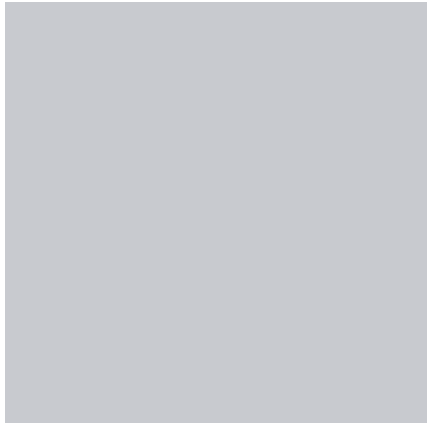
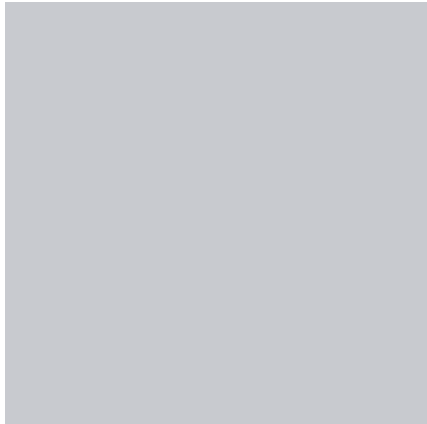




Saul Centers



2017
ANNUAL REPORT
to Shareholders

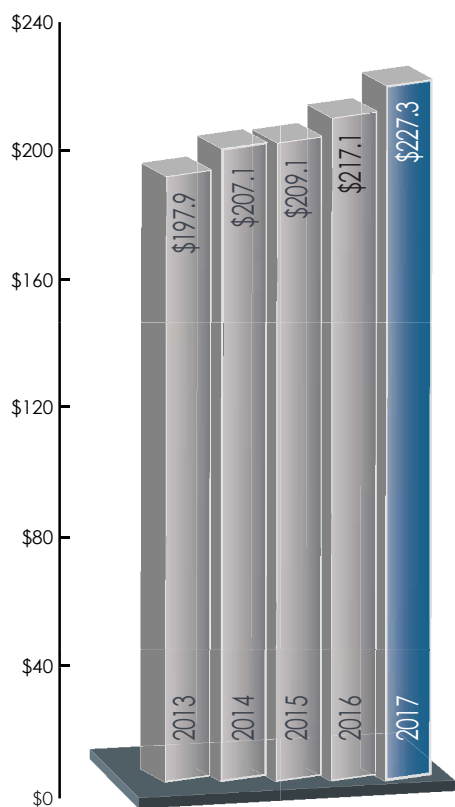
Saul Centers, Inc. is a self-managed, self-administered equity Real Estate Investment Trust (REIT) headquartered in Bethesda, Maryland. Saul Centers operates and manages a real estate portfolio comprised of 58 properties including (a) 55 community and neighborhood shopping centers and mixed-use properties with approximately 9.2 million square feet of leasable area and (b) three land and development properties. Over 85% of the Company's property operating income is generated by properties in the metropolitan Washington, DC/Baltimore area.



Severna Park Marketplace, Severna Park, MD

TOTAL REVENUE

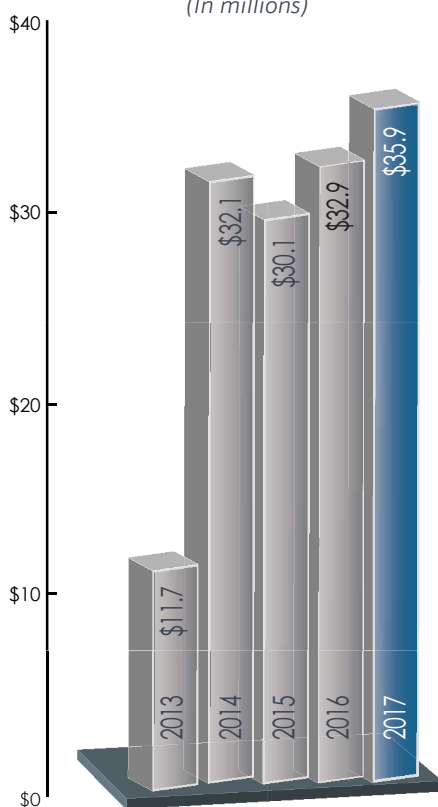
(In millions)



NET INCOME

Available to Common Stockholders

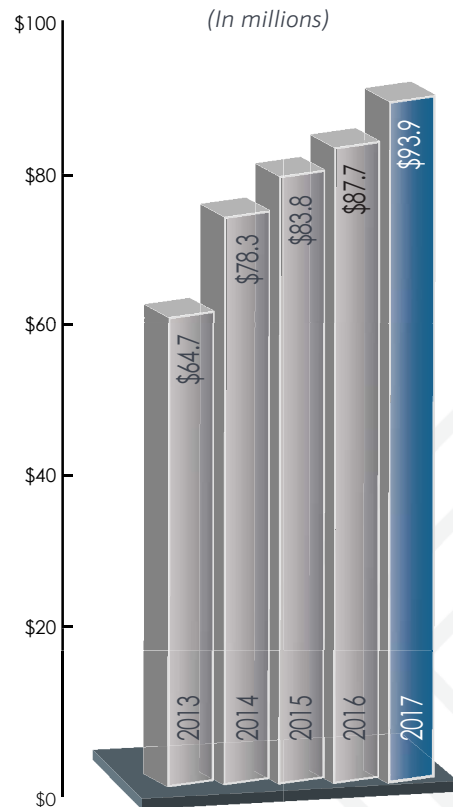
(In millions)



FUNDS FROM OPERATIONS

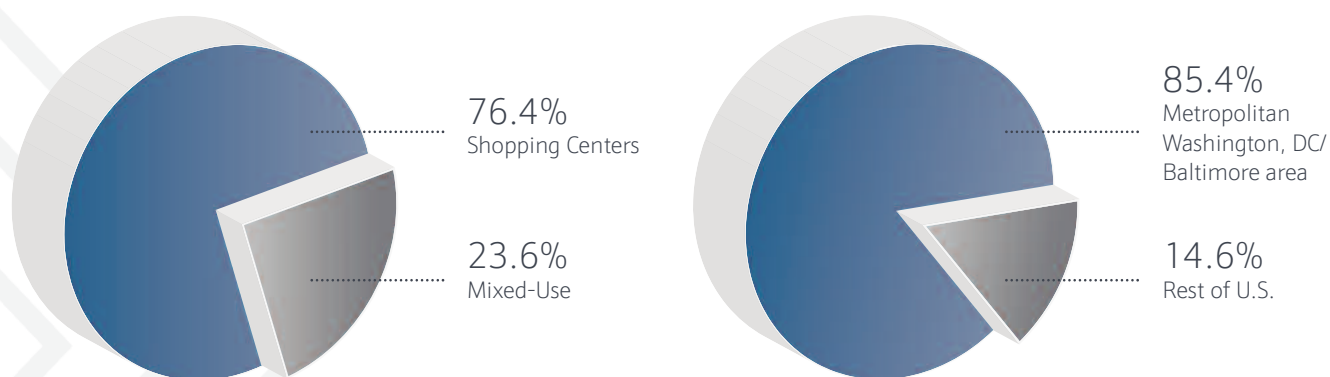
Available to Common Shareholders*

(In millions)



* Funds From Operations (FFO) is a non-GAAP financial measure. The term Common Shareholders means common stockholders and holders of noncontrolling interests. See page 26 for a definition of FFO and reconciliation from Net Income.

Portfolio Composition Based on 2017 Property Operating Income¹



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

	Year ended December 31,				
	2017	2016	2015	2014	2013
Summary Financial Data					
Total Revenue	\$227,285,000	\$217,070,000	\$209,077,000	\$207,092,000	\$197,897,000
Net Income Available to Common Stockholders	\$ 35,882,000	\$ 32,904,000	\$ 30,093,000	\$ 32,102,000	\$ 11,661,000
FFO Available to Common Shareholders	\$ 93,987,000	\$ 87,749,000	\$ 83,815,000	\$ 78,281,000	\$ 64,684,000
Weighted Average Common Stock Outstanding (Diluted)	22,008,000	21,615,000	21,196,000	20,821,000	20,401,000
Weighted Average Common Stock and Units Outstanding	29,511,000	28,990,000	28,449,000	27,977,000	27,330,000
Net Income Per Share Available to Common Stockholders (Diluted)	\$ 1.63	\$ 1.52	\$ 1.42	\$ 1.54	\$ 0.57
FFO Per Share Available to Common Shareholders (Diluted)	\$ 3.18	\$ 3.03	\$ 2.95	\$ 2.80	\$ 2.37
Common Dividend as a Percentage of FFO	64%	61%	57%	56%	61%
Interest Expense Coverage ^a	3.35 x	3.29x	3.24 x	3.15 x	2.98x
Property Data					
Number of Operating Properties ^b	55	55	56	56	56
Total Portfolio Square Feet	9,230,000	9,362,000	9,350,000	9,339,000	9,333,000
Shopping Center Square Feet	7,750,000	7,882,000	7,897,000	7,886,000	7,880,000
Mixed-Use Square Feet	1,480,000	1,480,000	1,453,000	1,453,000	1,453,000
Average Percentage Leased ^c	95%	95%	95%	94%	93%
<p>(a) Interest expense coverage equals (i) operating income before the sum of interest expense and amortization of deferred debt costs, predevelopment expenses, acquisition related costs, and depreciation and amortization of deferred leasing costs divided by (ii) interest expense.</p> <p>(b) Excludes land and development parcels (Ashland Square Phase II, New Market and Park Van Ness in 2013, 2014, and 2015, and Ashland Square Phase II, New Market and N. Glebe Road in 2016 and 2017) and 2016 does not include Burtonsville Town Square which was acquired in January 2017. Crosstown Business Center was sold in December 2016, and Great Eastern was sold in September 2017.</p> <p>(c) Average percentage leased includes commercial space only.</p>					

Message

to Shareholders



Park Van Ness, Washington, DC

Our core shopping center portfolio continued its steady performance while facing a challenging retail landscape throughout 2017, headlined with many publicized store closures and bankruptcies. We increased Funds From Operations (FFO) per share for the fifth consecutive year, paced by same shopping center property operating income increases averaging 3.4% per year and retail rental rate increases over expiring rents averaging 2.7% per year over the same period.

Enhancing our core shopping center growth, we recently completed lease up of our mixed-use luxury residential development, Park Van Ness. As of December 31, 2017, the 271 unit building was 95% occupied. In addition, in January 2017 we acquired Burtonsville Town Center, a 121,000 square foot Giant Food-anchored shopping center in Montgomery County, Maryland.

Challenges in the retail space still exist as we enter 2018, but we remain confident that our diverse tenant base and extensive mixed-use development pipeline will continue to fuel our growth into the future.

DEVELOPMENT & ACQUISITION ACTIVITY

In July 2017, we achieved stabilization to 95% after initial lease up of the 271 residential units at our Park Van Ness development, located along Rock Creek Park on Connecticut Avenue at the Van Ness Metro station. Park Van Ness is our second and most recently completed mixed-use transit-oriented development. Construction was completed in May 2016, and lease up stabilized after 13 months.

The largest development we have undertaken in our history is located at 750 N. Glebe Road in Arlington, Virginia, situated amid the dynamic office, retail and residential area surrounding the Ballston Metro station. We are constructing approximately 490 residential units and 60,000 square feet of street level retail on the 2.8 acre site. Excavation has been completed and construction is proceeding on the below-grade parking structure. The development is scheduled for substantial completion in early 2020. We have executed a 41,500 square foot anchor lease with Target and leases for an aggregate of 9,000 square feet of shop space, resulting in 84% of the retail space being pre-leased. 750 N. Glebe Road will

750 N. Glebe Road,
Arlington, VA
(artist's rendering)



be our third major transit-oriented mixed-use development to be completed, following Clarendon Center in 2010 and Park Van Ness in 2016. Upon completion of 750 N. Glebe Road in early 2020, we will have more than 1,000 residential units in our portfolio.

Our latest addition to the development pipeline came in January 2018 when we entered into an agreement to purchase a 69,600 square foot office building at 7316 Wisconsin Avenue in Bethesda, Maryland. The recently approved Bethesda Downtown Plan provides that this parcel is one of only a few with a 250 foot by-right allowable building height limitation, affording this site development potential for a high-rise apartment building with up to 325 residential units and 10,000 square feet of street level retail. The site is adjacent to the Bethesda Metro Red Line station and the future Purple Line station. It is within blocks of the recently commenced new headquarters of Marriot International, announced to ultimately total one million square feet of commercial space for about 3,500 employees.

With two assemblages of land totaling 17.9 acres at the White Flint and Twinbrook Metro stations in Montgomery County, Maryland, our total pipeline currently in the preliminary planning stages includes up to 2,400 apartments and 620,000 square feet of commercial space. We are well positioned to continue our growth with select mixed-use developments in vibrant business, entertainment and living communities served by mass transit.



750 N. Glebe Road, Arlington, VA
(construction in progress)

In January 2017, we added another strong Giant Food-anchored shopping center to our portfolio by purchasing the 121,000 square foot Burtonsville Town Square located in Montgomery County, Maryland. This Giant's 2016 sales volume ranks it as one of the top five sales volume grocers out of our 32 grocery anchored centers. We recently commenced construction on a 16,000 square foot small shop expansion, with delivery projected in late 2018. Leases are under negotiation for 55% of this expansion space.

Message

to Shareholders



Hunt Club Corners,
Apopka, FL

2017 FINANCIAL RESULTS

Total revenue increased to \$227.3 million in 2017 from \$217.1 million in 2016, and operating income increased to \$60.6 million from \$55.7 million. Net income available to common stockholders was \$35.9 million in 2017 compared to \$32.9 million in 2016. Same property revenue increased by \$1.8 million, or 0.9%, and same property operating income increased by \$1.1 million, or 0.7%, in 2017 compared to 2016. Same property results exclude the results of properties not in operation for the entirety of the comparable reporting periods. The same property operating income increase was a result of \$1.1 million of higher base rent in the shopping centers and lower provisions for credit losses of \$0.3 million, off-set by lower parking income as a result of a garage refurbishment project at our 601 Pennsylvania Avenue property.



FFO available to common shareholders (after deducting preferred stock dividends) totaled \$94.0 million in 2017, a 7.1% increase from \$87.7 million in 2016. FFO per share increased 5.0% to \$3.18 in 2017 from \$3.03 in 2016. The acquisition of Burtonsville Town Square in January 2017 added \$0.06 per share to FFO and the Park Van Ness development contributed \$0.03 per share to 2017 results.

SHOPPING CENTER PERFORMANCE

With over 75% of our property operating income produced by shopping centers, headlines dominated by retail bankruptcies and store closures including national retailers Radio Shack, Payless, Toys R Us, HHgregg, Sears/Kmart, J.C. Penney, The Limited and The Gap presented challenges to shopping center owners nationwide. The tenant diversity within our portfolio minimizes the potential adverse impact on financial performance as a result of retailer stress. Our 2018 exposure to the above mentioned tenants totals only 0.5% of our revenue. Only two retail tenants, Giant Food, a tenant at ten of our shopping centers, and Capital One Bank, a tenant at 18 of our properties, individually accounted for 2.5% or more of our total revenue for the year ended December 31, 2017. Thirty-two of our shopping centers are anchored by a grocery store and offer primarily day-to-day necessities and services, which have generally been less impacted by difficulties in the retail landscape.



Headwinds created by “the Amazon effect” also presented challenges, as well as changes, to the traditional retail “brick and mortar” industry. Historically, within neighborhood shopping centers, retail uses have changed as retail competition and formats have changed. While not immune to these changes in the evolving retail environment, we feel that our adaptability to changing times, our diverse tenant base and our focus on grocery, pharmacy, restaurants and other service-oriented retailers mitigates our downside pressures.

Our overall leasing percentage averaged 94.9%, down from 95.5% in 2016. The reduction in leasing percentage was primarily due to recapturing a K-Mart store at Kentlands Square in October 2017, and the remaining vacancy of a portion of a former Safeway store in Broadlands Village Center, totaling a combined 142,000 square feet. These two spaces are the only retail vacancies in excess of 20,000 square feet within our portfolio. We are in negotiations with several tenants to occupy a substantial portion of this vacant anchor space.

Small shops, which we define as any space under 10,000 square feet, total 2.4 million square feet, or 31% of our total shopping center square footage. While this is only a small percentage of our total square footage, small shops produce 49% of shopping center annualized base rent. The year-end 2017 leasing percentage for these shops was a healthy 91.0%, compared to 90.4% at year-end 2016, with a 5 year average of 90.7%.



Southdale, Glen Burnie, MD

Same store retail sales (for those tenants reporting sales) increased by a modest 1.0% over 2016, resulting in continued rental rate pressures. In 2017 our same store rental rate increase over expiring rents on 1.2 million square feet of retail space was 2.0%, down from 3.0% in 2016, reflective of the current competitive retail environment. Despite the modest sales growth, we successfully renewed 79% of our shopping center tenants, as measured by expiring base rents, up from 2016, and in excess of our 5-year average of 76%. This strong renewal rate mitigates cash flow loss due to vacancies, while also reducing capital requirements for tenant improvements.

Message

to Shareholders



11503 Rockville Pike,
Rockville, MD

MIXED-USE PROPERTY RESULTS

The commercial space within our mixed-use properties totals 1.1 million square feet and was 94.5% leased at year-end 2017. This represents an increase of approximately 40,000 square feet, or a 3.6% leasing percentage improvement, over year-end 2016. Office space accounts for 973,000 square feet (90%) of the commercial portfolio, of which only 50,000 square feet expires during 2018. With current softness in office space demand within the Washington, DC metropolitan area submarkets, this low space roll-over minimizes potential revenue loss at lease expirations. While our residential leasing percentage was 96% at year-end 2017, apartment rents were pressured by heavy new supply constructed throughout the Washington, DC metropolitan area. Apartment rents decreased by 0.8% over expiring rents at our two residential buildings, after increasing by 3.5% in 2016.



Lansdowne Town Center,
Leesburg, VA

CAPITAL MARKET ACTIVITY

Between September 2017 and January 2018, we completed four significant capital market transactions which greatly enhanced our balance sheet. In September 2017, coinciding with the commencement of our 750 N. Glebe Road mixed-use development project, we completed a \$157 million, 18-year construction-to-permanent financing at a fixed interest rate of 4.67%. As a condition to funding, however, we must first contribute \$120 million of equity, including land acquisition costs. As of February 28, 2018, we have funded \$94 million, leaving only an additional \$26 million of cash required to complete this development.

In November 2017, we closed a \$60 million, 15-year permanent financing with a 3.75% interest rate to replace the 6.01% loan at our Washington Square office/retail project in Alexandria, Virginia. The proceeds were used to retire the \$28 million balance at maturity and to partially pay down our revolving credit facility. Additionally, in January 2018, we paid off of a \$14 million loan at our Metro Pike Center, resulting in no remaining mortgage debt maturities in 2018.

In January 2018, we issued and sold \$75 million of Series D preferred stock at a 6-1/8% coupon. We redeemed a similar amount of our 6-7/8% Series C shares, reducing our preferred dividends by \$560,000 annually subsequent to the February 2018 redemption date.

Southdale,
Glen Burnie, MD



Finally, also in January 2018, we modified and extended our \$275 million revolving credit facility with a June 2018 maturity when we closed a new four-year \$325 million revolving credit facility maturing in 2022 and a \$75 million term loan maturing in 2023. These four transactions, totaling over \$690 million, along with equity from our dividend reinvestment plan and internally generated cash flow, serve to provide capital to fund future developments and redevelopments and to reduce our overall cost of capital.

Our common stock dividend payout over the past five years has grown from \$1.44 per share in 2013 to the current annualized \$2.08 per share. The payout ratio of dividends to FFO totaled only 60% over these five years, which allowed us to retain internally generated cash flow to reinvest in our development pipeline to fuel future growth. Our leverage throughout this period, as measured by debt to total capitalization, has decreased from 38% to 32% at year-end 2017.

The long term effects of the newly-passed tax legislation and the currently rising long-term interest rates on commercial and residential real estate remain uncertain. Early 2018 unemployment rates are moving to historically low levels and consumer confidence remains elevated. With a portfolio of properties surrounded by strong income and population demographics and a strong balance sheet, we are prepared to address both the challenges and opportunities that the economic climate may present. We thank our dedicated and loyal staff of professionals and all of our shareholders as we enter our 25th year as a public real estate investment trust.



Broadlands Village, Ashburn, VA

For the Board

A handwritten signature in black ink, appearing to read "B. Francis Saul II". The signature is stylized and fluid, with a large initial "B" and a long horizontal stroke.

B. Francis Saul II
March 16, 2018

Portfolio Properties

As of December 31, 2017, Saul Centers' portfolio properties were located in Virginia, Maryland, Washington, DC, North Carolina, Delaware, Florida, Georgia, New Jersey and Oklahoma. Properties in the metropolitan Washington, DC/ Baltimore area represent over 81% of the portfolio's gross leasable area.



