

The text "ANNUAL REPORT" is written in a large, bold, blue sans-serif font. Below it, "to Shareholders 2020" is written in a smaller, blue sans-serif font. The text is centered within a white, wavy-edged banner that spans across the middle of the image.

# ANNUAL REPORT

to Shareholders 2020



Saul Centers, Inc. is a self-managed, self-administered equity REIT headquartered in Bethesda, Maryland, which currently operates and manages a real estate portfolio of 61 properties which includes (a) 50 community and neighborhood shopping centers and seven mixed-use properties with approximately 9.8 million square feet of leasable area and (b) four land and development properties. Approximately 85% of the Saul Centers' property operating income is generated by properties in the metropolitan Washington, DC/Baltimore area.



### TOTAL REVENUE<sup>(a)</sup>

(In millions)

2020	\$225.2
2019	\$231.5
2018	\$227.2
2017	\$226.3
2016	\$215.5

### NET INCOME

Available to Common Stockholders

(In millions)

2020	\$29.2
2019	\$36.3
2018	\$36.0
2017	\$35.9
2016	\$32.9

### FUNDS FROM OPERATIONS

Available to Common Stockholders  
and Noncontrolling Interests<sup>(b)</sup>

(In millions)

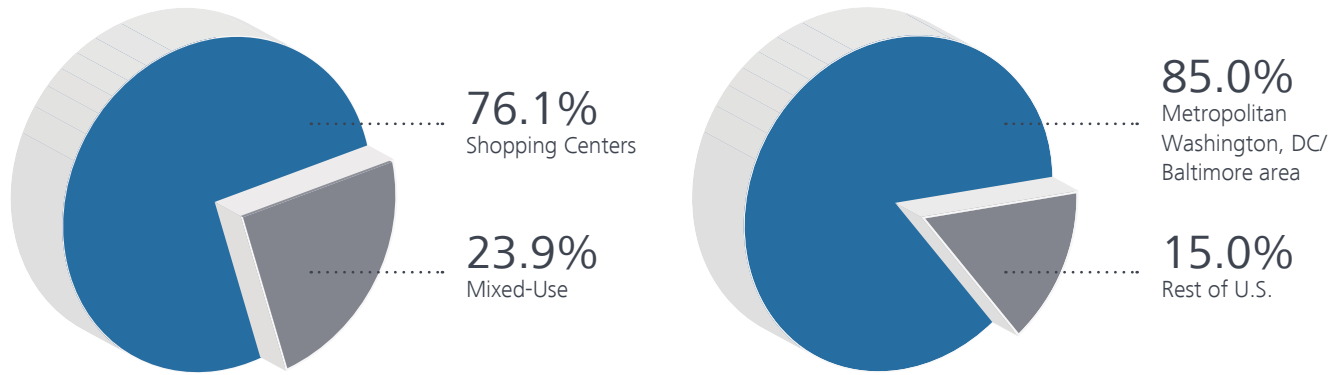
2020	\$90.0
2019	\$95.1
2018	\$93.8
2017	\$94.0
2016	\$87.7

<sup>(a)</sup> Certain reclassifications have been made to prior years to conform to the presentation used for year ended December 31, 2020.

<sup>(b)</sup> Funds From Operations (FFO) is a non-GAAP financial measure. See page 23 for a definition of FFO and reconciliation from Net Income.

# PORTFOLIO COMPOSITION

BASED ON 2020 PROPERTY OPERATING INCOME<sup>(1)</sup>



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

	Year ended December 31,				
	2020	2019	2018	2017	2016
<b>Summary Financial Data</b>					
Total Revenue <sup>(a)</sup>	\$ 225,207,000	\$ 231,525,000	\$ 227,219,000	\$ 226,299,000	\$ 215,524,000
Net Income Available to Common Stockholders	\$ 29,188,000	\$ 36,253,000	\$ 35,964,000	\$ 35,882,000	\$ 32,904,000
FFO Available to Common Stockholders and Noncontrolling Interests	\$ 89,970,000	\$ 95,059,000	\$ 93,821,000	\$ 93,987,000	\$ 87,749,000
Weighted Average Common Stock Outstanding (Diluted)	23,357,000	23,053,000	22,425,000	22,008,000	21,615,000
Weighted Average Common Stock and Units Outstanding (Diluted)	31,267,000	30,913,000	30,156,000	29,511,000	28,990,000
Net Income Per Share Available to Common Stockholders (Diluted)	\$ 1.25	\$ 1.57	\$ 1.60	\$ 1.63	\$ 1.52
FFO Per Share Available to Common Shareholders (Diluted)	\$ 2.88	\$ 3.08	\$ 3.11	\$ 3.18	\$ 3.03
Common Dividend as a Percentage of FFO	74%	69%	66%	64%	61%
Interest Expense Coverage <sup>(b)</sup>	3.28x	3.77x	3.53x	3.35x	3.29x
<b>Property Data</b>					
Number of Operating Properties <sup>(c)</sup>	57	56	56	55	55
Total Portfolio Square Feet	9,822,000	9,335,000	9,300,000	9,230,000	9,362,000
Shopping Center Square Feet	7,877,000	7,855,000	7,750,000	7,750,000	7,882,000
Mixed-Use Square Feet	1,945,000	1,480,000	1,550,000	1,480,000	1,480,000
Average Percentage Leased <sup>(d)</sup>	92%	95%	95%	95%	95%

<sup>(a)</sup> Certain reclassifications have been made to prior years to conform to the presentation used for year ended December 31, 2020.

<sup>(b)</sup> 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.

<sup>(c)</sup> Excludes land and development parcels (Ashland Square Phase II, New Market and Park Van Ness in 2016, and Ashland Square Phase II, New Market and N. Glebe Road in 2016, 2017, 2018 and 2019, Hampden House, Ashland Square Phase II, and New Market in 2020). Burtonsville Town Square was acquired in January 2017, and Hampden House was acquired September 2018. Crosstown Business Center was sold in December 2016, and Great Eastern was sold in September 2017.

<sup>(d)</sup> Average percentage leased includes commercial space only.

# MESSAGE

TO OUR SHAREHOLDERS



We entered 2020 with strong balance sheet fundamentals and substantial liquidity, including \$251.0 million of cash and availability under our line of credit, and moderate leverage of 37.4% as measured by debt to total capitalization. Late in the first quarter, the United States began to grapple with the novel coronavirus pandemic while state and local governments across the country issued shutdown orders. The commercial real estate industry was severely impacted. Over the following months, many shop owners were forced to temporarily shutter their stores, and others ultimately made the difficult decision to furlough employees or close permanently.

In the face of the pandemic, demand for key necessities increased significantly. Of our shopping center property operating income, 79% is derived from grocery-anchored centers. Our grocers that have already reported 2020 sales achieved 17% growth over the prior year. Our long-term commitment to well-located, grocery-anchored neighborhood shopping centers allowed us to perform favorably in rent collection throughout the year compared to our shopping center REIT peer group. Nevertheless, leasing activity softened during 2020 and our overall same property year-end occupancy dipped below 94% for the first time since 2014, ending the year at 92.5%.

The effects of these reductions in core occupancy and increased credit loss reserves resulted in a decline in Funds From Operations ("FFO"). In addition, although the lease up of The Waycroft was a success, its initial operations further diluted FFO in 2020. Our resulting FFO was \$90 million (\$2.88 per diluted share) in 2020 compared to \$95 million (\$3.08 per diluted share) in 2019. We continued paying dividends at the same



# MESSAGE

TO OUR SHAREHOLDERS



level as 2019, \$2.12 per share, while maintaining a prudent pay-out ratio (dividends as a percentage of FFO) of less than 75%. Despite the challenges to the economy caused by the global pandemic, we enter 2021 well-positioned to persevere and ultimately benefit from growth opportunities that will arise as local economies recover.

## CORE PROPERTY FUNDAMENTALS

### Shopping Centers

Our primary product type, neighborhood shopping centers, comprising 76.0% of our 2020 property income, faced increased headwinds throughout the past year. Certain tenants were harder hit than others, while many were forced to adapt their business models, such as restaurants shifting to outdoor seating, curbside pickup and delivery services. Although grocery stores, pharmacies, fast food, and fast casual restaurants have performed well during the pandemic, dry cleaners, sit-down restaurants, health and beauty establishments, and fitness centers have seen revenues decrease drastically. However, only 19% of our total base rent is generated from these tenants in categories that have been significantly impacted by temporary store closures and social distancing guidelines.

Throughout the year, we worked in concert with our tenants to ensure their continued operations. We did this through various initiatives, such as supporting their efforts to pursue relief under the Payroll Protection Program, setting up payment plans, and executing rent deferral agreements where necessary. The vast majority of these deferrals were made during the second quarter of 2020, immediately following the onset of the pandemic, when the economic shutdown was at its worst. Through March 15, 2021, we have deferred approximately \$8.0 million in 2020 rents (3.6% of 2020 total revenue), most of which will come due for payment during 2021 and 2022. Thus far, approximately \$1.2 million has come due, 87% of which has been repaid.

From time to time, we replace underperforming tenants with retailers that generate strong traffic, such as supermarkets, drug stores, fitness centers, fast food restaurants, and coffee shops. In 2020, we added a 69,000 square foot Giant grocery store at Seven Corners, a 36,000 square foot LA Fitness at Broadlands Village, and a 54,000 square foot 99 Ranch grocery store at Shops at Fairfax. The revenue impact of these additions has not yet been realized for a full year.

# MESSAGE

## TO OUR SHAREHOLDERS

Our retail tenant renewal percentage for 2020 was 73%, a decrease from our preceding five-year average of 77%. However, as a testament to the strength of our centers and our relationships with our tenants, only three retailers in excess of 10,000 square feet exited our shopping centers during 2020, as our shopping center portfolio leasing percentage was a strong 93.0% as of December 31, 2020.

On a same space basis, minimum rent on 1.4 million square feet of new and renewed leases executed during 2020 averaged \$24.70 per square foot compared to \$25.15 per square foot for expiring leases, representing a nominal 1.8% decrease in base rent per square foot.

### Office

The pandemic has also impacted the office market as government mandated shutdowns required that most employees work from home indefinitely. With companies facing uncertainty around the timing of a return to the office, tenants with near-term lease maturities have been able to negotiate for reduced square footage and often reduced rents, as the overall

office market has weakened. For 2020, property operating income for our commercial mixed-use portfolio comprised 18% of our total portfolio's same property operating income. While our office space is concentrated in the historically resilient Washington, DC metropolitan area, our same property mixed-use commercial occupancy decreased from 95.1% at year-end 2019 to 92.4% at year-end 2020. The office component of our commercial mixed-use portfolio has 130,831 square feet expiring in 2021, 11.6% of our commercial mixed-use portfolio, but only 1.3% of our total portfolio.

### Residential

With the completion of The Waycroft, we continue to grow our high-end, luxury apartment portfolio which now includes 1,006 units. Our two stabilized residential properties were both 95% leased as of year-end, and residential collections remained at 100% of rents billed throughout 2020. Our major development pipeline, including Twinbrook Quarter and Hampden House, will continue to increase the residential component of our property operating income in future years.



THE WAYCROFT, ARLINGTON, VA



THE WAYCROFT, ARLINGTON, VA

# MESSAGE

## TO OUR SHAREHOLDERS

### DEVELOPMENT HIGHLIGHTS

In April 2020, the Company delivered The Waycroft, our largest mixed-use development to date. The Waycroft is comprised of 491 apartment units and 60,000 square feet of retail space at the corner of North Glebe Road and Wilson Boulevard in Arlington, Virginia. The retail space is currently 90% leased, and the anchor tenant, Target, became operational in August 2020. As a result of the pandemic, marketing of the apartments was limited to virtual tours and new residents had to refrain from using the amenity spaces. Nevertheless, we were able to lease an average of 40 units per month and are 93% leased as of March 15, 2021. While The Waycroft's lease-up pace has exceeded our projections, its residential rental rates have been stressed, a trend seen throughout the entire Washington, DC metropolitan area. At an average occupancy of 37% from April through December 2020, the initial operations of The Waycroft negatively impacted FFO by approximately \$4.2 million, or \$0.14 per diluted share, during 2020. However, during the fourth quarter, with average occupancy of 58%, FFO dilution from The Waycroft was down to \$0.01 per diluted share, as revenues from the retail and residential components began to outpace expenses.

During the year, in addition to completing The Waycroft, we also completed the construction of our Ashbrook Marketplace development in Loudoun County, Virginia. Our newest shopping center is 100% leased, comprises 86,000 square feet and is anchored by a 29,000 square foot Lidl grocery store.

We have also either executed leases or are in negotiation for ten more pad site developments, which will contribute approximately \$1.6 million of annualized rent when completed, with approximately \$7.5 million of capital invested. These rental payments are expected to commence during 2021 and 2022.

As we look toward future growth, we have received entitlements for both Hampden House in Bethesda, Maryland and Twinbrook Quarter Phase I in Rockville, Maryland. Hampden House is located above the Bethesda Metro station and will include 366 apartment units and 10,000 square feet of retail space. Twinbrook Quarter Phase I is being designed to include a new 80,000 square foot Wegmans, 450 apartment units, 25,000 square feet of retail space, and approximately 240,000 square feet of office space. The timing of construction depends on issuance of building permits and market conditions.



# MESSAGE

TO OUR SHAREHOLDERS



SOUTHDALE, GLEN BURNIE, MD



BURTONSVILLE TOWN SQUARE, BURTONSVILLE, MD



KENTLANDS SQUARE, GAITHERSBURG, MD

## FINANCIAL RESULTS

Total revenue for the year decreased 2.7% to \$225 million from \$231 million for the year ended December 31, 2019. During the same period, net income decreased 21.6% from \$64.2 million to \$50.3 million. The decrease in net income was driven primarily by the initial operations of The Waycroft and higher credit losses on tenant receivables.

FFO available to common stockholders and noncontrolling interests was \$90 million (\$2.88 per diluted share) in 2020 compared to \$95.1 million (\$3.08 per diluted share) in 2019, a 5.4% decrease. This result allowed us to continue paying dividends to shareholders in 2020 at our 2019 rate of \$2.12 per share, while keeping our dividend payout ratio below 75%.

Our portfolio was 92.5% leased at year-end, compared to 95% leased at the end of 2019. The increased vacancy rate was driven by 2.5% lower occupancy in our shopping centers and 3.2% lower occupancy in our mixed-use properties.

Year over year, same property revenue decreased by 5.1%. Same property operating income decreased 5.2%, with shopping center same property operating income decreasing by 5.0% and mixed-use same property operating income lower by 5.9%.

We maintain a disciplined approach to our liquidity, debt maturities, and leverage relative to the value of our assets. At year-end, liquidity included \$247 million in combined cash and borrowing capacity under our revolving credit facility, compared to \$251 million at year-end 2019. We ended 2020 with approximately \$1.2 billion of debt outstanding, \$980.8 million of which was secured fixed-rate debt, while \$179.5 million was variable-rate debt due under our credit facility.

Our debt to total capitalization ratio was 49.6% as of December 31, 2020, up from our year-end ratio at December 31, 2019 as a result of the lower market price for our common equity and preferred shares. As of March 15, 2021, with our common stock price at \$42.46 per share, our debt to total capitalization



# MESSAGE

TO OUR SHAREHOLDERS



ratio was 43.1%. We believe that the combination of our credit facility, available financing from our unencumbered assets outside of our revolver pool, proceeds from our dividend reinvestment plan, and our operating cash flow will provide adequate liquidity to fund our proposed development pipeline over the coming years.

Our long-term debt maturities are well-staggered into the future. Only \$11.2 million of debt matures in 2021, which includes the mortgages on two Publix anchored shopping centers, Jamestown Place and Hunt Club Corners. During a tumultuous year when shopping center financings were difficult to obtain, due to our strong lender relationships, we were able to close on two fifteen-year mortgage loans. These were secured by Ashbrook Marketplace and Kentlands, totaling \$52.1 million at a weighted average interest rate of 3.59%.

Our net income and diversified cash flow remain resilient, and our balance sheet and liquidity remain conservative. The market has started to recognize the strength of our fundamentals as our stock price has begun to react accordingly.

The stabilization of both Ashbrook Marketplace and The Waycroft should contribute to growth in 2021. In addition to future development opportunities at Twinbrook and Hampden House, the development of new pad sites should fuel organic growth within our existing core portfolio. We thank our professionals for their excellence in the face of adversity, and our shareholders for your continued confidence in our company.

