SAUL CENTERS INC
Form 10-K405
March 27, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

X ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2001

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

For the transition period from ____________ to ________________

Commission File number 1-12254

SAUL CENTERS, INC.
(Exact name of registrant as specified in its charter)

Maryland	52-1833074
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

7501 Wisconsin Ave, Suite 1500, Bethesda, Maryland	20814
(Address of principal executive offices)	(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, Par Value $0.01 Per Share	New York Stock Exchange ____

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

N/A

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

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

amendment to this Form 10-K. X

The number of shares of Common Stock, $0.01 par value, outstanding as of February 22, 2002 was 14,705,095.

TABLE OF CONTENTS

PART I

Item 1. Business

Item 2. Properties

Item 3. Legal Proceedings

Item 4. Submission of Matters to a Vote of Security Holders

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Item 6. Selected Financial Data

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 7a. Quantitative and Qualitative Disclosures About Market Risk

Item 8. Financial Statements and Supplementary Data

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

PART III

Item 10. Directors and Executive Officers of the Registrant

Item 11. Executive Compensation

Item 12. Security Ownership of Certain Beneficial Owners and Management

Item 13. Certain Relationships and Related Transactions

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

FINANCIAL STATEMENT SCHEDULE

Schedule III. Real Estate and Accumulated Depreciation

PART I

Item 1. Business

General

Saul Centers, Inc. ("Saul Centers") was incorporated under the Maryland General Corporation Law on June 10, 1993. Saul Centers operates as a real estate investment trust (a "REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). Saul Centers generally will not be subject to federal income tax, provided it annually distributes at least 90% of its REIT taxable income to its stockholders and meets certain organizational and other requirements. Saul Centers has made and intends to continue to make regular quarterly distributions to its stockholders. Saul Centers, together with its wholly owned subsidiaries and the limited partnerships of which Saul Centers or one of its subsidiaries is the sole general partner, are referred to collectively as the "Company". B. Francis Saul II serves as Chairman of the Board of Directors and Chief Executive Officer of Saul Centers.

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

Saul Centers was formed to continue and expand the shopping center business previously owned and conducted by the B.F. Saul Real Estate Investment Trust, the B.F. Saul Company, Chevy Chase Bank, F.S.B. and certain other affiliated entities (collectively, "The Saul Organization"). On August 26, 1993, 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") shopping center and office properties, and the management functions related to the transferred properties. Since its formation, the Company has purchased and developed additional properties. The Company is currently developing Ashburn Village IV, an in-line retail and retail pad expansion to the Ashburn Village shopping center. The Company recently completed development of Ashburn Village III, Washington Square at Old Town and Crosstown Business Center. As of December 31, 2001, the Company's properties (the "Current Portfolio Properties") consisted of 27 operating shopping center properties and Ashburn Village IV (the "Shopping Centers") and 5 predominantly office operating properties (the "Office Properties"). To facilitate the placement of collateralized mortgage debt, the Company established Saul QRS, Inc. a wholly owned subsidiary of Saul Centers. Saul QRS, Inc. was established to succeed to the interest of Saul Centers as the sole general partner of Saul Subsidiary I Limited Partnership.

Saul Centers serves as the sole general partner of the Operating Partnership and of Saul Subsidiary II Limited Partnership, while Saul QRS, Inc. serves as the sole general partner of Saul Subsidiary I Limited Partnership. The remaining limited partnership interests in Saul Subsidiary I Limited Partnership and Saul Subsidiary II Limited Partnership are held by the Operating Partnership as the sole limited partner. Through this structure, the Company owns 100% of the Current Portfolio Properties.

Management of the Current Portfolio Properties

The Partnerships manage the Current Portfolio Properties and will manage any subsequently acquired properties. The management of the properties

includes performing property management, leasing, design, renovation, development and accounting duties for each property. The Partnerships provide each property with a fully integrated property management capability, with approximately 50 employees and with an extensive and mature network of relationships with tenants and potential tenants as well as with members of the brokerage and property owners' communities. The Company currently does not, and does not intend to, retain third party managers or provide management services to third parties.

The Company augments its property management capabilities by sharing with The Saul Organization certain ancillary functions, at cost, such as computer and payroll services, benefits administration and in-house legal services. The Company also shares insurance administration expenses on a pro rata basis with The Saul

3

Organization. The Saul Organization subleases office space to the Company at its cost. Management believes that these arrangements result in lower costs than could be obtained by contracting with third parties. These arrangements permit the Company to capture greater economies of scale in purchasing from third party vendors than would otherwise be available to the Company alone and to capture internal economies of scale by avoiding payments representing profits with respect to functions provided internally. The terms of all sharing arrangements with The Saul Organization, including payments related thereto, are reviewed periodically by the Audit Committee of the Company's Board of Directors.