PROPERTY/LOCATION	GROSS LEASABLE SQUARE FEET	PROPERTY/LOCATION	GROSS LEASABLE SQUARE FEET
Shopping Centers			
Ashburn Village, Ashburn, VA	221,585	Olney, Olney, MD	53,765
Ashland Square Phase I, Dumfries, VA	23,120	Orchard Park, Dunwoody, GA	87,365
Beacon Center, Alexandria, VA	358,071	Palm Springs Center, Altamonte Springs, FL	126,446
BJ's Wholesale Club, Alexandria, VA	115,660	Ravenwood, Baltimore, MD	93,328
Boca Valley Plaza, Boca Raton, FL	121,269	11503 Rockville Pk / 5541 Nicholson Ln, Rockville, MD	40,249
Boulevard, Fairfax, VA	49,140	1500/1580/1582/1584 Rockville Pike, Rockville, MD	110,128
Briggs Chaney MarketPlace, Silver Spring, MD	194,258	Seabreeze Plaza, Palm Harbor, FL	146,673
Broadlands Village, Ashburn, VA	174,734	Marketplace at Sea Colony, Bethany Beach, DE	21,677
Burtonsville Town Square, Burtonsville, MD	121,132	Seven Corners, Falls Church, VA	573,481
Countryside Marketplace, Sterling, VA	138,229	Severna Park Marketplace, Severna Park, MD	254,011
Cranberry Square, Westminster, MD	141,450	Shops at Fairfax, Fairfax, VA	68,762
Cruse MarketPlace, Cumming, GA	78,686	Smallwood Village Center, Waldorf, MD	173,341
Flagship Center, Rockville, MD	21,500	Southdale, Glen Burnie, MD	486,335
French Market, Oklahoma City, OK	246,148	Southside Plaza, Richmond, VA	371,761
Germantown, Germantown, MD	18,982	South Dekalb Plaza, Atlanta, GA	163,418
The Glen, Woodbridge, VA	136,440	Thruway, Winston-Salem, NC	366,693
Great Falls Center, Great Falls, VA	91,666	Village Center, Centreville, VA	146,032
Hampshire Langley, Takoma Park, MD	131,700	Westview Village, Frederick, MD	97,858
Hunt Club Corners, Apopka, FL	105,812	White Oak, Silver Spring, MD	480,676
Jamestown Place, Altamonte Springs, FL	96,341	TOTAL SHOPPING CENTERS	7,750,098
Kentlands Square I, Gaithersburg, MD	114,381	Mixed-Use Properties	
Kentlands Square II, Gaithersburg, MD	246,965	Avenel Business Park, Gaithersburg, MD	390,683
Kentlands Place, Gaithersburg, MD	40,697	Clarendon Center – North, Arlington, VA	108,387
Lansdowne Town Center, Leesburg, VA	189,422	Clarendon Center – South, Arlington, VA	293,565
Leesburg Pike Plaza, Baileys Crossroads, VA	97,752	(includes 244 apartments comprising 188,671 square feet)	
Lumberton Plaza, Lumberton, NJ	192,718	Park Van Ness, Washington, DC	223,447
Metro Pike Center, Rockville, MD	67,488	(includes 271 apartments comprising 214,600 square feet)	
Shops at Monocacy, Frederick, MD	109,144	601 Pennsylvania Ave., Washington, DC	227,651
Northrock, Warrenton, VA	100,032	Washington Square, Alexandria, VA	236,376
Olde Forte Village, Ft. Washington, MD	143,577	TOTAL MIXED-USE PROPERTIES	1,480,109
		TOTAL PORTFOLIO	9,230,207

Selected Financial Data.....	Page 10
Management's Discussion and Analysis of Financial Condition and Results of Operations.....	Pages 11-30
Quantitative and Qualitative Disclosures About Market Risk.....	Page 30
Management's Report on Internal Control Over Financial Reporting.....	Page 30
Report of Independent Registered Public Accounting Firm.....	Page 31
Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting.....	Page 32
Consolidated Balance Sheets.....	Page 33
Consolidated Statements of Operations.....	Page 34
Consolidated Statements of Comprehensive Income.....	Page 36
Consolidated Statements of Equity.....	Page 36
Consolidated Statements of Cash Flows.....	Page 37
Notes to Consolidated Financial Statements....	Pages 38-59

Selected Financial Data

(In thousands, except per share data)	Years Ended December 31,				
	2017	2016	2015	2014	2013
Operating Data:					
Total revenue	\$ 227,285	\$ 217,070	\$ 209,077	\$ 207,092	\$ 197,897
Total operating expenses	166,687	161,357	156,147	155,163	162,628
Operating income	60,598	55,713	52,930	51,929	35,269
Non-operating income:					
Change in fair value of derivatives	70	(6)	(10)	(10)	(7)
Loss on early extinguishment of debt	—	—	—	—	(497)
Gain on sales of properties	—	1,013	11	6,069	—
Gain on casualty settlements	—	—	—	—	77
Net income	60,668	56,720	52,931	57,988	34,842
Income attributable to the noncontrolling interests	(12,411)	(11,441)	(10,463)	(11,045)	(3,970)
Net income attributable to Saul Centers, Inc.	48,257	45,279	42,468	46,943	30,872
Preferred stock redemption	—	—	—	(1,480)	(5,228)
Preferred dividends	(12,375)	(12,375)	(12,375)	(13,361)	(13,983)
Net income available to common stockholders	\$ 35,882	\$ 32,904	\$ 30,093	\$ 32,102	\$ 11,661
Per Share Data (diluted):					
Net income available to common stockholders:	\$ 1.63	\$ 1.52	\$ 1.42	\$ 1.54	\$ 0.57
Basic and diluted shares outstanding:					
Weighted average common shares - basic	21,901	21,505	21,127	20,772	20,364
Effect of dilutive options	107	110	69	49	37
Weighted average common shares - diluted	22,008	21,615	21,196	20,821	20,401
Weighted average convertible limited partnership units	7,503	7,375	7,253	7,156	6,929
Weighted average common shares and fully converted limited partnership units - diluted	29,511	28,990	28,449	27,977	27,330
Dividends Paid:					
Cash dividends to common stockholders ⁽¹⁾	\$ 44,576	\$ 39,472	\$ 35,645	\$ 32,346	\$ 29,205
Cash dividends per share	\$ 2.04	\$ 1.84	\$ 1.69	\$ 1.56	\$ 1.44
Balance Sheet Data:					
Real estate investments (net of accumulated depreciation)	\$ 1,315,034	\$ 1,242,534	\$ 1,197,340	\$ 1,163,542	\$ 1,094,776
Total assets	1,422,452	1,343,025	1,295,408	1,257,113	1,189,000
Total debt, including accrued interest	958,622	903,709	869,652	850,727	813,653
Preferred stock	180,000	180,000	180,000	180,000	180,000
Total equity	393,103	373,249	353,727	339,257	315,126
Other Data:					
Cash flow provided by (used in):					
Operating activities	\$ 103,450	\$ 89,090	\$ 88,896	\$ 86,568	\$ 73,527
Investing activities	(113,306)	(86,274)	(69,587)	(83,589)	(26,034)
Financing activities	12,442	(4,497)	(21,434)	(8,148)	(42,329)
Funds from operations ⁽²⁾:					
Net income	60,668	56,720	52,931	57,988	34,842
Real property depreciation and amortization	45,694	44,417	43,270	41,203	49,130
Gain on property dispositions and casualty settlements	—	(1,013)	(11)	(6,069)	(77)
Funds from operations	106,362	100,124	96,190	93,122	83,895
Preferred stock redemption	—	—	—	(1,480)	(5,228)
Preferred dividends	(12,375)	(12,375)	(12,375)	(13,361)	(13,983)
Funds from operations available to common stockholders and noncontrolling interests	\$ 93,987	\$ 87,749	\$ 83,815	\$ 78,281	\$ 64,684

(1) During 2017, 2016, 2015, 2014, and 2013, shareholders reinvested \$15.8 million, \$10.3 million, \$10.6 million, \$9.3 million and \$20.7 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 "Management's Discussion and Analysis of Financial Condition and Results of Operations-Funds From Operations."

Management's Discussion and Analysis of Financial Condition and Results of Operations (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 15, discusses the Company's results of operations for the past two years. Beginning on page 19, 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 26, the Company discusses funds from operations, or FFO, which is a non-GAAP financial measure of performance of an equity REIT used by the REIT industry.

The MD&A should be read in conjunction with the other sections of this Annual Report, including the consolidated financial statements and notes thereto beginning on page 33. Historical results set forth in Selected Financial Information, the Consolidated Financial Statements and Supplemental Data 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 its transit-centric, primarily residential mixed-use 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 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 2016, the Company completed development of Park Van Ness, 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, a wi-fi lounge/business center, and a rooftop pool and deck. The structure comprises 11 levels, five of which on the east side are below street level. Because of the change in grade from the street eastward to Rock Creek Park, apartments on all 11 levels have park or city views. The street level retail space is 100% leased to a grocery/gourmet food market and an upscale Italian restaurant. As of December 31, 2017, 260 apartments (95.9%) were leased. The total cost of the project, excluding predevelopment expense and land, which the Company has owned, was approximately \$93.0 million, a portion of which was financed with a \$71.6 million construction-to-permanent loan.

In 2014, in separate transactions, the Company purchased three properties, with approximately 57,400 square feet of retail space, for an aggregate \$25.2 million. The three properties are adjacent to an existing property on the east side of Rockville Pike near the Twinbrook Metro station. 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.

The Company owns properties on the east and west sides of Rockville Pike near the White Flint Metro station which combined total 7.6 acres which are zoned for a development potential of up to 1.6 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 January 2016, the Company terminated a 16,500 square foot lease at 11503 Rockville Pike and received a \$3.0 million lease termination fee which was recognized as revenue in the first quarter. The space was previously occupied by an office supply store that had vacated in mid 2014 and the lease was scheduled to expire in 2019. The termination fee revenue was partially offset by the loss of approximately \$1.1 million in rental revenue over the remainder of 2016. The Company executed leases with two replacement tenants, whose occupancy and rent commencement occurred in 2017. While the Company continues to plan for a mixed-use development at this site and its

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

neighboring Metro Pike Center, the initial phases of this development are expected to be on the west side of Rockville Pike at Metro Pike Center. The Company has not committed to any timetable for commencement of construction.

From 2014 through 2016, in separate transactions, the Company purchased four adjacent properties on North Glebe Road in Arlington, Virginia, for an aggregate \$54.0 million. The Company is developing approximately 490 residential units and 60,000 square feet of retail space, on 2.8 acres of land. Excavation, sheeting and shoring are substantially complete and construction is proceeding on the first three levels of the below grade parking structure. The development is scheduled for substantial completion in early 2020. The total cost of the project, including acquisition of land, is expected to be approximately \$275.0 million. In 2017, the Company closed on a \$157.0 million construction-to-permanent loan, the proceeds of which will be used to partially finance the project. Leases have been executed for a 41,500 square foot Target and 9,000 square feet of retail shop space, resulting in approximately 84% of the retail space being leased.

Albertson's/Safeway, a tenant at eight of the Company's shopping centers, closed two Safeway stores located at the Company's properties during the June 2016 quarter. The stores that closed were located in Broadlands Village, Loudoun County, Virginia and Briggs Chaney Plaza, Montgomery County, Maryland. The lease at Briggs Chaney remains in full force and effect and Albertson's/Safeway has executed a sublease with a replacement grocer, Global Foods, for that space, which commenced operations in March 2017. The Company terminated the lease with

Albertson's/Safeway at Broadlands and has executed a lease with Aldi Food Market for 20,000 square feet of this space which opened in November 2017. We continue to actively market the balance of the former Safeway space.

In January 2017, the Company purchased for \$76.4 million, including acquisition costs, Burtonsville Town Square, a 121,000 square foot shopping center located in Burtonsville, Maryland. Burtonsville Town Square is 100% leased and anchored by Giant Food and CVS Pharmacy. The purchase was funded with a new \$40.0 million mortgage loan and through the Company's credit line facility. The Company expects to begin construction on a 16,000 square foot small shop expansion in the Spring of 2018, with delivery projected in late 2018. The total development cost is expected to be approximately \$5.7 million. Lease negotiations are in progress for over 50% of the space.

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 identified and market conditions improve. 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.

The recent period of economic expansion has now run in excess of five years. While economic conditions within the local Washington, DC metropolitan area have remained relatively stable, issues facing the Federal government relating to taxation, spending and interest rate policy will likely impact the office, retail and residential real estate markets over the coming years. Because the majority of the Company's property operating income is produced by our shopping centers, we continually monitor the implications of government policy changes, as well as shifts in consumer demand between on-line and in-store shopping, on future shopping center construction and retailer store expansion plans. Based on our observations, we continue to adapt our marketing and merchandising strategies in a way to maximize our future performance. The Company's commercial leasing percentage, on a comparable property basis, which excludes the impact of properties not in operation for the entirety of the comparable periods, declined to 94.2% at December 31, 2017, from 95.5% at December 31, 2016.

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, 2017, amortizing fixed-rate mortgage debt with staggered maturities from 2019 to 2035 represented approximately 92.2% of the Company's notes payable, thus minimizing refinancing risk. The Company's variable-rate debt consists of a \$14.1 million bank term loan secured by the Metro Pike Center, which was repaid in full in January 2018, and \$61.0 million outstanding under the unsecured revolving line of credit. As of December 31, 2017, the Company has loan availability of approximately \$213.8 million under its \$275.0 million unsecured revolving line of credit.

The Operating Partnership entered into a Credit Agreement dated January 26, 2018, by and among the Operating Partnership, as Borrower, Wells Fargo Bank, National Association, as Administrative Agent, Capital One, National Association, as Syndication Agent, Wells Fargo Securities, LLC and Capital One, National Association, as Joint Lead Arrangers, Wells Fargo Securities, LLC, as Sole Bookrunner and Wells Fargo Bank, National Association, Capital One, N.A., U.S. Bank National Association, TD Bank, N.A., Regions Bank and Associated Bank, National Association, as Lenders (the "New Credit Agreement").

The New Credit Agreement replaces the Credit Agreement dated June 24, 2014, by and among the Operating Partnership, as Borrower, Wells Fargo Bank, National Association, as Administrative Agent, JP Morgan Chase Bank, N.A., as Syndication Agent, Wells Fargo Securities, LLC, as Sole Lead Arranger and Sole Bookrunner and Wells Fargo Bank, National Association, JP Morgan Chase Bank, N.A., Capital One, N.A. and Citizens Bank of Pennsylvania as Lenders (as amended, the "Original Agreement"). The Original Agreement consisted of a \$275,000,000 unsecured revolving credit facility (the "Original Facility") with a maturity date of June 23, 2018 and bore interest at a variable rate equal to one-month LIBOR plus a spread of 145 basis points to 200 basis points, as determined by certain leverage tests. As of the date the Original Facility was replaced, the applicable spread was 1.45%.

The New Credit Agreement consists of a \$400,000,000 credit facility (the "New Facility"), of which \$325,000,000 is a revolving credit facility (the "Revolving Line") and \$75,000,000 is a term loan (the "Term Loan"). The Revolving Line matures on January 26, 2022, which term may be extended by the Company for one additional year, subject to satisfaction of certain conditions. The Term Loan matures on January 26, 2023, and may not be extended.

In general, loan availability under the New Facility is primarily determined by operating income from the Company's existing unencumbered properties. Interest accrues at a rate of LIBOR plus a spread of 135 basis points to 195 basis points under the Revolving Line, and 130 basis points to 190 basis points under the Term Loan, each as determined by certain leverage tests. As of January 26, 2018, the applicable spread for borrowings is 135 basis points under the Revolving Line and 130 basis points under the Term Loan.

The Company and certain subsidiaries of the Operating Partnership and the Company have guaranteed the payment obligations of the Partnership under the New Facility.

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. metropolitan area, the Company may, in the future, also acquire other types of real estate in other areas of the country as opportunities present themselves. While the Company may diversify in terms of property locations, size and market, the Company does not set any limit on the amount or percentage of Company assets that may be invested in any one property or any one geographic area.

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 relative 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

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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. Acquisition-related transaction costs are either (a) expensed as incurred when related to business combinations or (b) capitalized to land and/or building when related to asset acquisitions.

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 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. Upon substantial completion of construction, 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. 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. Upon determination that a loss is probable to occur, the estimated amount of the loss is recorded in the financial statements. Both the amount of the loss and the point at which its occurrence is considered probable can be difficult to determine.

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 48 Shopping Centers and five Mixed-Use properties for each period.

SAME PROPERTY REVENUE		
<i>(in thousands)</i>	Year ended December 31,	
	2017	2016
Total revenue	\$ 227,285	\$ 217,070
Less: Interest income	(80)	(52)
Less: Acquisitions, dispositions and development properties	(13,746)	(5,364)
Total same property revenue	\$ 213,459	\$ 211,654
Shopping centers	\$ 160,393	\$ 158,044
Mixed-Use properties	53,066	53,610
Total same property revenue	\$ 213,459	\$ 211,654

The \$1.8 million increase in same property revenue for 2017 compared to 2016 was primarily due to (a) a \$0.21 per square foot increase in base rent (\$1.8 million), exclusive of the net impact of a 2017 lease termination at Broadlands and a 2016 lease termination at 11503 Rockville Pike, (b) increased expense recovery income (\$0.7 million), (c) the net impact of a 2017 lease termination at Broadlands and a 2016 lease termination at 11503 Rockville Pike (\$0.1 million), partially offset by (d) lower other income (\$0.7 million), exclusive of the termination fees at 11503 Rockville Pike and Broadlands, and (e) a 3,833 square foot decrease in leased space (\$0.1 million), exclusive of the net impact of a 2017 lease termination at Broadlands and a 2016 lease termination at 11503 Rockville Pike.

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SAME PROPERTY OPERATING INCOME

<i>(in thousands)</i>	Year Ended December 31,	
	2017	2016
Net income	\$ 60,668	\$ 56,720
Add: Interest expense and amortization of deferred debt costs	47,225	45,683
Add: General and administrative	18,176	17,496
Add: Depreciation and amortization of deferred leasing costs	45,694	44,417
Add: Acquisition related costs	—	60
Add: Change in fair value of derivatives	(70)	6
Less: Gains on property dispositions	—	(1,013)
Less: Interest income	(80)	(52)
Property operating income	171,613	163,317
Less: Acquisitions, dispositions & development property	(8,978)	(1,760)
Total same property operating income	\$ 162,635	\$ 161,557
Shopping centers	\$ 127,096	\$ 124,470
Mixed-Use properties	35,539	37,087
Total same property operating income	\$ 162,635	\$ 161,557

Same property operating income increased \$1.1 million for 2017 compared to 2016 due primarily to (a) a \$0.21 per square foot increase in base rent (\$1.8 million), exclusive of the net impact of a 2017 lease termination at Broadlands and a 2016 lease termination at 11503 Rockville Pike, (b) increased expense recovery income (\$0.7 million), (c) lower property operating expenses (\$0.4 million) and (d) the net impact of a

2017 lease termination at Broadlands and a 2016 lease termination at 11503 Rockville Pike (\$0.1 million), partially offset by (e) higher real estate taxes (\$1.5 million) and (f) lower other income (\$0.7 million), exclusive of the termination fees at 11503 Rockville Pike and Broadlands.

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

REVENUE

<i>(Dollars in thousands)</i>	Year ended December 31,			Percentage Change	
	2017	2016	2015	2017 from 2016	2016 from 2015
Base rent	\$ 181,141	\$ 172,381	\$ 168,303	5.1 %	2.4 %
Expense recoveries	35,347	34,269	32,911	3.1 %	4.1 %
Percentage rent	1,458	1,379	1,608	5.7 %	(14.2)%
Other	9,339	9,041	6,255	3.3 %	44.5 %
Total revenue	\$ 227,285	\$ 217,070	\$ 209,077	4.7 %	3.8 %

Base rent includes \$0.5 million, \$1.8 million and \$2.4 million, for the years 2017, 2016, and 2015, respectively, to recognize base rent on a straight-line basis. In addition, base rent includes \$1.7 million, \$1.8 million and \$1.8 million, for the years 2017, 2016, and 2015, respectively, to recognize income from the amortization of in-place leases.

Total revenue increased 4.7% in 2017 compared to 2016 primarily due to (a) an \$0.84 per square foot increase in base rent (\$7.3 million), exclusive of the net impact of a 2017 lease termination at Broadlands and a 2016 lease termination at 11503 Rockville Pike, (b) higher residential base rent (\$4.8 million), (c) higher expense recoveries (\$1.1 million), and (d) the net impact of a 2017 lease termination at Broadlands and a 2016 lease termination at 11503 Rockville Pike (\$0.1 million) partially offset by (e) a 144,327 square foot decrease in leased space (\$2.7 million), exclusive of the net impact of a 2017 lease termination at Broadlands and a 2016 lease termination at 11503 Rockville Pike and (f) lower other income (\$0.3 million), exclusive of the termination fees at 11503 Rockville Pike and Broadlands. Total revenue increased 3.8% in 2016 compared to 2015 primarily due to (a) a \$0.32 per square foot increase in base rent (\$2.8 million) exclusive of the impact of a lease termination at 11503 Rockville Pike, (b) higher residential base rent (\$2.3 million), (c) the impact of a lease termination at 11503 Rockville Pike (\$1.9 million), and (d) higher expense recoveries (\$1.4 million) partially offset by (e) a 4,185 square foot decrease in leased space (\$0.1 million) exclusive of the impact of a lease termination at 11503 Rockville Pike. A discussion of the components of revenue follows.

BASE RENT

The \$8.8 million increase in base rent in 2017 compared to 2016 was attributable to (a) a \$0.78 per square foot increase in base rent (\$6.8 million) and (b) higher residential base rent (\$4.8 million) partially offset by (c) a 144,327 square foot decrease in leased space (\$2.7 million). The \$4.1 million increase in base rent in 2016 compared to 2015 was attributable to (a) a \$0.21 per square foot increase in base rent (\$1.8 million) and (b) higher residential base rent (\$2.3 million) partially offset by (c) a 4,185 square foot decrease in leased space (\$0.1 million).

EXPENSE RECOVERIES

Expense recovery income increased \$1.1 million in 2017 compared to 2016 primarily due to higher real estate tax expense. Expense recovery income increased \$1.4 million in 2016 compared to 2015 primarily due to higher real estate tax expense.

OTHER REVENUE

Other revenue increased \$0.3 million in 2017 compared to 2016. Other revenue increased \$2.8 million in 2016 compared to 2015 due primarily to a \$3.0 million lease termination fee at 11503 Rockville Pike.

OPERATING EXPENSES

<i>(Dollars in thousands)</i>	Year ended December 31,			Percentage Change	
	2017	2016	2015	2017 from 2016	2016 from 2015
Property operating expenses	\$ 27,689	\$ 27,527	\$ 26,565	0.6 %	3.6 %
Provision for credit losses	906	1,494	915	(39.4)%	63.3 %
Real estate taxes	26,997	24,680	23,663	9.4 %	4.3 %
Interest expense and amortization of deferred debt costs	47,225	45,683	45,165	3.4 %	1.1 %
Depreciation and amortization of deferred leasing costs	45,694	44,417	43,270	2.9 %	2.7 %
General and administrative	18,176	17,496	16,353	3.9 %	7.0 %
Acquisition related costs	—	60	84	(100.0)%	(28.6)%
Predevelopment expenses	—	—	132	NA	(100.0)%
Total operating expenses	\$ 166,687	\$ 161,357	\$ 156,147	3.3 %	3.3 %

Total operating expenses increased 3.3% in 2017 compared to 2016. Total operating expenses increased 3.3% in 2016 compared to 2015.

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

PROPERTY OPERATING EXPENSES

Property operating expenses increased \$0.2 million in 2017 compared to 2016. Property operating expenses increased \$1.0 million in 2016 compared to 2015.

PROVISION FOR CREDIT LOSSES

The provision for credit losses represents the Company's estimate of amounts owed by tenants that may not be collectible and was 0.40%, 0.69%, and 0.44% for 2017, 2016, and 2015, respectively. The increase in 2016 relates primarily to a single shopping center tenant.

REAL ESTATE TAXES

Real estate taxes increased \$2.3 million in 2017 compared to 2016 primarily due to (a) Park Van Ness (\$0.7 million), (b) Burtonsville Town Square (\$0.4 million) and (c) small increases at various properties throughout the portfolio. Real estate taxes increased \$1.0 million in 2016 compared to 2015 primarily due to (a) Park Van Ness (\$0.3 million) and (b) small increases throughout the remainder of the portfolio.