For the Board,

B. Francis Saul II  
March 16, 2021

# Portfolio Properties

Saul Centers' portfolio properties are 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
<b>Shopping Centers</b>		<b>Shopping Centers continued</b>	
Ashbrook Marketplace, Ashburn, VA	85,572	11503 Rockville Pike/5541 Nicholson Lane, Rockville, MD	40,249
Ashburn Village, Ashburn, VA	221,596	1500/1580/1582/1584 Rockville Pike, Rockville, MD	110,128
Ashland Square Phase I, Dumfries, VA	23,120	Seabreeze Plaza, Palm Harbor, FL	146,673
Beacon Center, Alexandria, VA	359,671	Marketplace at Sea Colony, Bethany Beach, DE	21,677
BJ's Wholesale Club, Alexandria, VA	115,660	Seven Corners, Falls Church, VA	573,481
Boca Valley Plaza, Boca Raton, FL	121,365	Severna Park Marketplace, Severna Park, MD	254,011
Boulevard, Fairfax, VA	49,140	Shops at Fairfax, Fairfax, VA	68,762
Briggs Chaney MarketPlace, Silver Spring, MD	194,258	Smallwood Village Center, Waldorf, MD	173,341
Broadlands Village, Ashburn, VA	174,438	Southdale, Glen Burnie, MD	485,628
Burtonsville Town Square, Burtonsville, MD	139,928	Southside Plaza, Richmond, VA	371,761
Countryside Marketplace, Sterling, VA	138,804	South Dekalb Plaza, Atlanta, GA	163,418
Cranberry Square, Westminster, MD	141,450	Thruway, Winston-Salem, NC	365,816
Cruse MarketPlace, Cumming, GA	78,686	Village Center, Centreville, VA	145,651
Flagship Center, Rockville, MD	21,500	Westview Village, Frederick, MD	101,058
French Market, Oklahoma City, OK	246,148	White Oak, Silver Spring, MD	480,676
Germantown, Germantown, MD	18,982		
The Glen, Woodbridge, VA	136,440	<b>TOTAL SHOPPING CENTERS</b>	<b>7,876,692</b>
Great Falls Center, Great Falls, VA	91,666		
Hampshire Langley, Takoma Park, MD	131,700	<b>Mixed-Use Properties</b>	
Hunt Club Corners, Apopka, FL	107,103	Avenel Business Park, Gaithersburg, MD	390,683
Jamestown Place, Altamonte Springs, FL	96,201	Clarendon Center – North, Arlington, VA	108,386
Kentlands Square I, Gaithersburg, MD	116,731	Clarendon Center – South, Arlington, VA	293,565
Kentlands Square II and Kentlands Pad, Gaithersburg, MD	253,052	(includes 244 apartments comprising 188,671 square feet)	
Kentlands Place, Gaithersburg, MD	40,697	Park Van Ness, Washington, DC	223,447
Lansdowne Town Center, Leesburg, VA	196,817	(includes 271 apartments comprising 214,600 square feet)	
Leesburg Pike Plaza, Baileys Crossroads, VA	97,752	601 Pennsylvania Ave., Washington, DC	227,651
Lumberton Plaza, Lumberton, NJ	192,718	Washington Square, Alexandria, VA	236,376
Metro Pike Center, Rockville, MD	67,488	The Waycroft, Arlington, VA	464,809
Shops at Monocacy, Frederick, MD	111,166	(includes 491 apartments comprising 404,709 square feet)	
Northrock, Warrenton, VA	100,032	<b>TOTAL MIXED-USE PROPERTIES</b>	<b>1,944,917</b>
Olde Forte Village, Ft. Washington, MD	143,577		
Olney, Olney, MD	53,765	<b>Land and Development Parcels</b>	
Orchard Park, Dunwoody, GA	87,365	Hampden House (formerly 7316 Wisconsin Avenue, Bethesda, MD)	
Palm Springs Center, Altamonte Springs, FL	126,446	Ashland Square Phase II, Manassas, VA	
Ravenwood, Baltimore, MD	93,328	New Market, New Market, MD	
		Twinbrook, Rockville, MD	
		<b>TOTAL PORTFOLIO</b>	<b>9,821,609</b>

# FINANCIAL SECTION

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# SELECTED FINANCIAL DATA

(In thousands, except per share data)

	Years Ended December 31,				
	2020	2019	2018	2017	2016
<b>Operating data</b>					
Total revenue	\$ 225,207	\$ 231,525	\$ 227,219	\$ 226,299	\$ 215,524
Total expenses	(175,169)	(166,893)	(164,666)	(165,701)	(159,811)
Change in fair value of derivatives	—	(436)	(3)	70	(6)
Gains on sales of properties	278	—	509	—	1,013
Net income	50,316	64,196	63,059	60,668	56,720
Income attributable to noncontrolling interests	(9,934)	(12,473)	(12,505)	(12,411)	(11,441)
Net income attributable to Saul Centers, Inc.	40,382	51,723	50,554	48,257	45,279
Preferred stock dividends	(11,194)	(12,235)	(12,262)	(12,375)	(12,375)
Extinguishment of issuance costs upon redemption of preferred shares	—	(3,235)	(2,328)	—	—
Net income available to common stockholders	\$ 29,188	\$ 36,253	\$ 35,964	\$ 35,882	\$ 32,904
<b>Per Share Data</b>					
Net income available to common stockholders - diluted	\$ 1.25	\$ 1.57	\$ 1.60	\$ 1.63	\$ 1.52
Basic and Diluted Shares Outstanding:					
Weighted average common shares - basic	23,356	23,009	22,383	21,901	21,505
Effect of dilutive options	1	44	42	107	110
Weighted average common shares - diluted	23,357	23,053	22,425	22,008	21,615
Weighted average convertible limited partnership units	7,910	7,860	7,731	7,503	7,375
Weighted average common shares and fully converted limited partnership units - diluted	31,267	30,913	30,156	29,511	28,990
<b>Dividends Paid</b>					
Cash dividends to common stockholders <sup>1</sup>	\$ 49,383	\$ 48,568	\$ 46,306	\$ 44,576	\$ 39,472
Cash dividends per share	\$ 2.12	\$ 2.12	\$ 2.08	\$ 2.04	\$ 1.84
<b>Balance Sheet Data</b>					
Real estate investments (net of accumulated depreciation)	\$ 1,517,090	\$ 1,518,123	\$ 1,422,647	\$ 1,315,034	\$ 1,242,534
Total assets	1,645,572	1,618,340	1,527,489	1,422,452	1,343,025
Total debt, including accrued interest	1,154,540	1,094,715	1,025,255	962,162	903,709
Preferred stock	185,000	185,000	180,000	180,000	180,000
Total equity	427,533	443,356	425,220	393,103	373,249
<b>Other Data</b>					
Cash flow provided by (used in):					
Operating activities	\$ 78,383	\$ 115,383	\$ 110,339	\$ 103,450	\$ 89,090
Investing activities	\$ (56,168)	\$ (135,663)	\$ (128,650)	\$ (113,306)	\$ (86,274)
Financing activities	\$ (9,264)	\$ 19,607	\$ 21,981	\$ 12,442	\$ (4,497)
Funds from operations <sup>2</sup> :					
Net income	\$ 50,316	\$ 64,196	\$ 63,059	\$ 60,668	\$ 56,720
Real property depreciation and amortization	51,126	46,333	45,861	45,694	44,417
Gain on sales of properties	(278)	—	(509)	—	(1,013)
Funds from operations	101,164	110,529	108,411	106,362	100,124
Preferred stock dividends	(11,194)	(12,235)	(12,262)	(12,375)	(12,375)
Extinguishment of issuance costs upon redemption of preferred shares	—	(3,235)	(2,328)	—	—
Funds from operations available to common stockholders and noncontrolling interests	\$ 89,970	\$ 95,059	\$ 93,821	\$ 93,987	\$ 87,749

<sup>(1)</sup> During 2020, 2019, 2018, 2017, and 2016, shareholders reinvested \$7.7 million, \$22.5 million, \$28.8 million, \$15.8 million and \$10.3 million, respectively, in newly issued common stock through the Company's dividend reinvestment plan.

<sup>(2)</sup> 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

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 discusses the Company's results of operations for the past two years. Beginning on page 18, 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 23, 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 following discussion and analysis should be read in conjunction with "Selected Financial Data," and the Consolidated Financial Statements and related footnotes included elsewhere in this Annual Report. We make statements in this section that are forward-looking statements within the meaning of the federal securities laws. For a complete discussion of forward-looking statements, see "Cautionary Statement Regarding Forward-looking Statements" in the Company's Annual Report on Form 10-K for year ended December 31, 2020, filed with the Securities and Exchange Commission (the "2020 Form 10-K"). Certain risks may cause our actual results, performance or achievements to differ materially from those expressed or implied by the following discussion. For a discussion of such risk factors, see "Item 1A. Risk Factors" in the 2020 Form 10-K.

### IMPACT OF COVID-19

On March 11, 2020, the World Health Organization declared a novel strain of coronavirus ("COVID-19") a pandemic, and on March 13, 2020, the United States declared a national emergency with respect to COVID-19. As a result, the COVID-19 pandemic is negatively affecting almost every industry directly or indirectly.

The actions taken by federal, state and local governments to mitigate the spread of COVID-19 by ordering closure of non-essential businesses and ordering residents to generally stay at home, and subsequent phased re-openings, have resulted in many of our tenants announcing mandated or temporary closures of their operations and/or requesting adjustments to their lease terms. Experts predict that the COVID-19 pandemic will trigger a period of global economic slowdown or a global recession. COVID-19 could have a material and adverse effect on or cause disruption to our business or financial condition, results from operations, cash flows and the market value and trading price of our securities.

If the effects of COVID-19 result in continued deterioration of economic and market conditions, or if the Company's expected holding period for assets changes, subsequent tests for impairment could result in impairment charges in the future. The Company can provide no assurance that material impairment charges with respect to the Company's investment properties will not occur in 2021 or future periods. As of December 31, 2020, we have not identified any impairment triggering events, including the impact of COVID-19 and corresponding tenant requests for rent relief. Therefore, under applicable GAAP guidance, no impairment charges have been recorded. However, we have yet to see the long-term effects of COVID-19 and the extent to which it may impact our tenants in the future. Indications of a tenant's inability to continue as a going concern, changes in our view or strategy relative to a tenant's business or industry as a result of COVID-19, or changes in our long-term hold strategies, could be indicative of an impairment triggering event. Accordingly, the Company will continue to monitor circumstances and events in future periods to determine whether impairment charges are warranted.

While the Company's grocery store, pharmacy, bank and home improvement store tenants generally remain open, restaurants are operating with limited indoor seating, supplemented with delivery and curbside pick-up, and most health, beauty supply and services, fitness centers, and other nonessential businesses are re-opening with limited customer capacity depending on location. As of February 23, 2021, payments by tenants of contractual base rent and operating expense and real estate tax recoveries totaled approximately 94%, and 92% for the fourth quarter of 2020 and January 2021, respectively. The Company is generally not charging late fees or delinquent interest on past due payments and, in many cases, rent deferral agreements have been negotiated to allow tenants temporary relief where needed. The deferral agreements, generally, permit tenants to defer 30 to 90 days of rent, operating expense and real estate tax recovery payments until a later time in their lease term with repayment typically occurring over a 12-month period generally commencing in 2021. We expect that our rent collections will continue to be below our tenants' contractual rent obligations for so long as governmental orders require nonessential businesses to remain at limited capacity or closed and residents to stay at home. We will continue to accrue rental revenue during the deferral period. However, we anticipate that some tenants eventually will not be able to pay amounts due and we will incur losses against our rent receivables. The extent and timing of the recognition of such losses will depend on future developments, which are highly uncertain and cannot be predicted. Rent collections during the fourth quarter of 2020 and rent relief requests to-date may not be indicative of collections or requests in any future period.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a summary of the Company's executed rent deferral agreements and repayment dates as of February 23, 2021.

### EXECUTED RENT DEFERRAL AGREEMENTS AND REPAYMENT DATES

*(In thousands)*

Original Rent Due by Quarter	Original Rent Amount	Repayment Year	Repayment Amount	Amount Due	Amount Collected	Collection Percentage (based on payments currently due)
	(prior to deferral)	(after deferral)				
2020 First Quarter	\$ 66	2020	\$ 331	\$ 331	\$ 280	85%
2020 Second Quarter	6,179	2021	5,698	895	691	77%
2020 Third Quarter	1,366	2022	1,435			
2020 Fourth Quarter	266	2023	314			
2021 First Quarter	60	2024	125			
Total	\$ 7,937	2025	18			
		Thereafter	16			
		Total	\$ 7,937	\$ 1,226	\$ 971	79%

The following is a summary of the Company's consolidated total collections of the fourth quarter of 2020 and January 2021 rent billings, including minimum rent, operating expense recoveries, and real estate tax reimbursements as of February 23, 2021:

#### 2020 fourth quarter

- 94% of 2020 fourth quarter total billings has been paid by our tenants.
- 94% of retail
- 93% of office
- 100% of residential

Additionally, rent deferral agreements comprising approximately 0.5% of 2020 fourth quarter total billings have been executed. The executed deferrals typically cover three months of rent and are generally scheduled to be repaid during 2021 and 2022. As a condition to granted rent deferrals, we have sought, and in some cases received, extended lease terms, or waivers of certain adjacent use or common area restrictions.

Through February 23, 2021, no fourth quarter deferred rents have come due. Deferrals represent 9% of the total unpaid balance for the quarter.

#### January 2021

- 92% of January 2021 total billings has been paid by our tenants.
- 91% of retail
- 89% of office
- 99% of residential

Additionally, rent deferral agreements comprising approximately 0.2% of January 2021 total billings have been executed. The executed deferrals typically cover three months of rent and are generally scheduled to be repaid during 2021 and 2022. As a condition to granted rent deferrals, we have sought, and in some cases received, extended lease terms, or waivers of certain adjacent use or common area restrictions.

Although the Company is and will continue to be actively engaged in rent collection efforts related to uncollected rent, and the Company will continue to work with certain tenants who have requested rent deferrals, the Company can provide no assurance that such efforts or our efforts in future periods will be successful, particularly in the event that the COVID-19 pandemic and restrictions intended to prevent its spread continue for a prolonged period. The Company strongly encouraged, and continues to encourage, small business tenants to apply for Paycheck Protection Program loans, as available, under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, and all subsequent support programs available from federal, state and local governments. The Company has information that many tenants applied for these loans and several tenants have communicated that loan proceeds are being received and have subsequently remitted rental payments.

As of January 31, 2021, the Company had \$7.1 million of cash and cash equivalents and borrowing availability of approximately \$220.3 million under its unsecured revolving credit facility.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The extent of the effects of COVID-19 on the Company's business, results of operations, cash flows, and growth prospects is highly uncertain and will ultimately depend on future developments, none of which can be predicted with any certainty. See "Item 1A. Risk Factors" in the 2020 Form 10-K. However, we believe the actions we have taken and are continuing to take will help minimize interruptions to operations and will put the Company in the best position to participate in the recovery when the time comes. Management and the Board of Directors will continue to actively monitor the effects of the pandemic, including governmental directives in the jurisdictions in which we operate and the recommendations of public health authorities, and will, as needed, take further measures to adapt the Company's business in the best interests of our stockholders and personnel. The extent to which COVID-19 impacts our operations and those of our tenants will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the scope, severity and duration of the outbreak, the actions taken to contain the outbreak or mitigate its impact, and the direct and indirect economic effects of the outbreak and containment measures, among others.

The Company was able to transition all but a limited number of essential employees to remote work and has not experienced and does not anticipate any adverse impact on its ability to continue to operate its business. Transitioning to a largely remote workforce has not had any material adverse impact on the Company's financial reporting systems, internal controls over financial reporting or disclosure controls and procedures. Currently, we have a limited number of employees coming into offices as needed. We also made temporary changes to reduce overhead expenses including executive officer salary reductions, which were restored effective October 1, 2020, a corporate hiring freeze, reduction of the Company retirement plan match percentage, which was restored effective January 1, 2021, and elimination of business travel and discretionary spending such as professional seminars.