Principal Offices

The principal offices of the Company are located at 7501 Wisconsin Avenue, Bethesda, Maryland 20814, and the Company's telephone number is (301) 986-6200. The Company's internet web address is www.saulcenters.com.

Operating Strategies

The Company's primary operating strategy is to focus on its community and neighborhood shopping center business and to operate its properties to achieve both cash flow growth and capital appreciation. Community and neighborhood shopping centers typically provide reliable cash flow and steady long-term growth potential. Management intends to actively manage its property portfolio by engaging in strategic leasing activities, tenant selection, lease negotiation and shopping center expansion and reconfiguration. The Company seeks to optimize tenant mix by selecting tenants for its shopping centers that provide a broad spectrum of goods and services, consistent with the role of community and neighborhood shopping centers as the source for day-to-day necessities. Management believes that such a synergistic tenanting approach results in increased cash flow from existing tenants by providing the Shopping Centers with consistent traffic and a desirable mix of shoppers, resulting in increased sales and, therefore, increased cash flows.

Management believes there is significant potential for growth in cash flow as existing leases for space in the Shopping Centers expire and are renewed, or newly available or vacant space is leased. The Company intends to renegotiate leases aggressively and seek new tenants for available space in order to maximize this potential for increased cash flow. As leases expire, management expects to revise rental rates, lease terms and conditions, relocate existing tenants, reconfigure tenant spaces and introduce new tenants to increase cash flow. In those circumstances in which leases are not otherwise

expiring, management intends to attempt to increase cash flow through a variety of means, including renegotiating rents in exchange for additional renewal options or in connection with renovations or relocations, recapturing leases with below market rents and re-leasing at market rates, as well as replacing financially troubled tenants. When possible, management also will seek to include scheduled increases in base rent, as well as percentage rental provisions in its leases.

The Shopping Centers contain numerous undeveloped parcels within the centers which are suitable for development as free-standing retail facilities, such as restaurants, banks or auto centers. Management will continue to seek desirable tenants for facilities to be developed on these sites and to develop and lease these sites in a manner that complements the Shopping Centers in which they are located.

The Company will also seek growth opportunities in its Washington, D.C. metropolitan area office portfolio, primarily through development and redevelopment. Management also intends to negotiate lease renewals or to re-lease available space in the Office Properties, while considering the strategic balance of optimizing short-term cash flow and long-term asset value.

It is management's intention to hold properties for long-term investment and to place strong emphasis on regular maintenance, periodic renovation and capital improvement. Management believes that such characteristics as cleanliness, lighting and security are particularly important in community and neighborhood shopping centers, which are frequently visited by shoppers during hours outside of the normal work-day. Management believes that the Shopping Centers and Office Properties generally are attractive and well maintained. The Shopping Centers and Office Properties will undergo expansion, renovation, reconfiguration and modernization from time to time when

management believes that such action is warranted by opportunities or changes in the competitive environment of a property. Several of the Shopping Centers have been renovated recently. During 2001 and 2000, the Company was involved in predevelopment and/or development of 9 of its properties. The Company will continue its practice of expanding existing properties by undertaking new construction on outparcels suitable for development as free standing retail or office facilities.

Redevelopment, Renovations and Acquisitions

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

Management believes that attractive opportunities for investment in existing and new shopping center properties will continue to be available. Management believes that the Company will be well situated to take advantage of these opportunities because of its access to capital markets, ability to acquire properties either for cash or securities (including Operating Partnership interests in tax advantaged transactions) and because of management's experience in seeking out, identifying and evaluating potential acquisitions. In addition,

management believes its shopping center expertise should permit it to optimize the performance of shopping centers once they have been acquired.

Management also believes that opportunities exist for investment in new office properties. It is management's view that several of the office sub-markets in which the Company operates have very attractive supply/demand characteristics. The Company will continue to evaluate new office development and redevelopment as an integral part of its overall business plan.

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

Although it is management's present intention to concentrate future acquisition and development activities on community and neighborhood shopping centers and office properties in the Washington DC/Balitimore Metropolitan areas, the Company may, in the futuree, also acquire other types of real estate in other areas of the country.