INTEREST EXPENSE AND AMORTIZATION OF DEFERRED DEBT COSTS

Interest expense and amortization of deferred debt costs increased by \$1.5 million in 2017 compared to 2016 primarily due to (a) Burtonsville Town Square (\$2.2 million) and (b) Park Van Ness (\$0.7 million) partially offset by (c) higher capitalized interest (\$1.0 million) and (d) lower average balances of mortgage debt throughout the portfolio (\$0.4 million).

DEPRECIATION AND AMORTIZATION

Depreciation and amortization of deferred leasing costs increased by \$1.3 million in 2017 compared to 2016 primarily due to (a) Burtonsville Town Square (\$1.4 million) and (b) Park Van Ness (\$1.2 million) partially offset by (c) lower expense at North Glebe Road (\$0.9 million) and (d) lower expense at 1500 Rockville Pike (\$0.3 million). Depreciation and amortization of deferred leasing costs increased \$1.1 million in 2016 compared to 2015 primarily due to (a) Park Van Ness (\$1.8 million) partially offset by (b) lower expense at Germantown (\$0.7 million).

GENERAL AND ADMINISTRATIVE

General and administrative costs increased \$0.7 million in 2017 compared to 2016 primarily due to (a) increased salary and benefit expense (\$0.6 million). General and administrative costs increased \$1.1 million in 2016 compared to 2015 primarily due to (a) increased salary and benefit expense (\$1.0 million) and (b) increased stock option expense (\$0.2 million).

ACQUISITION RELATED COSTS

Acquisition related costs in 2016 totaling approximately \$0.1 million relate to the purchase of a retail pad site adjacent to the

Company's existing Thruway Shopping Center. Acquisition related costs in 2015 totaling approximately \$0.1 million relate to the purchase of 726 N. Glebe Road.

PREDEVELOPMENT EXPENSES

Predevelopment expenses include lease termination costs and demolition costs which are related to development projects and do not meet the criteria to be capitalized.

GAIN ON SALES OF PROPERTIES

Gain on sale of property in 2016 resulted from the December 2016 sale of Crosstown Business Center.

IMPACT OF INFLATION

Inflation has remained relatively low during 2017 and 2016. 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.

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 \$10.9 million and \$8.3 million at December 31, 2017 and 2016, respectively. The changes in cash and cash equivalents during the years ended December 31, 2017 and 2016 were attributable to operating, investing and financing activities, as described below.

(in thousands)	Year Ended December 31,	
	2017	2016
Net cash provided by operating activities	\$ 103,450	\$ 89,090
Net cash used in investing activities	(113,306)	(86,274)
Net cash used in financing activities	12,442	(4,497)
Increase (decrease) in cash and cash equivalents	\$ 2,586	\$ (1,681)

OPERATING ACTIVITIES

Net cash provided by operating activities increased \$14.4 million to \$103.5 million for the year ended December 31, 2017 compared to \$89.1 million for the year ended December 31, 2016. 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 \$27.0 million to \$113.3 million for the year ended December 31, 2017 from \$86.3 million for the year ended December 31, 2016. Investing activities in 2017 primarily reflect tenant improvements and capital expenditures (\$17.7 million), the Company's development activities (\$22.8 million) and the acquisition of various retail real estate assets (\$79.5 million). Net cash used in investing activities increased \$16.7 million to \$86.3 million for the year ended December 31, 2016 from \$69.6 million for the year ended December 31, 2015. Investing activities in 2016 primarily reflect (a) tenant improvements and capital expenditures (\$15.6 million), (b) the Company's development activities (\$27.2 million) and (c) the acquisition of various retail real estate assets (\$48.3 million).

FINANCING ACTIVITIES

Net cash used in financing activities was \$12.4 million and \$4.5 million for the years ended December 31, 2017 and 2016, respectively. Net cash used in financing activities in 2017 primarily reflects:

- the repayment of mortgage notes payable totaling \$55.7 million;
- the repayment of amounts borrowed under the revolving credit facility totaling \$51.0 million;
- distributions to common stockholders totaling \$44.6 million;
- distributions to holders of convertible limited partnership units in the Operating Partnership totaling \$15.3 million;
- distributions made to preferred stockholders totaling \$12.4 million; and;
- payments of \$2.6 million for financing costs of mortgage notes payable;

which was partially offset by:

- proceeds of \$63.0 million received from revolving credit facility draws;
- proceeds of \$6.7 million from the issuance of limited partnership units in the Operating Partnership under the dividend reinvestment program;
- proceeds of \$22.8 million from the issuance of common stock under the dividend reinvestment program, directors deferred plan and from the exercise of stock options; and
- proceeds of \$1.4 million received from construction loan draws.

Net cash used in financing activities for the year ended December 31, 2016 primarily reflects:

- repayments of \$57.5 million on the revolving credit facility;
- the repayment of mortgage notes payable totaling \$24.7 million;
- distributions to common stockholders totaling \$39.5 million;
- distributions to holders of convertible limited partnership units in the Operating Partnership totaling \$13.5 million;
- distributions made to preferred stockholders totaling \$12.4 million; and
- payments of \$0.1 million for financing costs of new mortgage loans;

which was partially offset by:

- proceeds of \$78.5 million received from revolving credit facility;
- proceeds of \$6.9 million from the issuance of limited partnership units in the Operating Partnership under the dividend reinvestment program;
- proceeds of \$21.6 million received from the issuance of common stock under the dividend reinvestment program and from the exercise of stock options; and
- proceeds of \$24.9 million from construction loan draws.

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.

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Long-term liquidity requirements consist primarily of obligations under our long-term debt and dividends paid to our preferred shareholders. We anticipate that long-term liquidity requirements will also include amounts required for property acquisitions and developments. The Company is developing a primarily residential project with street-level retail at 750 N. Glebe Road in Arlington, Virginia. The total cost of the project, including acquisition of land, is expected to be approximately \$275.0 million. The Company had invested \$83.5 million as of December 31, 2017, and expects to invest approximately \$34.5 million during 2018, which will be funded by the revolving credit facility. The remaining cost will be funded by a \$157.0 million construction-to-permanent loan, which closed in 2017. 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.

CONTRACTUAL PAYMENT OBLIGATIONS

As of December 31, 2017, the Company had unfunded contractual payment obligations of approximately \$228.8 million, excluding operating obligations, due within the next 12 months. The table below shows the total contractual payment obligations as of December 31, 2017.

(Dollars in thousands)	CONTRACTUAL PAYMENT OBLIGATIONS					Total
	One Year or Less	2 - 3 Years	Payments Due By Period			
			4 - 5 Years	After 5 Years		
Notes Payable:						
Interest	\$ 46,110	\$ 79,900	\$ 66,050	\$ 129,953	\$ 322,013	
Scheduled Principal	30,160	56,015	53,415	145,038	284,628	
Balloon Payments	75,105	121,957	47,514	436,325	680,901	
Subtotal	151,375	257,872	166,979	711,316	1,287,542	
Corporate Headquarters Lease ⁽¹⁾	799	1,670	1,772	—	4,241	
Development Obligations	70,000	81,869	—	—	151,869	
Tenant Improvements	6,621	778	1,485	—	8,884	
Total Contractual Obligations	\$ 228,795	\$ 342,189	\$ 170,236	\$ 711,316	\$ 1,452,536	

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

Management believes that the Company's cash flow from operations and its capital resources, which at December 31, 2017, included cash balances of \$10.9 million and borrowing availability

of approximately \$213.8 million on its revolving line of credit, will be sufficient to meet its contractual obligations for the foreseeable future.

PREFERRED STOCK ISSUES

The Company has outstanding 7.2 million depositary shares, each representing 1/100th of a share of 6.875% Series C Cumulative Redeemable Preferred Stock (the "Series C Stock"). The depositary shares may be redeemed at the Company's option, in whole or in part, on or after February 12, 2018, at the \$25.00 liquidation preference, plus accrued but unpaid dividends. The depositary shares pay an annual dividend of \$1.71875 per share, equivalent to 6.875% of the \$25.00 liquidation preference. The Series C Stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and is not convertible into any other securities of the Company except in connection with certain changes of control or delisting events. Investors in the depositary shares generally have no voting rights, but will have limited voting rights if the Company fails to pay dividends for six or more quarters (whether or not declared or consecutive) and in certain other events.

On January 23, 2018, Saul Centers sold, in an underwritten public offering, 3.0 million depositary shares, each representing 1/100th of a share of 6.125% Series D Cumulative Redeemable Preferred Stock, providing net cash proceeds of approximately \$72.6 million. The depositary shares may be redeemed at the Company's option, in whole or in part, on or after January 23, 2023, at the \$25.00 liquidation preference, plus accumulated dividends to but not including the redemption date. The depositary shares pay an annual dividend of \$1.53125 per share, equivalent to 6.125% of the \$25.00 liquidation preference. The Series D 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. On February 22, 2018, the proceeds from the offering, together with cash on hand, were used to redeem 3.0 million depositary shares, each representing 1/100th of a share of the Company's 6.875% Series C Cumulative Redeemable Preferred 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% dis-

count 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 258,759 and 178,787 shares under the Plan at a weighted average discounted price of \$59.20 and \$55.19 per share during the years ended December 31, 2017 and 2016, respectively. The Company issued 111,351 and 124,758 limited partnership units under the Plan at a weighted average price of \$60.48 and \$55.39 per unit during the years ended December 31, 2017 and 2015, respectively. The Company also credited 7,252 and 8,010 shares to directors pursuant to the reinvestment of dividends specified by the Directors' Deferred Compensation Plan at a weighted average discounted price of \$59.70 and \$55.42 per share, during the years ended December 31, 2017 and 2016, 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, 2017.

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.

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a summary of notes payable as of December 31, 2017 and 2016.

NOTES PAYABLE

(Dollars in thousands)	Year Ended December 31,		Interest	Scheduled
	2017	2016	Rate*	Maturity*
Fixed rate mortgages:	\$ — (a)	\$ 29,428	6.01%	Feb-2018
	30,201 (b)	32,036	5.88%	Jan-2019
	9,783 (c)	10,372	5.76%	May-2019
	13,529 (d)	14,335	5.62%	Jul-2019
	13,543 (e)	14,325	5.79%	Sep-2019
	12,029 (f)	12,725	5.22%	Jan-2020
	9,948 (g)	10,277	5.60%	May-2020
	8,244 (h)	8,697	5.30%	Jun-2020
	37,998 (i)	39,213	5.83%	Jul-2020
	7,325 (j)	7,685	5.81%	Feb-2021
	5,649 (k)	5,808	6.01%	Aug-2021
	32,673 (l)	33,571	5.62%	Jun-2022
	9,999 (m)	10,253	6.08%	Sep-2022
	10,877 (n)	11,129	6.43%	Apr-2023
	12,577 (o)	13,401	6.28%	Feb-2024
	15,452 (p)	15,917	7.35%	Jun-2024
	13,438 (q)	13,832	7.60%	Jun-2024
	23,873 (r)	24,504	7.02%	Jul-2024
	28,115 (s)	28,945	7.45%	Jul-2024
	28,025 (t)	28,822	7.30%	Jan-2025
	14,537 (u)	14,961	6.18%	Jan-2026
	105,817 (v)	109,144	5.31%	Apr-2026
	32,016 (w)	33,097	4.30%	Oct-2026
	36,507 (x)	37,701	4.53%	Nov-2026
	17,086 (y)	17,630	4.70%	Dec-2026
	64,472 (z)	66,210	5.84%	May-2027
	15,859 (aa)	16,352	4.04%	Apr-2028
	39,968 (bb)	41,753	3.51%	Jun-2028
	16,055 (cc)	16,543	3.99%	Sep-2028
	27,884 (dd)	28,679	3.69%	Mar-2030
	14,950 (ee)	15,357	3.99%	Apr-2030
	39,140 (ff)	—	3.39%	Feb-2032
	71,211 (gg)	70,144	4.88%	Sep-2032
	60,000 (hh)	—	3.75%	Dec-2032
	11,613 (ii)	11,446	8.00%	Apr-2034
Total fixed rate	890,393	844,292	5.25%	8.6 Years
Variable rate loans:				
	61,000 (jj)	49,000	LIBOR + 1.45%	Jun-2018
	14,135 (kk)	14,482	LIBOR + 1.65%	Feb-2018
Total variable rate	\$ 75,135	\$ 63,482	2.86%	0.4 Years
Total notes payable	\$ 965,528	\$ 907,774	5.07%	7.9 Years

* Interest rate and scheduled maturity data presented as of December 31, 2017. Totals computed using weighted averages. Amounts shown are principal amounts and have not been reduced by any deferred debt issuance costs.

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

- (a) The loan was collateralized by Washington Square and required equal monthly principal and interest payments of \$264,000 based upon a 27.5-year amortization schedule and a final payment of \$28.0 million at loan maturity. In 2017, the loan was repaid in full and replaced with a new \$60.0 million loan. See (hh) below.
- (b) The loan is collateralized by three shopping centers, Broadlands Village, The Glen and Kentlands Square I, and requires equal monthly principal and interest payments of \$306,000 based upon a 25-year amortization schedule and a final payment of \$28.4 million at loan maturity. Principal of \$1.8 million was amortized during 2017.
- (c) The loan is collateralized by Olde Forte Village and requires equal monthly principal and interest payments of \$98,000 based upon a 25-year amortization schedule and a final payment of \$9.0 million at loan maturity. Principal of \$589,000 was amortized during 2017.
- (d) The loan is collateralized by Countryside and requires equal monthly principal and interest payments of \$133,000 based upon a 25-year amortization schedule and a final payment of \$12.3 million at loan maturity. Principal of \$806,000 was amortized during 2017.
- (e) The loan is collateralized by Briggs Chaney MarketPlace and requires equal monthly principal and interest payments of \$133,000 based upon a 25-year amortization schedule and a final payment of \$12.2 million at loan maturity. Principal of \$782,000 was amortized during 2017.
- (f) The loan is collateralized by Shops at Monocacy and requires equal monthly principal and interest payments of \$112,000 based upon a 25-year amortization schedule and a final payment of \$10.6 million at loan maturity. Principal of \$696,000 was amortized during 2017.
- (g) The loan is collateralized by Boca Valley Plaza and requires equal monthly principal and interest payments of \$75,000 based upon a 30-year amortization schedule and a final payment of \$9.1 million at loan maturity. Principal of \$329,000 was amortized during 2017.
- (h) The loan is collateralized by Palm Springs Center and requires equal monthly principal and interest payments of \$75,000 based upon a 25-year amortization schedule and a final payment of \$7.1 million at loan maturity. Principal of \$453,000 was amortized during 2017.
- (i) The loan and a corresponding interest-rate swap closed on June 29, 2010 and are collateralized by Thruway. On a combined basis, the loan and the interest-rate swap require equal monthly principal and interest payments of \$289,000 based upon a 25-year amortization schedule and a final payment of \$34.8 million at loan maturity. Principal of \$1.2 million was amortized during 2017.
- (j) The loan is collateralized by Jamestown Place and requires equal monthly principal and interest payments of \$66,000 based upon a 25-year amortization schedule and a final payment of \$6.1 million at loan maturity. Principal of \$360,000 was amortized during 2017.
- (k) The loan is collateralized by Hunt Club Corners and requires equal monthly principal and interest payments of \$42,000 based upon a 30-year amortization schedule and a final payment of \$5.0 million, at loan maturity. Principal of \$159,000 was amortized during 2017.
- (l) The loan is collateralized by Lansdowne Town Center and requires monthly principal and interest payments of \$230,000 based on a 30-year amortization schedule and a final payment of \$28.2 million at loan maturity. Principal of \$898,000 was amortized during 2017.
- (m) The loan is collateralized by Orchard Park and requires equal monthly principal and interest payments of \$73,000 based upon a 30-year amortization schedule and a final payment of \$8.6 million at loan maturity. Principal of \$254,000 was amortized during 2017.
- (n) The loan is collateralized by BJ's Wholesale and requires equal monthly principal and interest payments of \$80,000 based upon a 30-year amortization schedule and a final payment of \$9.3 million at loan maturity. Principal of \$252,000 was amortized during 2017.
- (o) The loan is collateralized by Great Falls shopping center. The loan consists of three notes which require equal monthly principal and interest payments of \$138,000 based upon a weighted average 26-year amortization schedule and a final payment of \$6.3 million at maturity. Principal of \$824,000 was amortized during 2017.
- (p) The loan is collateralized by Leesburg Pike and requires equal monthly principal and interest payments of \$135,000 based upon a 25-year amortization schedule and a final payment of \$11.5 million at loan maturity. Principal of \$465,000 was amortized during 2017.
- (q) The loan is collateralized by Village Center and requires equal monthly principal and interest payments of \$119,000 based upon a 25-year amortization schedule and a final payment of \$10.1 million at loan maturity. Principal of \$394,000 was amortized during 2017.
- (r) The loan is collateralized by White Oak and requires equal monthly principal and interest payments of \$193,000 based upon a 24.4 year weighted amortization schedule and a final payment of \$18.5 million at loan maturity. The loan was previously collateralized by Van Ness Square. During 2012, the Company substituted White Oak as the collateral and borrowed an additional \$10.5 million. Principal of \$631,000 was amortized during 2017.
- (s) The loan is collateralized by Avenel Business Park and requires equal monthly principal and interest payments of \$246,000 based upon a 25-year amortization schedule and a final payment of \$20.9 million at loan maturity. Principal of \$830,000 was amortized during 2017.
- (t) The loan is collateralized by Ashburn Village and requires equal monthly principal and interest payments of \$240,000 based upon a 25-year amortization schedule and a final payment of \$20.5 million at loan maturity. Principal of \$797,000 was amortized during 2017.
- (u) The loan is collateralized by Ravenwood and requires equal monthly principal and interest payments of \$111,000 based upon a 25-year amortization schedule and a final payment of \$10.1 million at loan maturity. Principal of \$424,000 was amortized during 2017.
- (v) The loan is collateralized by Clarendon Center and requires equal monthly principal and interest payments of \$753,000 based upon a 25-year amortization schedule and a final payment of \$70.5 million at loan maturity. Principal of \$3.3 million was amortized during 2017.
- (w) The loan is collateralized by Severna Park MarketPlace and requires equal monthly principal and interest payments of \$207,000 based upon a 25-year amortization schedule and a final payment of \$20.3 million at loan maturity. Principal of \$1.1 million was amortized during 2017.
- (x) The loan is collateralized by Kentlands Square II and requires equal monthly principal and interest payments of \$240,000 based upon a 25-year amortization schedule and a final payment of \$23.1 million at loan maturity. Principal of \$1.2 million was amortized during 2017.
- (y) The loan is collateralized by Cranberry Square and requires equal monthly principal and interest payments of \$113,000 based upon a 25-year amortization schedule and a final payment of \$10.9 million at loan maturity. Principal of \$544,000 was amortized during 2017.
- (z) The loan in the original amount of \$73.0 million closed in May 2012, is collateralized by Seven Corners and requires equal monthly principal and interest payments of \$463,200 based upon a 25-year amortization schedule and a final payment of \$42.3 million at loan maturity. Principal of \$1.7 million was amortized during 2017.
- (aa) The loan is collateralized by Hampshire Langley and requires equal monthly principal and interest payments of \$95,400 based upon a 25-year amortization schedule and a final payment of \$9.5 million at loan maturity. Principal of \$493,000 was amortized in 2017.
- (bb) The loan is collateralized by Beacon Center and requires equal monthly principal and interest payments of \$268,500 based upon a 20-year amortization schedule and a final payment of \$17.1 million at loan maturity. Principal of \$1.8 million was amortized in 2017.
- (cc) The loan is collateralized by Seabreeze Plaza and requires equal monthly principal and interest payments of \$94,900 based upon a 25-year amortization schedule and a final payment of \$9.5 million at loan maturity. Principal of \$488,000 was amortized in 2017.
- (dd) The loan is collateralized by Shops at Fairfax and Boulevard shopping centers and requires equal monthly principal and interest payments totaling \$153,300 based upon a 25-year amortization schedule and a final payment of \$15.5 million at maturity. Principal of \$795,000 was amortized in 2017.

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

- (ee) The loan is collateralized by Northrock and requires equal monthly principal and interest payments totaling \$84,400 based upon a 25-year amortization schedule and a final payment of \$8.4 million at maturity. Principal of \$407,000 was amortized in 2017.
- (ff) The loan is collateralized by Burtonsville Town Square and requires equal monthly principal and interest payments of \$198,000 based on a 25-year amortization schedule and a final payment of \$20.3 million at loan maturity. Principal of \$860,000 was amortized in 2017.
- (gg) The loan is a \$71.6 million construction-to-permanent facility that is collateralized by and financed a portion of the construction costs of Park Van Ness. During the construction period, interest was funded by the loan. Effective September 1, 2017, the loan converted to permanent financing and requires monthly principal and interest payments totaling \$413,500 based upon a 25-year amortization schedule. A final payment of \$39.6 million will be due at maturity. Principal of \$369,000 was amortized in 2017.
- (hh) The loan is collateralized by Washington Square and requires equal monthly principal and interest payments of \$308,000 based upon a 25-year amortization schedule and a final payment of \$31.1 million at loan maturity.
- (ii) The Company entered into a sale-leaseback transaction with its Olney property and is accounting for that transaction as a secured financing. The arrangement requires monthly payments of \$60,400 which increase by 1.5% on May 1, 2015, and every May 1 thereafter. The arrangement provides for a final payment of \$14.7 million and has an implicit interest rate of 8.0%. Negative amortization in 2017 totaled \$167,000.
- (jj) The loan is a \$275.0 million unsecured revolving credit facility. Interest accrues at a rate equal to the sum of one-month LIBOR plus a spread of 145 basis points. The line may be extended at the Company's option for one year with payment of a fee of 0.15%. Monthly payments, if required, are interest only and vary depending upon the amount outstanding and the applicable interest rate for any given month.
- (kk) The loan is collateralized by Metro Pike Center and requires monthly principal and interest payments of approximately \$48,000 and a final payment of \$14.2 million at loan maturity. Principal of \$347,000 was amortized during 2017.

The carrying value of properties collateralizing the mortgage notes payable totaled \$1.0 billion and \$957.2 million as of December 31, 2017 and 2016, respectively. The Company's credit facility requires the Company and its subsidiaries to maintain certain financial covenants, which are summarized below. As of December 31, 2017, the Company was in compliance with all such covenants:

- 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).

2018 FINANCING ACTIVITY

On January 26, 2018, the Company replaced its credit facility. The new credit facility, which can be used for working capital, property acquisitions, development projects or letters of credit, totals \$400,000,000 (the "New Facility"), of which \$325,000,000 is a revolving credit facility (the "Revolving Line") and \$75,000,000 is a term loan (the "Term Loan"). The Revolving Line matures on January 26, 2022, which term may be extended by the Company for one additional year, subject to satisfaction of certain conditions. The Term Loan matures on January 26, 2023, and may not be extended. In general, loan availability under the New Facility is primarily determined by operating income from the Company's existing unencumbered properties. Interest accrues at a rate of LIBOR plus a spread of 135 basis points to 195 basis points under the Revolving Line, and 130 basis points to 190 basis points under the Term Loan, each as determined by certain leverage tests. As of January 26, 2018, the applicable spread for borrowings is 135 basis points under the Revolving Line and 130 basis points under the Term Loan. Saul Centers and certain consolidated subsidiaries of the Operating Partnership have guaranteed the payment obligations of the Operating Partnership under the revolving credit facility.