## OVERVIEW

The Company's primary strategy is to continue to focus on diversification of its assets through development of transit-centric, residential mixed-use projects in the Washington, D.C. metropolitan area. The Company's operating strategy also includes improvement of the operating performance and internal growth of its Shopping Centers and supplementing its development of residential mixed-used projects with selective redevelopment and renovations of its core Shopping Centers. The residential component of The Waycroft, a project with 491 apartment units and 60,000 square feet of retail space, on North Glebe Road, within two blocks of the Ballston Metro Station, in Arlington, Virginia was placed into service in April 2020. The Company also has a development

pipeline of zoned sites, either in its portfolio (some of which are currently shopping center operating properties) or under contract, for development of up to 3,700 apartment units and 975,000 square feet of retail and office space. All such sites are located adjacent to red line Metro stations in Montgomery County, Maryland.

The Company intends to selectively add free-standing pad site buildings within its Shopping Center portfolio, and replace underperforming tenants with tenants that generate strong traffic, generally anchor stores such as supermarkets, drug stores and fitness centers, as evidenced by the March 2020 addition of a 69,000 square foot Giant Food at Seven Corners, the June 2020 addition of a 36,000 square foot LA Fitness at Broadlands Village and the August 2020 addition of a 54,000 square foot 99 Ranch grocery store at Shops at Fairfax. The Company has seven new pad site tenants, including three at our newly developed Ashbrook Marketplace shopping center, that began paying rent in 2020. Annualized rent from these seven pad sites totals approximately \$1.1 million. Additionally, the Company has executed leases or leases are under negotiation for 10 more pad sites, tenants at five of which are expected to begin paying rent in 2021. The annualized rent from these 10 pad sites totals approximately \$1.6 million.

In recent years, there has been a limited amount of quality properties for sale and pricing of those properties has escalated. Accordingly, management believes acquisition opportunities for investment in existing and new shopping center and mixed-use properties in the near future is uncertain. Nevertheless, because of the Company's conservative capital structure, including its cash and capacity under its revolving credit facility, management believes that the Company is positioned to take advantage of additional investment opportunities as attractive properties are identified and market conditions improve. (See "Item 1. Business - Capital Policies" in the 2020 Form 10-K.) 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.

Prior to the COVID-19 pandemic, economic conditions within the local Washington, DC metropolitan area had remained relatively stable. Issues facing the Federal government relating to taxation, spending and interest rate policy will likely continue to impact the office, retail and residential real estate markets over the coming years. Because the majority of the Company's property operating income is produced by our Shopping Centers, we continually monitor the implications of government policy changes, as well as shifts in consumer demand between on-line and in-store shopping, on future shopping center construction and retailer store expansion

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

plans. Based on our observations, we continue to adapt our marketing and merchandising strategies in ways to maximize our future performance. The Company's commercial leasing percentage, on a same property basis, which excludes the impact of properties not in operation for the entirety of the comparable periods, decreased to 92.4% at December 31, 2020, from 95.1% at December 31, 2019. We expect the volume of lease renewals in 2021, and the rental rates at which leases renew, will be negatively impacted by the effects of COVID-19 when comparing executed retail leases to prior year leasing activity.

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, 2020, amortizing fixed-rate mortgage debt with staggered maturities from 2021 to 2035 represented approximately 84.5% of the Company's notes payable, thus minimizing re-financing risk. The Company's variable-rate debt consists of \$179.5 million outstanding under the credit facility. As of December 31, 2020, the Company has availability of approximately \$220.3 million under its \$325.0 million unsecured revolving credit facility.

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

The following table sets forth average annualized base rent per square foot and average annualized effective rent per square foot for the Company's commercial properties (all properties except for The Waycroft, Clarendon Center and Park Van Ness apartments). For purposes of this table, annualized effective rent is annualized base rent minus amortized tenant improvements and amortized leasing commissions. The \$0.06 per square foot increase in base rent in the 2020 Period compared to the 2019 Period is primarily attributable to a rate increase in commercial leases relating to completed development projects.

	Year ended December 31,				
	2020	2019	2018	2017	2016
Base rent	\$19.97	\$19.91	\$20.13	\$19.49	\$18.73
Effective rent	\$18.25	\$18.08	\$18.20	\$17.67	\$16.95

## 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 Annual Report. The Company has identified the following policies that, due to estimates and assumptions inherent in those policies, involve a relatively high degree of judgment and complexity.

### Real Estate Investments

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

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



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Accounts Receivable, Accrued Income, and Allowance for Doubtful Accounts

Accounts receivable primarily represent amounts currently due from tenants in accordance with the terms of their respective leases. Individual leases are assessed for collectability and, upon the determination that the collection of rents is not probable, accrued rent and accounts receivable are charged off, and the charge off is reflected as an adjustment to rental revenue. Revenue from leases where collection is not probable is recorded on a cash basis until collectability is determined to be probable. We also assess whether operating lease receivables, at the portfolio level, are appropriately valued based upon an analysis of balances outstanding, effects of tenant bankruptcies, historical levels of bad debt and current economic trends. Additionally, because of the uncertainties related to the impact of the COVID-19 pandemic, our assessment also takes into consideration the types of business conducted by tenants and current discussions with the tenants, as well as recent rent collection experience. Evaluating and estimating uncollectable lease payments and related receivables requires a significant amount of judgment by management and is based on the best information available to management at the time of evaluation. Actual results could differ from these estimates.

### 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

The following is a discussion of the components of revenue and expense for the entire Company. This section generally discusses 2020 and 2019 items and year-to-year comparisons between 2020 and 2019. Discussions of 2018 items and year-to-year comparisons between 2019 and 2018 that are not included in this Annual Report can be found in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for year-ended December 31, 2019 filed with the Securities and Exchange Commission (the "2019 Form 10-K").

	REVENUE				
	Year ended December 31,			Percentage Change	
	2020	2019	2018	2020 from 2019	2019 from 2018
<i>(Dollars in thousands)</i>					
Base rent	\$ 188,636	\$ 185,724	\$ 184,684	1.6 %	0.6 %
Expense recoveries	34,678	36,521	35,537	(5.0)%	2.8 %
Percentage rent	927	910	994	1.9 %	(8.5)%
Other property revenue	1,252	1,423	1,204	(12.0)%	18.2 %
Credit losses on operating lease receivables	(5,212)	(1,226)	(685)	325.1 %	79.0 %
Rental revenue	220,281	223,352	221,734	(1.4)%	0.7 %
Other revenue	4,926	8,173	5,485	(39.7)%	49.0 %
Total revenue	\$ 225,207	\$ 231,525	\$ 227,219	(2.7)%	1.9 %

Base rent includes \$1.3 million and \$1.4 million, for the years 2020 and 2019, respectively, to recognize base rent on a straight-line basis. In addition, base rent includes \$1.4 million and \$1.4 million for the years 2020 and 2019, respectively, to recognize income from the amortization of in-place leases.

Total revenue decreased 2.7% in 2020 compared to 2019 as described below.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Base rent

The \$2.9 million increase in base rent in 2020 compared to 2019 was attributable to higher residential base rent, primarily due to The Waycroft, which was completed in April 2020 (\$2.6 million).

### Expense recoveries

Expense recovery income decreased \$1.8 million in 2020 compared to 2019 primarily due to a decrease in recoverable property operating expenses, largely repairs and maintenance and snow removal.

### Credit losses on operating lease receivables

Credit losses increased \$4.0 million in 2020 compared to 2019, primarily due to increased reserves across the portfolio as a result of the impact of COVID-19 on tenant operations.

### Other revenue

Other revenue decreased \$3.2 million in 2020 compared to 2019 primarily due to lower lease termination fees (\$1.9 million) and lower parking income (\$1.4 million).

OPERATING EXPENSES					
(Dollars in thousands)	Year ended December 31,			Percentage Change	
	2020	2019	2018	2020 from 2019	2019 from 2018
Property operating expenses	\$ 28,857	\$ 29,946	\$ 28,202	(3.6)%	6.2 %
Real estate taxes	29,560	27,987	27,376	5.6 %	2.2 %
Interest expense, net and amortization of deferred debt costs	46,519	41,834	44,768	11.2 %	(6.6)%
Depreciation and amortization of deferred leasing costs	51,126	46,333	45,861	10.3 %	1.0 %
General and administrative	19,107	20,793	18,459	(8.1)%	12.6 %
<b>Total expenses</b>	<b>\$ 175,169</b>	<b>\$ 166,893</b>	<b>\$ 164,666</b>	<b>5.0 %</b>	<b>1.4 %</b>

Total expenses increased 5.0% in 2020 compared to 2019 as described below.

### Property operating expenses

Property operating expenses decreased \$1.1 million in 2020 compared to 2019 primarily due to lower snow removal costs and the deferral of nonessential property expenses in response to the impact of COVID-19. The Company continues to complete emergency repairs and handle life and safety issues as needed.

### Real estate taxes

Real estate taxes increased \$1.6 million in 2020 compared to 2019 primarily due to the substantial completion of The Waycroft (\$1.1 million) and cessation of capitalization of real estate taxes.

### Interest expense, net and amortization of deferred debt costs

Interest expense and amortization of deferred debt costs increased by \$4.7 million in 2020 compared to 2019 primarily due to lower capitalized interest as a result of

the substantial completion of The Waycroft in April 2020 (\$6.1 million), partially offset by an increase in capitalized interest related to Hampden House (formerly 7316 Wisconsin Avenue) (\$1.7 million).

### Depreciation and amortization

Depreciation and amortization of deferred leasing costs increased by \$4.8 million in 2020 compared to 2019 primarily due to the substantial completion of The Waycroft (\$4.7 million).

### General and administrative

General and administrative costs decreased \$1.7 million in 2020 compared to 2019 primarily due to reduced overhead expenses including salary reductions, a corporate hiring freeze, elimination of business travel and discretionary spending, such as professional seminars.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### SAME PROPERTY REVENUE AND SAME PROPERTY OPERATING INCOME

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

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

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

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

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

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

#### SAME PROPERTY REVENUE

<i>(In thousands)</i>	Year ended December 31,	
	2020	2019
Total revenue	\$ 225,207	\$ 231,525
Less: Acquisitions, dispositions and development properties	(6,549)	(1,209)
<b>Total same property revenue</b>	<b>\$ 218,658</b>	<b>\$ 230,316</b>
Shopping centers	\$ 160,095	\$ 167,834
Mixed-Use properties	58,563	62,482
<b>Total same property revenue</b>	<b>\$ 218,658</b>	<b>\$ 230,316</b>
Total Shopping Center revenue	\$ 161,854	\$ 167,888
Less: Shopping Center acquisitions, dispositions and development properties	(1,759)	(54)
<b>Total same Shopping Center revenue</b>	<b>\$ 160,095</b>	<b>\$ 167,834</b>
Total Mixed-Use property revenue	\$ 63,353	\$ 63,637
Less: Mixed-Use acquisitions, dispositions and development properties	(4,790)	(1,155)
<b>Total same Mixed-Use revenue</b>	<b>\$ 58,563</b>	<b>\$ 62,482</b>

The \$11.7 million decrease in same property revenue in 2020 compared to 2019 was primarily due to (a) higher credit losses on operating lease receivables and corresponding reserves (collectively, \$5.4 million), (b) lower expense recoveries due to lower recoverable expenses (\$2.3 million), (c) lower parking income (\$1.4 million) and (d) lower lease termination fees (\$1.3 million).

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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### SAME PROPERTY OPERATING INCOME

<i>(In thousands)</i>	Year ended December 31,	
	2020	2019
Net income	\$ 50,316	\$ 64,196
Add: Interest expense, net and amortization of deferred debt costs	46,519	41,834
Add: Depreciation and amortization of deferred leasing costs	51,126	46,333
Add: General and administrative	19,107	20,793
Add: Change in fair value of derivatives	—	436
Less: Gain on sale of property	(278)	—
Property operating income	166,790	173,592
Less: Acquisitions, dispositions and development properties	(2,732)	(568)
Total same property operating income	\$ 164,058	\$ 173,024
Shopping Centers	\$ 125,195	\$ 131,720
Mixed-Use properties	38,863	41,304
Total same property operating income	\$ 164,058	\$ 173,024
Shopping Center operating income	\$ 126,656	\$ 131,769
Less: Shopping Center acquisitions, dispositions and development properties	(1,461)	(49)
Total same Shopping Center operating income	\$ 125,195	\$ 131,720
Mixed-Use property operating income	\$ 40,134	\$ 41,823
Less: Mixed-Use acquisitions, dispositions and development properties	(1,271)	(519)
Total same Mixed-Use property operating income	\$ 38,863	\$ 41,304

Same property operating income decreased \$9.0 million in 2020 compared to 2019 due primarily to (a) higher credit losses on operating lease receivables and corresponding reserves (collectively, \$5.4 million), (b) lower lease termination fees (\$1.3 million) and (c) lower parking income, net of parking expenses (\$0.8 million).

### IMPACT OF INFLATION

Inflation has remained relatively low during 2020 and 2019. The impact of rising operating expenses due to inflation on the operating performance of the Company's portfolio would have been mitigated by terms in substantially all of the Company's leases, which contain provisions designed to increase revenues to offset the adverse impact of inflation on the Company's results of operations. These provisions include upward periodic adjustments in base rent due from tenants, usually based on a stipulated increase, and, to a lesser extent, on the change in the consumer price index, commonly referred to as the CPI.

In addition, substantially all of the Company's properties are leased to tenants under long-term leases, which provide for reimbursement of operating expenses by tenants. These leases tend to reduce the Company's exposure to rising property expenses due to inflation. Inflation and increased costs

may have an adverse impact on the Company's tenants if increases in their operating expenses exceed increases in their revenue.

### LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were \$26.9 million and \$13.9 million at December 31, 2020 and 2019, respectively. The changes in cash and cash equivalents during the years ended December 31, 2020 and 2019 were attributable to operating, investing and financing activities, as described below.

<i>(In thousands)</i>	Year ended December 31,	
	2020	2019
Net cash provided by operating activities	\$ 78,383	\$ 115,383
Net cash used in investing activities	(56,168)	(135,663)
Net cash provided by (used in) financing activities	(9,264)	19,607
Increase (decrease) in cash and cash equivalents	\$ 12,951	\$ (673)

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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### Operating Activities

Net cash provided by operating activities represents cash received primarily from rental revenue, plus other revenue, less property operating expenses, leasing costs, normal recurring general and administrative expenses and interest payments on outstanding debt. We currently expect a short term decrease in cash provided by operating activities because our tenants are impacted by the COVID-19 pandemic and, while contractually obligated, some have not paid second, third, or fourth quarter 2020 rent (see "Impact of COVID-19").

### Investing Activities

Net cash used in investing activities includes property acquisitions, developments, redevelopments, tenant improvements and other property capital expenditures. The \$79.5 million decrease in cash used in investing activities is primarily due to (a) lower development expenditures (\$76.7 million) and (b) lower additions to real estate investments throughout the portfolio (\$2.4 million).

### Financing Activities

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

## LIQUIDITY REQUIREMENTS

Short-term liquidity requirements consist primarily of normal recurring operating expenses and capital expenditures, debt service requirements (including debt service relating to additional and replacement debt), distributions to common and preferred stockholders, distributions to unit holders and amounts required for expansion and renovation of the Current Portfolio Properties and selective acquisition and development of additional properties. In order to qualify as a REIT for federal income tax purposes, the Company must distribute to its stockholders at least 90% of its "real estate investment trust taxable income," as defined in the Code. The Company expects to meet these short-term liquidity requirements (other than amounts required for additional property acquisitions and developments) through cash provided from operations, available cash and its existing line of credit.

Long-term liquidity requirements consist primarily of obligations under our long-term debt and dividends paid to our preferred shareholders. We anticipate that long-term liquidity requirements will also include amounts required for property acquisitions and developments. The Company completed construction of 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 \$279.0 million. A portion of the cost is being financed with a \$157.0 million construction-to-permanent loan. Including approximately \$19.1 million of capitalized interest and \$1.5 million of costs that are accrued and unpaid, costs incurred through December 31, 2020 total approximately \$277.3 million, of which \$146.1 million has been financed by the loan. 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 (if any) are expected to be funded with available cash, bank borrowings from the Company's credit line, construction and permanent financing, proceeds from the operation of the Company's dividend reinvestment plan or other external debt or equity capital resources available to the Company. Any future borrowings may be at the Saul Centers, Operating Partnership or Subsidiary Partnership level, and securities offerings may include (subject to certain limitations) the issuance of additional limited partnership interests in the Operating Partnership which can be converted into shares of Saul Centers common stock. The availability and terms of any such financing will depend upon market and other conditions.