Capital Strategies

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 as of December 31, 2001 remains less than 50%.

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 and consequently, may increase or decrease the Company's debt to total asset ratio above or below 50%. The Company selectively continues to refinance or renegotiate the terms of its outstanding debt in order to achieve longer maturities, and obtain generally more favorable loan terms, whenever management determines the financing environment is favorable. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of

Operations--Liquidity and Capital Resources --Borrowing Capacity."

The Company intends to finance future acquisitions and to make debt repayments by utilizing the sources of capital then deemed to be most advantageous. Such sources may include undistributed operating cash flow, secured or unsecured bank and institutional borrowings, private and public offerings of debt or equity securities, proceeds from the Company's Dividend Reinvestment and Stock Purchase Plan, and proceeds from the sale of properties. Borrowings may be at the Operating Partnership or Subsidiary Partnerships' level and securities offerings may include (subject to certain limitations) the issuance of Operating Partnership interests convertible into common stock or other equity securities.

Competition

As an owner of, or investor in, commercial real estate properties, the Company is subject to competition from a variety of other owners of similar properties in connection with their sale, lease or other disposition and use. Management believes that success in such competition is dependent in part upon the geographic location of the property, the tenant mix, the performance of property managers, the amount of new construction in the area and the maintenance and appearance of the property. Additional competitive factors impacting retail and commercial properties include the ease of access to the properties, the adequacy of related facilities such as parking, and the demographic characteristics in the markets in which the properties compete. Overall economic circumstances and trends and new properties in the vicinity of each of the Current Portfolio Properties are also competitive factors.

Environmental Matters

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

Employees

As of February 22, 2002, the Company employed approximately 50 persons, including six full-time leasing officers. None of the Company's employees are covered by collective bargaining agreements. Management believes that its relationship with employees is good.

Recent Developments

Property Acquisitions, Developments and Redevelopments.

A significant contributor to the Company's sustained historical internal growth in shopping centers has been its continuing program of renovation, redevelopment and expansion activities. These development activities reposition the Company's centers to be competitive in the current retailing environment. The redevelopments typically include and update of the facade, site improvements and reconfiguring tenant spaces to accommodate tenant size requirements and merchandising evolution.

During 2001, the Company continued the development of Washington Square at Old Town, a new Class A mixed-use office/retail complex along North Washington Street in historic Old Town Alexandria in Northern Virginia. The project totals 235,000 square feet of leasable area and is well located on a two-acre site along Alexandria's main street. The project consists of two identical buildings separated by a landscaped brick courtyard. Base building construction has been completed. The build-out of office tenant areas continues. As of February 22, 2002, the Company has signed leases on 69% of the 235,000 square feet of tenant space: the 46,000 square feet of street level retail space is 98% leased and the 189,000 square feet of office space is 62% leased.

During late 1999, the Company purchased land located within the 1,580 acre community of Ashburn Village in Loudoun County, Virginia, adjacent to its 108,000 square foot Ashburn Village neighborhood shopping center. The land was developed into Ashburn Village II, a 40,200 square foot in-line and pad expansion to the existing shopping center, containing 23,600 square feet of retail space and 16,600 square feet of professional office suites. Ashburn Village II commenced operations during the third quarter of 2000. In August 2000, the Company purchased an additional 7.1 acres of land adjacent to Ashburn Village II for $1,579,000. During 2001, the Company completed the development of 4.0 acres of the land known as Ashburn Village III, consisting of a fully leased 28,000 square foot in-line and pad expansion to the retail area of the existing shopping center. The Company commenced construction on the remaining 3.1 acres known as Ashburn Village IV, during the fourth quarter of 2001. This phase will consist of an additional 25,000 square feet of retail space and will complete the development of Ashburn Village. Leases have been signed for 25% of this new shop space. Completion is scheduled for the summer of 2002.

Beginning in 1998, the Company executed a plan to redevelop its 213,000 square foot French Market shopping center, located in the northwest section of Oklahoma City, Oklahoma. The plan specified the retenanting of a 103,000 square foot anchor tenant space and conversion of an outdated mini-mall to an anchor tenant use. The former Venture store space was re-demised and leased to Bed Bath and Beyond, Staples, Famous Footwear, BridesMart and Lakeshore Learning. The former enclosed mini-mall was leased to Burlington Coat Factory and during 2000, converted into a two-level 90,000 square foot super store, increasing the center's size to 247,000 square feet. The facade of the center was updated to complement the addition of the new tenants. The Company has recently completed construction of the final phase of the center's redevelopment after it obtained control of 20,000 square feet of space formerly operated as a grocery store. The Company re-demised the space to accommodate nine smaller tenant uses and updated the facade to complement the remainder of the center. As a result of the Company's efforts, approximately 94% of the center was leased as of December 31, 2001.

