximately \$231.6 million under its \$275.0 million unsecured revolving line of credit.

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

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.

The Company purchases real estate investment properties from time to time and records assets acquired and liabilities assumed, including land, buildings, and intangibles related to in-place leases and customer relationships based on their fair values. The fair value of buildings generally is determined as if the buildings were vacant upon acquisition and subsequently leased at market rental rates and considers the present value of all cash flows expected to be generated by the property including an initial lease up period. The Company determines the fair value of above and below market intangibles associated with in-place leases by assessing the net effective rent and remaining term of the in-place lease relative to market terms for similar leases at acquisition taking into consideration the remaining contractual lease period, renewal periods, and the likelihood of the tenant exercising its renewal options. The fair value of a below market lease component is recorded as deferred income and accreted as additional lease revenue over the remaining contractual lease period. If the fair value of the below market lease intangible includes fair value associated with a renewal option, such amounts are not accreted until the renewal option is exercised. If the renewal option is not exercised the value is recognized at that time. The fair value of above market lease intangibles is recorded as a deferred asset and is amortized as a reduction of lease revenue over the remaining contractual lease term. The Company determines the fair value of at-market in-place leases considering the cost of acquiring similar leases, the foregone rents associated with the lease-up period and carrying costs associated with the lease-up period. Intangible assets associated with at-market in-place leases are amortized as additional expense over the remaining contractual lease term. To the extent customer relationship intangibles are present in an acquisition, the fair value of the intangibles are amortized over the life of the customer relationship. From time to time the Company may purchase a property for future development purposes. The property may be improved with an existing structure that would be demolished as part of the development. In such cases, the fair value of the building may be determined based only on existing leases and not include estimated cash flows related to future leases.

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 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

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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.

When incurred, the Company capitalizes the cost of improvements that extend the useful life of property and equipment. All repair and maintenance expenditures are expensed when incurred. Leasehold improvements expenditures are capitalized when certain criteria are met, including when we supervise construction and will own the improvement. Tenant improvements we own are depreciated over the life of the respective lease or the estimated useful life of the improvements, whichever is shorter.

Interest, real estate taxes, development-related salary costs and other carrying costs are capitalized on projects under construction. Once construction is substantially complete and the assets are placed in service, rental income, direct operating expenses, and depreciation associated with such properties are included in current operations. Commercial development projects are substantially complete and available for occupancy upon completion of tenant improvements, but no later than one year from the cessation of major construction activity. Residential development projects are considered substantially complete and available for occupancy upon receipt of the certificate of occupancy from the appropriate licensing authority. Substantially completed portions of a project are accounted for as separate projects. Depreciation is calculated using the straight-line method and estimated useful lives of 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.

Deferred Leasing Costs

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

Revenue Recognition

Rental and interest income are accrued as earned except when doubt exists as to collectability, in which case the accrual is discontinued. 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 scheduled rent increases, income is recognized on a straight-line basis throughout the term of the lease. Expense recoveries represent a portion of property operating expenses billed to tenants, including common area maintenance, real estate taxes and other recoverable costs. Expense recoveries are recognized in the period when the expenses are incurred. Rental income based on a tenant's revenue, known as percentage rent, is accrued when a tenant reports sales that exceed a specified breakpoint specified in the lease agreement.

Allowance for Doubtful Accounts - Current and Deferred Receivables

Accounts receivable primarily represent amounts accrued and unpaid from tenants in accordance with the terms of the respective leases, subject to the Company's revenue recognition policy. Receivables are reviewed monthly and reserves are established with a charge to current period operations when, in the opinion of management, collection of the receivable is doubtful. In addition to rents due currently, accounts receivable include amounts representing minimum rental income accrued on a straight-line basis to be paid by tenants over the remaining term of their respective leases. Reserves are established with a charge to income for tenants whose rent payment history or financial condition casts doubt upon the tenant's ability to perform under its lease obligations.

Legal Contingencies

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business, 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. Once it has been determined that a loss is probable to occur, the estimated amount of the

loss is recorded in the financial statements. Both the amount of the loss and the point at which its occurrence is considered probable can be difficult to determine.