Management believes that the Company's capital resources, which at December 31, 2020 included cash balances of approximately \$26.9 million and borrowing availability of approximately \$220.3 million under its unsecured revolving credit facility, provide sufficient liquidity and flexibility to meet the needs of the Company's operations as the effects of the COVID-19 pandemic continue to evolve.

### Contractual Payment Obligations

As of December 31, 2020, the Company had unfunded contractual payment obligations of approximately \$105.8 million, excluding operating obligations, due within the next 12 months.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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The table below shows the total contractual payment obligations as of December 31, 2020.

	CONTRACTUAL PAYMENT OBLIGATIONS					Total
	Payments Due By Period					
(Dollars in thousands)	One Year or Less	More Than 1 and Up To 3 years	More Than 3 and Up To 5 Years	After 5 Years		
Notes Payable:						
Interest	\$ 47,401	\$ 86,243	\$ 69,736	\$ 162,183	\$	365,563
Scheduled Principal	30,355	62,497	58,717	116,586		268,155
Balloon Payments	11,012	225,227	86,527	569,330		892,096
Subtotal	88,768	373,967	214,980	848,099		1,525,814
Corporate Headquarters Lease <sup>(1)</sup>	873	146	—	—		1,019
Development and Predevelopment Obligations	3,750	2,433	—	—		6,183
Tenant Improvements	12,377	5,130	—	—		17,507
Total Contractual Obligations	\$ 105,768	\$ 381,676	\$ 214,980	\$ 848,099	\$	1,550,523

<sup>1</sup> 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 (see Note 9 to the Consolidated Financial Statements). Future amounts are subject to change as the number of employees employed by each of the parties to the lease fluctuates.

### Dividend Reinvestments

In December 1995, the Company established a Dividend Reinvestment Plan (the "Plan") to allow its common stockholders and holders of limited partnership interests an opportunity to buy additional shares of common stock by reinvesting all or a portion of their dividends or distributions. The Plan provides for investing in newly issued shares of common stock at a 3% discount from market price without payment of any brokerage commissions, service charges or other expenses. All expenses of the Plan are paid by the Company. The Company issued 220,863 and 425,956 shares under the Plan at a weighted average discounted price of \$33.94 and \$52.27 per share during the years ended December 31, 2020 and 2019, respectively. The Company issued 51,579 and 60,936 limited partnership units under the Plan at a weighted average price of \$32.99 and \$52.99 per unit during the years ended December 31, 2020 and 2019, respectively. The Company also credited 7,635 and 4,506 shares to directors pursuant to the reinvestment of dividends specified by the Directors' Deferred Compensation Plan at a weighted average discounted price of \$31.18 and \$52.28 per share, during the years ended December 31, 2020 and 2019, 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, 2020.

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company's financing activity is described within note 5 to the Consolidated Financial Statements. The following is a summary of notes payable as of December 31, 2020 and 2019.

CONTRACTUAL PAYMENT OBLIGATIONS				
Notes Payable (Dollars in thousands)	Year ended December 31,		Interest Rate*	Scheduled Maturity*
	2020	2019		
Fixed rate mortgages:				
Boca Valley Plaza	\$ —	\$ 9,234	5.60%	May-2020
Palm Springs Center	—	7,262	5.30%	Jun-2020
Jamestown Place	6,110	6,539	5.81%	Feb-2021
Hunt Club Corners	5,109	5,300	6.01%	Aug-2021
Lansdowne Town Center	29,657	30,719	5.62%	Jun-2022
Orchard Park	9,136	9,441	6.08%	Sep-2022
BJ's Wholesale Club	10,018	10,323	6.43%	Apr-2023
Great Falls Center	9,788	10,774	6.28%	Feb-2024
Leesburg Pike Center	13,836	14,414	7.35%	Jun-2024
Village Center	12,061	12,555	7.60%	Jun-2024
White Oak	21,704	22,475	7.45%	Jul-2024
Avenel Business Park	25,224	26,260	7.02%	Jul-2024
Ashburn Village	25,253	26,245	7.30%	Jan-2025
Ravenwood	13,095	13,606	6.18%	Jan-2026
Clarendon Center	94,712	98,611	5.31%	Apr-2026
Severna Park Marketplace	28,480	29,710	4.30%	Oct-2026
Kentlands Square II	32,585	33,952	4.53%	Nov-2026
Cranberry Square	15,290	15,917	4.70%	Dec-2026
Seven Corners	58,607	60,677	5.84%	May-2027
Hampshire-Langley	13,480	14,810	4.04%	Apr-2028
Beacon Center	34,223	36,206	3.51%	Jun-2028
Seabreeze Plaza	14,469	15,019	3.99%	Sep-2028
Shops at Fairfax / Boulevard	25,318	26,205	3.69%	Mar-2030
Northrock	13,626	14,085	3.99%	Apr-2030
Burtonsville Town Square	35,836	36,975	3.39%	Feb-2032
Park Van Ness	66,420	68,095	4.88%	Sep-2032
Washington Square	55,398	56,990	3.75%	Dec-2032
Broadlands Village	30,467	31,221	4.41%	Nov-2033
The Glen	21,933	22,448	4.69%	Jan-2034
Olde Forte Village	21,204	21,702	4.65%	Feb-2034
Olney	12,125	11,952	8.00%	Apr-2034
Shops at Monocacy	27,836	28,500	4.14%	Dec-2034
Ashbrook Marketplace	21,922	—	3.80%	Aug-2035
Kentlands	29,746	—	3.43%	Aug-2035
The Waycroft	146,083	110,199	4.67%	Sep-2035
Total fixed rate	980,751	938,421	4.94%	8.79 years
Variable rate loans:				
Revolving credit facility	104,500	87,500	LIBOR + 1.40%	Jan-2022
Term loan facility	75,000	75,000	LIBOR + 1.35%	Jan-2023
Total variable rate	179,500	162,500	1.52%	1.49 years
Total notes payable	\$ 1,160,251	\$ 1,100,921	4.41%	7.66 years

\* Interest rate and scheduled maturity data presented as of December 31, 2020. Totals computed using weighted averages.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

At December 31, 2020, the Company had a \$400.0 million credit facility comprised of a \$325.0 million revolving facility and a \$75.0 million term loan. As of December 31, 2020, the applicable spread for borrowings is 140 basis points under the revolving credit facility and 135 basis points under the term loan. Saul Centers and certain consolidated subsidiaries of the Operating Partnership have guaranteed the payment obligations of the Operating Partnership under the credit facility. Letters of credit may be issued under the revolving credit facility. As of December 31, 2020, based on the value of the Company's unencumbered properties, approximately \$220.3 million was available under the revolving credit facility, \$104.5 million was outstanding and approximately \$185,000 was committed for letters of credit.

The Company's credit facility requires the Company and its subsidiaries to maintain certain financial covenants, which are summarized below.

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

As of December 31, 2020, the Company was in compliance with all such covenants.

On July 14, 2020, the Company closed on a 15-year, \$22.1 million mortgage loan secured by Ashbrook Marketplace. The loan matures in 2035, bears interest at a fixed rate of 3.80%, requires monthly principal and interest payments of \$114,226 based on a 25-year amortization schedule and requires a final payment of \$11.5 million at maturity. The proceeds from the loan were used to pay down the revolving credit facility.

On July 24, 2020, the Company closed on a 15-year, \$30.0 million mortgage loan secured by Kentlands Place, Kentlands Square I and Kentlands Pad. The loan matures in 2035, bears interest at a fixed rate of 3.43%, requires monthly principal and interest payments of \$149,064 based on a 25-year amortization schedule and requires a final payment of \$15.3 million at maturity. The proceeds from the loan were used to pay down the revolving credit facility.

On January 5, 2021, the Company repaid in full the remaining principal balance of \$6.1 million of the mortgage loan secured by Jamestown Place, which was scheduled to mature in February 2021.

## 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 2020, the Company reported Funds From Operations ("FFO")<sup>1</sup> available to common stockholders and noncontrolling interests of \$90.0 million, a 5.4% decrease from 2019 FFO available to common stockholders and noncontrolling interests of \$95.1 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)	Year ended December 31,				
	2020	2019	2018	2017	2016
Net income	\$ 50,316	\$ 64,196	\$ 63,059	\$ 60,668	\$ 56,720
Subtract:					
Gains on sales of properties	(278)	—	(509)	—	(1,013)
Add:					
Real estate depreciation and amortization	51,126	46,333	45,861	45,694	44,417
FFO	101,164	110,529	108,411	106,362	100,124
Subtract:					
Preferred stock dividends	(11,194)	(12,235)	(12,262)	(12,375)	(12,375)
Extinguishment of issuance costs upon redemption of preferred shares	—	(3,235)	(2,328)	—	—
FFO available to common stockholders and noncontrolling interests	\$ 89,970	\$ 95,059	\$ 93,821	\$ 93,987	\$ 87,749
Average shares and units used to compute FFO per share	31,267	30,913	30,156	29,511	28,990
FFO per share	\$ 2.88	\$ 3.08	\$ 3.11	\$ 3.18	\$ 3.03

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### ACQUISITIONS AND REDEVELOPMENTS

Management anticipates that during the coming year, the Company may redevelop certain of the Current Portfolio Properties and may develop additional freestanding outparcels or expansions within certain of the Shopping Centers. Acquisition and development of properties are undertaken only after careful analysis and review, and management's determination that such properties are expected to provide long-term earnings and cash flow growth. During the coming year, any developments, expansions or acquisitions are expected to be funded with bank borrowings from the Company's credit line, construction financing, proceeds from the operation of the Company's dividend reinvestment plan or other external capital resources available to the Company.

The Company has been selectively involved in acquisition, development, redevelopment and renovation activities. It

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

#### Portfolio Leasing Status

The following chart sets forth certain information regarding commercial leases at our properties for the periods indicated. This section generally discusses 2020 and 2019 items and year-to-year comparisons between 2020 and 2019. Discussions of 2018 items and year-to-year comparisons between 2019 and 2018 that are not included in this Form 10-K can be found in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 2019 Form 10-K.

#### PORTFOLIO LEASING STATUS

As of December 31,	Total Properties		Total Square Footage		Percentage Leased	
	Shopping Centers	Mixed-Use	Shopping Centers	Mixed-Use	Shopping Centers	Mixed-Use
2020	50	7	7,876,692	1,136,937	93.0 %	88.4 %
2019	50	6	7,855,275	1,076,837	95.5 %	91.6 %

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 93.0% from 95.6% and the Mixed-Use leasing percentage decreased to 88.3% from 91.6%. The overall portfolio leasing percentage, on a comparative same property basis, decreased to 92.4% at December 31, 2020 from 95.1% at December 31, 2019.

The Residential portfolio was 85.5% leased at December 31, 2020, compared to 96.3% at December 31, 2019. The decrease in Residential portfolio occupancy is primarily due to the increase in units available as a result of the opening of The Waycroft. On a same property basis, 94.8% of the Residential portfolio was leased as of December 31, 2020, compared to 96.3% at December 31, 2019.

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
2020	1,371,377	247	\$ 24.70	\$ 25.15
2019	1,471,429	255	18.24	18.39

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain of the Company's operating properties are planned for redevelopment, including its properties at Twinbrook and White Flint. Prior to the commencement of redevelopment, the Company continues to operate the properties. However, in order to provide the greatest amount of flexibility, the Company generally enters into leases with shorter terms at these "pre-development" properties. The shorter-term leases require less capital, but also yield lower rents. The impact of these leases with shorter terms and lower rents can impact the averages shown for all leasing activity. During 2020, the Company entered into seven new or renewed leases, for 50,894 square feet of retail space, at pre-development

properties that have shorter terms and lower rents than typical market conditions would suggest. Excluding these leases, the base rent on the 240 new or renewed leases on a same space basis would have been \$24.70 per square foot compared to \$25.13 per square foot for expiring leases.

Additional information about commercial leasing activity during the three months ended December 31, 2020, is set forth below. The below information includes leases for space which had not been previously leased during the period of the Company's ownership, either as a result of acquisition or development.

### COMMERCIAL LEASING ACTIVITY

	New Leases	First Generation/ Development Leases	Renewed Leases
Number of leases	10	—	69
Square feet	39,538	—	443,072
Per square foot average annualized:			
Base rent	\$ 25.11	\$ —	\$ 15.95
Tenant improvements	(2.50)	—	(0.02)
Leasing costs	(0.67)	—	(0.01)
Rent concessions	(0.12)	—	(0.21)
Effective rents	\$ 21.82	\$ —	\$ 15.71

During 2020, excluding The Waycroft residential property, the Company entered into 392 new or renewed apartment leases. The monthly rent per square foot for these leases decreased to \$3.30 from \$3.51. During 2019, the Company entered into 431 new or renewed apartment leases. The monthly rent per square foot for these leases increased to \$3.53 from \$3.45.

As of December 31, 2020, 889,250 square feet of Commercial space was subject to leases scheduled to expire in 2021. Below is information about existing and estimated market base rents per square foot for that space.

Expiring Leases:	Total
Square feet	889,250
Average base rent per square foot	\$ 21.94
Estimated market base rent per square foot	\$ 20.91

## 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 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, 2020, the Company had variable rate indebtedness totaling \$179.5 million. If the interest rates on the Company's variable rate debt instruments outstanding at December 31, 2020 had been one percent higher, our annual interest expense relating to these debt instruments would have increased by \$1.8 million, based on those balances. As of December 31, 2020, the Company had fixed-rate indebtedness totaling \$980.8 million with a weighted average interest rate of 4.94%. If interest rates on the Company's fixed-rate debt instruments at December 31, 2020 had been one percent higher, the fair value of those debt instruments on that date would have decreased by approximately \$52.7 million.

The Company may, where appropriate, employ derivative financial instruments, such as interest rate swaps to mitigate the risk of interest rate fluctuations. At December 31, 2020, the Company had no such derivative financial instruments.

# REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

## Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Saul Centers, Inc. and subsidiaries (the “Company”) as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes and the schedule listed in the Index at Item 15(a)2(b) (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2021, expressed an unqualified opinion on the Company’s internal control over financial reporting.

## Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our 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 provides a reasonable basis for our opinion.

## Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

# REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM CONTINUED

**Collectability of Operating Lease Receivables — Refer to Note 2 to the financial statements**

***Critical Audit Matter Description***

Accounts receivable are primarily comprised of rental and reimbursement billings due from tenants, and straight-line rent receivables representing the cumulative amount of future adjustments necessary to present rental income on a straight-line basis. Individual leases are assessed for collectability and upon the determination that the collection of rents is not probable, accrued rent and accounts receivable are charged off, and the charge off is reflected as an adjustment to rental revenue. Revenue from leases where collection is not probable is recorded on a cash basis until collectability is determined to be probable. The Company also assessed whether operating lease receivables, at the portfolio level, are appropriately valued based upon an analysis of balances outstanding, effects of tenant bankruptcies, historical levels of bad debt and current economic trends. For the year-ended December 31, 2020, the Company reduced rental revenue by \$3.5 million and \$1.7 million, due to lease-related reserves and write-offs, respectively.

We identified the Company's evaluation of collectability of lease receivables as a critical audit matter because of the significant assumptions management makes when determining whether the collection of operating lease receivables is probable. Management's evaluation is based on the best information available to the Company at the time of preparing the financial statements and takes into consideration the types of business conducted by tenants and current discussions with the tenants, as well as recent rent collection experience. Auditing management's assessment of collectability of lease receivables required a high degree of auditor judgment and an increased extent of effort when performing audit procedures to evaluate the reasonableness of management's analysis and assessment of collectability.

***How the Critical Audit Matter Was Addressed in the Audit***

Our audit procedures related to the collectability of operating lease receivables included the following, among others:

- We tested the effectiveness of controls over management's evaluation of tenant-level considerations that may indicate that the collection of operating lease receivables is not probable including management's review of its accounts receivable aging schedule.
- We obtained management's analysis of the collectability of tenant accounts receivables and performed the following procedures, among others:
  - Tested the completeness and accuracy of the accounts receivable aging schedule as of December 31, 2020, by obtaining tenant agreements, monthly charge statements, and evidence of cash collections subsequent to year end; and
  - For a selected sample of tenants with outstanding receivables as of December 31, 2020, evaluated the reasonableness of management's assumptions regarding collection probability by inspecting tenant correspondence, historical payment patterns and subsequent cash collections, evidence of lease modification negotiations, including rent deferrals or abatements, evidence of tenant bankruptcy or liquidity constraints, and performing corroborating inquiries of management, including the Collections Department.