2017 FINANCING ACTIVITY

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

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

Effective September 1, 2017, the Company's \$71.6 million construction-to-permanent loan, which is fully drawn and secured by Park Van Ness, converted to permanent financing. The loan matures in 2032, bears interest at a fixed rate of 4.88%, requires monthly principal and interest payments of \$413,500 based on a 25-year amortization schedule and requires a final payment of \$39.6 million at maturity.

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

2016 FINANCING ACTIVITY

In November 2016, the existing loan secured by Beacon Center was increased by \$11.25 million. The interest rate, amortization period and maturity date did not change; the required monthly payment was increased to \$268,500. Proceeds were used to partially fund the purchase of the ground which underlies Beacon Center.

2015 FINANCING ACTIVITY

On March 3, 2015, the Company closed on a 15-year, \$30.0 million non-recourse mortgage loan secured by Boulevard and Shops at Fairfax shopping centers in Fairfax, Virginia. The loan matures in 2030, bears interest at a fixed rate of 3.69%, requires monthly principal and interest payments totaling \$153,300 based on a 25-year amortization schedule and a final payment of \$15.5 million at maturity. Proceeds of the loan were used to repay in full the existing 7.45% mortgage in the amount of \$15.2 million, which was scheduled to mature in June 2015 and to pay down outstanding balances under the revolving credit facility.

On April 1, 2015, the Company closed on a 15-year, non-recourse \$16.0 million mortgage loan secured by Northrock. The loan matures in 2030, bears interest at a fixed rate of 3.99%, requires monthly principal and interest payments totaling \$84,400 based on a 25-year amortization schedule and requires a final payment of \$8.4 million at maturity. Proceeds of the loan were used to repay in full the \$14.5 million remaining balance of existing debt secured by Northrock.

OFF-BALANCE SHEET ARRANGEMENTS

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

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FUNDS FROM OPERATIONS

In 2017, the Company reported Funds From Operations ("FFO")¹ available to common stockholders and noncontrolling interests of \$94.0 million, a 7.1% increase from 2016 FFO available to common stockholders and noncontrolling interests of \$87.7 million. The following table presents a reconciliation from net income to FFO available to common stockholders and noncontrolling interests for the periods indicated:

(Dollars in thousands except per share amounts)	Year ended December 31,				
	2017	2016	2015	2014	2013
Net income	\$ 60,668	\$ 56,720	\$ 52,931	\$ 57,988	\$ 34,842
Subtract:					
Gains on sales of properties	—	(1,013)	(11)	(6,069)	—
Gain on casualty settlement	—	—	—	—	(77)
Add:					
Real estate depreciation and amortization	45,694	44,417	43,270	41,203	49,130
FFO	106,362	100,124	96,190	93,122	83,895
Subtract:					
Preferred dividends	(12,375)	(12,375)	(12,375)	(13,361)	(13,983)
Preferred stock redemption	—	—	—	(1,480)	(5,228)
FFO available to common stockholders and noncontrolling interests	\$ 93,987	\$ 87,749	\$ 83,815	\$ 78,281	\$ 64,684
Average shares and units used to compute FFO per share	29,511	28,990	28,449	27,977	27,330
FFO per share	\$ 3.18	\$ 3.03	\$ 2.95	\$ 2.80	\$ 2.37

¹ The National Association of Real Estate Investment Trusts (NAREIT) developed FFO as a relative non-GAAP financial measure of performance of an equity REIT in order to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP. FFO is defined by NAREIT as net income, computed in accordance with GAAP, plus real estate depreciation and amortization, and excluding extraordinary items, impairment charges on depreciable real estate assets and gains or losses from property dispositions. FFO does not represent cash generated from operating activities in accordance with GAAP and is not necessarily indicative of cash available to fund cash needs, which is disclosed in the Company's Consolidated Statements of Cash Flows for the applicable periods. There are no material legal or functional restrictions on the use of FFO. FFO should not be considered as an alternative to net income, its most directly comparable GAAP measure, as an indicator of the Company's operating performance, or as an alternative to cash flows as a measure of liquidity. Management considers FFO a meaningful supplemental measure of operating performance because it primarily excludes the assumption that the value of the real estate assets diminishes predictably over time (i.e. depreciation), which is contrary to what we believe occurs with our assets, and because industry analysts have accepted it as a performance measure. FFO may not be comparable to similarly titled measures employed by other REITs.

ACQUISITIONS, REDEVELOPMENTS AND RENOVATIONS

Management anticipates that during the coming year the Company will continue activities related to the redevelopment of 750 N. Glebe Road and may develop additional freestanding out-parcels or expansions within certain of the Shopping Centers. Although not currently planned, it is possible that the Company may redevelop additional Current Portfolio Properties and may develop expansions within certain of the Shopping Centers. Acquisition and development of properties are undertaken only after careful analysis and review, and management's determination that such properties are expected to provide long-term earnings and cash flow growth. During the coming year, any developments, expansions or acquisitions are expected to be funded with borrowings from the Company's credit line, construction financing, proceeds from the operation of the Company's dividend reinvestment plan or other external capital resources available to the Company.

The Company has been selectively involved in acquisition, development, redevelopment and renovation activities. It continues to evaluate the acquisition of land parcels for retail and office development and acquisitions of operating properties for opportunities to enhance operating income and cash flow growth. The following describes significant acquisitions, developments, redevelopments and renovations which affected the Company's financial position and results of operations in 2017, 2016, and 2015.

WESTVIEW PAD

In February 2015, the Company purchased for \$0.9 million, including acquisition costs, a 1.1 acre retail pad site in Frederick, Maryland, which is contiguous with and an expansion of the Company's other Westview asset.

700, 726, 730, 750 N. GLEBE ROAD

From 2014 through 2016, the Company purchased four adjacent properties for an aggregate \$54.0 million located on N. Glebe Road in Arlington, Virginia. The Company is developing approximately 490 residential units and 60,000 square feet of retail space on 2.8 acres of land. Excavation, sheeting and shoring are substantially complete and construction is proceeding on the first three levels of the below grade parking structure. The development is scheduled for substantial completion in early 2020. The total cost of the project, including acquisition of land, is expected to be approximately \$275.0 million. In 2017, the Company closed on a \$157.0 million construction-to-permanent loan, the proceeds of which will be used to partially finance the project. The Company has executed a 41,500 square foot anchor-lease with Target and leases for an aggregate of 9,000 square feet of retail shop space, resulting in approximately 84% of the retail space being leased.

PARK VAN NESS

In 2016, the Company completed development of Park Van Ness, 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, a wi-fi lounge/business center, and a rooftop pool and deck. The structure comprises 11 levels, five of which on the east side are below street level. Because of the change in grade from the street eastward to Rock Creek Park, apartments on all 11 levels have park or city views. The street level retail space is 100% leased to a grocery/gourmet food market and an upscale Italian restaurant. As of December 31, 2017, 260 apartments (95.9%) were leased. The total cost of the project, excluding predevelopment expense and land, which the Company has owned, was approximately \$93.0 million, a portion of which was financed with a \$71.6 million construction-to-permanent loan.

THRUWAY PAD

In August 2016, the Company purchased for \$3.1 million, a retail pad site with an occupied 4,200 square foot bank building in Winston Salem, North Carolina, and incurred acquisition costs of \$60,400. The property is contiguous with and an expansion of the Company's Thruway Shopping Center.

ASHBROOK MARKETPLACE

In August 2016, the Company entered into an agreement to acquire from B. F. Saul Real Estate Investment Trust (the "Trust"), for an initial purchase price of \$8.8 million, approximately 14.3 acres of land located at the intersection of Ashburn Village Boulevard and Russell Branch Parkway in Loudoun County, Virginia. The land is zoned for up to 115,000 square feet of retail development. In order to allow the Company time to pre-lease and complete project plans and specifications, the parties have agreed to a closing date in the second quarter of 2018, at which time the Company will exchange limited partnership units for the land. The number of limited partnership units to be exchanged will be based on the initial purchase price and the average share value (as defined in the agreement) of the Company's common stock at the time of the exchange. The Company intends to construct a shopping center and, upon stabilization, may be obligated to issue additional limited partnership units to the Trust.

BEACON CENTER

In the fourth quarter of 2016, the Company purchased for \$22.7 million, including acquisition costs, the land underlying Beacon Center. The land was previously leased by the Company with an annual rent of approximately \$60,000. The purchase price was funded in part by an \$11.25 million increase to the existing mortgage collateralized by Beacon Center and in part by the Company's revolving credit facility.

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SOUTHDALE

In the fourth quarter of 2016, the Company purchased for \$15.3 million, including acquisition costs, the land underlying Southdale. The land was previously leased by the Company with an annual rent of approximately \$60,000. The purchase price was funded by the Company's revolving credit facility.

BURTONSVILLE TOWN SQUARE

In January 2017, the Company purchased for \$76.4 million, including acquisition costs, Burtonsville Town Square, a 121,000 square foot shopping center located in Burtonsville, Maryland. Burtonsville Town Square is 100% leased and anchored by Giant Food and CVS Pharmacy. The purchase was funded with a new \$40.0 million mortgage loan and through the Company's credit line facility. The mortgage bears interest at 3.39%, requires monthly principal and interest payments of \$197,900 based upon a 25-year amortization schedule, and has a 15-year maturity. The Company expects to begin construction on a 16,000 square foot small shop expansion in the Spring of 2018, with delivery projected in late 2018. The total development cost is expected to be approximately \$5.7 million. Lease negotiations are in progress for over 50% of the space.

OLNEY SHOPPING CENTER

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

7316 WISCONSIN AVENUE

On January 12, 2018, the Company entered into an agreement to purchase for \$35.5 million, plus approximately \$0.7 million of acquisition costs, a 69,600 square foot office building and the underlying ground located at 7316 Wisconsin Avenue in Bethesda, Montgomery County, Maryland and has an earnest money deposit of \$3.5 million at risk. The property has mixed-use development potential of up to 325 apartment units and approximately 10,000 square feet of street level retail pursuant to the recently approved Bethesda Downtown Plan. The purchase price will be funded through the Company's revolving credit facility. The Company anticipates closing the acquisition on or before January 12, 2019.

PROPERTY SALES

CROSTOWN BUSINESS CENTER

In December 2016, the Company sold for \$5.4 million the 197,100 square foot Crosstown Business Center located in Tulsa, Oklahoma and recognized a \$1.0 million gain.

GREAT EASTERN SHOPPING CENTER

In September 2017, the Company sold for \$8.5 million the 255,400 square foot Great Eastern Shopping Center located in District Heights, Maryland. The Company provided \$1.28 million second trust financing to the buyer, which bears interest at a fixed rate of 6%, matures in March 2018 and can be extended for six months at the option of the buyer. A \$0.5 million gain realized on the sale was deferred and will be recognized when the loan is repaid by the buyer.

PORTFOLIO LEASING STATUS

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

As of December 31,	Total Properties		Total Square Footage		Percentage Leased	
	Shopping Centers	Mixed-Use	Shopping Centers	Mixed-Use	Shopping Centers	Mixed-Use
2017	49	6	7,750,098	1,076,838	94.3%	94.5%
2016	49	6	7,882,054	1,076,208	96.0%	91.0%
2015	50	6	7,896,499	1,264,488	95.4%	91.0%

The residential components of Clarendon Center and Park Van Ness were 96.7% and 95.9% leased, respectively, at December 31, 2017. On a same property basis, which excludes the impact of properties not in operation for the entirety of the comparable periods, the Shopping Center leasing percentage decreased to 94.2% from 96.1% and the Mixed-Use leasing percentage increased to 94.5% from 91.0%. The overall portfolio leasing percentage, on a comparative same property basis, decreased to 94.2% at December 31, 2017 from 95.5% at December 31, 2016.

The 2016 Mixed-Use leasing percentage includes the recently-developed Park Van Ness commercial space and excludes Crosstown Business Center. The residential components of Clarendon Center and Park Van Ness were 97.1% and 72.7% leased at December 31, 2016. On a same property basis, which excludes the impact of properties not in operation for the entirety of the comparable periods, the Shopping Center leasing percentage increased to 96.0% from 95.4% and the Mixed-Use leasing percentage decreased to 90.9% from 92.2%. The overall portfolio leasing percentage, on a comparative same property basis, increased to 95.4% at December 31, 2016 from 95.0% at December 31, 2015.

The Clarendon Center residential component was 99.2% leased at December 31, 2015. On a same property basis, which excludes the impact of properties not in operation for the entirety of the comparable periods, the Shopping Center leasing percentage increased to 95.3% from 95.0%. and the Mixed-Use leasing percentage increased to 91.0% from 90.8%. The overall portfolio leasing percentage, on a comparative same property basis, increased to 94.7% at December 31, 2015 from 94.4% at December 31, 2014.

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

SELECTED LEASING DATA

Year ended December 31,	Square Feet	Number of Leases	Base Rent per Square Foot	
			New/Renewed Leases	Expiring Leases
2017	1,315,192	280	\$ 19.60	\$ 19.45
2016	1,292,483	244	17.24	17.05
2015	1,583,310	259	15.15	14.82

Additional information about commercial leasing activity during the three months ended December 31, 2017, is set forth below. The below information includes leases for space which had not been previously leased during the period of the Company's ownership, either a result of acquisition or development.

COMMERCIAL LEASING ACTIVITY

	New Leases	Renewed Leases
Number of leases	20	42
Square feet	61,562	158,007
Per square foot average annualized:		
Base rent	\$ 21.94	\$ 21.99
Tenant improvements	(3.95)	(0.27)
Leasing costs	(0.63)	(0.06)
Rent concessions	(0.50)	(0.02)
Effective rents	\$ 16.86	\$ 21.64

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

During 2017, the Company entered into 475 new or renewed apartment leases, excluding new leases at Park Van Ness. The monthly rent per square foot for the 395 leases for units that were previously occupied decreased to \$3.51 from \$3.54. During 2016, the Company entered into 216 new or renewed apartment leases. The monthly rent per square foot for these leases increased to \$3.57 from \$3.45. During 2015, the Company entered into 222 new or renewed apartment leases. The monthly rent per square foot for these leases was unchanged at \$3.45.

As of December 31, 2017, 972,950 square feet of Commercial space was subject to leases scheduled to expire in 2018. Below is information about existing and estimated market base rents per square foot for that space.

EXPIRING LEASES	
	Total
Square feet	972,950
Average base rent per square foot	\$ 17.63
Estimated market base rent per square foot	\$ 17.66

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

The Company may, where appropriate, employ derivative instruments, such as interest rate swaps, to mitigate the risk of interest rate fluctuations. The Company does not enter into derivatives or other financial instruments for trading or speculative purposes. On June 29, 2010, the Company entered into an interest rate swap agreement with a \$45.6 million notional amount to manage the interest rate risk associated with \$45.6 million of variable-rate mortgage debt. The swap agreement was effective July 1, 2010, terminates on July 1, 2020 and effectively fixes the interest rate on the mortgage debt at 5.83%. The aggregate fair value of the swap at December 31, 2017 was approximately \$1.1 million and is reflected in accounts payable, accrued expenses and other liabilities in the consolidated balance sheet.

The Company is exposed to interest rate fluctuations which will affect the amount of interest expense of its variable rate debt and the fair value of its fixed rate debt. As of December 31, 2017, the Company had variable rate indebtedness totaling \$75.1 million. If the interest rates on the Company's variable rate debt instruments outstanding at December 31, 2017 had been one percent higher, our annual interest expense relating to these debt instruments would have increased by \$751,400, based on those balances. As of December 31, 2017, the Company had fixed-rate indebtedness totaling \$890.4 million with a weighted average interest rate of 5.25%. If interest rates on the Company's fixed-rate debt instruments at December 31, 2017 had been one percent higher, the fair value of those debt instruments on that date would have decreased by approximately \$47.5 million.

MANAGEMENT'S REPORT on Internal Control Over Financial Reporting

ASSESSMENT OF EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework (2013 Framework) to assess the effectiveness of the Company's internal control over financial reporting. Based upon the assessments, the

Company's management has concluded that, as of December 31, 2017, the Company's internal control over financial reporting was effective. The Company's independent registered public accounting firm has issued a report on the effectiveness of the Company's internal control over financial reporting, which appears on page 32 in this Annual Report.

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Saul Centers, Inc. (the Company) as of December 31, 2017 and 2016, the related consolidated statements of operations, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and financial statement schedule listed in the Index at Item 15(a)2(b) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 27, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

Ernst & Young LLP

We have served as the Company's auditor since 2002.

Tysons, Virginia
February 27, 2018

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control over Financial Reporting

We have audited Saul Centers, Inc.'s internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), (the COSO criteria). In our opinion, Saul Centers, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the 2017 consolidated financial statements of the Company and our report dated February 27, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

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

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

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

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

Ernst & Young LLP

Tysons, Virginia
February 27, 2018

Consolidated Balance Sheets

<i>(Dollars in thousands, except per share amounts)</i>	December 31, 2017	December 31, 2016
Assets		
Real estate investments		
Land	\$ 450,256	\$ 422,546
Buildings and equipment	1,261,830	1,214,697
Construction in progress	91,114	63,570
	1,803,200	1,700,813
Accumulated depreciation	(488,166)	(458,279)
	1,315,034	1,242,534
Cash and cash equivalents	10,908	8,322
Accounts receivable and accrued income, net	54,057	52,774
Deferred leasing costs, net	27,255	25,983
Prepaid expenses, net	5,248	5,057
Other assets	9,950	8,355
Total assets	\$ 1,422,452	\$ 1,343,025
Liabilities		
Mortgage notes payable	\$ 897,888	\$ 783,400
Revolving credit facility payable	60,734	48,217
Construction loan payable	—	68,672
Dividends and distributions payable	18,520	17,953
Accounts payable, accrued expenses and other liabilities	23,123	20,838
Deferred income	29,084	30,696
Total liabilities	1,029,349	969,776
Equity		
Preferred stock, 1,000,000 shares authorized:		
Series C Cumulative Redeemable, 72,000 shares issued and outstanding	180,000	180,000
Common stock, \$0.01 par value, 40,000,000 shares authorized, 22,123,128 and 21,704,359 shares issued and outstanding, respectively	221	217
Additional paid-in capital	352,590	328,171
Accumulated deficit	(197,710)	(188,584)
Accumulated other comprehensive loss	(696)	(1,299)
Total Saul Centers, Inc. equity	334,405	318,505
Noncontrolling interests	58,698	54,744
Total equity	393,103	373,249
Total liabilities and equity	\$ 1,422,452	\$ 1,343,025

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

Consolidated Statements of Operations

<i>(Dollars in thousands, except per share amounts)</i>	For The Year Ended December 31,		
	2017	2016	2015
Revenue			
Base rent	\$ 181,141	\$ 172,381	\$ 168,303
Expense recoveries	35,347	34,269	32,911
Percentage rent	1,458	1,379	1,608
Other	9,339	9,041	6,255
Total revenue	227,285	217,070	209,077
Operating expenses			
Property operating expenses	27,689	27,527	26,565
Provision for credit losses	906	1,494	915
Real estate taxes	26,997	24,680	23,663
Interest expense and amortization of deferred debt costs	47,225	45,683	45,165
Depreciation and amortization of deferred leasing costs	45,694	44,417	43,270
General and administrative	18,176	17,496	16,353
Acquisition related costs	—	60	84
Predevelopment expenses	—	—	132
Total operating expenses	166,687	161,357	156,147
Operating income	60,598	55,713	52,930
Change in fair value of derivatives	70	(6)	(10)
Gains on sales of properties	—	1,013	11
Net Income	60,668	56,720	52,931
Income attributable to noncontrolling interests	(12,411)	(11,441)	(10,463)
Net income attributable to Saul Centers, Inc.	48,257	45,279	42,468
Preferred dividends	(12,375)	(12,375)	(12,375)
Net income available to common stockholders	\$ 35,882	\$ 32,904	\$ 30,093
Per share net income available to common stockholders			
Basic	\$ 1.64	\$ 1.53	\$ 1.42
Diluted	\$ 1.63	\$ 1.52	\$ 1.42

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

Consolidated Statements of Comprehensive Income

<i>(Dollars in thousands)</i>	For The Year Ended December 31,		
	2017	2016	2015
Net income	\$ 60,668	\$ 56,720	\$ 52,931
Other comprehensive income			
Unrealized gain on cash flow hedge	812	678	124
Total comprehensive income	61,480	57,398	53,055
Comprehensive income attributable to noncontrolling interests	(12,620)	(11,616)	(10,495)
Total comprehensive income attributable to Saul Centers, Inc.	48,860	45,782	42,560
Preferred dividends	(12,375)	(12,375)	(12,375)
Total comprehensive income available to common stockholders	\$ 36,485	\$ 33,407	\$ 30,185