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Results of Operations

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 sum of interest income and 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 the sum of interest expense and amortization of deferred debt costs, depreciation and amortization, general and administrative expense, loss on the early extinguishment of debt (if any), predevelopment expense and acquisition related costs, minus the sum of interest income, the change in the fair value of derivatives, gains on property dispositions (if any) and the results 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.

The tables below provide reconciliations of total revenue and operating income under GAAP to same property revenue and 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 (in thousands)	Year ended December 31,	
	2014	2013
Total revenue	\$207,092	\$197,897
Less: Interest income	(75	) (69
Less: Acquisitions, dispositions and development properties	(2,103	) (1,223
Total same property revenue	\$204,914	\$196,605
Shopping centers	\$152,282	\$144,502
Mixed-Use properties	52,632	52,103
Total same property revenue	\$204,914	\$196,605

The \$8.3 million increase in same property revenue for 2014 compared to 2013 was primarily due to (a) a \$0.31 per square foot increase in base rent (\$2.6 million) and (b) a 123,218 square foot increase in leased space (\$2.2 million), (c) a bankruptcy settlement and collection related to a former tenant at Seven Corners (\$1.6 million), (d) increased expense recovery income (\$1.1 million) and (e) the impact of a lease termination at Seven Corners (\$0.7 million).

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Same property operating income

(In thousands)	Year Ended December 31,		
	2014	2013	
Net income	\$57,988	\$34,842	
Add: Interest expense and amortization of deferred debt costs	46,034	46,589	
Add: General and administrative	16,961	14,951	
Add: Depreciation and amortization of deferred leasing costs	41,203	49,130	
Add: Predevelopment expenses	503	3,910	
Add: Acquisition related costs	949	106	
Add: Change in fair value of derivatives	10	7	
Add: Loss on early extinguishment of debt	—	497	
Less: Gains on property dispositions	(6,069) (77)
Less: Interest income	(75) (69)
Property operating income	157,504	149,886	
Less: Acquisitions, dispositions & development property	(1,787) (719)
Total same property operating income	\$155,717	\$149,167	
Shopping centers	\$118,817	\$112,708	
Mixed-Use properties	36,900	36,459	
Total same property operating income	\$155,717	\$149,167	

Same property operating income increased \$6.5 million for 2014 compared to 2013 due primarily to (a) a \$0.31 per square foot increase in base rent (\$2.6 million) and (b) a 123,218 square foot increase in leased space (\$2.2 million), (c) a bankruptcy settlement and collection related to a former tenant at Seven Corners (\$1.6 million), (d) increased expense recovery income (\$1.1 million) and (e) the impact of a lease termination at Seven Corners (\$0.7 million) partially offset by (f) higher property operating expenses (\$2.2 million).

The following is a discussion of the components of revenue and expense for the entire Company.

Revenue

(Dollars in thousands)	Year ended December 31,			Percentage Change		
	2014	2013	2012	2014 from 2013	2013 from 2012	
Base rent	\$164,599	\$159,898	\$152,777	2.9	% 4.7	%
Expense recoveries	32,132	30,949	30,391	3.8	% 1.8	%
Percentage rent	1,492	1,575	1,545	(5.3	)% 1.9	%
Other	8,869	5,475	5,379	62.0	% 1.8	%
Total revenue	\$207,092	\$197,897	\$190,092	4.6	% 4.1	%

Base rent includes \$2.0 million, \$3.0 million, and \$3.8 million, for the years 2014, 2013, and 2012, respectively, to recognize base rent on a straight-line basis. In addition, base rent includes \$1.9 million, \$1.7 million, and \$1.5 million, for the years 2014, 2013, and 2012, respectively, to recognize income from the amortization of in-place leases.