/s/ Deloitte & Touche LLP  
McLean, Virginia  
February 25, 2021

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

# REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

## Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Saul Centers, Inc. and subsidiaries (the “Company”) as of December 31, 2020, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control – Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2020, of the Company and our report dated February 25, 2021, expressed an unqualified opinion on those financial statements.

## Basis for Opinion

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

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

## Definition and Limitations of Internal Control over

## Financial Reporting

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

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

/s/ Deloitte & Touche LLP  
McLean, Virginia  
February 25, 2021

# CONSOLIDATED BALANCE SHEETS

	December 31,	
<i>(Dollars in thousands, except per share amounts)</i>	2020	2019
<b>Assets</b>		
Real estate investments		
Land	\$ 511,482	\$ 453,322
Buildings and equipment	1,543,837	1,292,631
Construction in progress	69,477	335,644
	2,124,796	2,081,597
Accumulated depreciation	(607,706)	(563,474)
	1,517,090	1,518,123
Cash and cash equivalents	26,856	13,905
Accounts receivable and accrued income, net	64,917	52,311
Deferred leasing costs, net	26,872	24,083
Prepaid expenses, net	5,643	5,363
Other assets	4,194	4,555
<b>Total assets</b>	<b>\$ 1,645,572</b>	<b>\$ 1,618,340</b>
<b>Liabilities</b>		
Mortgage notes payable	\$ 827,603	\$ 821,503
Term loan facility payable	74,791	74,691
Revolving credit facility payable	103,913	86,371
Construction loan payable	144,607	108,623
Dividends and distributions payable	19,448	19,291
Accounts payable, accrued expenses and other liabilities	24,384	35,199
Deferred income	23,293	29,306
<b>Total liabilities</b>	<b>1,218,039</b>	<b>1,174,984</b>
<b>Equity</b>		
Preferred stock, 1,000,000 shares authorized:		
Series D Cumulative Redeemable, 30,000 shares issued and outstanding	75,000	75,000
Series E Cumulative Redeemable, 44,000 shares issued and outstanding	110,000	110,000
Common stock, \$0.01 par value, 40,000,000 shares authorized, 23,476,626 and 23,231,240 shares issued and outstanding, respectively	235	232
Additional paid-in capital	420,625	410,926
Distributions in excess of accumulated earnings	(241,535)	(221,177)
<b>Total Saul Centers, Inc. equity</b>	<b>364,325</b>	<b>374,981</b>
Noncontrolling interests	63,208	68,375
<b>Total equity</b>	<b>427,533</b>	<b>443,356</b>
<b>Total liabilities and equity</b>	<b>\$ 1,645,572</b>	<b>\$ 1,618,340</b>

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

# CONSOLIDATED STATEMENTS

## OF OPERATIONS

	For the Year Ended December 31,		
<i>(Dollars in thousands, except per share amounts)</i>	2020	2019	2018
<b>Revenue</b>			
Rental revenue	\$ 220,281	223,352	221,734
Other	4,926	8,173	5,485
Total revenue	225,207	231,525	227,219
<b>Expenses</b>			
Property operating expenses	28,857	29,946	28,202
Real estate taxes	29,560	27,987	27,376
Interest expense, net and amortization of deferred debt costs	46,519	41,834	44,768
Depreciation and amortization of deferred leasing costs	51,126	46,333	45,861
General and administrative	19,107	20,793	18,459
Total expenses	175,169	166,893	164,666
Change in fair value of derivatives	—	(436)	(3)
Gains on sales of properties	278	—	509
<b>Net Income</b>	50,316	64,196	63,059
<b>Noncontrolling interests</b>			
Income attributable to noncontrolling interests	(9,934)	(12,473)	(12,505)
<b>Net income attributable to Saul Centers, Inc.</b>	40,382	51,723	50,554
Preferred stock dividends	(11,194)	(12,235)	(12,262)
Extinguishment of issuance costs upon redemption of preferred shares	—	(3,235)	(2,328)
Net income available to common stockholders	29,188	36,253	35,964
<b>Per share net income available to common stockholders</b>			
Basic	1.25	1.58	1.61
Diluted	1.25	1.57	1.60

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



# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Year Ended December 31,		
<i>(Dollars in thousands, except per share amounts)</i>	2020	2019	2018
<b>Net income</b>	\$ 50,316	\$ 64,196	\$ 63,059
<b>Other comprehensive income</b>			
Unrealized gain on cash flow hedge	—	93	594
<b>Total comprehensive income</b>	50,316	64,289	63,653
Comprehensive income attributable to noncontrolling interests	(9,934)	(12,561)	(12,658)
<b>Total comprehensive income attributable to Saul Centers, Inc.</b>	40,382	51,728	50,995
Preferred stock dividends	(11,194)	(12,235)	(12,262)
Extinguishment of issuance costs upon redemption of preferred shares	—	(3,235)	(2,328)
<b>Total comprehensive income available to common stockholders</b>	\$ 29,188	\$ 36,258	\$ 36,405

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

# CONSOLIDATED STATEMENTS OF EQUITY

<i>(Dollars in thousands, except per share amounts)</i>	Preferred Stock	Common Stock	Additional Paid-in Capital	Distributions in Excess of Accumulated Earnings	Accumulated Other Comprehensive (Loss)	Total Saul Centers, Inc.	Noncontrolling Interests	Total
<b>Balance, December 31, 2017</b>	\$ 180,000	\$ 221	\$ 352,590	\$(197,710)	(696)	\$ 334,405	\$ 58,698	\$ 393,103
Issuance of 30,000 shares of Series D Cumulative preferred stock	75,000	—	(2,633)	—	—	72,367	—	72,367
Redemption of 30,000 shares of Series C Cumulative preferred stock	(75,000)	—	2,311	(2,328)	—	(75,017)	—	(75,017)
Issuance of common stock:								
572,928 shares pursuant to dividend reinvestment plan	—	6	28,817	—	—	28,823	—	28,823
43,150 shares due to exercise of employee stock options and issuance of directors' deferred stock	—	—	3,448	—	—	3,448	—	3,448
Issuance of 284,113 partnership units	—	—	—	—	—	—	14,159	14,159
Net income	—	—	—	50,554	—	50,554	12,505	63,059
Change in unrealized loss on cash flow hedge	—	—	—	—	441	441	153	594
Preferred stock distributions:								
Series C	—	—	—	(6,145)	—	(6,145)	—	(6,145)
Series D	—	—	—	(3,164)	—	(3,164)	—	(3,164)
Common stock distributions	—	—	—	(34,841)	—	(34,841)	(12,059)	(46,900)
Distributions payable on Series C preferred stock, \$42.97 per share	—	—	—	(1,805)	—	(1,805)	—	(1,805)
Distributions payable on Series D preferred stock, \$38.28 per share	—	—	—	(1,148)	—	(1,148)	—	(1,148)
Distributions payable common stock (\$0.53/share) and partnership units (\$0.53/unit)	—	—	—	(12,006)	—	(12,006)	(4,148)	(16,154)
<b>Balance, December 31, 2018</b>	180,000	227	384,533	(208,593)	(255)	355,912	69,308	425,220
Issuance of 44,000 shares of Series E Cumulative preferred stock	110,000	—	(3,735)	—	—	106,265	—	106,265
Redemption of 42,000 shares of Series C Cumulative preferred stock	(105,000)	—	3,235	(3,235)	—	(105,000)	—	(105,000)
Issuance of common stock:								
430,462 shares pursuant to dividend reinvestment plan	—	4	22,494	—	—	22,498	—	22,498
61,571 shares due to exercise of employee stock options and issuance of directors' deferred stock	—	1	4,399	—	—	4,400	—	4,400
Issuance of 60,936 partnership units	—	—	—	—	—	—	3,180	3,180
Net income	—	—	—	51,723	—	51,723	12,473	64,196
Change in unrealized loss on cash flow hedge	—	—	—	—	255	255	88	343
Preferred stock distributions:								
Series C	—	—	—	(5,736)	—	(5,736)	—	(5,736)
Series D	—	—	—	(3,444)	—	(3,444)	—	(3,444)
Series E	—	—	—	(257)	—	(257)	—	(257)
Common stock distributions	—	—	—	(36,562)	—	(36,562)	(12,494)	(49,056)
Distributions payable on Series D preferred stock, \$38.28 per share	—	—	—	(1,148)	—	(1,148)	—	(1,148)
Distributions payable on Series E preferred stock, \$37.50 per share	—	—	—	(1,650)	—	(1,650)	—	(1,650)
Distributions payable common stock (\$0.53/share) and partnership units (\$0.53/unit)	—	—	—	(12,275)	—	(12,275)	(4,180)	(16,455)
<b>Balance, December 31, 2019</b>	185,000	232	410,926	(221,177)	—	374,981	68,375	443,356
Issuance of common stock:								
228,498 shares pursuant to dividend reinvestment plan	—	3	7,732	—	—	7,735	—	7,735
16,887 shares due to exercise of employee stock options and issuance of directors' deferred stock	—	—	1,967	—	—	1,967	—	1,967
Issuance of 51,579 partnership units	—	—	—	—	—	—	1,677	1,677
Net income	—	—	—	40,382	—	40,382	9,934	50,316
Preferred stock distributions:								
Series D	—	—	—	(3,446)	—	(3,446)	—	(3,446)
Series E	—	—	—	(4,950)	—	(4,950)	—	(4,950)
Common stock distributions	—	—	—	(37,108)	—	(37,108)	(12,571)	(49,679)
Distributions payable on Series D preferred stock, \$38.28 per share	—	—	—	(1,148)	—	(1,148)	—	(1,148)
Distributions payable on Series E preferred stock, \$37.50 per share	—	—	—	(1,650)	—	(1,650)	—	(1,650)
Distributions payable common stock (\$0.53/share) and partnership units (\$0.53/unit)	—	—	—	(12,438)	—	(12,438)	(4,207)	(16,645)
<b>Balance, December 31, 2020</b>	\$ 185,000	\$ 235	\$ 420,625	\$(241,535)	\$ —	\$ 364,325	\$ 63,208	\$ 427,533

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,		
	2020	2019	2018
<b>Cash flows from operating activities:</b>			
Net income	\$ 50,316	\$ 64,196	\$ 63,059
Adjustments to reconcile net income to net cash provided by operating activities:			
Change in fair value of derivatives	—	436	3
Gains on sales of properties	(278)	—	(509)
<b>Depreciation and amortization of deferred leasing costs</b>	<b>51,126</b>	<b>46,333</b>	<b>45,861</b>
Amortization of deferred debt costs	1,570	1,518	1,610
Non cash compensation costs of stock grants and options	1,438	1,859	1,766
Credit losses on operating lease receivables	5,212	1,226	685
(Increase) decrease in accounts receivable and accrued income	(17,818)	339	(336)
Additions to deferred leasing costs	(8,050)	(1,843)	(6,034)
(Increase) decrease in prepaid expenses	(356)	(188)	73
Decrease in other assets	361	894	3,681
Increase in accounts payable, accrued expenses and other liabilities	875	158	225
Increase (decrease) in deferred income	(6,013)	455	255
Net cash provided by operating activities	78,383	115,383	110,339
<b>Cash flows from investing activities:</b>			
Acquisitions of real estate investments (1)	—	—	(40,836)
Additions to real estate investments	(19,484)	(21,891)	(12,883)
Additions to development and redevelopment projects	(37,060)	(113,772)	(76,257)
Proceeds from sale of property (2)	376	—	1,326
Net cash used in investing activities	(56,168)	(135,663)	(128,650)
<b>Cash flows from financing activities:</b>			
Proceeds from mortgage notes payable	52,100	50,600	54,900
Repayments on mortgage notes payable	(45,654)	(109,235)	(72,572)
Proceeds from term loan facility	—	—	75,000
Proceeds from revolving credit facility	90,000	152,500	102,000
Repayments on revolving credit facility	(73,000)	(112,000)	(116,000)
Proceeds from construction loans payable	35,883	86,868	23,332
Additions to deferred debt costs	(1,206)	(1,010)	(3,233)
Proceeds from the issuance of:			
Common stock	8,264	25,039	30,503
Partnership units (1)	1,677	3,180	5,383
Series D preferred stock	—	—	72,369
Series E preferred stock	—	106,265	—
Series C preferred stock redemption	—	(105,000)	(75,000)
Preferred stock redemption costs	—	—	(12)
Distributions to:			
Series C preferred stockholders	—	(7,541)	(9,238)
Series D preferred stockholders	(4,594)	(4,592)	(3,164)
Series E preferred stockholders	(6,600)	(257)	—
Common stockholders	(49,383)	(48,568)	(46,306)
Noncontrolling interests	(16,751)	(16,642)	(15,981)
Net cash provided by (used in) financing activities	(9,264)	19,607	21,981
Net increase (decrease) in cash and cash equivalents	12,951	(673)	3,670
Cash and cash equivalents, beginning of year	13,905	14,578	10,908
Cash and cash equivalents, end of year	\$ 26,856	\$ 13,905	\$ 14,578
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 44,990	\$ 40,434	\$ 43,561
Increase (decrease) in accrued real estate investments and development costs	\$ (11,690)	\$ 303	\$ 9,663

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

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

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

# NOTES

## TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. ORGANIZATION, BASIS OF PRESENTATION

Saul Centers, Inc. (“Saul Centers”) was incorporated under the Maryland General Corporation Law on June 10, 1993. Saul Centers operates as a real estate investment trust (a “REIT”) under the Internal Revenue Code of 1986, as amended (the “Code”). The Company is required to annually distribute at least 90% of its REIT taxable income (excluding net capital gains) to its stockholders and meet certain organizational and other requirements. Saul Centers has made and intends to continue to make regular quarterly distributions to its stockholders. Saul Centers, together with its wholly owned subsidiaries and the limited partnerships of which Saul Centers or one of its subsidiaries is the sole general partner, are referred to collectively as the “Company.” B. Francis Saul II serves as Chairman of the Board of Directors, Chief Executive Officer and President of Saul Centers.

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

The Company, which conducts all of its activities through its subsidiaries, the Operating Partnership and Subsidiary Partnerships, engages in the ownership, operation, management, leasing, acquisition, renovation, expansion, development and financing of community and neighborhood shopping centers and mixed-used properties, primarily in the Washington, DC/Baltimore metropolitan area.

Because the properties are located primarily in the Washington, DC/Baltimore metropolitan area, a disproportionate economic downturn in the local economy would have a greater negative impact on our overall financial performance than on the overall financial performance of a company with a portfolio that is more geographically diverse. A majority of the Shopping Centers are anchored by several major tenants. As of December 31, 2020, 33 of the Shopping Centers were anchored by a grocery store and offer primarily day-to-day necessities and services. One retail tenant, Giant Food (5.4%), a tenant at 11 Shopping Centers, individually accounted for 2.5% or more of the Company’s total revenue for the year ended December 31, 2020.

As of December 31, 2020, the Current Portfolio Properties consisted of 50 Shopping Centers, seven Mixed-Use Properties, and three (non-operating) development properties.

The accompanying consolidated financial statements of the Company include the accounts of Saul Centers and its subsidiaries, including the Operating Partnership and Subsidiary Partnerships, which are majority owned by Saul Centers. Substantially all assets and liabilities of the Company as of December 31, 2020 and December 31, 2019, are comprised of the assets and liabilities of the Operating Partnership. The debt arrangements which are subject to recourse are described in Note 5. All significant intercompany balances and transactions have been eliminated in consolidation.

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant estimates and assumptions relate to impairment of real estate properties and collectability of operating lease receivables. Actual results could differ from those estimates.

#### Real Estate Investment Properties

Real estate investment properties are stated at historic cost less depreciation. Although the Company intends to own its real estate investment properties over a long term, from time to time it will evaluate its market position, market conditions, and other factors and may elect to sell properties that do not conform to the Company’s investment profile. Management believes that the Company’s real estate assets have generally appreciated in value since their acquisition or development and, accordingly, the aggregate current value exceeds their aggregate net book value and also exceeds the value of the Company’s liabilities as reported in the financial statements. Because the financial

statements are prepared in conformity with GAAP, they do not report the current value of the Company's real estate investment properties.