The conversion and redevelopment of the former Tulsa, Oklahoma shopping center to an office/warehouse facility named Crosstown Business Center continued throughout 2001. Twelve tenants lease 91% of the facility as of February 22, 2002.

The Company has contracted with a third party to purchase 24.0 acres of land zoned for retail development in Loudoun County, Virginia, for a purchase price of $5.3 million. Closing is scheduled for March 2002.

Item 2. Properties

Overview

The Company is the owner and operator of a real estate portfolio of 33 properties totaling approximately 6,200,000 square feet of gross leasable area ("GLA") located primarily in the Washington, D.C./Baltimore metropolitan area. The portfolio is composed of 28 neighborhood and community Shopping Centers, and 5 predominantly Office Properties totaling approximately 5,000,000 and 1,200,000 square feet of GLA, respectively. Only the United States Government (9.7%), a tenant of 6 properties and Giant Food (6.2%), a tenant of 8 Shopping Centers, individually accounted for more than 2.1% of the Company's total revenues for the year ending December 31, 2001. With the exception of 5 Shopping Center properties and a portion of one Office Property purchased or developed during the past five years, the Company's Current Portfolio Properties consist of seasoned properties that

7

have been owned and managed by The Saul Organization for 15 years or more. The Company expects to hold its properties as long-term investments, and it has no maximum period for retention of any investment. It plans to selectively acquire additional income-producing properties and to expand, renovate, and improve its properties when circumstances warrant. See "Item 1. Business--Operating Strategies" and "Business--Capital Strategies."

The Shopping Centers

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

The Shopping Centers (typically) are seasoned community and neighborhood shopping centers located in well established, highly developed, densely populated, middle and upper income areas. Based upon census data, the average estimated population within a three and five-mile radius of the Shopping Centers is approximately 114,000 and 276,000, respectively. The average household income within both the three and five mile radii of the Shopping Centers is approximately $72,000, compared to a national average of $55,000. Because the Shopping Centers generally are located in highly developed areas, management believes that there is little likelihood that any significant numbers of competing centers will be developed in the future.

The Shopping Centers range in size from 5,000 to 561,000 square feet of GLA, with seven in excess of 300,000 square feet, and a weighted average of approximately 182,000 square feet. A majority of the Shopping Centers are anchored by several major tenants and other tenants offering primarily day-to-day necessities and services. Seventeen of the 28 Shopping Centers are anchored by a grocery store. As of February 22, 2002, no single Shopping Center accounted for more than 11.5% of the total Shopping Center GLA.

The Office Properties

Four of the five Office Properties are located in the Washington, DC metropolitan area and contain an aggregate GLA of approximately 975,000 square feet, comprised of 889,000 and 86,000 square feet of office and retail space, respectively. The fifth Office Property is located in Tulsa, Oklahoma and contains GLA of 197,000 square feet. The Office Properties represent three

distinct styles of facilities, are located in differing commercial environments with distinctive demographic characteristics, and are geographically removed from one another. As a consequence, management believes that the Washington DC area Office Properties compete for tenants in different commercial and geographic sub-markets of the metropolitan Washington, DC market and do not compete with one another.

601 Pennsylvania Ave. is a nine-story, Class A office building (with a small amount of street level retail space) built in 1986 and located in a prime location in downtown Washington DC. Van Ness Square is a six-story office/retail building rebuilt in 1990. Van Ness Square is located in a highly developed commercial area of Northwest Washington, DC which offers extensive retail and restaurant amenities. Management believes that the Washington, DC office market is one of the strongest and most stable leasing markets in the nation, with relatively low vacancy rates in comparison to other major metropolitan areas. Management believes that the long-term stability of this market is attributable to the status of Washington, DC as the nation's capital and to the presence of the federal government, international agencies, and an expanding private sector job market.

Washington Square at Old Town is a new 235,000 square foot Class A mixed-use office/retail complex located on a two-acre site along Alexandria's main street, North Washington Street, in historic Old Town Alexandria. Washington Square features two twin four-story buildings with brick and cast stone exterior facades and glass curtain walls overlooking a spacious, attractively landscaped brick courtyard. The property features three-story atrium lobbies, a fitness center, concierge service, 600 space parking structure and computerized energy management system.