Total revenue increased 4.6% in 2014 compared to 2013 primarily due to (a) a \$0.43 per square foot increase in base rent (\$3.7 million), (b) a 107,062 square foot increase in leased space (\$1.9 million), (c) higher expense recoveries (\$1.2 million), (d) a bankruptcy settlement and collection related to a former tenant at Seven Corners (\$1.6 million) and (e) the impact of a lease termination at Seven Corners (\$0.7 million). Total revenue increased 4.1% in 2013 compared to 2012 primarily due to \$7.1 million of higher base rent (a) generated by properties acquired or developed in 2012 (the "New 2012 Properties") (\$2.3 million), (b) increases throughout the portfolio (\$6.6 million) partially offset by (c) Van Ness Square (\$2.0 million). A discussion of the components of revenue follows.

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Base rent

The \$4.7 million increase in base rent in 2014 compared to 2013 was attributable to (a) a \$0.30 per square foot increase in base rent (\$2.6 million) and (b) a 107,062 square foot increase in leased space (\$1.9 million). The \$7.1 million increase in base rent in 2013 compared to 2012 was attributable to (a) the New 2012 Properties (\$2.3 million) and (b) increases throughout the portfolio (\$6.6 million) partially offset by (c) Van Ness Square (\$2.0 million).

Expense recoveries

Expense recovery income increased \$1.2 million in 2014 compared to 2013 primarily due to higher snow removal costs incurred in early 2014. Expense recovery income increased \$0.6 million in 2013 compared to 2012.

Other revenue

Other revenue increased \$3.4 million in 2014 compared to 2013 due primarily to (a) a bankruptcy settlement and collection related to a former tenant at Seven Corners (\$1.6 million) and (b) a lease termination fee at Seven Corners (\$1.9 million). Other revenue increased \$0.1 million in 2013 compared to 2012.

Operating expenses

(Dollars in thousands)	Year ended December 31,			Percentage Change		
	2014	2013	2012	2014 from 2013	2013 from 2012	
Property operating expenses	\$26,479	\$24,559	\$23,794	7.8	% 3.2	%
Provision for credit losses	680	968	1,151	(29.8)	)% (15.9))%
Real estate taxes	22,354	22,415	22,325	(0.3)	)% 0.4	%
Interest expense and amortization of deferred debt costs	46,034	46,589	49,544	(1.2)	)% (6.0))%
Depreciation and amortization of deferred leasing costs	41,203	49,130	40,112	(16.1)	)% 22.5	%
General and administrative	16,961	14,951	14,274	13.4	% 4.7	%
Acquisition related costs	949	106	1,129	795.3	% (90.6))%
Predevelopment expenses	503	3,910	2,667	(87.1)	)% 46.6	%
Total operating expenses	\$155,163	\$162,628	\$154,996	(4.6)	)% 4.9	%

Total operating expenses decreased 4.6% in 2014 compared to 2013 primarily due to \$8.0 million of additional depreciation expense recorded in 2013 and \$3.4 million of lower predevelopment expenses related to Park Van Ness partially offset by \$1.9 million of higher property operating expenses caused by snow removal costs in early 2014. Total operating expenses increased 4.9% in 2013 compared to 2012 primarily due to \$8.0 million of additional depreciation expense and \$1.2 million of higher predevelopment expenses related to the redevelopment of Park Van Ness.

Property operating expenses

Property operating expenses increased \$1.9 million in 2014 compared to 2013 primarily due to a \$1.5 million increase in snow removal costs. Property operating expenses increased \$765,000 in 2013 compared to 2012.

Provision for credit losses

The provision for credit losses represents the Company's estimate of amounts owed by tenants that may not be collectible. The \$288,000 decrease in 2014 compared to 2013 as well as the \$183,000 decrease in 2013 compared to 2012 reflect a general improvement in the retail economy and lack of significant bankruptcy losses among the Company's various tenants.

Real estate taxes

Real estate taxes decreased \$61,000 in 2014 compared to 2013. Real estate taxes increased \$90,000 in 2013 compared to 2012.

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Interest and amortization of deferred debt costs

Interest expense decreased \$0.6 million in 2014 compared to 2013 primarily due to a \$0.5 million increase in the amount of interest capitalized. Interest expense decreased \$3.0 million in 2013 compared to 2012 primarily due to a 30 basis point decrease in the average cost of debt to 5.54% from 5.84%.