If there is an event or change in circumstance that indicates a potential impairment in the value of a real estate investment property, the Company prepares an analysis to determine whether the carrying value of the real estate investment property exceeds its estimated fair value. The Company considers both quantitative and qualitative factors including recurring operating losses, significant decreases in occupancy, and significant adverse changes in legal factors and business climate. If impairment indicators are present, the Company compares the projected cash flows of the property over its remaining useful life, on an undiscounted basis, to the carrying value of that property. The Company assesses its undiscounted projected cash flows based upon estimated capitalization rates, historic operating results and market conditions that may affect the property. If the carrying value is greater than the undiscounted projected cash flows, the Company would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to its then estimated fair value. The fair value of any property is sensitive to the actual results of any of the aforementioned estimated factors, either individually or taken as a whole. Should the actual results differ from management's projections, the valuation could be negatively or positively affected. The Company did not recognize an impairment loss on any of its real estate in 2020, 2019, or 2018.

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, 2020, 2019, and 2018, was \$45.9 million, \$40.5 million, and \$39.8 million, respectively. Repairs and maintenance expense totaled \$11.1 million, \$12.5 million, and \$11.9 million for 2020, 2019, and 2018, respectively, and is included in property operating expenses in the accompanying consolidated financial statements.

As of December 31, 2020, we have not identified any impairment triggering events, including the impact of COVID-19 and corresponding tenant requests for rent relief. Accordingly, under applicable GAAP guidance, no impairment charges were recorded.

#### **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, 2020 and 2019, the Company had no assets designated as held for sale.

#### **Revenue Recognition**

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

# NOTES

## TO CONSOLIDATED FINANCIAL STATEMENTS

### Accounts Receivable, Accrued Income, and Allowance for Doubtful Accounts

Accounts receivable are primarily comprised of rental and reimbursement billings due from tenants, and straight-line rent receivables representing the cumulative amount of adjustments necessary to present rental income on a straight-line basis. Individual leases are assessed for collectability and, upon the determination that the collection of rents is not probable, accrued rent and accounts receivable are charged off, and the charge off is reflected as an adjustment to rental revenue. Revenue from leases where collection is not probable is recorded on a cash basis until collectability is determined to be probable. We also assess whether operating lease receivables, at the portfolio level, are appropriately valued based upon an analysis of balances outstanding,

effects of tenant bankruptcies, historical levels of bad debt and current economic trends. Additionally, because of the uncertainties related to the impact of the COVID-19 pandemic, our assessment also takes into consideration the types of business conducted by tenants and current discussions with the tenants, as well as recent rent collection experience. Evaluating and estimating uncollectable lease payments and related receivables requires a significant amount of judgment by management and is based on the best information available to management at the time of evaluation. For the year-ended December 31, 2020, we reduced rental revenue by \$3.5 million and \$1.7 million, due to lease-related reserves and charge offs, respectively. Actual results could differ from these estimates.

At December 31, 2020 and December 31, 2019, accounts receivable was comprised of:

<i>(In thousands)</i>	December 31,	
	2020	2019
Rents currently due	\$ 13,321	\$ 7,235
Deferred rents and payment plans	8,205	474
Straight-line rent	44,863	42,088
Other receivables	3,751	2,967
Credit losses on operating lease receivables	(5,223)	(453)
Total	\$ 64,917	\$ 52,311

### 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 \$26.9 million and \$24.1 million, net of accumulated amortization of approximately \$44.5 million and \$41.6 million, as of December 31, 2020 and 2019, respectively. Amortization expense, which is included in Depreciation and amortization of deferred leasing costs in the Consolidated Statements of Operations, totaled approximately \$5.2 million, \$5.8 million, and \$6.1 million, for the years ended December 31, 2020, 2019, and 2018, respectively.

### Cash and Cash Equivalents

Cash and cash equivalents include short-term investments. Short-term investments include money market accounts and other investments which generally mature within three months, measured from the acquisition date, and/or are readily convertible to cash. Substantially all of the Company's cash balances at December 31, 2020 are held in accounts at various banks. From time to time the Company may maintain deposits with financial institutions in amounts in excess of federally insured limits. The Company has not experienced any losses on such deposits and believes it is not exposed to any significant credit risk on those deposits.

### Deferred Income

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

### Derivative Financial Instruments

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

### Income Taxes

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

As of December 31, 2020, 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 2020, 2019, and 2018. The tax basis of the Company's real estate investments was approximately \$1.55 billion and \$1.33 billion as of December 31, 2020 and 2019, 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 2017.

### Legal Contingencies

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

### Recently Issued Accounting Standards

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

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

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

# NOTES

## TO CONSOLIDATED FINANCIAL STATEMENTS

On January 1, 2019, a right of use asset and corresponding lease liability related to our headquarters lease were recorded in other assets and other liabilities, respectively. The lease expires on February 28, 2022, with one option to renew for an additional five years. The right of use asset and corresponding lease liability totaled \$0.9 million and \$0.9 million, respectively, at December 31, 2020.

Due to the business disruptions and challenges severely affecting the global economy caused by the novel strain of coronavirus ("COVID-19") pandemic, many lessees have requested rent relief, including rent deferrals and other lease concessions. The lease modification guidance in ASU 2016-02 does not contemplate the rapid execution of concessions for multiple tenants in response to sudden liquidity constraints of lessees. In April 2020, the FASB staff issued a question and answer document that provided guidance allowing the Company to elect to either apply the lease modification accounting framework or not, with such election applied consistently to leases with similar characteristics and similar circumstances. The Company has elected to apply such relief, which, in the case of rent deferrals, results in the accrual of rent due from tenants and defers the payment of that rent to a future date, and will monitor the collectability of rent receivables.

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. The adoption of ASU 2016-13 effective January 1, 2020, had no material impact on our consolidated financial statements and related disclosures because the vast majority of the Company's receivables relate to operating leases which are accounted for under ASC 842.

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

### Reclassifications

Certain reclassifications have been made to prior years to conform to the presentation used for year ended December 31, 2020.

## 3. REAL ESTATE

### Construction in Progress

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

<i>(In thousands)</i>	December 31,	
	2020	2019
Hampden House (formerly 7316 Wisconsin Avenue)	\$ 50,723	\$ 44,638
The Waycroft	8,651	255,443
Ashbrook Marketplace	153	19,128
Other	9,950	16,435
Total	\$ 69,477	\$ 335,644



**Acquisitions****Ashbrook Marketplace**

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

**Hampden House (formerly 7316 Wisconsin Avenue)**

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

2018, the Company purchased for \$4.5 million, including acquisition costs, an interest in an adjacent parcel of land and retail building. The purchase price was funded through the Company's credit facility. Effective September 1, 2019, the asset was removed from service and transferred to construction in progress at its carrying value of \$42.6 million.

**Allocation of Purchase Price of Real Estate Acquired**

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

During 2018, the Company acquired properties that had an aggregate cost of \$49.5 million, including acquisition costs.\*

\* The purchase price was allocated to assets acquired and liabilities assumed based on their relative fair values as shown in the following table.

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

The gross carrying amount of lease intangible assets included in deferred leasing costs as of December 31, 2020 and 2019 was \$11.0 million and \$11.7 million, respectively, and accumulated amortization was \$8.6 million and \$8.5 million, respectively. Amortization expense totaled \$0.6 million, \$0.9 million and \$1.3 million, for the years ended December 31, 2020, 2019, and 2018, respectively. The gross carrying amount of below market lease intangible liabilities included in deferred income as of December 31, 2020 and 2019 was \$23.7 million and \$24.1 million, respectively, and accumulated amortization was \$15.0 million and \$13.9 million, respectively. Accretion income totaled \$1.4 million,

\$1.5 million, and \$1.7 million, for the years ended December 31, 2020, 2019, and 2018, respectively. The gross carrying amount of above market lease intangible assets included in accounts receivable as of December 31, 2020 and 2019 was \$0.6 million and \$0.6 million, respectively, and accumulated amortization was \$128,900 and \$108,300, respectively. Amortization expense totaled \$43,600, \$109,600 and \$110,500, for the years ended December 31, 2020, 2019 and 2018, respectively. The remaining weighted-average amortization period as of December 31, 2020 is 4.3 years, 7.0 years, and 5.0 years for lease acquisition costs, above market leases and below market leases, respectively.

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As of December 31, 2020, scheduled amortization of intangible assets and deferred income related to in-place leases is as follows:

<i>(In thousands)</i>	Lease acquisition costs	Above market leases	Below market leases
2021	\$ 495	\$ 33	\$ 1,409
2022	368	33	1,306
2023	317	33	1,297
2024	198	33	878
2025	153	33	601
Thereafter	843	309	3,253
Total	\$ 2,374	\$ 474	\$ 8,744

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

Saul Centers is the sole general partner of the Operating Partnership, owning a 74.6% common interest as of December 31, 2020. Noncontrolling interest in the Operating Partnership is comprised of limited partnership units owned by the Saul Organization. Noncontrolling interest reflected on the accompanying consolidated balance sheets is increased for earnings allocated to limited partnership interests and distributions reinvested in additional units, and is decreased for limited partner distributions. Noncontrolling interest reflected on the consolidated statements of operations represents earnings allocated to limited partnership interests held by the Saul Organization.

The Saul Organization holds a 25.4% limited partnership interest in the Operating Partnership represented by 7,938,495 limited partnership units, as of December 31, 2020. 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, 2020, approximately 1,947,000 units were eligible for conversion.

The impact of the Saul Organization's 25.4% limited partnership interest in the Operating Partnership is reflected as Noncontrolling Interests in the accompanying consolidated financial statements. Fully converted partnership units and diluted weighted average shares outstanding for the years ended December 31, 2020, 2019, and 2018, were 31.3 million, 30.9 million, and 30.2 million, respectively.

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

At December 31, 2020, the principal amount of outstanding debt totaled \$1.2 billion, of which \$980.8 million was fixed-rate debt and \$179.5 million was variable rate debt. The principal amount of the Company's outstanding debt totaled \$1.1 billion at December 31, 2019, of which \$938.4 million was fixed rate debt and \$162.5 million was variable rate debt.

At December 31, 2020, the Company had a \$400.0 million unsecured credit facility, which can be used for working capital, property acquisitions or development projects, of which \$325.0 million is a revolving credit facility and \$75.0 million is a term loan. The revolving credit facility matures on January 26, 2022, and may be extended by the Company for one additional year subject to the Company's satisfaction of certain conditions. The term loan matures on January 26, 2023, and may not be extended. Saul Centers and certain consolidated subsidiaries of the Operating Partnership have guaranteed the payment obligations of the Operating Partnership under the credit facility. Letters of credit may be issued under the revolving credit facility. On December 31, 2020, based on the value of the Company's unencumbered properties, approximately \$220.3 million was available under the revolving credit facility, \$104.5 million was outstanding and approximately \$185,000 was committed for letters of credit. Interest at a rate equal to the sum of one-month LIBOR and a margin that is based on the Company's leverage ratio and which can range from 135 basis points to 195 basis points under the revolving facility and from 130 basis points to 190 basis points under the term loan. As of December 31, 2020, the margin was 140 basis points under the revolving facility and 135 basis points under the term loan.

Saul Centers and certain consolidated subsidiaries of the Operating Partnership have guaranteed the payment obligations of the Operating Partnership under the credit facility. The Operating Partnership is the guarantor of (a) a portion of the Park Van Ness mortgage (approximately \$3.3 million of the \$66.4 million outstanding balance at December 31, 2020, which guarantee was reduced to (i) \$3.3 million on October 1, 2020 and (ii) will be reduced to zero on October 1, 2021), (b) a portion of the Broadlands mortgage (approximately \$3.8 million of the \$30.5 million outstanding balance at December 31, 2020), (c) a portion of the Avenel Business Park mortgage (approximately \$6.3 million of the \$25.2 million outstanding balance at December 31, 2020), (d) a portion of The Waycroft mortgage (approximately \$23.6 million of the \$146.1 million outstanding balance at December 31, 2020), (e) the Ashbrook Marketplace mortgage (totaling \$21.9 million at December 31, 2020), and (f) the mortgage secured by Kentlands Place, Kentlands Square I and Kentlands pad (totaling \$29.7 million at December 31, 2020). All other notes payable are non-recourse. The guarantee on the Kentlands Square II mortgage loan was released on February 5, 2020.

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

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

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

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

On November 21, 2019, the Company repaid in full the remaining principal balance of \$35.6 million of the mortgage

loan secured by Thruway, which was scheduled to mature in July 2020. The Company's corresponding swap agreement was terminated on the same day.

On February 10, 2020, the Company repaid in full the remaining principal balance of \$9.2 million of the mortgage loan secured by Boca Valley Plaza, which was scheduled to mature on May 10, 2020.

On March 3, 2020, the Company repaid in full the remaining principal balance of \$7.1 million of the mortgage loan secured by Palm Springs Center, which was scheduled to mature on June 1, 2020.

On July 14, 2020, the Company closed on a 15-year, \$22.1 million mortgage loan secured by Ashbrook Marketplace. The loan matures in 2035, bears interest at a fixed rate of 3.80%, requires monthly principal and interest payments of \$114,226 based on a 25-year amortization schedule and requires a final payment of \$11.5 million at maturity. The proceeds from the loan were used to pay down the revolving credit facility.

On July 24, 2020, the Company closed on a 15-year, \$30.0 million mortgage loan secured by Kentlands Place, Kentlands Square I and Kentlands Pad. The loan matures in 2035, bears interest at a fixed rate of 3.43%, requires monthly principal and interest payments of \$149,064 based on a 25-year amortization schedule and requires a final payment of \$15.3 million at maturity. The proceeds from the loan were used to pay down the revolving credit facility.

The carrying value of the properties collateralizing the mortgage notes payable totaled \$1.2 billion and \$1.1 billion, as of December 31, 2020 and 2019, 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, 2020.

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

Mortgage notes payable totaling \$41.0 million at each of December 31, 2020 and 2019, are guaranteed by members of the Saul Organization.

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As of December 31, 2020, the scheduled maturities of all debt including scheduled principal amortization for years ended December 31 are as follows:

<i>(In thousands)</i>	Balloon Payments	Scheduled Principal Amortization	Total
2021	\$ 11,012	\$ 30,355	\$ 41,367
2022	141,002 <sup>(a)</sup>	31,017	172,019
2023	84,225	31,481	115,706
2024	66,164	30,856	97,020
2025	20,363	27,860	48,223
Thereafter	569,330	116,586	685,916
Principal amount	\$ 892,096	\$ 268,155	\$ 1,160,251
Unamortized deferred debt costs			(9,337)
Net			\$ 1,150,914

*(a) Includes \$104.5 million outstanding under the revolving facility.*

### Deferred Debt Costs

Deferred debt costs consist of fees and costs incurred to obtain long-term financing, construction financing and the revolving line of credit. These fees and costs are being amortized on a straight-line basis over the terms of the respective loans or agreements, which approximates the effective

interest method. Deferred debt costs totaled \$9.3 million and \$9.7 million, net of accumulated amortization of \$8.7 million and \$7.5 million at December 31, 2020 and 2019, respectively, and are reflected as a reduction of the related debt in the Consolidated Balance Sheets.

The components of interest expense are set forth below.

<i>(In thousands)</i>	Year ended December 31,		
	2020	2019	2018
Interest incurred	\$ 51,705	\$ 52,044	\$ 49,652
Amortization of deferred debt costs	1,570	1,518	1,610
Capitalized interest	(6,616)	(11,480)	(6,222)
Interest expense	46,659	42,082	45,040
Less: Interest income	140	248	272
Interest expense, net and amortization of deferred debt costs	\$ 46,519	\$ 41,834	\$ 44,768

Deferred debt costs capitalized during the years ending December 31, 2020, 2019 and 2018 totaled \$1.2 million, \$1.0 million and \$3.2 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, 2020, 2019, and 2018, amounted to \$188.6 million, \$185.7 million, and \$184.7 million, respectively. Future contractual payments under noncancelable leases for years ended December 31 (which exclude the effect of straight-line rents), are as follows:

<i>(In thousands)</i>	
2021	\$ 163,862
2022	146,574
2023	126,550
2024	102,118
2025	80,366
Thereafter	351,968
	<u>\$ 971,438</u>

The majority of the leases provide for rental increases based on fixed annual increases or increases in the Consumer Price Index and expense recoveries based on increases in operating expenses. The expense recoveries generally are payable in equal installments throughout the year based on estimates, with adjustments made in the succeeding year. Expense recoveries for the years ended December 31, 2020, 2019, and 2018, amounted to \$34.7 million, \$36.5 million, and \$35.5 million, respectively. In addition, certain retail leases provide for percentage rent based on sales in excess of the minimum specified in the tenant's lease. Percentage rent amounted to \$0.9 million, \$0.9 million, and \$1.0 million, for the years ended December 31, 2020, 2019, and 2018, respectively.