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

Consolidated Statements of Equity

<i>(Dollars in thousands, except per share amounts)</i>	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss)	Total Saul Centers, Inc.	Noncontrolling Interests	Total
Balance, December 31, 2014	\$ 180,000	\$ 209	\$ 287,995	\$ (173,774)	\$ (1,894)	\$ 292,536	\$ 46,721	\$ 339,257
Issuance of common stock:								
201,212 shares pursuant to dividend reinvestment plan	—	3	10,647	—	—	10,650	—	10,650
117,886 shares due to exercise of employee stock options and issuance of directors' deferred stock	—	1	6,366	—	—	6,367	—	6,367
Issuance of 107,037 partnership units pursuant to dividend reinvestment plan	—	—	—	—	—	—	5,673	5,673
Net income	—	—	—	42,468	—	42,468	10,463	52,931
Change in unrealized loss on cash flow hedge	—	—	—	—	92	92	32	124
Series C preferred stock distributions	—	—	—	(9,282)	—	(9,282)	—	(9,282)
Common stock distributions	—	—	—	(27,265)	—	(27,265)	(9,349)	(36,614)
Distributions payable on Series C preferred stock, \$42.97 per share	—	—	—	(3,093)	—	(3,093)	—	(3,093)
Distributions payable common stock (\$0.43/share) and partnership units (\$0.43/unit)	—	—	—	(9,145)	—	(9,145)	(3,141)	(12,286)
Balance, December 31, 2015	\$ 180,000	\$ 213	\$ 305,008	\$ (180,091)	\$ (1,802)	\$ 303,328	\$ 50,399	\$ 353,727
Issuance of common stock:								
186,797 shares pursuant to dividend reinvestment plan	—	2	10,309	—	—	10,311	—	10,311
251,323 shares due to exercise of employee stock options and issuance of directors' deferred stock	—	2	12,854	—	—	12,856	—	12,856
Issuance of 124,758 partnership units pursuant to dividend reinvestment plan	—	—	—	—	—	—	6,910	6,910
Net income	—	—	—	45,279	—	45,279	11,441	56,720
Change in unrealized loss on cash flow hedge	—	—	—	—	503	503	175	678
Series C preferred stock distributions	—	—	—	(9,282)	—	(9,282)	—	(9,282)
Common stock distributions	—	—	—	(30,328)	—	(30,328)	(10,392)	(40,720)
Distributions payable on Series C preferred stock, \$42.97 per share	—	—	—	(3,093)	—	(3,093)	—	(3,093)
Distributions payable common stock (\$0.51/share) and partnership units (\$0.51/unit)	—	—	—	(11,069)	—	(11,069)	(3,789)	(14,858)
Balance, December 31, 2016	\$ 180,000	\$ 217	\$ 328,171	\$ (188,584)	\$ (1,299)	\$ 318,505	\$ 54,744	\$ 373,249
Issuance of common stock:								
266,011 shares pursuant to dividend reinvestment plan	—	2	15,748	—	—	15,750	—	15,750
152,758 shares due to exercise of employee stock options and issuance of directors' deferred stock	—	2	8,671	—	—	8,673	—	8,673
Issuance of 111,351 partnership units pursuant to dividend reinvestment plan	—	—	—	—	—	—	6,735	6,735
Net income	—	—	—	48,257	—	48,257	12,411	60,668
Change in unrealized loss on cash flow hedge	—	—	—	—	603	603	209	812
Series C preferred stock distributions:	—	—	—	(9,282)	—	(9,282)	—	(9,282)
Common stock distributions	—	—	—	(33,490)	—	(33,490)	(11,479)	(44,969)
Distributions payable preferred stock:								
Series C, \$42.97 per share	—	—	—	(3,093)	—	(3,093)	—	(3,093)
Distributions payable common stock (\$0.52/share) and partnership units (\$0.52/unit)	—	—	—	(11,518)	—	(11,518)	(3,922)	(15,440)
Balance, December 31, 2017	\$ 180,000	\$ 221	\$ 352,590	\$ (197,710)	\$ (696)	\$ 334,405	\$ 58,698	\$ 393,103

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

Consolidated Statements of Cash Flows

(Dollars in thousands)	For the Year Ended December 31,		
	2017	2016	2015
Cash flows from operating activities:			
Net income	\$ 60,668	\$ 56,720	\$ 52,931
Adjustments to reconcile net income to net cash provided by operating activities:			
Change in fair value of derivatives	(70)	6	10
Gains on sales of properties	—	(1,013)	(11)
Depreciation and amortization of deferred leasing costs	45,694	44,417	43,270
Amortization of deferred debt costs	1,392	1,343	1,433
Non cash compensation costs of stock grants and options	1,672	1,603	1,434
Provision for credit losses	906	1,494	915
Increase in accounts receivable and accrued income	(1,643)	(3,525)	(5,216)
Additions to deferred leasing costs	(4,615)	(4,633)	(5,563)
Increase in prepaid expenses	(294)	(399)	(570)
(Increase) decrease in other assets	1,374	(6,368)	1,544
Increase (decrease) in accounts payable, accrued expenses and other liabilities	1,125	921	(937)
Decrease in deferred income	(2,759)	(1,476)	(344)
Net cash provided by operating activities	103,450	89,090	88,896
Cash flows from investing activities:			
Acquisitions of real estate investments	(79,499)	(48,250)	(4,894)
Additions to real estate investments	(17,653)	(15,564)	(18,855)
Additions to development and redevelopment projects	(22,842)	(27,231)	(45,870)
Proceeds from sale of properties ⁽¹⁾	6,688	4,771	32
Net cash used in investing activities	(113,306)	(86,274)	(69,587)
Cash flows from financing activities:			
Proceeds from mortgage notes payable	100,000	11,250	46,000
Repayments on mortgage notes payable	(55,679)	(24,653)	(52,963)
Proceeds from construction loans payable	1,437	24,937	39,817
Proceeds from revolving credit facility	63,000	78,500	20,000
Repayments on revolving credit facility	(51,000)	(57,500)	(35,000)
Additions to deferred debt costs	(2,583)	(125)	(296)
Proceeds from the issuance of:			
Common stock	22,751	21,564	15,583
Partnership units	6,735	6,910	5,673
Distributions to:			
Series C preferred stockholders	(12,375)	(12,375)	(12,375)
Common stockholders	(44,576)	(39,472)	(35,645)
Noncontrolling interests	(15,268)	(13,533)	(12,228)
Net cash provided by (used in) financing activities	12,442	(4,497)	(21,434)
Net increase (decrease) in cash and cash equivalents	2,586	(1,681)	(2,125)
Cash and cash equivalents, beginning of year	8,322	10,003	12,128
Cash and cash equivalents, end of year	\$ 10,908	\$ 8,322	\$ 10,003
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 45,713	\$ 44,066	\$ 43,799
Increase (decrease) in accrued real estate investments and development costs	\$ 2,097	\$ (7,098)	\$ 5,201

(1) Proceeds from sales of property excludes \$1,275 of seller financing in connection with the sale of the Company's Great Eastern property.

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

NOTES to Consolidated Financial Statements

1. ORGANIZATION, FORMATION, AND BASIS OF PRESENTATION

ORGANIZATION

Saul Centers, Inc. ("Saul Centers") was incorporated under the Maryland General Corporation Law on June 10, 1993. Saul Centers operates as a real estate investment trust (a "REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). 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.

FORMATION AND STRUCTURE OF COMPANY

Saul Centers was formed to continue and expand the shopping center business previously owned and conducted by the B. F. Saul Real Estate Investment Trust (the "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-used properties, and the management functions related to the transferred properties. Since its formation, the Company has developed and purchased additional properties.

The following table lists the significant properties acquired, developed and/or disposed of by the Company since January 1, 2015.

Name of Property	Location	Type	Year of Acquisition/ Development/ Disposal
ACQUISITIONS			
726 N. Glebe Road*	Arlington, Virginia	Shopping Center	September 2015
700 N. Glebe Road	Arlington, Virginia	Development	August 2016
Burtonsville Town Square	Burtonsville, Maryland	Shopping Center	January 2017
DEVELOPMENTS			
Park Van Ness	Washington, DC	Mixed-Use	2013-2016
750 Glebe Road	Arlington, Virginia	Mixed-Use	2017
DISPOSITIONS			
Crosstown Business Center	Tulsa, Oklahoma	Mixed-Use	December 2016
Great Eastern	District Heights, Maryland	Shopping Center	September 2017

* As of August 2016, this property was removed from operations and reclassified to development.

As of December 31, 2017, the Company's properties (the "Current Portfolio Properties") consisted of 49 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.

BASIS OF PRESENTATION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

The Company, which conducts all of its activities through its subsidiaries, the Operating Partnership and Subsidiary Partnerships, engages in the ownership, operation, management, leasing, acquisition, renovation, expansion, development and financing of community and neighborhood shopping centers and mixed-use properties, primarily in the Washington, DC/Baltimore metropolitan area. Because the properties are located primarily in the Washington, DC/Baltimore metropolitan area, a disproportionate economic downturn in the local economy would have a greater negative impact on our overall financial performance than on the overall financial performance of a company with a portfolio that is more geographically diverse. A majority of the Shopping Centers are anchored by several major tenants. As of December 31, 2017, 32 of the Shopping Centers were anchored by a grocery store and offer primarily day-to-day necessities and services. Two retail tenants, Giant Food (4.7%), a tenant at ten Shopping Centers and Capital One Bank (2.8%), a tenant at 18 properties, individually accounted for 2.5% or more of the Company's total revenue for the year ended December 31, 2017.

PRINCIPLES OF CONSOLIDATION

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

The Operating Partnership is a variable interest entity ("VIE") of the Company because the limited partners do not have substantive kick-out or participating rights. The Company is the primary beneficiary of the Operating Partnership because it has the power to direct the activities of the Operating Partnership and the rights to absorb 74.4% of the net income of the Operating Partnership. Because the Operating Partnership was already consolidated into the financial statements of the Company, the identification of it as a VIE has no impact on the consolidated financial statements of the Company.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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 relative fair values. The fair value of buildings generally is determined as if the buildings were vacant upon acquisition and then 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. 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. In certain circumstances, such as if the building is vacant and the Company intends to demolish the building in the near term, the entire purchase price will be allocated to land.

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 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 values of the intangibles are amortized over the lives of the customer relationships. The Company has never recorded a customer relationship intangible asset. Acquisition-related transaction costs are either (a) expensed as incurred when related to business combinations or (b) capitalized to land and/or building when related to asset acquisitions.

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

NOTES to Consolidated Financial Statements

both quantitative and qualitative factors including recurring operating losses, significant decreases in occupancy, and significant adverse changes in legal factors and business climate. If impairment indicators are present, the Company compares the projected cash flows of the property over its remaining useful life, on an undiscounted basis, to the carrying value of that property. The Company assesses its undiscounted projected cash flows based upon estimated capitalization rates, historic operating results and market conditions that may affect the property. If the carrying value is greater than the undiscounted projected cash flows, the Company would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to its then estimated fair value. The fair value of any property is sensitive to the actual results of any of the aforementioned estimated factors, either individually or taken as a whole. Should the actual results differ from management's projections, the valuation could be negatively or positively affected. The Company did not recognize an impairment loss on any of its real estate in 2017, 2016, or 2015.

Interest, real estate taxes, development related salary costs and other carrying costs are capitalized on projects under development and construction. Once construction is substantially completed and the assets are placed in service, their rental income, real estate tax expense, property operating expenses (consisting of payroll, repairs and maintenance, utilities, insurance and other property related expenses) and depreciation are included in current operations. Property operating expenses are charged to operations as incurred. Interest expense capitalized totaled \$3.5 million, \$2.5 million, and \$2.2 million during 2017, 2016, and 2015, respectively. Commercial development projects are considered substantially complete and available for occupancy upon completion of tenant improvements, but no later than one year from the cessation of major construction activity. Multi-family 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 that extend the useful lives. Leasehold improvements expenditures are capitalized when certain criteria are met, including when the Company supervises construction and will own the improvements. Tenant improvements are amortized, over the shorter of the lives of the related leases or the useful life of the improvement, using the straight-line method. Depreciation expense, which is included in Depreciation and amortization of deferred leasing costs in the

Consolidated Statements of Operations, for the years ended December 31, 2017, 2016, and 2015, was \$40.2 million, \$38.8 million, and \$37.7 million, respectively. Repairs and maintenance expense totaled \$11.6 million, \$11.8 million, and \$11.6 million for 2017, 2016, and 2015, respectively, and is included in property operating expenses in the accompanying consolidated financial statements.

DEFERRED LEASING COSTS

Deferred leasing costs consist of commissions paid to third-party leasing agents, internal direct costs such as employee compensation and payroll-related fringe benefits directly related to time spent performing leasing-related activities for successful commercial leases and amounts attributed to in place leases associated with acquired properties and are amortized, using the straight-line method, over the term of the lease or the remaining term of an acquired lease. Leasing related activities include evaluating the prospective tenant's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating lease terms, preparing lease documents and closing the transaction. Unamortized deferred costs are charged to expense if the applicable lease is terminated prior to expiration of the initial lease term. Collectively, deferred leasing costs totaled \$27.3 million and \$26.0 million, net of accumulated amortization of approximately \$35.3 million and \$30.4 million, as of December 31, 2017 and 2016, respectively. Amortization expense, which is included in Depreciation and amortization of deferred leasing costs in the Consolidated Statements of Operations, totaled approximately \$5.5 million, \$5.6 million, and \$5.6 million, for the years ended December 31, 2017, 2016, and 2015, respectively.

CONSTRUCTION IN PROGRESS

Construction in progress includes preconstruction and development costs of active projects. Preconstruction costs include legal, zoning and permitting costs and other project carrying costs incurred prior to the commencement of construction. Development costs include direct construction costs and indirect costs incurred subsequent to the start of construction such as architectural, engineering, construction management and carrying costs consisting of interest, real estate taxes and insurance. The following table shows the components of construction in progress.

<i>(in thousands)</i>	December 31,	
	2017	2016
N. Glebe Road	\$ 83,462	\$ 58,147
Other	7,652	5,423
Total	\$ 91,114	\$ 63,570

ACCOUNTS RECEIVABLE AND ACCRUED INCOME

Accounts receivable primarily represent amounts currently due from tenants in accordance with the terms of the respective leases. Receivables are reviewed monthly and reserves are established with a charge to current period operations when, in the opinion of management, collection of the receivable is doubtful. Accounts receivable in the accompanying consolidated financial statements are shown net of an allowance for doubtful accounts of \$0.4 million and \$2.0 million, at December 31, 2017 and 2016, respectively.

(in thousands)	Year ended December 31,		
	2017	2016	2015
Beginning Balance	\$ 1,958	\$ 1,263	\$ 677
Provision for Credit Losses	906	1,494	915
Charge-offs	(2,459)	(799)	(329)
Ending Balance	\$ 405	\$ 1,958	\$ 1,263

In addition to rents due currently, accounts receivable also includes \$44.1 million and \$43.1 million, at December 31, 2017 and 2016, respectively, net of allowance for doubtful accounts totaling \$0.2 million and \$0.5 million, respectively, representing minimum rental income accrued on a straight-line basis to be paid by tenants over the remaining term of their respective leases.

ASSETS HELD FOR SALE

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

- management commits to a plan to sell a property;
- it is unlikely that the disposal plan will be significantly modified or discontinued;
- the property is available for immediate sale in its present condition;
- actions required to complete the sale of the property have been initiated;
- sale of the property is probable and the Company expects the completed sale will occur within one year; and
- the property is actively being marketed for sale at a price that is reasonable given its current market value.

The Company must make a determination as to the point in time that it is probable that a sale will be consummated, which generally occurs when an executed sales contract has no contingencies and the prospective buyer has significant funds at risk to ensure performance. Upon designation as an asset held for sale, the Company records the carrying value of each property at the lower of its carrying value or its estimated fair value, less estimated costs to sell, and ceases depreciation. As of December 31, 2015, the Company has classified as held-for-sale one operating property, comprising 197,100 square feet of gross

leasable area. The book value of this property, which is included in Other Assets, was \$3.4 million, net of accumulated depreciation of \$7.0 million, which does not exceed its estimated fair value, less costs to sell, and liabilities were \$0.2 million. The asset was sold in 2016.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include short-term investments. Short-term investments include money market accounts and other investments which generally mature within three months, measured from the acquisition date, and/or are readily convertible to cash. Substantially all of the Company's cash balances at December 31, 2017 are held in non-interest bearing accounts at various banks. From time to time the Company may maintain deposits with financial institutions in amounts in excess of federally insured limits. The Company has not experienced any losses on such deposits and believes it is not exposed to any significant credit risk on those deposits.

DEFERRED DEBT COSTS

Deferred debt costs consist of fees and costs incurred to obtain long-term financing, construction financing and the revolving line of credit. These fees and costs are being amortized on a straight-line basis over the terms of the respective loans or agreements, which approximates the effective interest method. Deferred debt costs totaled \$6.9 million and \$7.5 million, net of accumulated amortization of \$8.2 million and \$7.3 million at December 31, 2017 and 2016, respectively, and are reflected as a reduction of the related debt in the Consolidated Balance Sheets. At December 31, 2017, deferred debt costs totaling \$1.8 million, related to the Glebe Road construction loan, which has no outstanding balance, are included in Other Assets in the Consolidated Balance Sheets.

DEFERRED INCOME

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

DERIVATIVE FINANCIAL INSTRUMENTS

The Company may, when appropriate, employ derivative instruments, such as interest-rate swaps, to mitigate the risk of interest rate fluctuations. The Company does not enter into derivative or other financial instruments for trading or speculative purposes. Derivative financial instruments are carried at fair value as either assets or liabilities on the consolidated balance sheets. For those derivative instruments that qualify, the Company may designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge or a cash flow hedge. Derivative instruments that are designated as a hedge

NOTES to Consolidated Financial Statements

are evaluated to ensure they continue to qualify for hedge accounting. The effective portion of any gain or loss on the hedge instruments is reported as a component of accumulated other comprehensive income (loss) and recognized in earnings within the same line item associated with the forecasted transaction in the same period or periods during which the hedged transaction affects earnings. Any ineffective portion of the change in fair value of a derivative instrument is immediately recognized in earnings.

For derivative instruments that do not meet the criteria for hedge accounting, or that qualify and are not designated, changes in fair value are immediately recognized in earnings.

REVENUE RECOGNITION

Rental and interest income are accrued as earned. Recognition of rental income commences when control of the space has been given to the tenant. When rental payments due under leases vary from a straight-line basis because of free rent periods or stepped increases, income is recognized on a straight-line basis. Expense recoveries represent a portion of property operating expenses billed to the tenants, including common area maintenance, real estate taxes and other recoverable costs. Expense recoveries are recognized in the period in which the expenses are incurred. Rental income based on a tenant's revenue ("percentage rent") is accrued when a tenant reports sales that exceed a specified breakpoint, pursuant to the terms of their respective leases.

INCOME TAXES

The Company made an election to be treated, and intends to continue operating so as to qualify, as a REIT under the Code, commencing with its taxable year ended December 31, 1993. A REIT generally will not be subject to federal income taxation, provided that distributions to its stockholders equal or exceed its REIT taxable income and complies with certain other requirements. Therefore, no provision has been made for federal income taxes in the accompanying consolidated financial statements.

As of December 31, 2017, the Company had no material unrecognized tax benefits and there exist no potentially significant unrecognized tax benefits which are reasonably expected to occur within the next twelve months. The Company recognizes penalties and interest accrued related to unrecognized tax benefits, if any, as general and administrative expense. No penalties and interest have been accrued in years 2017, 2016, and 2015. The tax basis of the Company's real estate investments was approximately \$1.32 billion and \$1.26 billion as of December 31, 2017 and 2016, respectively. With few exceptions, the Company is no longer subject to U.S. federal, state, and local tax examinations by tax authorities for years before 2013.

STOCK BASED EMPLOYEE COMPENSATION, DEFERRED COMPENSATION AND STOCK PLAN FOR DIRECTORS

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

The Company has a stock plan, which was originally approved in 2004, amended in 2008 and 2013 and which expires in 2023, for the purpose of attracting and retaining executive officers, directors and other key personnel (the "Stock Plan"). Pursuant to the Stock Plan, the Compensation Committee established a Deferred Compensation Plan for Directors for the benefit of its directors and their beneficiaries, which replaced a previous Deferred Compensation and Stock Plan for Directors. A director may make an annual election to defer all or part of his or her director's fees and has the option to have the fees paid in cash, in shares of common stock or in a combination of cash and shares of common stock upon separation from the Board. If the director elects to have fees paid in stock, fees earned during a calendar quarter are aggregated and divided by the common stock's closing market price on the first trading day of the following quarter to determine the number of shares to be allocated to the director. As of December 31, 2017, the directors' deferred fee accounts comprise 183,818 shares.

The Compensation Committee has also approved an annual award of shares of the Company's common stock as additional compensation to each director serving on the Board of Directors as of the record date for the Annual Meeting of Stockholders. The shares are awarded as of each Annual Meeting of Shareholders, and their issuance may not be deferred. Each director was issued 200 shares for each of the years ended December 31, 2017, 2016, and 2015. The shares were valued at the closing stock price on the dates the shares were awarded and included in general and administrative expenses in the total amounts of \$130,700, \$150,100, and \$143,000, for the years ended December 31, 2017, 2016, and 2015, respectively.

NONCONTROLLING INTERESTS

Saul Centers is the sole general partner of the Operating Partnership, owning a 74.4% common interest as of December 31, 2017. Noncontrolling interest in the Operating Partnership is comprised of limited partnership units owned by the Saul Organization. Noncontrolling interest reflected on the accompanying consolidated balance sheets is increased for earnings allocated to limited partnership interests and distributions reinvested in additional units, and is decreased for limited partner distributions. Noncontrolling interest reflected on the consolidated statements of operations represents earnings allocated to limited partnership interests held by the Saul Organization.

PER SHARE DATA

Per share data for net income (basic and diluted) is computed using weighted average shares of common stock. Convertible limited partnership units and employee stock options are the Company's potentially dilutive securities. For all periods presented, the convertible limited partnership units are anti-dilutive. The treasury stock method was used to measure the effect of the dilution.

BASIC AND DILUTED SHARES OUTSTANDING

(Shares in thousands)	December 31,		
	2017	2016	2015
Weighted average common shares outstanding - Basic	21,901	21,505	21,127
Effect of dilutive options	107	110	69
Weighted average common shares outstanding - Diluted	22,008	21,615	21,196
Average share price	\$ 61.63	\$ 58.96	\$ 53.38
Non-dilutive options	—	129	111
Years non-dilutive options were issued		2007, 2015 and 2016	2007 and 2015

LEGAL CONTINGENCIES

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

RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2014, the FASB issued ASU No. 2014-09 titled "Revenue from Contracts with Customers" and subsequently issued several related ASUs (collectively "ASU 2014-09"). ASU 2014-09 will replace most existing revenue recognition guidance and will require an entity to recognize the amount of revenue which it expects to be entitled for the transfer of promised goods or

services to customers. ASU 2014-09 is effective for annual periods beginning after December 15, 2017, and interim periods within those years and early adoption is not permitted. ASU 2014-09 must be applied retrospectively by either restating prior periods or by recognizing the cumulative effect as of the first date of application. Management believes the majority of the Company's revenue falls outside of the scope of this guidance and does not anticipate any significant changes to the timing of the Company's revenue recognition. The Company intends to implement the standard retrospectively with the cumulative effect recognized in retained earnings at the date of adoption.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation" ("ASU 2015-02"). ASU 2015-02 modifies existing consolidation guidance for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. ASU 2015-02 is effective for annual periods beginning after December 15, 2015, and interim periods within those years. The adoption of ASU 2015-02 effective January 1, 2016, resulted in the Operating Partnership being classified as a variable interest entity. Because the Operating Partnership was already consolidated into the financial statements, adoption had no impact on the Company's consolidated financial statements or disclosures.

In April 2015, the FASB issued ASU No. 2015-03, "Interest - Imputation of Interest" ("ASU 2015-03"). ASU 2015-03 simplifies the presentation of debt issuance costs and will require an entity to deduct transaction costs from the carrying value of the related financial liability and not record those transaction costs as a separate asset. Recognition and measurement guidance for debt issuance costs are not affected by ASU 2015-03. ASU 2015-03 is effective for annual periods beginning after December 15, 2015, and interim periods within those years, and must be applied retrospectively by adjusting the balance sheet of each individual period presented. The Company retrospectively adopted ASU 2015-03 effective January 1, 2016. As a result of the adoption of ASU 2015-03, the Company no longer reports its net deferred debt costs as an asset and instead reports those amounts as reduction of the carrying value of the associated debt.