Depreciation and amortization

Depreciation and amortization of deferred leasing costs decreased by \$7.9 million in 2014 compared to 2013 and increased \$9.0 million in 2013 compared to 2012 primarily due to \$8.0 million of additional depreciation expense in 2013 on the building at the former Van Ness Square as a result of the reduction of its useful life to four months effective January 1, 2013.

General and administrative

General and administrative costs increased \$2.0 million in 2014 compared to 2013 primarily due to \$1.1 million of accrued severance costs. General and administrative costs increased in 2013 compared to 2012 primarily due to (a) increased consulting expense (\$495,000) and (b) increased stock option expense (\$245,000).

Acquisition related costs

Acquisition related costs in 2014 totaling approximately \$0.9 million relate to the purchases of 1580, 1582 and 1584 Rockville Pike and 730 and 750 N. Glebe Road. Acquisition related costs in 2013 totaling approximately \$0.1 million relate to the purchase of a retail pad with a 7,100 square foot restaurant located in Gaithersburg, Maryland which is contiguous with and an expansion of the Company's other Kentlands assets. Acquisition related costs in 2012 totaling approximately \$1.1 million relate to the December 2012 purchases of 1500 Rockville Pike and 5541 Nicholson Lane.

Predevelopment expenses

Predevelopment expenses in 2014, 2013 and 2012 represent costs, primarily lease termination and demolition costs, incurred with the repositioning and redevelopment of Van Ness Square.

Gain on Casualty Settlement

Gain on casualty settlement in 2013 and 2012 reflect insurance proceeds received in excess of the carrying value of assets damaged during a hail storm at French Market in 2012. The insurance proceeds funded substantially all of the restoration of the damaged property.

Loss on Early Extinguishment of Debt

On September 4, 2013, the Company closed on a 15-year, non-recourse \$18.0 million mortgage loan secured by Seabreeze Plaza. The loan matures in 2028, bears interest at a fixed rate of 3.99%, requires monthly principal and interest payments totaling \$94,900 based on a 25-year amortization schedule and requires a final payment of \$9.5 million at maturity. Proceeds were used to pay off the \$13.5 million remaining balance of existing debt secured by Seabreeze Plaza which was scheduled to mature in May 2014 and the Company incurred \$497,000 of related debt extinguishment costs.

Gain on Sales of Properties

Gain on sale of property in 2014 resulted from the April 2014 sale of Giant Center shopping center. Gain on sales of properties in 2012 resulted from the July 2012 sale of West Park shopping center and the December 2012 sale of the Belvedere shopping center.

Impact of Inflation

Inflation has remained relatively low during 2014 and 2013. 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 a factor of the change in the consumer price index, commonly referred to as the CPI.

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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 \$12.1 million and \$17.3 million at December 31, 2014 and 2013, respectively. The changes in cash and cash equivalents during the years ended December 31, 2014 and 2013 were attributable to operating, investing and financing activities, as described below.

(in thousands)	Year Ended December 31,	
	2014	2013
Net cash provided by operating activities	\$86,568	\$73,527
Net cash used in investing activities	(83,589)	(26,034)
Net cash used in financing activities	(8,148)	(42,329)
Increase (decrease) in cash and cash equivalents	\$(5,169)	\$5,164

Operating Activities

Net cash provided by operating activities increased \$13.0 million to \$86.6 million for the year ended December 31, 2014 compared to \$73.5 million for the year ended December 31, 2013. Net cash provided by operating activities represents, in each year, cash received primarily from rental income, plus other income, less property operating expenses, normal recurring general and administrative expenses and interest payments on debt outstanding.

Investing Activities

Net cash used in investing activities increased \$57.6 million to \$83.6 million for the year ended December 31, 2014 from \$26.0 million for the year ended December 31, 2013. Investing activities in 2014 primarily reflect tenant improvements and capital expenditures (\$15.0 million), the Company's development activities (\$17.8 million) and the acquisition of various retail real estate assets (\$57.5 million). Net cash used in investing activities decreased \$20.8 million to \$26.0 million for the year ended December 31, 2013 from \$46.9 million for the year ended December 31, 2012. Investing activities in 2013 primarily reflect (a) tenant improvements and capital expenditures (\$14.0 million), (b) the Company's development activities (\$7.3 million) and (c) the acquisition of various retail real estate assets (\$5.1 million).