## 7. LONG-TERM LEASE OBLIGATIONS

At December 31, 2020 and 2019, no properties were situated upon land subject to noncancelable long-term leases.

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, 2020, 2019, and 2018 was \$799,300, \$806,500, and \$779,800, respectively. Expenses arising from the lease are included in general and administrative expense (see Note 9 – Related Party Transactions).

## 8. EQUITY AND NONCONTROLLING INTEREST

The Consolidated Statements of Operations for the years ended December 31, 2020, 2019, and 2018 reflect non-controlling interest of \$9.9 million, \$12.5 million, and \$12.5 million, respectively, representing the Saul Organization's share of the net income for the year.

At December 31, 2020, the Company had outstanding 3.0 million depositary shares, each representing 1/100th of a share of 6.125% Series D Cumulative Redeemable Preferred Stock (the "Series D Stock"). The depositary shares may be redeemed at the Company's option, in whole or in part, on or after January 23, 2023, at the \$25.00 liquidation preference, plus accrued but unpaid dividends to but not including the redemption date. The depositary shares pay an annual dividend of \$1.53125 per share, equivalent to 6.125% of the \$25.00 liquidation preference. The Series D Stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and is not convertible into any other securities of the Company except in connection with certain changes in control or delisting events. Investors in the depositary shares generally have no voting rights, but will have limited voting rights if the Company fails to pay dividends for six or more quarters (whether or not declared or consecutive) and in certain other events.

At December 31, 2020, the Company had outstanding 4.4 million depositary shares, each representing 1/100th of a share of 6.000% Series E Cumulative Redeemable Preferred Stock (the "Series E Stock"). The depositary shares may be redeemed at the Company's option, in whole or in part, on or after September 17, 2024, at the \$25.00 liquidation preference, plus accrued but unpaid dividends to but not including the redemption date. The depositary shares pay an annual dividend of \$1.50 per share, equivalent to 6.000% of the \$25.00 liquidation preference. The Series E Stock has no stated maturity, is not subject to any

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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.

### 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.

<i>(Shares in thousands)</i>	December 31,		
	2020	2019	2018
Weighted average common shares outstanding - Basic	23,356	23,009	22,383
Effect of dilutive options	1	44	42
Weighted average common shares outstanding - Diluted	23,357	23,053	22,425
Average share price	\$ 33.84	\$ 53.41	\$ 52.50
Non-dilutive options	1,439	633	492
Years non-dilutive options were issued	2014 through 2020	2016, 2017 and 2019	2015, 2016 and 2017

## 9. RELATED PARTY TRANSACTIONS

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

The Company participates in a multiemployer 401K plan with entities in the Saul Organization which covers those full-time employees who meet the requirements as specified in the plan. Company contributions, which are included in general and administrative expense or property operating expenses in the consolidated statements of operations, at the discretionary amount of up to 6% of the employee's cash compensation, subject to certain limits, were \$302,000, \$322,200, and \$345,900, for 2020, 2019, and 2018, 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 and the Company matches those deferrals up to three times the amount deferred by employees. The Company's expense, included in general and administrative expense, totaled \$241,300, \$345,200, and \$282,500, for the years ended December 31, 2020, 2019, and 2018, respectively. All amounts deferred by employees and the Company are fully vested. The cumulative unfunded liability under this plan was \$2.9 million and \$3.1 million, at December 31, 2020 and 2019, 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, 2020, 2019, and 2018, which included rental expense for the Company's headquarters lease (see Note 7. Long Term Lease Obligations), totaled \$7.4 million, \$8.4 million, and \$8.4 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, 2020 and 2019, accounts payable, accrued expenses and other liabilities included \$782,700 and \$918,700, respectively, representing billings due to the Saul Organization for the Company's share of these ancillary costs and expenses.

The Company has entered into a shared third-party predevelopment cost agreement with the Saul Trust (the "Predevelopment Agreement"). The Predevelopment Agreement, which expired on December 31, 2015 and was extended to December 31, 2016, relates to the sharing of third-party predevelopment costs incurred in connection with the planning of the future redevelopment of certain adjacent real estate assets in the Twinbrook area of Rockville, Maryland. On December 8, 2016, the Company entered into a replacement agreement with the Saul Trust which extended the expiration date to December 31, 2017 and provides for automatic twelve month renewals unless either party provides notice of termination. The costs will be shared on a pro rata basis based on the acreage owned by each entity and neither party is obligated to advance funds to the other.

On November 5, 2019, the Company entered into a Contribution Agreement to acquire the Contributed Property from the Saul Trust. In exchange for the Contributed Property, the Company will issue to the Saul Trust 1,416,071 limited partnership units. In connection with the contribution, the Company is obligated to reimburse the Saul Trust for certain pre-development and carrying costs incurred by the Saul Trust subsequent to the date of the Contribution Agreement, which total approximately \$6.1 million as of December 31, 2020. Deed to the Contributed Property and the units were placed in escrow until certain conditions of the Contribution Agreement are satisfied.

The B. F. Saul Insurance Agency of Maryland, Inc., a subsidiary of the B. F. Saul Company and a member of the Saul Organization, is a general insurance agency that receives commissions and counter-signature fees in connection with the Company's insurance program. Such commissions and fees amounted to approximately \$427,700, \$399,600, and \$407,900, for the years ended December 31, 2020, 2019, and 2018, respectively.

In August 2016, the Company entered into an agreement to acquire from the Saul Trust approximately 13.7 acres of land located at the intersection of Ashburn Village Boulevard and Russell Branch Parkway in Ashburn, Virginia. The transaction closed on May 9, 2018, and the Company issued 176,680 limited partnership units to the Saul Trust. The Company constructed a shopping center, Ashbrook Marketplace, and may be obligated to issue additional limited partnership units to the Saul Trust in the second quarter of 2021. As of

December 31, 2020, the Company estimates this obligation to range in value from \$3.3 million to \$3.6 million, based on projected net operating income of Ashbrook Marketplace for the 12 months ending May 31, 2021.

## 10. STOCK OPTION PLAN

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

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

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

Pursuant to the Plan, the Compensation Committee established a Deferred Compensation Plan for Directors for the benefit of the Company's directors and their beneficiaries, which replaced a previous Deferred Compensation and Stock Plan for Directors. Annually, directors are given the ability to make an election to defer all or part of their fees and have the option to have their fees paid in cash, in shares of common stock or in a combination of cash and shares of common stock upon separation from the Board. If a director elects to have their fees paid in stock, fees earned during a calendar quarter are aggregated and divided by the closing market price of the Company's common stock on the first trading day of the following quarter to determine the number of shares to be credited to the director. During the

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twelve months ended December 31, 2020, 11,574 shares were credited to director's deferred fee accounts and 7,354 shares were issued. As of December 31, 2020, the director's deferred fee accounts comprise 118,628 shares.

The Compensation Committee has also approved an annual award of shares of the Company's common stock as additional compensation to each director serving on the Board of Directors as of the record date for the Annual Meeting of Stockholders. The shares are awarded as of each Annual Meeting of Stockholders, and their issuance may not be deferred.

At the annual meeting of the Company's stockholders in 2004, the stockholders approved the adoption of the 2004 stock plan for the purpose of attracting and retaining executive officers, directors and other key personnel. The 2004 stock plan was subsequently amended by the Company's stockholders at the 2008 Annual Meeting, further amended at the 2013 Annual Meeting, and further amended at the 2019 Annual Meeting (the "Amended 2004 Plan"). The Amended 2004 Plan, which terminates in 2029, provides for grants of options to purchase up to 3,400,000 shares of common stock. The Amended 2004 Plan authorizes the Compensation Committee of the Board of Directors to grant options at an exercise price which may not be less than the market value of the common stock on the date the option is granted.

Effective May 11, 2018, the Compensation Committee granted options to purchase 245,000 shares (25,914 incentive stock options and 219,086 nonqualified stock options) to 22 Company officers and 11 Company Directors (the "2018 options"), which expire on May 10, 2028. The officers' 2018 Options vest 25% per year over four years and are subject to early expiration upon termination of employment. The directors' 2018 Options were immediately exercisable. The exercise price of \$49.46 per share was the closing market price of the Company's common stock on the date of award. Using the Black-Scholes model, the Company determined the total fair value of the 2018 Options to be \$1.4 million, of which \$1.2 million and \$169,400 were assigned to the officer options and director options, respectively. Because the directors' options vested immediately, the entire \$169,400 was expensed as of the date of grant. The expense for the officers' options is being recognized as compensation expense monthly during the four years the options vest.

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

Effective April 24, 2020, the Compensation Committee granted options to purchase 238,000 shares (29,624 incentive stock options and 208,376 nonqualified stock options) to 20 Company officers and 11 Company Directors (the "2020 options"), which expire on April 23, 2030. The officers' 2020 Options vest 25% per year over four years and are subject to early expiration upon termination of employment. The directors' 2020 Options were immediately exercisable. The exercise price of \$50.00 per share was determined by the compensation committee. The exercise price was greater than the closing market price of the Company's common stock on the date of award, which was \$28.02. Using the Black-Scholes model, the Company determined the total fair value of the 2020 Options to be \$0.2 million, of which \$0.2 million and \$23,100 were assigned to the officer options and director options, respectively. Because the directors' options vested immediately, the entire \$23,100 was expensed as of the date of grant. The expense for the officers' options is being recognized as compensation expense monthly during the four years the options vest.

The following table summarizes the assumptions used in the valuation of the 2018, 2019, and 2020 option grants. During the twelve months ended December 31, 2020, stock option expense totaling \$1.2 million was included in general and administrative expense in the Consolidated Statements of Operations. As of December 31, 2020, the estimated future expense related to unvested stock options was \$1.6 million.



Grant date	Directors			Officers		
	May 11, 2018	May 3, 2019	April 24, 2020	May 11, 2018	May 3, 2019	April 24, 2020
Exercise price	\$ 49.46	\$ 55.71	\$ 50.00	\$ 49.46	\$ 55.71	\$ 50.00
Volatility	0.192	0.236	0.258	0.177	0.206	0.240
Expected life (years)	5.0	5.0	5.0	7.0	7.0	7.0
Assumed yield	3.70 %	3.75 %	3.80 %	3.75 %	3.80 %	3.85 %
Risk-free rate	2.84 %	2.33 %	0.36 %	2.94 %	2.43 %	0.51 %

The table below summarizes the option activity for the years 2020, 2019, and 2018:

	2020		2019		2018	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at January 1	1,309,614	\$ 53.38	1,114,169	\$ 52.40	913,320	\$ 52.80
Granted	238,000	50.00	260,000	55.71	245,000	49.46
Exercised	(10,749)	49.19	(57,055)	44.53	(39,151)	42.98
Expired/Forfeited	(34,195)	54.09	(7,500)	56.07	(5,000)	54.78
Outstanding December 31	<u>1,502,670</u>	52.86	<u>1,309,614</u>	53.38	<u>1,114,169</u>	52.40
Exercisable at December 31	<u>971,545</u>	53.01	<u>763,614</u>	52.43	<u>600,919</u>	50.93

The intrinsic value of options exercised in 2020, 2019, and 2018, was \$0.1 million, \$0.6 million and \$0.5 million, respectively. The date of exercise was the measurement date for shares exercised during the period. 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. At December 31, 2020, the final trading day of calendar 2020, the closing price of \$31.68 per share was used for the calculation of aggregate intrinsic value of options outstanding and exercisable at that date. Because the closing price was less than the exercise price of all outstanding options, no option had any intrinsic value at December 31, 2020. The weighted average remaining contractual life of the Company's exercisable and outstanding options at December 31, 2020 are 5.2 and 5.0 years, respectively.

## 11. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and floating rate debt are reasonable estimates of their fair value. The aggregate fair value of the notes payable with fixed-rate payment terms was determined using Level 3 data in a discounted cash flow approach, which is based upon management's estimate of borrowing rates and loan terms currently available to the Company for fixed rate financing, and assuming

long term interest rates of approximately 3.40% and 3.55%, would be approximately \$981.0 million and \$957.4 million as of December 31, 2020 and 2019, respectively, compared to the principal balance of \$980.8 million and \$938.4 million at December 31, 2020 and 2019, respectively. A change in any of the significant inputs may lead to a change in the Company's fair value measurement of its debt.

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

## 12. COMMITMENTS AND CONTINGENCIES

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

# NOTES

## TO CONSOLIDATED FINANCIAL STATEMENTS

### 13. DISTRIBUTIONS

In December 1995, the Company established a Dividend Reinvestment and Stock Purchase Plan (the "Plan"), to allow its stockholders and holders of limited partnership interests an opportunity to buy additional shares of common stock by reinvesting all or a portion of their dividends or distributions. The Plan provides for investing in newly issued shares of common stock at a 3% discount from market price without payment of any brokerage commissions, service charges or other expenses. All expenses of the Plan are paid by the Company. The Operating Partnership also maintains a similar dividend reinvestment plan that mirrors the Plan, which allows holders of limited partnership interests the opportunity to buy either additional limited partnership units or common stock shares of the Company.

The Company paid common stock distributions of \$2.12 per share in 2020, \$2.12 per share in 2019, and \$2.08 per share in 2018, Series C preferred stock dividends of \$1.80 and \$1.72, respectively, per depositary share in 2019 and 2018, Series D preferred stock dividends of \$1.53, \$1.53 and \$1.05, respectively, per depositary share in 2020, 2019, and 2018, and Series E preferred stock dividends of \$1.50 and \$0.06, respectively, per depositary share in 2020 and 2019. Of the common stock dividends paid, \$1.43 per share, \$2.00 per share, and \$1.61 per share, represented ordinary dividend income in 2020, 2019, and 2018, respectively, and \$0.69 per share, \$0.12 per share, and \$0.47 per share represented return of capital to the shareholders in 2020, 2019, and 2018, respectively. All of the preferred dividends paid represented ordinary dividend income.

The following summarizes distributions paid during the years ended December 31, 2020, 2019, and 2018, and includes activity in the Plan as well as limited partnership units issued from the reinvestment of unit distributions:

	Total Distributions to			Dividend Reinvestments			
	Preferred Stockholders	Common Stockholders	Limited Partnership Unitholders	Common Stock Shares Issued	Discounted Share Price	Limited Partnership Units Issued	Average Unit Price
<i>(Dollars in thousands, except per share amounts)</i>							
Distributions during 2020							
4th Quarter	\$ 2,798	\$ 12,371	\$ 4,195	117,368	\$ 24.08	23,370	\$ 24.35
3rd Quarter	2,798	12,373	4,188	14,525	28.98	13,108	29.47
2nd Quarter	2,799	12,364	4,188	12,627	32.22	—	—
1st Quarter	2,799	12,275	4,180	83,978	48.59	15,101	49.40
Total 2020	<u>\$ 11,194</u>	<u>\$ 49,383</u>	<u>\$ 16,751</u>	<u>228,498</u>		<u>51,579</u>	
Distributions during 2019							
4th Quarter	\$ 3,531	\$ 12,251	\$ 4,173	104,558	\$ 52.84	13,747	\$ 53.73
3rd Quarter	2,953	12,195	4,166	105,753	53.66	13,406	54.56
2nd Quarter	2,953	12,116	4,155	99,804	51.38	20,041	51.99
1st Quarter	2,953	12,006	4,148	120,347	51.28	13,742	52.16
Total 2019	<u>\$ 12,390</u>	<u>\$ 48,568</u>	<u>\$ 16,642</u>	<u>430,462</u>		<u>60,936</u>	
Distributions during 2018							
4th Quarter	\$ 2,953	\$ 11,706	\$ 4,062	216,476	\$ 49.34	13,867	\$ 50.20
3rd Quarter	2,953	11,590	4,055	201,500	51.68	13,107	52.60
2nd Quarter	2,672	11,545	3,942	85,202	47.54	42,422	47.83
1st Quarter	3,824	11,465	3,922	69,750	52.71	38,037	53.03
Total 2018	<u>\$ 12,402</u>	<u>\$ 46,306</u>	<u>\$ 15,981</u>	<u>572,928</u>		<u>107,433</u>	

In December 2020, the Board of Directors of the Company authorized a distribution of \$0.53 per common share payable in January 2021 to holders of record on January 15, 2021. As a result, \$12.4 million was paid to common shareholders on January 29, 2021. Also, \$4.2 million was paid to limited partnership unitholders on January 29, 2021 (\$0.53 per Operating Partnership unit). The Board of Directors authorized preferred stock dividends of (a) \$0.3750 per Series E depositary share and (b) \$0.3828 per Series D depositary share to

holders of record on January 4, 2021. As a result, \$2.8 million was paid to preferred shareholders on January 15, 2021. 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 2020 and 2019.