Avenel Business Park (Phases I-III) is a research park located in the suburban Maryland, I-270 biotech corridor. On April 1, 1998, the Company purchased Avenel IV, a newly constructed and 100% leased office/flex building located adjacent to Avenel Phases I-III. Two additional buildings (Avenel V) were completed in January 1999. Phase VI was purchased October 2000. The combined business park consists of twelve one-story buildings built in five phases which were completed in 1981, 1985, 1989, 1998, 1999 and 2000. Management believes that, due to its desirable location, the high quality of the property, increased federal funding for medical research and the relative scarcity of research and development space in its immediate area, Avenel should continue to attract and retain desirable tenants in the future.

Crosstown Business Center is a 197,135 square foot flex office/warehouse complex located in Tulsa, Oklahoma. The property is located in close proximity to Tulsa's international airport and major roadways and has attracted tenants requiring light industrial and distribution facilities.

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

Saul Centers, Inc.
Schedule of Current Portfolio Properties
December 31, 2001

Property	Location	Leasable Area (Square Feet)	Year Developed of Acquired (Renovated)
Shopping Centers			
Ashburn Village I, II & III (a)	Ashburn, VA	185,537	1994, 2000/0
Ashburn Village IV	Ashburn, VA	25,000	2002
Beacon Center	Alexandria, VA	352,915	1972 (1993/9
Belvedere	Baltimore, MD	54,941	1972
Boulevard	Fairfax, VA	56,350	1994 (1999)
Clarendon	Arlington, VA	6,940	1973
Clarendon Station	Arlington, VA	4,868	1996
Flagship Center	Rockville, MD	21,500	1972, 1989
French Market	Oklahoma City, OK	245,629	1974 (1984/9
Germantown	Germantown, MD	26,241	1992
Giant	Baltimore, MD	70,040	1972 (1990)
The Glen	Lake Ridge, VA	112,639	1994
Great Eastern	District Heights, MD	254,398	1972 (1995)
Hampshire Langley	Langley Park, MD	131,700	1972 (1979)
Leesburg Pike	Baileys Crossroads, VA	97,880	1966 (1982/9
Lexington Mall	Lexington, KY	315,719	1974
Lumberton	Lumberton, NJ	190,510	1975 (1992/9
Olney	Olney, MD	53,765	1975 (1990)
Ravenwood	Baltimore, MD	87,750	1972
Seven Corners	Falls Church, VA	560,998	1973 (1994-7
Shops at Fairfax	Fairfax, VA	68,743	1975 (1993/9
Southdale	Glen Burnie, MD	484,115	1972 (1986)

Property	Percentage Leased Dec-2001	Dec-2000	Anchor/Sign

Shopping Centers

Ashburn Village I, II & III	100%	98%	Giant Food, Blockbuster
Ashburn Village IV	17%	n/a	
Beacon Center	100%	96%	Lowe's, Giant Food, Offic Marshalls, Hollywood Vide
Belvedere	86%	100%	Food King
Boulevard	93%	100%	Danker Furniture, Petco,
Clarendon	100%	100%	
Clarendon Station	78%	100%	
Flagship Center	100%	100%	
French Market	93%	87%	Burlington Coat Factory, Lakeshore Learning Center
Germantown	100%	97%	
Giant	100%	100%	Giant Food
The Glen	99%	100%	Safeway Marketplace, CVS
Great Eastern	100%	100%	Giant Food, Pep Boys, Big
Hampshire Langley	100%	100%	Safeway, Blockbuster
Leesburg Pike	100%	100%	Zany Brainy, CVS Pharmacy
Lexington Mall	69%	78%	Dillard's
Lumberton	89%	85%	SuperFresh, Rite Aid, Blo
Olney	99%	95%	Rite Aid
Ravenwood	100%	98%	Giant Food, Hollywood Vid
Seven Corners	100%	99%	Home Depot, Shoppers Club Noble, Ross Dress For Les
Shops at Fairfax	100%	100%	SuperFresh, Blockbuster
Southdale	94%	99%	Giant Food, Home Depot, C Marshalls, PetSmart, Valu