Financing Activities

Net cash used in financing activities was \$8.1 million and \$42.3 million for the years ended December 31, 2014 and 2013, respectively. Net cash used in financing activities in 2014 primarily reflects:

- preferred stock redemption payments totaling \$40.0 million;
- the repayment of mortgage notes payable totaling \$22.1 million;
- the repayment of amounts borrowed under the revolving credit facility totaling \$47.0 million;
- distributions to common stockholders totaling \$32.3 million;
- distributions to holders of convertible limited partnership units in the Operating Partnership totaling \$11.1 million;
- distributions made to preferred stockholders totaling \$13.5 million; and
- payments of \$1.3 million for financing costs of mortgage notes payable which was partially offset by:
 - proceeds of \$39.3 million received from the sale of Series C preferred stock;
 - proceeds of \$90.0 million received from revolving credit facility draws;
 - proceeds of \$8.9 million from the issuance of limited partnership units in the Operating Partnership under the dividend reinvestment program;

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proceeds of \$15.6 million from the issuance of common stock under the dividend reinvestment program, directors deferred plan and the exercise of stock options; and
proceeds of \$5.4 million received from construction loan draws.

Net cash used in financing activities for the year ended December 31, 2013 primarily reflects:

• repayments of \$180.0 million on the revolving credit facility;
• preferred stock redemption payments totaling \$139.3 million;
• the repayment of mortgage notes payable totaling \$71.3 million;
• distributions to common stockholders totaling \$29.2 million;
• distributions to holders limited partnership units in the Operating Partnership totaling \$10.0 million
• distributions to preferred stockholders totaling \$14.6 million; and
• payments of \$3.2 million for financing costs of new mortgage loans;
which was partially offset by:
• proceeds of \$135.2 million received from the sale of Series C preferred stock;
• proceeds received from mortgage notes payable totaling \$101.6 million;
• proceeds of \$142.0 million from revolving credit facility;
• proceeds of \$4.1 million from the issuance of limited partnership units in the Operating Partnership under the dividend reinvestment program; and
• proceeds of \$22.3 million received from the issuance of common stock under the dividend reinvestment program and from the exercise of stock options.

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 Park Van Ness, a primarily residential project with street-level retail. The total cost of the project, excluding predevelopment expense and land costs, is expected to be approximately \$93.0 million, a portion of which will be funded with a \$71.6 million construction-to-permanent loan and the remainder will be funded with the Company's working capital, including its existing line of credit. The Company may also 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, developments, expansions or acquisitions 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.

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Contractual Payment Obligations

As of December 31, 2014, the Company had unfunded contractual payment obligations of approximately \$130.3 million, excluding operating obligations, due within the next 12 months. The table below shows the total contractual payment obligations as of December 31, 2014.

(Dollars in thousands)	Payments Due By Period				Total
	One Year or Less	2 - 3 Years	4 - 5 Years	After 5 Years	
Notes Payable:					
Interest	\$42,950	\$80,005	\$69,034	\$135,069	\$327,058
Scheduled Principal	23,192	48,175	48,311	135,752	255,430
Balloon Payments	14,885	28,879	131,542	426,652	601,958
Subtotal	81,027	157,059	248,887	697,473	1,184,446
Ground Leases (1)	176	352	353	9,186	10,067
Corporate Headquarters Lease (1)	894	1,839	—	—	2,733
Development Obligations	38,949	9,738	—	—	48,687
Tenant Improvements	9,270	1,744	277	—	11,291
Total Contractual Obligations	\$130,316	\$170,732	\$249,517	\$706,659	\$1,257,224

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 (1) Agreement. Future amounts are subject to change as the number of employees employed by each of the parties to the lease fluctuates.