<i>(In thousands, except per share amounts)</i>	2020			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Total revenue	\$ 56,943	\$ 53,220	\$ 56,760	\$ 58,284
Net Income	16,829	10,208	11,603	11,676
Net income attributable to Saul Centers, Inc.	13,264	8,328	9,367	9,423
Net income available to common stockholders	10,466	5,530	6,569	6,623
Net income available to common stockholders per basic and diluted share	0.45	0.24	0.28	0.28

<i>(In thousands, except per share amounts)</i>	2019			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Total revenue	\$ 59,750	\$ 58,141	\$ 57,052	\$ 56,582
Net Income	17,077	16,750	15,328	15,041
Net income attributable to Saul Centers, Inc.	13,447	13,232	12,226	12,818
Net income available to common stockholders	10,494	10,279	9,016	6,464
Net income available to common stockholders per basic and diluted share	0.46	0.45	0.39	0.27

## 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 2020 presentation.

# NOTES

## TO CONSOLIDATED FINANCIAL STATEMENTS

<i>(In thousands)</i>	Shopping Centers	Mixed-Use Properties	Corporate and Other	Consolidated Totals
<b>As of or for the year ended December 31, 2020</b>				
Real estate rental operations:				
Revenue	\$ 161,854	\$ 63,353	\$ —	\$ 225,207
Expenses	(35,198)	(23,219)	—	(58,417)
Income from real estate	126,656	40,134	—	166,790
Interest expense, net and amortization of deferred debt costs	—	—	(46,519)	(46,519)
General and administrative	—	—	(19,107)	(19,107)
Depreciation and amortization of deferred leasing costs	(30,891)	(20,235)	—	(51,126)
Gain on sale of property	278	—	—	278
Net income (loss)	\$ 96,043	\$ 19,899	\$ (65,626)	\$ 50,316
Capital investment	\$ 15,203	\$ 40,965	\$ —	\$ 56,168
Total assets	\$ 975,195	\$ 643,503	\$ 26,874	\$ 1,645,572

<b>As of or for the year ended December 31, 2019</b>				
Real estate rental operations:				
Revenue	\$ 167,888	\$ 63,637	\$ —	\$ 231,525
Expenses	(36,119)	(21,814)	—	(57,933)
Income from real estate	131,769	41,823	—	173,592
Interest expense, net and amortization of deferred debt costs	—	—	(41,834)	(41,834)
General and administrative	—	—	(20,793)	(20,793)
Depreciation and amortization of deferred leasing costs	(29,112)	(17,221)	—	(46,333)
Change in fair value of derivatives	—	—	(436)	(436)
Net income (loss)	\$ 102,657	\$ 24,602	\$ (63,063)	\$ 64,196
Capital investment	\$ 33,968	\$ 101,695	\$ —	\$ 135,663
Total assets	\$ 980,096	\$ 625,183	\$ 13,061	\$ 1,618,340

<i>(In thousands)</i>	Shopping Centers	Mixed-Use Properties	Corporate and Other	Consolidated Totals
<b>As of or for the year ended December 31, 2018</b>				
Real estate rental operations:				
Revenue	\$ 164,344	\$ 62,875	\$ —	\$ 227,219
Expenses	(34,643)	(20,935)	—	(55,578)
Income from real estate	129,701	41,940	—	171,641
Interest expense, net and amortization of deferred debt costs	—	—	(44,768)	(44,768)
General and administrative	—	—	(18,459)	(18,459)
Depreciation and amortization of deferred leasing costs	(29,251)	(16,610)	—	(45,861)
Change in fair value of derivatives	—	—	(3)	(3)
Gain on sale of property	509	—	—	509
Net income (loss)	\$ 100,959	\$ 25,330	\$ (63,230)	\$ 63,059
Capital investment	\$ 13,485	\$ 115,165	\$ —	\$ 128,650
Total assets	\$ 971,321	\$ 537,500	\$ 18,668	\$ 1,527,489

## 16. IMPACT OF COVID-19

On March 11, 2020, the World Health Organization declared a novel strain of coronavirus (“COVID-19”) a pandemic, and on March 13, 2020, the United States declared a national emergency with respect to COVID-19. As a result, the COVID-19 pandemic is negatively affecting almost every industry directly or indirectly.

The actions taken by federal, state and local governments to mitigate the spread of COVID-19 by ordering closure of non-essential businesses and ordering residents to generally stay at home, and subsequent phased re-openings, have resulted in many of our tenants announcing mandated or temporary closures of their operations and/or requesting adjustments to their lease terms. Experts predict that the COVID-19 pandemic will trigger a period of global economic slowdown or a global recession. COVID-19 could have a material and

adverse effect on or cause disruption to our business or financial condition, results from operations, cash flows and the market value and trading price of our securities.

While the Company’s grocery stores, pharmacies, banks and home improvement stores generally remain open, restaurants, if open, are operating at limited capacity, with many offering only delivery and curbside pick-up, and most health, beauty supply and services, fitness centers, and other nonessential businesses are in various phases of re-opening depending on location. The Company is generally not charging late fees or delinquent interest on past due rent payments and, in many cases, rent deferral agreements are being negotiated to allow tenants temporary relief where needed. As of February 23, 2021, payments by tenants of contractual base rent and operating expense and real estate tax recoveries totaled approximately 94% for the fourth quarter of 2020.

# NOTES

## TO CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of the Company's consolidated total collections of fourth quarter 2020 rent billings, including minimum rent, operating expense recoveries, and real estate tax reimbursements as of February 23, 2021:

### 2020 fourth quarter

- 94% of 2020 fourth quarter total billings has been paid by our tenants.
  - 94% of retail
  - 93% of office
  - 100% of residential
  - Additionally, rent deferral agreements comprising approximately 0.5% of 2020 fourth quarter total billings have been executed. The executed deferrals typically cover three months of rent and are generally scheduled to be repaid during 2021 and 2022. As a condition to granted rent deferrals, we have sought, and in some cases received, extended lease terms, or waivers of certain adjacent use or common area restrictions.
  - Through February 23, 2021, no fourth quarter deferred rents have come due. Deferrals represent 9% of the total unpaid balance for the quarter.

## 17. SUBSEQUENT EVENTS

The Company has reviewed operating activities for the period subsequent to December 31, 2020 and prior to the date that financial statements are issued, February 25, 2021, and determined there are no subsequent events that are required to be disclosed.

# 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  
1 State Street 30th Floor  
New York, NY 10004-1561

## 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 2020 and 2019. 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 preferred depositary shares, prior to distributions on the common stock.

## MARKET INFORMATION

Shares of Saul Centers common stock are listed on the New York Stock Exchange under the symbol "BFS". The composite high and low closing sale prices for the Company's shares of common stock were reported by the New York Stock Exchange for each quarter of 2020 and 2019 as follows:

COMMON STOCK PRICES		
Period	Share Price	
	High	Low
October 1, 2020 – December 31, 2020	\$ 34.60	\$ 24.09
July 1, 2020 – September 30, 2020	\$ 32.85	\$ 24.03
April 1, 2020 – June 30, 2020	\$ 40.42	\$ 25.96
January 1, 2020– March 31, 2020	\$ 56.95	\$ 25.61
<hr/>		
October 1, 2019 – December 31, 2019	\$ 57.23	\$ 50.09
July 1, 2019 – September 30, 2019	\$ 56.86	\$ 49.30
April 1, 2019 – June 30, 2019	\$ 58.06	\$ 52.09
January 1, 2019– March 31, 2019	\$ 58.11	\$ 45.89

On March 15, 2021, the closing price was \$42.46 per share.

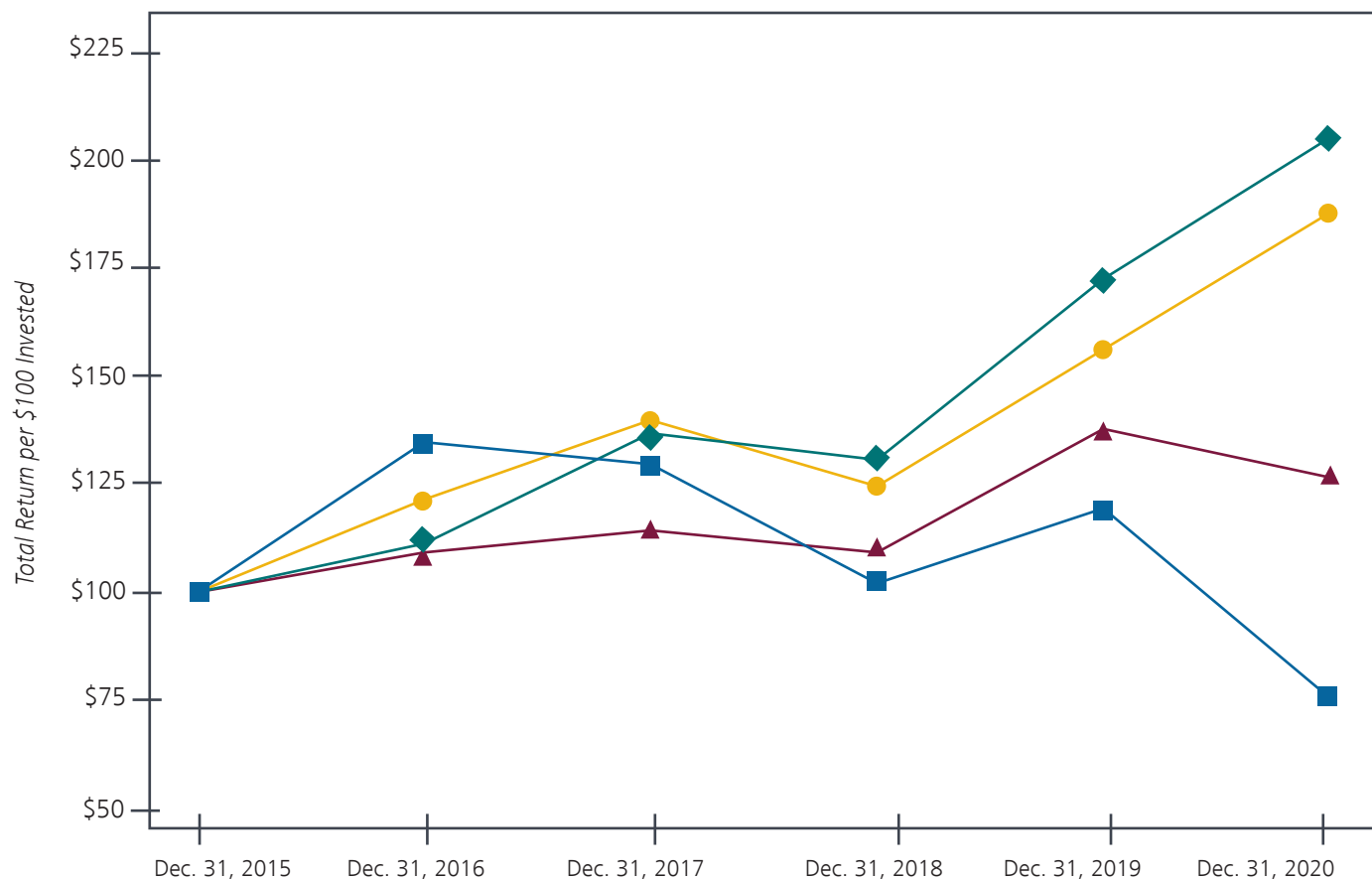
The approximate number of holders of record of the common stock was 126 as of March 15, 2021. Many of our shares of common stock are held by brokers and institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.



# 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 Financial Times Stock Exchange Group National Association of Real Estate Investment Trust Equity Index ("FTSE NAREIT Equity"), the S&P 500 Index ("S&P 500") and the Russell 2000 Index ("Russell 2000"). The graph assumes the investment of \$100 on December 31, 2015.

## COMPARISON OF CUMULATIVE TOTAL RETURN



INDEX	Period Ended					
	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2020
■ Saul Centers <sup>1</sup>	\$100	\$134.21	\$128.54	\$102.21	\$118.90	\$75.88
◆ S&P 500 <sup>2</sup>	\$100	\$111.96	\$136.40	\$130.42	\$170.97	\$203.04
● Russell 2000 <sup>3</sup>	\$100	\$121.31	\$139.08	\$123.76	\$155.35	\$186.36
▲ FTSE NAREIT Equity <sup>4</sup>	\$100	\$108.52	\$114.19	\$108.91	\$137.23	\$126.35

<sup>1</sup> Source: S&P Capital I.Q.

<sup>2</sup> Source: Bloomberg.

<sup>3</sup> Source: FTSE Russell.

<sup>4</sup> Source: FTSE National Association of Real Estate Investment Trusts.

# SAUL CENTERS CORPORATE INFORMATION

## DIRECTORS

**B. Francis Saul II**

Chairman, Chief Executive Officer  
and President

**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

**J. Page Lansdale**

President and Chief Operating  
Officer, Emeritus

**Willoughby B. Laycock**

Senior Vice President,  
Residential Marketing Initiatives

**H. Gregory Platts**

Senior Vice President and  
Treasurer, Emeritus,  
National Geographic Society

**Earl A. Powell III**

Director, National Gallery of Art

**Andrew M. Saul II**

Chief Executive Officer  
Genovation Cars

**Mark Sullivan III**

Financial and Legal Consultant

**John R. Whitmore**

Financial Consultant

## EXECUTIVE OFFICERS

**B. Francis Saul II**

Chairman, Chief Executive Officer  
and President

**D. Todd Pearson**

Executive Vice President,  
Real Estate

**Christine N. Kearns**

Executive Vice President,  
Chief Legal and Administrative Officer

**Scott V. Schneider**

Executive Vice President,  
Chief Financial Officer and Treasurer  
*(Retiring effective March 31, 2021)*

**Christopher H. Netter**

Executive Vice President,  
Retail Leasing

**John F. Collich**

Senior Vice President,  
Chief Acquisitions and  
Development Officer

**Joel A. Friedman**

Senior Vice President,  
Chief Accounting Officer  
*(Appointed Treasurer, effective  
April 1, 2021)*

**Judi Garland**

Senior Vice President,  
Office and Retail

**Lori Godby**

Senior Vice President, Residential

**Bettina T. Guevara**

Senior Vice President,  
General Counsel and Secretary

**Donald A. Hachey**

Senior Vice President,  
Construction

**Carlos L. Heard**

Senior Vice President, Development  
*(Appointed Chief Financial Officer,  
effective April 1, 2021)*

**Amitha Prabhu**

Senior Vice President,  
Internal Audit

## COUNSEL

Pillsbury Winthrop  
Shaw Pittman LLP  
Washington, DC 20036

## INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Deloitte & Touche LLP  
McLean, Virginia 22102

## WEB SITE

[www.saulcenters.com](http://www.saulcenters.com)

## EXCHANGE LISTING

New York Stock  
Exchange (NYSE) Symbol:

Common Stock: BFS  
Preferred Stock: BFS.PrD  
Preferred Stock: BFS.PrE

## TRANSFER AGENT

Continental Stock Transfer and  
Trust Company  
1 State Street 30th Floor  
New York, NY 10004-1561

## 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 2020, 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

# ANNUAL MEETING

OF STOCKHOLDERS

The annual meeting of stockholders (the “Annual Meeting”) will be held at 11:00 a.m. local time, on May 7, 2021, at our corporate headquarters located at 7501 Wisconsin Avenue, Bethesda, Maryland. To minimize the risk to stockholders, employees and the community, (i) we have made arrangements for the Annual Meeting to be available via teleconference; and (ii) we are strongly encouraging all stockholders to access the meeting via teleconference, rather than attend the meeting in person. Instructions for accessing the teleconference are provided below.

Participant Dial In (Toll Free): +1-877-879-1183

Participant International Dial In: +1-412-902-6703

Participant Access Code: 8634950

*To access the Annual Meeting via teleconference, please dial-in at least 10-15 minutes prior to the scheduled time of the Annual Meeting.*



# Saul Centers

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Bethesda, MD 20814-6522  
Phone: (301) 986-6200  
Website: [www.saulcenters.com](http://www.saulcenters.com)