In February 2016, the FASB issued ASU 2016-02, "Leases" ("ASU 2016-02"). ASU 2016-02 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU 2016-02 is effective for annual periods beginning after December 15, 2018, interim periods within those years, and requires a modified retrospective transition approach for all leases existing at the date of initial application, with an option to use certain practical expedients for those existing leases. We are evaluating the impact that ASU 2016-02 will have on our consolidated financial statements and related disclosures.

NOTES to Consolidated Financial Statements

In March 2016, the FASB issued ASU 2016-09, "Compensation-Stock Compensation" ("ASU 2016-09"). ASU 2016-09 simplifies the accounting for several aspects of share-based payments including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016 and interim periods within those years. The transition method varies based on the specific amendment. The adoption of ASU 2016-09 effective January 1, 2017, did not have a material impact on our consolidated financial statements or related disclosures.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments-Credit Losses" ("ASU 2016-13"). ASU 2016-13 replaces the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of information to support credit loss estimates. ASU 2016-13 is effective for annual periods beginning after December 15, 2019, including interim periods within those years. We are evaluating the impact that ASU 2016-13 will have on our consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-01, "Clarifying the Definition of a Business" ("ASU 2017-01"). ASU 2017-01 provides that when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, the set is not a business. ASU 2017-01 is effective prospectively for annual periods beginning after December 15, 2017, and interim periods within those years. Early application is permitted for transactions for which the acquisition date occurs before the effective date provided the transaction has not been reported in the financial statements. The Company adopted ASU 2017-01 during the first quarter of 2017, the effect of which, for asset acquisitions, was (a) the capitalization of acquisition costs, instead of expense, and (b) recordation of acquired assets and assessment liabilities at relative fair value, instead of fair value.

RECLASSIFICATIONS

Certain reclassifications have been made to prior years to conform to the presentation used for year ended December 31, 2017.

3. REAL ESTATE ACQUIRED

700, 726, 730 AND 750 N. GLEBE ROAD

In August 2014, the Company purchased for \$40.0 million, 750 N. Glebe Road and incurred acquisition costs of \$0.4 million. In December 2014, the Company purchased for \$2.8 million 730 N. Glebe Road and incurred acquisition costs of \$40,400. In September 2015, the Company purchased for \$4.0 million 726 N. Glebe Road and incurred acquisition costs of \$0.1 million. In August 2016, the Company purchased for \$7.2 million, including acquisition costs, 700 N. Glebe Road. These properties are contiguous and are located in Arlington, Virginia.

WESTVIEW PAD

In February 2015, the Company purchased for \$0.9 million including acquisition costs, a 1.1 acre retail pad site in Frederick, Maryland, which is contiguous with and an expansion of the Company's other Westview asset.

THRUWAY PAD

In August 2016, the Company purchased for \$3.1 million, a retail pad site with an occupied bank building in Winston Salem, North Carolina, and incurred acquisition costs of \$60,400. The property is contiguous with and an expansion of the Company's Thruway asset.

BEACON CENTER

In the fourth quarter of 2016, the Company purchased for \$22.7 million, including acquisition costs, the land underlying Beacon Center. The land was previously leased by the Company with an annual rent of approximately \$60,000. The purchase price was funded in part by an \$11.25 million increase to the existing mortgage collateralized by Beacon Center and in part by the Company's revolving credit facility.

SOUTHDALE

In the fourth quarter of 2016, the Company purchased for \$15.3 million, including acquisition costs, the land underlying Southdale. The land was previously leased by the Company with an annual rent of approximately \$60,000. The purchase price was funded by the Company's revolving credit facility.

BURTONSVILLE TOWN SQUARE

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

OLNEY SHOPPING CENTER

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

ALLOCATION OF PURCHASE PRICE OF REAL ESTATE ACQUIRED

The Company allocates the purchase price of real estate investment properties to various components, such as land, buildings and intangibles related to in-place leases and customer relationships, based on their relative fair values. See Note 2. Summary of Significant Accounting Policies-Real Estate Investment Properties.

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

During 2016, the Company purchased two properties at an aggregate cost of \$10.3 million, and incurred acquisition costs totaling \$60,400. The purchase price was allocated to the assets acquired and liabilities assumed based on their fair value as shown in the following table.

PURCHASE PRICE ALLOCATION OF ACQUISITIONS			
	700 N. Glebe Road	Thruway Pad	Total
(in thousands)			
Land	\$ 7,236	\$ 2,196	\$ 9,432
Buildings	—	874	874
In-place Leases	—	93	93
Above Market Rent	—	—	—
Below Market Rent	—	(63)	(63)
Total Purchase Price	\$ 7,236	\$ 3,100	\$10,336

During 2015, the Company purchased one property, 726 N. Glebe Road, at a cost of \$4.0 million and incurred acquisition costs of \$0.1 million. Of the total purchase price, \$3.9 million was allocated to land and \$0.1 million was allocated to building. No amounts were allocated to in-place, above-market or below-market leases.

The gross carrying amount of lease intangible assets included in deferred leasing costs as of December 31, 2017 and 2016 was \$12.3 million and \$10.1 million, respectively, and accumulated amortization was \$7.5 million and \$6.4 million, respectively. Amortization expense totaled \$1.1 million, \$1.0 million and \$1.3 million, for the years ended December 31, 2017, 2016, and 2015, respectively. The gross carrying amount of below market lease intangible liabilities included in deferred income as of December 31, 2017 and 2016 was \$25.1 million and \$25.1 million, respectively, and accumulated amortization was \$11.8 million and \$10.6 million, respectively. Accretion income totaled \$1.7 million, \$1.8 million, and \$1.8 million, for the years

ended December 31, 2017, 2016, and 2015, respectively. The gross carrying amount of above market lease intangible assets included in accounts receivable as of December 31, 2017 and 2016 was \$0.6 million and \$10,200, respectively, and accumulated amortization was \$39,500 and \$7,800, respectively. Amortization expense totaled \$31,600, \$1,500 and \$1,500, for the years ended December 31, 2017, 2016 and 2015, respectively. The remaining weighted-average amortization period as of December 31, 2017 is 4.6 years, 5.8 years, and 8.8 years for lease acquisition costs, above market leases and below market leases, respectively.

As of December 31, 2017, scheduled amortization of intangible assets and deferred income related to in place leases is as follows:

AMORTIZATION OF INTANGIBLE ASSETS AND DEFERRED INCOME RELATED TO IN-PLACE LEASES

(in thousands)	Lease acquisition costs	Above-market leases	Below-market leases
2018	\$ 982	\$ 33	\$ 1,652
2019	780	33	1,515
2020	653	33	1,433
2021	530	33	1,409
2022	390	33	1,306
Thereafter	1,547	409	6,029
Total	\$ 4,882	\$ 574	\$ 13,344

4. NONCONTROLLING INTEREST - HOLDERS OF CONVERTIBLE LIMITED PARTNERSHIP UNITS IN THE OPERATING PARTNERSHIP

The Saul Organization holds a 25.6% limited partnership interest in the Operating Partnership represented by 7,541,867 limited partnership units, as of December 31, 2017. The units are convertible into shares of Saul Centers' common stock, at the option of the unit holder, on a one-for-one basis provided that, in accordance with the Saul Centers, Inc. Articles of Incorporation, the rights may not be exercised at any time that the Saul Organization beneficially owns, directly or indirectly, in the aggregate more than 39.9% of the value of the outstanding common stock and preferred stock of Saul Centers (the "Equity Securities"). As of December 31, 2017, approximately 740,000 units were eligible for conversion.

The impact of the Saul Organization's 25.6% limited partnership interest in the Operating Partnership is reflected as Noncontrolling Interests in the accompanying consolidated financial

NOTES to Consolidated Financial Statements

statements. Fully converted partnership units and diluted weighted average shares outstanding for the years ended December 31, 2017, 2016, and 2015, were 29,510,900, 28,989,900, and 28,449,400, respectively.

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

At December 31, 2017, the principal amount of outstanding debt totaled \$965.5 million, of which \$890.4 million was fixed rate debt and \$75.1 million was variable rate debt. The principal amount of the Company's outstanding debt totaled \$907.8 million at December 31, 2016, of which \$844.3 million was fixed rate debt and \$63.5 million was variable rate debt. At December 31, 2017, the Company had a \$275.0 million unsecured revolving credit facility, which can be used for working capital, property acquisitions or development projects. The revolving credit facility matures on June 23, 2018, and may be extended by the Company for one additional year subject to the Company's satisfaction of certain conditions. Saul Centers and certain consolidated subsidiaries of the Operating Partnership have guaranteed the payment obligations of the Operating Partnership under the revolving credit facility. Letters of credit may be issued under the revolving credit facility. On December 31, 2017, based on the value of the Company's unencumbered properties, approximately \$213.8 million was available under the line, \$61.0 million was outstanding and approximately \$185,000 was committed for letters of credit. The interest rate under the facility is variable and equals the sum of one-month LIBOR and a margin that is based on the Company's leverage ratio and which can range from 145 basis points to 200 basis points. As of December 31, 2017, the margin was 145 basis points.

Saul Centers is a guarantor of the revolving credit facility, of which the Operating Partnership is the borrower, a portion of the Metro Pike Center bank loan (approximately \$7.8 million of the \$14.1 million outstanding at December 31, 2017), a portion of the Park Van Ness construction-to-permanent loan (approximately \$53.7 million of the \$71.2 million outstanding balance at December 31, 2017), and a portion of the Kentlands Square II mortgage loan (approximately \$9.2 million of the \$36.5 million outstanding at December 31, 2017). All other notes payable are non-recourse.

On March 3, 2015, the Company closed on a 15-year, non-recourse \$30.0 million mortgage loan secured by Shops at Fairfax and Boulevard. The loan matures in 2030, bears interest at a fixed rate of 3.69%, requires monthly principal and interest payments totaling \$153,300 based on a 25-year amortization

schedule and requires a final payment of \$15.5 million at maturity. Proceeds were used to repay in full the \$15.2 million remaining balance of existing debt secured by Shops at Fairfax and Boulevard and to reduce outstanding borrowings under the revolving credit facility.

On April 1, 2015, the Company closed on a 15-year, non-recourse \$16.0 million mortgage loan secured by Northrock. The loan matures in 2030, bears interest at a fixed rate of 3.99%, requires monthly principal and interest payments totaling \$84,400 based on a 25-year amortization schedule and requires a final payment of \$8.4 million at maturity. Proceeds were used to repay in full the \$14.5 million remaining balance of existing debt secured by Northrock.

In November 2016, the existing loan secured by Beacon Center was increased by \$11.25 million. The interest rate, amortization period and maturity date did not change; the required monthly payment was increased to \$268,500. Proceeds were used to partially fund the purchase of the ground which underlies Beacon Center.

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

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

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

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

NOTES to Consolidated Financial Statements

The following is a summary of notes payable as of December 31, 2017 and 2016.

NOTES PAYABLE

(Dollars in thousands)	Year Ended December 31,		Interest	Scheduled
	2017	2016	Rate*	Maturity*
Fixed rate mortgages:	\$ — (a)	\$ 29,428	6.01%	Feb-2018
	30,201 (b)	32,036	5.88%	Jan-2019
	9,783 (c)	10,372	5.76%	May-2019
	13,529 (d)	14,335	5.62%	Jul-2019
	13,543 (e)	14,325	5.79%	Sep-2019
	12,029 (f)	12,725	5.22%	Jan-2020
	9,948 (g)	10,277	5.60%	May-2020
	8,244 (h)	8,697	5.30%	Jun-2020
	37,998 (i)	39,213	5.83%	Jul-2020
	7,325 (j)	7,685	5.81%	Feb-2021
	5,649 (k)	5,808	6.01%	Aug-2021
	32,673 (l)	33,571	5.62%	Jun-2022
	9,999 (m)	10,253	6.08%	Sep-2022
	10,877 (n)	11,129	6.43%	Apr-2023
	12,577 (o)	13,401	6.28%	Feb-2024
	15,452 (p)	15,917	7.35%	Jun-2024
	13,438 (q)	13,832	7.60%	Jun-2024
	23,873 (r)	24,504	7.02%	Jul-2024
	28,115 (s)	28,945	7.45%	Jul-2024
	28,025 (t)	28,822	7.30%	Jan-2025
	14,537 (u)	14,961	6.18%	Jan-2026
	105,817 (v)	109,144	5.31%	Apr-2026
	32,016 (w)	33,097	4.30%	Oct-2026
	36,507 (x)	37,701	4.53%	Nov-2026
	17,086 (y)	17,630	4.70%	Dec-2026
	64,472 (z)	66,210	5.84%	May-2027
	15,859 (aa)	16,352	4.04%	Apr-2028
	39,968 (bb)	41,753	3.51%	Jun-2028
	16,055 (cc)	16,543	3.99%	Sep-2028
	27,884 (dd)	28,679	3.69%	Mar-2030
	14,950 (ee)	15,357	3.99%	Apr-2030
	39,140 (ff)	—	3.39%	Feb-2032
	71,211 (gg)	70,144	4.88%	Sep-2032
	60,000 (hh)	—	3.75%	Dec-2032
	11,613 (ii)	11,446	8.00%	Apr-2034
Total fixed rate	890,393	844,292	5.25%	8.6 Years
Variable rate loans:	61,000 (jj)	49,000	LIBOR + 1.45%	Jun-2018
	14,135 (kk)	14,482	LIBOR + 1.65%	Feb-2018
Total variable rate	\$ 75,135	\$ 63,482	2.86%	0.4 Years
Total notes payable	\$ 965,528	\$ 907,774	5.07%	7.9 Years

* Interest rate and scheduled maturity data presented as of December 31, 2017. Totals computed using weighted averages. Amounts shown are principal amounts and have not been reduced by any deferred debt issuance costs.

NOTES to Consolidated Financial Statements

- (a) The loan was collateralized by Washington Square and required equal monthly principal and interest payments of \$264,000 based upon a 27.5-year amortization schedule and a final payment of \$28.0 million at loan maturity. In 2017, the loan was repaid in full and replaced with a new \$60.0 million loan. See (hh) below.
- (b) The loan is collateralized by three shopping centers, Broadlands Village, The Glen and Kentlands Square I, and requires equal monthly principal and interest payments of \$306,000 based upon a 25-year amortization schedule and a final payment of \$28.4 million at loan maturity. Principal of \$1.8 million was amortized during 2017.
- (c) The loan is collateralized by Olde Forte Village and requires equal monthly principal and interest payments of \$98,000 based upon a 25-year amortization schedule and a final payment of \$9.0 million at loan maturity. Principal of \$589,000 was amortized during 2017.
- (d) The loan is collateralized by Countryside and requires equal monthly principal and interest payments of \$133,000 based upon a 25-year amortization schedule and a final payment of \$12.3 million at loan maturity. Principal of \$806,000 was amortized during 2017.
- (e) The loan is collateralized by Briggs Chaney MarketPlace and requires equal monthly principal and interest payments of \$133,000 based upon a 25-year amortization schedule and a final payment of \$12.2 million at loan maturity. Principal of \$782,000 was amortized during 2017.
- (f) The loan is collateralized by Shops at Monocacy and requires equal monthly principal and interest payments of \$112,000 based upon a 25-year amortization schedule and a final payment of \$10.6 million at loan maturity. Principal of \$696,000 was amortized during 2017.
- (g) The loan is collateralized by Boca Valley Plaza and requires equal monthly principal and interest payments of \$75,000 based upon a 30-year amortization schedule and a final payment of \$9.1 million at loan maturity. Principal of \$329,000 was amortized during 2017.
- (h) The loan is collateralized by Palm Springs Center and requires equal monthly principal and interest payments of \$75,000 based upon a 25-year amortization schedule and a final payment of \$7.1 million at loan maturity. Principal of \$453,000 was amortized during 2017.
- (i) The loan and a corresponding interest-rate swap closed on June 29, 2010 and are collateralized by Thruway. On a combined basis, the loan and the interest-rate swap require equal monthly principal and interest payments of \$289,000 based upon a 25-year amortization schedule and a final payment of \$34.8 million at loan maturity. Principal of \$1.2 million was amortized during 2017.
- (j) The loan is collateralized by Jamestown Place and requires equal monthly principal and interest payments of \$66,000 based upon a 25-year amortization schedule and a final payment of \$6.1 million at loan maturity. Principal of \$360,000 was amortized during 2017.
- (k) The loan is collateralized by Hunt Club Corners and requires equal monthly principal and interest payments of \$42,000 based upon a 30-year amortization schedule and a final payment of \$5.0 million, at loan maturity. Principal of \$159,000 was amortized during 2017.
- (l) The loan is collateralized by Lansdowne Town Center and requires monthly principal and interest payments of \$230,000 based on a 30-year amortization schedule and a final payment of \$28.2 million at loan maturity. Principal of \$898,000 was amortized during 2017.
- (m) The loan is collateralized by Orchard Park and requires equal monthly principal and interest payments of \$73,000 based upon a 30-year amortization schedule and a final payment of \$8.6 million at loan maturity. Principal of \$254,000 was amortized during 2017.
- (n) The loan is collateralized by BJ's Wholesale and requires equal monthly principal and interest payments of \$80,000 based upon a 30-year amortization schedule and a final payment of \$9.3 million at loan maturity. Principal of \$252,000 was amortized during 2017.
- (o) The loan is collateralized by Great Falls shopping center. The loan consists of three notes which require equal monthly principal and interest payments of \$138,000 based upon a weighted average 26-year amortization schedule and a final payment of \$6.3 million at maturity. Principal of \$824,000 was amortized during 2017.
- (p) The loan is collateralized by Leesburg Pike and requires equal monthly principal and interest payments of \$135,000 based upon a 25-year amortization schedule and a final payment of \$11.5 million at loan maturity. Principal of \$465,000 was amortized during 2017.
- (q) The loan is collateralized by Village Center and requires equal monthly principal and interest payments of \$119,000 based upon a 25-year amortization schedule and a final payment of \$10.1 million at loan maturity. Principal of \$394,000 was amortized during 2017.
- (r) The loan is collateralized by White Oak and requires equal monthly principal and interest payments of \$193,000 based upon a 24.4 year weighted amortization schedule and a final payment of \$18.5 million at loan maturity. The loan was previously collateralized by Van Ness Square. During 2012, the Company substituted White Oak as the collateral and borrowed an additional \$10.5 million. Principal of \$631,000 was amortized during 2017.
- (s) The loan is collateralized by Avenel Business Park and requires equal monthly principal and interest payments of \$246,000 based upon a 25-year amortization schedule and a final payment of \$20.9 million at loan maturity. Principal of \$830,000 was amortized during 2017.
- (t) The loan is collateralized by Ashburn Village and requires equal monthly principal and interest payments of \$240,000 based upon a 25-year amortization schedule and a final payment of \$20.5 million at loan maturity. Principal of \$797,000 was amortized during 2017.
- (u) The loan is collateralized by Ravenwood and requires equal monthly principal and interest payments of \$111,000 based upon a 25-year amortization schedule and a final payment of \$10.1 million at loan maturity. Principal of \$424,000 was amortized during 2017.
- (v) The loan is collateralized by Clarendon Center and requires equal monthly principal and interest payments of \$753,000 based upon a 25-year amortization schedule and a final payment of \$70.5 million at loan maturity. Principal of \$3.3 million was amortized during 2017.
- (w) The loan is collateralized by Severna Park MarketPlace and requires equal monthly principal and interest payments of \$207,000 based upon a 25-year amortization schedule and a final payment of \$20.3 million at loan maturity. Principal of \$1.1 million was amortized during 2017.
- (x) The loan is collateralized by Kentlands Square II and requires equal monthly principal and interest payments of \$240,000 based upon a 25-year amortization schedule and a final payment of \$23.1 million at loan maturity. Principal of \$1.2 million was amortized during 2017.
- (y) The loan is collateralized by Cranberry Square and requires equal monthly principal and interest payments of \$113,000 based upon a 25-year amortization schedule and a final payment of \$10.9 million at loan maturity. Principal of \$544,000 was amortized during 2017.
- (z) The loan in the original amount of \$73.0 million closed in May 2012, is collateralized by Seven Corners and requires equal monthly principal and interest payments of \$463,200 based upon a 25-year amortization schedule and a final payment of \$42.3 million at loan maturity. Principal of \$1.7 million was amortized during 2017.
- (aa) The loan is collateralized by Hampshire Langley and requires equal monthly principal and interest payments of \$95,400 based upon a 25-year amortization schedule and a final payment of \$9.5 million at loan maturity. Principal of \$493,000 was amortized in 2017.
- (bb) The loan is collateralized by Beacon Center and requires equal monthly principal and interest payments of \$268,500 based upon a 20-year amortization schedule and a final payment of \$17.1 million at loan maturity. Principal of \$1.8 million was amortized in 2017.
- (cc) The loan is collateralized by Seabreeze Plaza and requires equal monthly principal and interest payments of \$94,900 based upon a 25-year amortization schedule and a final payment of \$9.5 million at loan maturity. Principal of \$488,000 was amortized in 2017.
- (dd) The loan is collateralized by Shops at Fairfax and Boulevard shopping centers and requires equal monthly principal and interest payments totaling \$153,300 based upon a 25-year amortization schedule and a final payment of \$15.5 million at maturity. Principal of \$795,000 was amortized in 2017.

NOTES to Consolidated Financial Statements

- (ee) The loan is collateralized by Northrock and requires equal monthly principal and interest payments totaling \$84,400 based upon a 25-year amortization schedule and a final payment of \$8.4 million at maturity. Principal of \$407,000 was amortized in 2017.
- (ff) The loan is collateralized by Burtonsville Town Square and requires equal monthly principal and interest payments of \$198,000 based on a 25-year amortization schedule and a final payment of \$20.3 million at loan maturity. Principal of \$860,000 was amortized in 2017.
- (gg) The loan is a \$71.6 million construction-to-permanent facility that is collateralized by and financed a portion of the construction costs of Park Van Ness. During the construction period, interest was funded by the loan. Effective September 1, 2017, the loan converted to permanent financing and requires monthly principal and interest payments totaling \$413,500 based upon a 25-year amortization schedule. A final payment of \$39.6 million will be due at maturity. Principal of \$369,000 was amortized in 2017.
- (hh) The loan is collateralized by Washington Square and requires equal monthly principal and interest payments of \$308,000 based upon a 25-year amortization schedule and a final payment of \$31.1 million at loan maturity.
- (ii) The Company entered into a sale-leaseback transaction with its Olney property and is accounting for that transaction as a secured financing. The arrangement requires monthly payments of \$60,400 which increase by 1.5% on May 1, 2015, and every May 1 thereafter. The arrangement provides for a final payment of \$14.7 million and has an implicit interest rate of 8.0%. Negative amortization in 2017 totaled \$167,000.
- (jj) The loan is a \$275.0 million unsecured revolving credit facility. Interest accrues at a rate equal to the sum of one-month LIBOR plus a spread of 145 basis points. The line may be extended at the Company's option for one year with payment of a fee of 0.15%. Monthly payments, if required, are interest only and vary depending upon the amount outstanding and the applicable interest rate for any given month.
- (kk) The loan is collateralized by Metro Pike Center and requires monthly principal and interest payments of approximately \$48,000 and a final payment of \$14.2 million at loan maturity. Principal of \$347,000 was amortized during 2017.