Management believes that the Company's cash flow from operations and its capital resources, which at December 31, 2014, included cash balances of \$12.1 million and borrowing availability of approximately \$231.6 million on its revolving line of credit, will be sufficient to meet its contractual obligations for the foreseeable future.

Preferred Stock Issues

In March 2013, the Company redeemed 60% of its then-outstanding 8% Series A Cumulative Redeemable Preferred Stock (the "Series A Stock") and all of its 9% Series B Cumulative Redeemable Preferred Stock. In December 2014, the Company redeemed the remaining outstanding Series A Stock.

In February 2013, the Company sold, in an underwritten public offering, 5.6 million depositary shares, each representing 1/100th of a share of 6.875% Series C Cumulative Redeemable Preferred Stock (the "Series C Stock"), providing net cash proceeds of approximately \$135.2 million. The depositary shares may be redeemed at the Company's option, in whole or in part, at the \$25.00 liquidation preference plus accrued but unpaid dividends on or after February 12, 2018. The depositary shares pay an annual dividend of \$1.71875 per share, equivalent to 6.875% of the \$25.00 liquidation preference. The first dividend was paid on April 15, 2013 and covered the period from February 12, 2013 through March 31, 2013. 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 November 2014, the Company sold, in an underwritten public offering, 1.6 million depositary shares of the Series C Stock (the "Additional Series C Stock"). The Company received proceeds of approximately \$39.3 million from the offering and used the proceeds to redeem its outstanding Series A Stock. The Additional Series C Stock represents a new issuance of additional depositary shares representing shares of Series C Stock.

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 190,177 and 468,014 shares under the Plan

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at a weighted average discounted price of \$46.85 and \$43.52 per share during the years ended December 31, 2014 and 2013, respectively. The Company issued 196,183 and 88,309 limited partnership units under the Plan at a weighted average price of \$45.25 and \$46.93 per unit during the year ended December 31, 2014 and 2013, respectively. The Company also credited 7,461 and 7,148 shares to directors pursuant to the reinvestment of dividends specified by the Directors' Deferred Compensation Plan at a weighted average discounted price of \$47.08 and \$43.92 per share, during the years ended December 31, 2014 and 2013, 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, 2014.

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

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The following is a summary of notes payable as of December 31, 2014 and 2013:

Notes Payable (Dollars in thousands)	Year Ended December 31,		Interest	Scheduled
Fixed rate mortgages:	2014	2013	Rate*	Maturity*
	\$15,399	(a) \$16,128	7.45	% Jun-2015
	32,049	(b) 33,246	6.01	% Feb-2018
	35,398	(c) 36,937	5.88	% Jan-2019
	11,454	(d) 11,949	5.76	% May-2019
	15,819	(e) 16,501	5.62	% Jul-2019
	15,761	(f) 16,419	5.79	% Sep-2019
	14,014	(g) 14,610	5.22	% Jan-2020
	10,881	(h) 11,159	5.60	% May-2020
	9,535	(i) 9,921	5.30	% Jun-2020
	41,441	(j) 42,462	5.83	% Jul-2020
	8,346	(k) 8,649	5.81	% Feb-2021
	6,100	(l) 6,233	6.01	% Aug-2021
	35,222	(m) 35,981	5.62	% Jun-2022
	10,718	(n) 10,930	6.08	% Sep-2022
	11,587	(o) 11,795	6.43	% Apr-2023
	14,909	(p) 15,598	6.28	% Feb-2024
	16,750	(q) 17,123	7.35	% Jun-2024
	14,535	(r) 14,849	7.60	% Jun-2024
	25,639	(s) 26,153	7.02	% Jul-2024
	30,429	(t) 31,093	7.45	% Jul-2024
	30,253	(u) 30,894	7.30	% Jan-2025
	15,735	(v) 16,087	6.18	% Jan-2026
	115,291	(w) 118,128	5.31	% Apr-2026
	35,125	(x) 36,075	4.30	% Oct-2026
	39,932	(y) 40,974	4.53	% Nov-2026
	18,645	(z) 19,118	4.70	% Dec-2026
	69,397	(aa) 70,856		