In February 2005, we commenced construction of a 22,000 square foot expansion to The Glen, a 112,000 square foot Safeway anchored shopping center located in Lake Ridge, Virginia. The Glen is currently 100% leased. The new shop space is 40% pre-leased and construction is scheduled to be completed in September 2005.

We continue to work on three additional development opportunities in the metropolitan Washington, DC area. We have 5.5 acres of undeveloped land remaining at the Broadlands Village shopping center in Loudoun County, and are working to develop a final phase of approximately 30,000 square feet of retail shops and pad space. Approximately three miles away, we have recently received zoning approvals from Loudoun County for a 150,000 square foot neighborhood retail project in the Lansdowne community. We are negotiating a lease with a grocer to anchor the new community shopping center. Our third project is located in the popular Clarendon neighborhood of Arlington, Virginia. We continue to pursue zoning approvals for a significant mixed-use project on land we have assembled adjacent to the Clarendon Metro Station.

Capital Structure

During the latter half of 1997, we set in place a program to refinance our short-term, variable rate debt with long-term, fixed-rate, non-recourse mortgage debt. As a result of consistently applying the program, we have reduced our exposure to short-term swings in interest rates and market liquidity.

At year end 2004, debt balances totaled $454 million, 100% of which was long-term, fixed-rate, non-recourse debt. The weighted average interest rate was 7.03% and the weighted average remaining term was 9.9 years. Our debt to total assets ratio (leverage) is currently between 35% and 40%, well within our target maximum of 50%. Earnings before interest, depreciation and amortization (EBITDA) exceeded interest expense for 2004 by 3.1 times (interest expense coverage).

We are prepared to fund future acquisition and development requirements as the opportunities arise by utilizing our credit line. In January 2005, we executed a new $150 million unsecured revolving credit facility to replace our former line. With no outstanding borrowings on the line, we have capacity to meet our capital requirements for future developments and acquisitions.

Saul Centers has remained focused on executing its long-term strategic plans to grow operating property income within the constraints of a prudent capital structure. We will continue to pursue selected development and acquisition opportunities. While today's real estate investments currently command very low initial yields, we will and must maintain our discipline and allocate our capital to acquisitions only if we firmly believe in the long term viability of a sub-market and our ability to add value to the real estate over the coming years.

For the Board

B. Francis Saul II

March 23, 2005

Seven Corners