The carrying value of the properties collateralizing the mortgage notes payable totaled \$1.0 billion and \$957.2 million, as of December 31, 2017 and 2016, respectively. The Company's credit facility requires the Company and its subsidiaries to maintain certain financial covenants, which are summarized below. The Company was in compliance as of December 31, 2017.

- 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).

Mortgage notes payable at each of December 31, 2017 and 2016, totaling \$51.0 million, are guaranteed by members of the Saul Organization. As of December 31, 2017, the scheduled maturities of all debt including scheduled principal amortization for years ended December 31 are as follows:

DEBT MATURITY SCHEDULE

(in thousands)	Scheduled		Total
	Balloon Payments	Principal Amortization	
2018	\$ 75,105 ^(a)	\$ 30,160	\$ 105,265
2019	60,793	29,272	90,065
2020	61,163	26,743	87,906
2021	11,012	26,456	37,468
2022	36,503	26,958	63,461
Thereafter	436,325	145,038	581,363
Principal Amount	\$680,901	\$ 284,627	\$ 965,528
Unamortized deferred debt costs			6,906
Net			\$ 958,622

(a) Includes \$61.0 million outstanding under the line of credit.

NOTES to Consolidated Financial Statements

The components of interest expense are set forth below.

<i>(in thousands)</i>	INTEREST EXPENSE		
	Year ended December 31,		
	2017	2016	2015
Interest incurred	\$ 49,322	\$ 46,867	\$ 45,898
Amortization of deferred debt costs	1,392	1,343	1,433
Capitalized interest	(3,489)	(2,527)	(2,166)
Total	\$ 47,225	\$ 45,683	\$ 45,165

Deferred debt costs capitalized during the years ending December 31, 2017, 2016 and 2015 totaled \$2.6 million, \$0.1 million and \$0.3 million, respectively.

6. LEASE AGREEMENTS

Lease income includes primarily base rent arising from non-cancelable leases. Base rent (including straight-line rent) for the years ended December 31, 2017, 2016, and 2015, amounted to \$181.1 million, \$172.4 million, and \$168.3 million, respectively. Future contractual payments under noncancelable leases for years ended December 31 (which exclude the effect of straight-line rents), are as follows:

FUTURE CONTRACTUAL RENT PAYMENTS	
<i>(in thousands)</i>	
2018	\$ 160,025
2019	141,097
2020	120,369
2021	100,766
2022	77,312
Thereafter	245,103
Total	\$ 844,672

The majority of the leases provide for rental increases and expense recoveries based on fixed annual increases or increases in the Consumer Price Index and increases in operating expenses. The expense recoveries generally are payable in equal installments throughout the year based on estimates, with adjustments made in the succeeding year. Expense recoveries for the years ended December 31, 2017, 2016, and 2015, amounted to \$35.3 million, \$34.3 million, and \$32.9 million, respectively. In addition, certain retail leases provide for percentage rent based on sales in excess of the minimum specified in the tenant's lease. Percentage rent amounted to \$1.5 million, \$1.4 million, and \$1.6 million, for the years ended December 31, 2017, 2016, and 2015, respectively.

7. LONG-TERM LEASE OBLIGATIONS

During 2016 and 2017, the Company purchased the land underlying Olney, Beacon Center and Southdale - See Note 3. As a result, at December 31, 2017, no properties are subject to noncancelable long-term leases which apply to underlying land. Reflected in the accompanying consolidated financial statements is minimum ground rent expense of \$10,500, \$159,000, \$176,000, for the years ended December 31, 2017, 2016, and 2015, respectively.

Flagship Center consists of two developed out parcels that are part of a larger adjacent community shopping center formerly owned by the Saul Organization and sold to an affiliate of a tenant in 1991. The Company has a 90-year ground leasehold interest which commenced in September 1991 with a minimum rent of one dollar per year. Countryside shopping center was acquired in February 2004. Because of certain land use considerations, approximately 3.4% of the underlying land is held under a 99-year ground lease. The lease requires the Company to pay minimum rent of one dollar per year as well as its pro-rata share of the real estate taxes.

The Company's corporate headquarters space is leased by a member of the Saul Organization. The lease commenced in March 2002, and expires in February 2022. The Company and the Saul Organization entered into a Shared Services Agreement whereby each party pays an allocation of total rental payments based on a percentage proportionate to the number of employees employed by each party. The Company's rent expense for the years ended December 31, 2017, 2016, and 2015 was \$774,700, \$843,300, and \$904,900, respectively. Expenses arising from the lease are included in general and administrative expense (see Note 9 - Related Party Transactions).

8. EQUITY AND NONCONTROLLING INTERESTS

The Consolidated Statements of Operations for the years ended December 31, 2017, 2016, and 2015 reflect noncontrolling interest of \$12.4 million, \$11.4 million, and \$10.5 million, respectively, representing the Saul Organization's share of the net income for the year.

The Company has outstanding, 7.2 million depository shares, each representing 1/100th of a share of 6.875% Series C Cumulative Redeemable Preferred Stock ("Series C Stock"). The depository shares may be redeemed on or after February 12, 2018 at the Company's option, in whole or in part, at the \$25.00 liquidation preference plus accrued but unpaid dividends. The depository shares pay an annual dividend of \$1.71875 per share, equivalent to 6.875% of the \$25.00 liquidation preference. The Series C Stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and is not convertible into any other securities of the Company except in connection with certain changes of control or delisting events. Investors in the depository 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.

9. RELATED PARTY TRANSACTIONS

The Chairman and Chief Executive Officer, the President and Chief Operating Officer, the Executive Vice President-Chief Legal and Administrative Officer and the Senior Vice President-Chief Accounting Officer of the Company are also officers of various members of the Saul Organization and their management time is shared with the Saul Organization. Their annual compensation is fixed by the Compensation Committee of the Board of Directors, with the exception of the Senior Vice President-Chief Accounting Officer whose share of annual compensation allocated to the Company is determined by the shared services agreement (described below).

The Company participates in a multiemployer 401K plan with entities in the Saul Organization which covers those full-time employees who meet the requirements as specified in the plan. Company contributions, which are included in general and administrative expense or property operating expenses in the consolidated statements of operations, at the discretionary amount of up to six percent of the employee's cash compensation, subject to certain limits, were \$349,500, \$329,000, and \$400,000, for 2017, 2016, and 2015, respectively. All amounts deferred by employees and contributed by the Company are fully vested.

The Company also participates in a multiemployer nonqualified deferred compensation plan with entities in the Saul Organization which covers those full-time employees who meet the requirements as specified in the plan. According to the plan, which can be modified or discontinued at any time, participating employees defer 2% of their compensation in excess of a specified amount. For the years ended December 31, 2017, 2016, and 2015, the Company contributed three times the amount deferred by employees. The Company's expense, included in general and administrative expense, totaled \$228,500, \$250,800, and \$224,900, for the years ended December 31, 2017, 2016, and 2015, respectively. All amounts deferred by employees and the Company are fully vested. The cumulative unfunded liability under this plan was \$2.4 million and \$2.1 million, at December 31, 2017 and 2016, respectively, and is included in accounts payable, accrued expenses and other liabilities in the consolidated balance sheets.

The Company has entered into a shared services agreement (the "Agreement") with the Saul Organization that provides for the sharing of certain personnel and ancillary functions such as computer hardware, software, and support services and certain direct and indirect administrative personnel. The method for determining the cost of the shared services is provided for in the Agreement and is based upon head count, estimates of usage or estimates of time incurred, as applicable. Senior management has determined that the final allocations of shared costs are reasonable. The terms of the Agreement and the payments made thereunder are reviewed annually by the Audit Committee of the Board of Directors, which consists entirely of independent directors. Net billings by the Saul Organization for the Company's share of these ancillary costs and expenses for the years ended December 31, 2017, 2016, and 2015, which included rental expense for the Company's headquarters lease (see Note 7. Long Term Lease Obligations), totaled \$8.1 million, \$7.2 million, and \$8.2 million, respectively. The amounts are expensed when incurred and are primarily reported as general and administrative expenses or capitalized to specific development projects in these consolidated financial statements. As of December 31, 2017 and 2016, accounts payable, accrued expenses and other liabilities included \$993,200 and \$829,000, respectively, representing billings due to the Saul Organization for the Company's share of these ancillary costs and expenses.

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

NOTES to Consolidated Financial Statements

Company entered into a replacement agreement with the Saul Trust which extended the expiration date to December 31, 2017 and provides for automatic twelve month renewals unless either party provides notice of termination. The costs will be shared on a pro rata basis based on the acreage owned by each entity and neither party is obligated to advance funds to the other.

The B. F. Saul Insurance Agency of Maryland, Inc., a subsidiary of the B. F. Saul Company and a member of the Saul Organization, is a general insurance agency that receives commissions and counter-signature fees in connection with the Company's insurance program. Such commissions and fees amounted to approximately \$288,400, \$360,500, and \$443,500, for the years ended December 31, 2017, 2016, and 2015, respectively.

In August 2016, the Company entered into an agreement to acquire from the Trust, for an initial purchase price of \$8.8 million, approximately 14.3 acres of land located at the intersection of Ashburn Village Boulevard and Russell Branch Parkway in Loudoun County, Virginia. In order to allow the Company time to pre-lease and complete project plans and specifications, the parties have agreed to a closing date in the second quarter of 2018, at which time the Company will exchange limited partnership units for the land. The number of limited partnership units to be exchanged will be based on the initial purchase price and the average share value (as defined in the agreement) of the Company's common stock at the time of the exchange. The Company intends to construct a shopping center and, upon stabilization, may be obligated to issue additional limited partnership units to the Trust.

10. STOCK OPTION PLAN

The Company established a stock option plan in 1993 (the "1993 Plan") for the purpose of attracting and retaining executive officers and other key personnel. The 1993 Plan provides for grants of options to purchase up to 400,000 shares of common stock. The 1993 Plan authorizes the Compensation Committee of the Board of Directors to grant options at an exercise price which may not be less than the market value of the common stock on the date the option is granted.

At the annual meeting of the Company's stockholders in 2004, the stockholders approved the adoption of the 2004 stock plan for the purpose of attracting and retaining executive officers, directors and other key personnel. The 2004 stock plan was subsequently amended by the Company's stockholders at the 2008 Annual Meeting and further amended at the 2013 Annual Meeting (the "Amended 2004 Plan"). The Amended 2004 Plan, which terminates in 2023, provides for grants of options to purchase up to 2,000,000 shares of common stock as well as grants of up to 200,000 shares of common stock to directors. The Amended 2004 Plan authorizes the Compensation Committee of the Board of Directors to grant options at an exercise price which may not be less than the market value of the common stock on the date the option is granted.

Effective April 25, 2008, the Compensation Committee granted options to purchase 30,000 shares (all nonqualified stock options) to 12 Company directors (the "2008 Options"), which were immediately exercisable and expire on April 24, 2018. The exercise price of \$50.15 per share was the closing market price of the Company's common stock on the date of the award. Using the Black-Scholes model, the Company determined the total fair value of the 2008 Options to be \$254,700. Because the directors' options vested immediately, the entire \$254,700 was expensed as of the date of grant. No options were granted to the Company's officers in 2008.

Effective April 24, 2009, the Compensation Committee granted options to purchase 32,500 shares (all nonqualified stock options) to 13 Company directors (the "2009 Options"), which were immediately exercisable and expire on April 23, 2019. The exercise price of \$32.68 per share was the closing market price of the Company's common stock on the date of the award. Using the Black-Scholes model, the Company determined the total fair value of the 2009 Options to be \$222,950. Because the directors' options vested immediately, the entire \$222,950 was expensed as of the date of grant. No options were granted to the Company's officers in 2009.

Effective May 7, 2010, the Compensation Committee granted options to purchase 32,500 shares (all nonqualified stock options) to 13 Company directors (the "2010 Options"), which were immediately exercisable and expire on May 6, 2020. The exercise price of \$38.76 per share was the closing market price of the Company's common stock on the date of the award. Using the Black-Scholes model, the Company determined the total fair value of the 2010 Options to be \$287,950. Because the directors' options vested immediately, the entire \$287,950 was expensed as of the date of grant. No options were granted to the Company's officers in 2010.

Effective May 13, 2011, the Compensation Committee granted options to purchase 195,000 shares (65,300 incentive stock options and 129,700 nonqualified stock options) to 15 Company officers and 13 Company Directors (the "2011 options"), which expire on May 12, 2021. The officers' 2011 Options vest 25% per year over four years and are subject to early expiration upon termination of employment. The directors' 2011 options were immediately exercisable. The exercise price of \$41.82 per share was the closing market price of the Company's common stock on the date of award. Using the Black-Scholes model, the Company determined the total fair value of the 2011 Options to be \$1.6 million, of which \$1.3 million and \$297,375 were assigned to the officer options and director options, respectively. Because the directors' options vested immediately, the entire \$297,375 was expensed as of the date of grant. The expense for the officers' options is being recognized as compensation expense monthly during the four years the options vest.

Effective May 4, 2012, the Compensation Committee granted options to purchase 277,500 shares (26,157 incentive stock options and 251,343 nonqualified stock options) to 15 Company officers and 14 Company Directors (the "2012 options"), which expire on May 3, 2022. The officers' 2012 Options vest 25% per year over four years and are subject to early expiration upon termination of employment. The directors' 2012 Options were immediately exercisable. The exercise price of \$39.29 per share was the closing market price of the Company's common stock on the date of award. Using the Black-Scholes model, the Company determined the total fair value of the 2012 Options to be \$1.7 million, of which \$1.4 million and \$257,250 were assigned to the officer options and director options, respectively. Because the directors' options vested immediately, the entire \$257,250 was expensed as of the date of grant. The expense for the officers' options is being recognized as compensation expense monthly during the four years the options vest.

Effective May 10, 2013, the Compensation Committee granted options to purchase 237,500 shares (35,592 incentive stock options and 201,908 nonqualified stock options) to 15 Company officers and 14 Company Directors (the "2013 options"), which expire on May 9, 2023. The officers' 2013 Options vest 25% per year over four years and are subject to early expiration upon termination of employment. The directors' 2013 options were immediately exercisable. The exercise price of \$44.42 per share was the closing market price of the Company's common stock on the date of award. Using the Black-Scholes model, the Company determined the total fair value of the 2013 Options to be \$1.5 million, of which \$1.2 million and \$278,250 were assigned to the officer options and director options, respectively. Because the directors' options vested immediately, the entire \$278,250 was expensed as of the date of grant. The expense for the officers' options is being recognized as compensation expense monthly during the four years the option was vested.

Effective May 9, 2014, the Compensation Committee granted options to purchase 200,000 shares (29,300 incentive stock options and 170,700 nonqualified stock options) to 18 Company officers and 12 Company Directors (the "2014 options"), which expire on May 8, 2024. The officers' 2014 Options vest 25% per year over four years and are subject to early expiration upon termination of employment. The directors' 2014 Options were immediately exercisable. The exercise price of \$47.03 per share was the closing market price of the Company's common stock on the date of award. Using the Black-Scholes model, the Company determined the total fair value of the 2014 Options to be \$1.3 million, of which \$1.2 million and \$109,500 were assigned to the officer options and director options, respectively. Because the directors' options vested immediately, the entire \$109,500 was expensed as of the date of grant. The expense for the officers' options is being recognized as compensation expense monthly during the four years the options vest.

Effective May 8, 2015, the Compensation Committee granted options to purchase 225,000 shares (33,690 incentive stock options and 191,310 nonqualified stock options) to 19 Company officers and 14 Company Directors (the "2015 options"), which expire on May 7, 2025. The officers' 2015 Options vest 25% per year over four years and are subject to early expiration upon termination of employment. The directors' 2015 Options were immediately exercisable. The exercise price of \$51.07 per share was the closing market price of the Company's common stock on the date of award. Using the Black-Scholes model, the Company determined the total fair value of the 2015 Options to be \$1.57 million, of which \$1.44 million and \$125,300 were assigned to the officer options and director options, respectively. Because the directors' options vested immediately, the entire \$125,300 was expensed as of the date of grant. The expense for the officers' options is being recognized as compensation expense monthly during the four years the options vest.

Effective May 6, 2016, the Compensation Committee granted options to purchase 226,500 shares (24,248 incentive stock options and 202,252 nonqualified stock options) to 19 Company officers and 13 Company Directors (the "2016 options"), which expire on May 5, 2026. The officers' 2016 Options vest 25% per year over four years and are subject to early expiration upon termination of employment. The directors' 2016 Options were immediately exercisable. The exercise price of \$57.74 per share was the closing market price of the Company's common stock on the date of award. Using the Black-Scholes model, the Company determined the total fair value of the 2016 Options to be \$1.2 million, of which \$1.0 million and \$151,125 were assigned to the officer options and director options, respectively. Because the directors' options vested immediately, the entire \$151,125 was expensed as of the date of grant. The expense for the officers' options is being recognized as compensation expense monthly during the four years the options vest.

Effective May 5, 2017, the Compensation Committee granted options to purchase 232,500 shares (21,492 incentive stock options and 211,008 nonqualified stock options) to 20 Company officers and 11 Company Directors (the "2017 options"), which expire on May 4, 2027. The officers' 2017 Options vest 25% per year over four years and are subject to early expiration upon termination of employment. The directors' 2017 Options were immediately exercisable. The exercise price of \$59.41 per share was the closing market price of the Company's common stock on the date of award. Using the Black-Scholes model, the Company determined the total fair value of the 2017 Options to be \$1.4 million, of which \$1.2 million and \$165,550 were assigned to the officer options and director options, respectively. Because the directors' options vested immediately, the entire \$165,550 was expensed as of the date of grant. The expense for the officers' options is being recognized as compensation expense monthly during the four years the options vest.

NOTES to Consolidated Financial Statements

The following table summarizes the amount and activity of each grant, the total value and variables used in the computation and the amount expensed and included in general and administrative expense in the Consolidated Statements of Operations for the years ended December 31, 2017, 2016 and 2015.

STOCK OPTIONS ISSUED TO DIRECTORS

(Dollars in thousands, except per share data)

Grant date	4/25/2008	4/24/2009	5/7/2010	5/13/2011	5/4/2012	5/10/2013	5/9/2014	5/8/2015	5/6/2016	5/5/2017	Subtotals
Total grant	30,000	32,500	32,500	32,500	35,000	35,000	30,000	35,000	32,500	27,500	322,500
Vested	30,000	32,500	32,500	32,500	35,000	35,000	30,000	35,000	32,500	27,500	322,500
Exercised	20,000	27,500	25,000	22,500	22,500	22,500	17,500	12,500	7,500	—	177,500
Forfeited	7,500	—	2,500	2,500	—	—	—	—	—	—	12,500
Exercisable at											
December 31, 2017	2,500	5,000	5,000	7,500	12,500	12,500	12,500	22,500	25,000	27,500	132,500
Remaining unexercised	2,500	5,000	5,000	7,500	12,500	12,500	12,500	22,500	25,000	27,500	132,500
Exercise price	\$ 50.15	\$ 32.68	\$ 38.76	\$ 41.82	\$ 39.29	\$ 44.42	\$ 47.03	\$ 51.07	\$ 57.74	\$ 59.41	
Volatility	0.237	0.344	0.369	0.358	0.348	0.333	0.173	0.166	0.166	0.173	
Expected life (years)	7.0	6.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	
Assumed yield	4.09%	4.54%	4.23%	4.16%	4.61%	4.53%	4.48%	4.54%	3.75%	3.45%	
Risk-free rate	3.49%	2.19%	2.17%	1.86%	0.78%	0.82%	1.63%	1.50%	1.23%	1.89%	
Total value at grant date	\$ 255	\$ 223	\$ 288	\$ 297	\$ 257	\$ 278	\$ 110	\$ 125	\$ 151	\$ 166	\$ 2,150
Expensed in previous years	255	223	288	297	257	278	110	—	—	—	1,708
Expensed in 2015	—	—	—	—	—	—	—	125	—	—	125
Expensed in 2016	—	—	—	—	—	—	—	—	151	—	151
Expensed in 2017	—	—	—	—	—	—	—	—	—	166	166
Future expense	—	—	—	—	—	—	—	—	—	—	—

STOCK OPTIONS ISSUED TO OFFICERS AND GRAND TOTALS

Grant date	5/13/2011	5/4/2012	5/10/2013	5/9/2014	5/8/2015	5/6/2016	5/5/2017	Subtotals	Grand Totals
Total grant	162,500	242,500	202,500	170,000	190,000	194,000	205,000	1,366,500	1,689,000
Vested	118,750	107,500	171,875	126,875	94,375	48,500	—	667,875	990,375
Exercised	96,100	91,830	116,500	41,250	20,000	3,750	—	369,430	546,930
Forfeited	43,750	135,000	30,625	1,875	3,125	1,875	—	216,250	228,750
Exercisable at									
December 31, 2017	22,650	15,670	55,375	85,625	74,375	44,750	—	298,445	430,945
Remaining unexercised	22,650	15,670	55,375	126,875	166,875	188,375	205,000	780,820	913,320
Exercise price	\$ 41.82	\$ 39.29	\$ 44.42	\$ 47.03	\$ 51.07	\$ 57.74	\$ 59.41		
Volatility	0.330	0.315	0.304	0.306	0.298	0.185	0.170		
Expected life (years)	8.0	8.0	8.0	7.0	7.0	7.0	7.0		
Assumed yield	4.81%	5.28%	5.12%	4.89%	4.94%	3.80%	3.50%		
Risk-free rate	2.75%	1.49%	1.49%	2.17%	1.89%	1.55%	2.17%		
Gross value at grant date	\$ 1,366	\$ 1,518	\$ 1,401	\$ 1,350	\$ 1,585	\$ 1,137	\$ 1,324	\$ 9,681	\$ 11,831
Estimated forfeitures	368	845	212	169	142	86	92	1,914	1,914
Expensed in previous years	909	419	493	197	—	—	—	2,018	3,726
Expensed in 2015	89	157	269	296	240	—	—	1,051	1,176
Expensed in 2016	—	97	269	295	361	175	—	1,197	1,348
Expensed in 2017	—	—	158	295	361	263	205	1,282	1,448
Future expense	—	—	—	98	481	613	1,027	2,219	2,219

Weighted average term of remaining future expense 2.5 years

The table below summarizes the option activity for the years 2017, 2016, and 2015:

	OPTION ACTIVITY					
	2017		2016		2015	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at January 1	833,630	\$ 49.92	860,274	\$ 46.58	748,208	\$ 44.79
Granted	232,500	59.41	226,500	57.74	225,000	51.07
Exercised	(149,060)	46.97	(246,894)	45.59	(112,934)	43.67
Expired/Forfeited	(3,750)	53.73	(6,250)	45.31	-	-
Outstanding December 31	913,320	52.80	833,630	49.92	860,274	46.58
Exercisable at December 31	430,945	48.94	375,255	46.68	435,899	45.33

The intrinsic value of options exercised in 2017, 2016, and 2015, was \$2.2 million, \$3.4 million and \$1.5 million, respectively. The intrinsic value of options outstanding and exercisable at year end 2017 was \$8.2 million and \$5.5 million, respectively. The intrinsic value measures the difference between the options' exercise price and the closing share price quoted by the New York Stock Exchange as of the date of measurement. The date of exercise was the measurement date for shares exercised during the period. At December 29, 2017, the final trading day of calendar 2017, the closing price of \$61.75 per share was used for the calculation of aggregate intrinsic value of options outstanding and exercisable at that date. The weighted average remaining contractual life of the Company's exercisable and outstanding options at December 31, 2017 are 6.5 and 7.5 years, respectively.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses are reasonable estimates of their fair value. The aggregate fair value of the notes payable with fixed-rate payment terms was determined using Level 3 data in a discounted cash flow approach, which is based upon management's estimate of borrowing rates and loan terms currently available to the Company for fixed rate financing, and assuming long term interest rates of approximately 3.90% and 4.25%, would be approximately \$951.7 million and \$851.3 million as of December 31, 2017 and 2016, respectively, compared to the principal balance of \$890.4 million and \$844.3 million at December 31, 2017 and 2016, respectively. A change in any of the significant inputs may lead to a change in the Company's fair value measurement of its debt.

Effective June 30, 2011, the Company determined that one of its interest-rate swap arrangements was a highly effective hedge of the cash flows under one of its variable-rate mortgage loans and designated the swap as a cash flow hedge of that mortgage.

The swap is carried at fair value with changes in fair value recognized either in income or comprehensive income depending on the effectiveness of the swap. The following chart summarizes the changes in fair value of the Company's swap for the indicated periods.

	SWAPS FAIR VALUE		
	Year ended December 31,		
(Dollars in thousands)	2017	2016	2015
Increase (decrease) in fair value:			
Recognized in earnings	\$ 70	\$ (6)	\$ (10)
Recognized in other comprehensive income	812	678	124
Total	\$ 882	\$ 672	\$ 114

The Company carries its interest rate swaps at fair value. The Company has determined the majority of the inputs used to value its derivative fall within Level 2 of the fair value hierarchy with the exception of the impact of counter-party risk, which was determined using Level 3 inputs and are not significant. Derivative instruments are classified within Level 2 of the fair value hierarchy because their values are determined using third-party pricing models which contain inputs that are derived from observable market data. Where possible, the values produced by the pricing models are verified by the market prices. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit spreads, measure of volatility, and correlations of such inputs. The swap agreement terminates on July 1, 2020. As of December 31, 2017, the fair value of the interest-rate swap was approximately \$1.1 million and is included in "Accounts payable, accrued expenses and other liabilities" in the consolidated balance sheets. The decrease in value from inception of the swap designated as a cash flow

NOTES to Consolidated Financial Statements

hedge is reflected in "Other Comprehensive Income" in the Consolidated Statements of Comprehensive Income.

12. COMMITMENTS AND CONTINGENCIES

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

13. DISTRIBUTIONS

In December 1995, the Company established a Dividend Reinvestment and Stock Purchase Plan (the "Plan"), to allow its stockholders and holders of limited partnership interests an opportunity to buy additional shares of common stock by reinvesting all or a portion of their dividends or distributions.

The Plan provides for investing in newly issued shares of common stock at a 3% discount from market price without payment of any brokerage commissions, service charges or other expenses. All expenses of the Plan are paid by the Company. The Operating Partnership also maintains a similar dividend reinvestment plan that mirrors the Plan, which allows holders of limited partnership interests the opportunity to buy either additional limited partnership units or common stock shares of the Company.

The Company paid common stock distributions of \$2.04 per share in 2017, \$1.84 per share in 2016, and \$1.69 per share during 2015 and Series C preferred stock dividends of \$1.72 per depositary share during each of 2017, 2016, and 2015. Of the common stock dividends paid, \$1.70 per share, \$1.75 per share, and \$1.69 per share, represented ordinary dividend income in 2017, 2016, and 2015, respectively, and \$0.34 per share and \$0.09 per share represented return of capital to the shareholders in 2017 and 2016, respectively. All of the preferred stock dividends paid were considered ordinary dividend income.

The following summarizes distributions paid during the years ended December 31, 2017, 2016, and 2015, and includes activity in the Plan as well as limited partnership units issued from the reinvestment of unit distributions:

<i>(Dollars in thousands, except per share amounts)</i>	Total Distributions to			Common Stock Shares Issued	Dividend Reinvestments		Average Unit Price
	Preferred Stockholders	Common Stockholders	Limited Partnership Unitholders		Discounted Share Price	Limited Partnership Units Issued	
Distributions during 2017							
October 31	\$ 3,094	\$ 11,221	\$ 3,838	82,991	\$ 59.33	15,596	\$ 60.08
July 31	3,094	11,160	3,830	85,731	57.40	16,021	58.13
April 30	3,094	11,119	3,810	51,003	59.64	40,623	59.96
January 31	3,093	11,076	3,790	46,286	61.85	39,111	62.15
Total 2017	\$ 12,375	\$ 44,576	\$ 15,268	266,011		111,351	
Distributions during 2016							
October 31	\$ 3,094	\$ 10,168	\$ 3,478	44,176	\$ 57.18	30,891	\$ 57.18
July 31	3,094	10,133	3,465	39,487	65.64	26,897	65.64
April 30	3,094	10,029	3,449	48,854	51.59	34,201	51.59
January 31	3,093	9,142	3,141	54,280	49.24	32,769	49.24
Total 2016	\$ 12,375	\$ 39,472	\$ 13,533	186,797		124,758	
Distributions during 2015							
October 31	\$ 3,094	\$ 9,106	\$ 3,129	47,313	\$ 55.73	28,936	\$ 55.73
July 31	3,094	9,081	3,115	56,003	50.30	32,041	50.30
April 30	3,094	9,055	3,104	54,921	50.21	25,264	50.21
January 31	3,093	8,403	2,880	42,975	56.74	20,796	56.74
Total 2015	\$ 12,375	\$ 35,645	\$ 12,228	201,212		107,037	

NOTES to Consolidated Financial Statements

In December 2017, the Board of Directors of the Company authorized a distribution of \$0.52 per common share payable in January 2018, to holders of record on January 17, 2018. As a result, \$11.5 million was paid to common shareholders on January 31, 2018. Also, \$3.9 million was paid to limited partnership unitholders on January 31, 2018 (\$0.52 per Operating Partnership unit). The Board of Directors authorized preferred stock dividends of \$0.4297 per Series C depository

share to holders of record on January 2, 2018. As a result, \$3.1 million was paid to preferred shareholders on January 15, 2018. These amounts are reflected as a reduction of stockholders' equity in the case of common stock and preferred stock dividends and noncontrolling interests deductions in the case of limited partner distributions and are included in dividends and distributions payable in the accompanying consolidated financial statements.

14. INTERIM RESULTS (UNAUDITED)

The following summary presents the results of operations of the Company for the quarterly periods of calendar years 2017 and 2016.

(In thousands, except per share amounts)

	2017			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenue	\$ 58,466	\$ 55,907	\$ 56,237	\$ 56,675
Operating income before loss on early extinguishment of debt, gain on casualty settlement, and noncontrolling interests	17,374	14,422	14,386	14,416
Gain on sales of properties	—	—	—	—
Net income attributable to Saul Centers, Inc.	13,704	11,510	11,483	11,560
Net income available to common stockholders	10,610	8,416	8,390	8,466
Net income available to common stockholders per diluted share	0.49	0.38	0.38	0.38

(In thousands, except per share amounts)

	2016			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenue	\$ 56,926	\$ 52,710	\$ 53,233	\$ 54,201
Operating income before loss on early extinguishment of debt, gain on casualty settlement, and noncontrolling interests	16,381	13,250	12,722	13,360
Gain on sales of properties	—	—	—	1,013
Net income attributable to Saul Centers, Inc.	12,948	10,627	10,239	11,465
Net income available to common stockholders	9,854	7,533	7,146	8,371
Net income available to common stockholders per diluted share	0.46	0.35	0.33	0.38

NOTES to Consolidated Financial Statements

15. BUSINESS SEGMENTS

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

revenues and expenses related to tenant rent, reimbursements and operating expenses. Although services are provided to a range of tenants, the types of services provided to them are similar within each segment. The properties in each portfolio have similar economic characteristics and the nature of the products and services provided to our tenants and the method to distribute such services are consistent throughout the portfolio. Certain reclassifications have been made to prior year information to conform to the 2017 presentation.

<i>(In thousands)</i>	Shopping Centers	Mixed-Use Properties	Corporate and Other	Consolidated Totals
As of or for the year ended December 31, 2017				
Real estate rental operations:				
Revenue	\$ 165,853	\$ 61,352	\$ 80	\$ 227,285
Expenses	(34,675)	(20,917)	—	(55,592)
Income from real estate	131,178	40,435	80	171,693
Interest expense and amortization of deferred debt costs	—	—	(47,225)	(47,225)
General and administrative	—	—	(18,176)	(18,176)
Subtotal	131,178	40,435	(65,321)	106,292
Depreciation and amortization of deferred leasing costs	(29,977)	(15,717)	—	(45,694)
Change in fair value of derivatives	—	—	70	70
Net income (loss)	\$ 101,201	\$ 24,718	\$ (65,251)	\$ 60,668
Capital investment	\$ 90,896	\$ 29,098	\$ —	\$ 119,994
Total assets	\$ 974,061	\$ 438,283	\$ 10,108	\$ 1,422,452
As of or for the year ended December 31, 2016				
Real estate rental operations:				
Revenue	\$ 160,179	\$ 56,840	\$ 51	\$ 217,070
Expenses	(34,931)	(18,770)	—	(53,701)
Income from real estate	125,248	38,070	51	163,369
Interest expense and amortization of deferred debt costs	—	—	(45,683)	(45,683)
General and administrative	—	—	(17,496)	(17,496)
Subtotal	125,248	38,070	(63,128)	100,190
Depreciation and amortization of deferred leasing costs	(29,964)	(14,453)	—	(44,417)
Acquisition related costs	(60)	—	—	(60)
Change in fair value of derivatives	—	—	(6)	(6)
Gain on sale of property	—	1,013	—	1,013
Net income (loss)	\$ 95,224	\$ 24,630	\$ (63,134)	\$ 56,720
Capital investment	\$ 64,044	\$ 27,001	\$ —	\$ 91,045
Total assets	\$ 976,545	\$ 358,419	\$ 8,061	\$ 1,343,025

NOTES to Consolidated Financial Statements

<i>(in thousands)</i>	Shopping Centers	Mixed-Use Properties	Corporate and Other	Consolidated Totals
As of or for the year ended December 31, 2015				
Real estate rental operations:				
Revenue	\$ 156,110	\$ 52,916	\$ 51	\$ 209,077
Expenses	(33,877)	(17,266)	—	(51,143)
Income from real estate	122,233	35,650	51	157,934
Interest expense and amortization of deferred debt costs	—	—	(45,165)	(45,165)
General and administrative	—	—	(16,353)	(16,353)
Subtotal	122,233	35,650	(61,467)	96,416
Depreciation and amortization of deferred leasing costs	(30,171)	(13,099)	—	(43,270)
Acquisition related costs	(84)	—	—	(84)
Predevelopment expenses	(57)	(75)	—	(132)
Change in fair value of derivatives	—	—	(10)	(10)
Gain on sale of property	11	—	—	11
Net income (loss)	\$ 91,932	\$ 22,476	\$ (61,477)	\$ 52,931
Capital investment	\$ 17,159	\$ 52,460	\$ —	\$ 69,619
Total assets	\$ 931,256	\$ 354,254	\$ 9,898	\$ 1,295,408

16. SUBSEQUENT EVENTS

On January 12, 2018, the Company entered into an agreement to purchase for \$35.5 million, plus approximately \$0.7 million of acquisition costs, an office building and the underlying ground located at 7316 Wisconsin Avenue in Bethesda, Montgomery County, Maryland and has an earnest money deposit of \$3.5 million at risk. The purchase price will be funded through the Company's revolving credit facility. The Company anticipates closing the acquisition on or before January 12, 2019.

On January 23, 2018, the Company sold, in an underwritten public offering, 3.0 million depositary shares, each representing 1/100th of a share of 6.125% Series D Cumulative Redeemable Preferred Stock (the "Series D Stock") and received net cash proceeds totaling approximately \$72.6 million. The depositary shares may be redeemed at the Company's option, in whole or in part, on or after January 23, 2023, at the \$25.00 liquidation preference, plus accrued but unpaid dividends. The depositary shares pay an annual dividend of \$1.53125 per share, equivalent to 6.125% of the \$25.00 liquidation preference. The first dividend is scheduled to be paid on April 15, 2018, and cover the period from January 23, 2018, through March 31, 2018.

The Series D Stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and is not convertible into any other securities of the Company except in connection with certain changes 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.

On January 26, 2018, the Company replaced its revolving credit facility, which was scheduled to expire on June 23, 2018, with a new credit facility. The new credit facility is comprised of a \$75.0 million term facility that matures on January 26, 2023, and a \$325.0 million revolving facility that matures on January 26, 2022, and can be extended for one year at the Company's option, subject to satisfaction of certain conditions. The terms, conditions and covenants of the new credit facility are substantially the same as the existing credit facility.

On February 22, 2018, the Company used the net proceeds from the sale of the Series D Stock, together with cash on hand, to redeem 3.0 million depositary shares, each representing 1/100th of a share of Series C Stock at a price of \$25.00 per depositary share, plus accrued dividends.

Dividend Reinvestment Plan and Distributions

DIVIDEND REINVESTMENT PLAN

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

To receive more information please call the plan administrator at (800) 509-5586 and request to speak with a service representative or write:

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

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 2017 and 2016. Distributions by the Company to common stockholders and holders of limited partnership units in the Operating Partnership were \$59.8 million and \$53.0 million in 2017 and 2016, respectively. Distributions to preferred stockholders were \$12.4 million in each of 2017 and 2016. See Notes to Consolidated Financial Statements, No. 13, "Distributions." The Company may or may not elect to distribute in excess of 90% of REIT taxable income in future years.

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

The Company paid four quarterly distributions totaling \$2.04, \$1.84, and \$1.69 per common share during 2017, 2016 and 2015, 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. Of the \$2.04 per common share dividend paid in 2017, 83.3% was treated as a taxable dividend and 16.7% represented a return of capital. Of the \$1.84 per common share dividend paid in 2016, 95% was treated as a taxable dividend and 5% represented a return of capital. The 2015 common dividends were treated as taxable dividends. No assurance can be given regarding what portion, if any, of distributions in 2018 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.

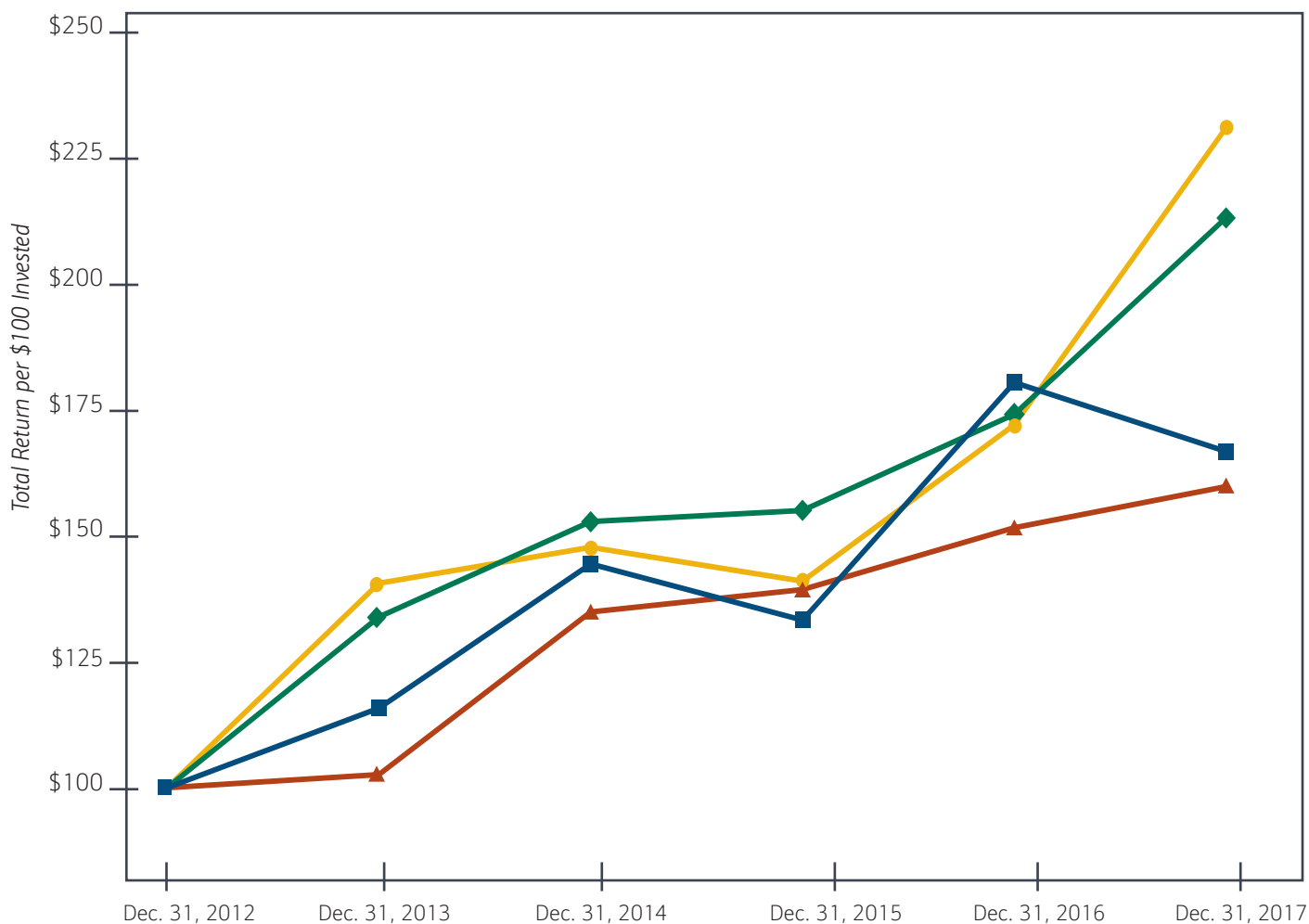
Shares of Saul Centers common stock are listed on the New York Stock Exchange under the symbol "BFS". The composite high and low closing sale prices for the Company's shares of common stock were reported by the New York Stock Exchange for each quarter of 2017 and 2016 as follows:

COMMON STOCK PRICES		
Period	Share Price	
	High	Low
October 1, 2017 – December 31, 2017	\$ 65.30	\$ 60.09
July 1, 2017 – September 30, 2017	\$ 62.76	\$ 57.58
April 1, 2017 – June 30, 2017	\$ 64.59	\$ 56.33
January 1, 2017– March 31, 2017	\$ 66.80	\$ 60.57
<hr/>		
October 1, 2016 – December 31, 2016	\$ 68.23	\$ 58.79
July 1, 2016 – September 30, 2016	\$ 68.58	\$ 61.28
April 1, 2016 – June 30, 2016	\$ 61.71	\$ 51.59
January 1, 2016– March 31, 2016	\$ 53.50	\$ 47.77
On February 20, 2018, the closing price was \$49.46 per share.		
The approximate number of holders of record of the common stock was 171 as of February 20, 2018.		

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 December 31, 2012.

Comparison of Cumulative Total Return



INDEX	Period Ended					
	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2017
■ Saul Centers ¹	\$100	\$115.11	\$142.46	\$131.79	\$176.88	\$163.80
◆ S&P 500 ²	\$100	\$132.39	\$150.51	\$152.59	\$170.84	\$208.14
● Russell 2000 ³	\$100	\$138.82	\$145.62	\$139.19	\$168.85	\$225.23
▲ NAREIT Equity ⁴	\$100	\$102.47	\$133.35	\$137.61	\$149.33	\$157.14

¹ Source: S&P Capital I.O.

² Source: Bloomberg

³ Source: FTSE Russell

⁴ Source: National Association of Real Estate Investment Trusts



DIRECTORS

B. Francis Saul II
Chairman and Chief Executive Officer

J. Page Lansdale
President and Chief Operating Officer

Philip D. Caraci
Vice Chairman

The Honorable John E. Chapoton
Partner, Brown Investment Advisory

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

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

Patrick F. Noonan
Founder/Chairman Emeritus,
The Conservation Fund

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

Earl A. Powell III
Director, National Gallery of Art

Andrew M. Saul II
Chief Executive Officer
Genovation Cars

Mark Sullivan III
Financial and Legal Consultant

John R. Whitmore
Financial Consultant

EXECUTIVE OFFICERS

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Chairman and Chief
Executive Officer

J. Page Lansdale
President and Chief
Operating Officer

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

Scott V. Schneider
Senior Vice President,
Chief Financial Officer

Debra Stencel
Senior Vice President and
General Counsel

Joel A. Friedman
Senior Vice President,
Chief Accounting Officer

Christopher H. Netter
Senior Vice President, Retail Leasing

Steven N. Corey
Senior Vice President, Office Leasing

John F. Collich
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Acquisitions and Development

Donald A. Hachey
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Senior Vice President, Management

Amitha Prabhu
Senior Vice President, Internal Audit

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WEB SITE

www.saulcenters.com

EXCHANGE LISTING

New York Stock
Exchange (NYSE) Symbol:

Common Stock: BFS
Preferred Stock: BFS.PrC
Preferred Stock: BFS.PrD

TRANSFER AGENT

Continental Stock Transfer and
Trust Company
17 Battery Place
New York, NY 10004
(800) 509-5586

INVESTOR RELATIONS

A copy of the Saul Centers, Inc. annual report to the Securities and Exchange Commission on Form 10-K, which includes as exhibits the Chief Executive Officer and Chief Financial Officer Certifications required by Section 302 of the Sarbanes-Oxley Act, may be printed from the Company's web site or obtained at no cost to stockholders by writing to the address below or calling (301) 986-6016. In 2017, the Company filed with the NYSE the Certification of its Chief Executive Officer confirming that he was not aware of any violation by the Company of the NYSE's corporate governance listing standards.

HEADQUARTERS

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



Severna Park Marketplace, Severna Park, MD

ANNUAL MEETING OF STOCKHOLDERS

The Annual Meeting of Stockholders will be held at 11:00 a.m., local time, on May 11, 2018, at the Hyatt Regency Bethesda, One Bethesda Metro Center, Bethesda, MD (at the southwest corner of the Wisconsin Avenue and Old Georgetown Road intersection, adjacent to the Bethesda Metro Stop on the Metro Red Line.)

Saul Centers

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