Saul Centers, Inc.
Schedule of Current Portfolio Properties
December 31, 2001

Property	Location	Leasable Area (Square Feet)	Year Developed or Acquired (Renovated)
Shopping Centers (continued)			
Southside Plaza	Richmond, VA	340,691	1972
South Dekalb Plaza	Atlanta, GA	162,793	1976
Thruway	Winston-Salem, NC	344,880	1972 (1997)
Village Center	Centreville, VA	143,109	1990
West Park	Oklahoma City, OK	76,610	1975
White Oak	Silver Spring, MD	480,156	1972 (1993)
	Total Shopping Centers	4,956,417	
Office Properties			
Avenel Business Park	Gaithersburg, MD	388,620	1981-2000
Crosstown Business Center	Tulsa, OK	197,135	1975 (2000)
601 Pennsylvania Ave	Washington, DC	225,414	1973 (1986)
Van Ness Square	Washington, DC	156,493	1973 (1990)
Washington Square	Alexandria, VA	235,239	1975 (2000)
	Total Office Properties	1,202,901	
	Total Portfolio	6,159,318	

Property	Anchor/Significant Tenants
Shopping Centers (continued)	
Southside Plaza	CVS Pharmacy, Community Pride Supermarket, Maxway

South Dekalb Plaza	MacFrugals, Pep Boys, The Emory Clinic, Maxway
Thruway	Harris Teeter, Fresh Market, Bed Bath & Beyond, Stein Mart, E Houlihan's, Borders Books, Zany Brainy, Blockbuster
Village Center	Giant Food, Tuesday Morning, Blockbuster
West Park	Homeland Stores, Family Dollar
White Oak	Giant Food, Sears, Rite Aid, Blockbuster

Office Properties

Avenel Business Park	General Services Administration, VIRxSYS, Boston Biomedica, B NeuralSTEM, Quanta Systems
Crosstown Business Center	Compass Group, Roxtec, Par Electric
601 Pennsylvania Ave	General Services Administration, Credit Union National Assn, Company, HQ Global, Alltel, American Arbitration, Capital Gri
Van Ness Square	INTELSAT, Team Video Intl, Office Depot, Pier 1
Washington Square	Vanderweil Engineering, World Wide Retail Exch., American Man Systems, Trader Joe's, Kinko's, Blockbuster

(a) Undeveloped land acquired August 2000. Construction commenced during the fourth quarter of 2001 and is scheduled to be completed during the summer of 2002.

Item 3. Legal Proceedings

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

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Market Information

Saul Centers shares are listed on the New York Stock Exchange under the symbol "BFS". The composite high and low closing sale prices for the common stock shares as reported by the New York Stock Exchange for each quarter of 2001 and 2000 were as follows:

Period	Share Price	
	High	Low
October 1, 2001 - December 31, 2001	$22.00	$18.98
July 1, 2001 - September 30, 2001	$19.87	$18.25
April 1, 2001 - June 30, 2001	$19.30	$18.05
January 1, 2001 - March 31, 2001	$19.00	$17.60
October 1, 2000 - December 31, 2000	$18.63	$15.31
July 1, 2000 - September 30, 2000	$16.50	$15.63
April 1, 2000 - June 30, 2000	$16.81	$15.38
January 1, 2000 - March 31, 2000	$16.31	$13.94

On February 22, 2002, the closing price was $22.55.

Holders

The approximate number of holders of record of the common stock was 500 as of February 22, 2002.

12

Dividends

The Company paid four quarterly distributions in the amount of $0.39 per share, during each of the years ended December 31, 2001 and 2000, totaling $1.56 per share for each of these years, or an annual yield of 6.9% based on the $22.55 closing price of the common stock on the New York Stock Exchange as of February 22, 2002. The Company has determined that 98.02% of the total $1.56 per share paid in calendar year 2001 represents currently taxable dividend income to the stockholders, while the balance of 1.98% is considered return of capital.

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 actual rental revenue, operating expenses of the Company, interest expense, general economic conditions, federal, state and local taxes (if any), unanticipated capital expenditures, and the adequacy of reserves. 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 requirements required to maintain its status as a REIT under the Code, and such other factors as the Board of Directors deems relevant.

Under the Code, REIT's are subject to numerous organizational and operation requirements, including the requirement to distribute at least 90% of REIT taxable income. The Company distributed amounts greater than the required amount in 2001 and 2000. Actual distributions by the Company were $30,067,000 in 2001 and $29,186,000 in 2000.

Item 6. Selected Financial Data

The selected financial data of the Company contained herein has been derived from the consolidated financial statements of the Company. The data should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements included elsewhere in this report. The historical selected financial data have been derived from audited financial statements for all periods.

Saul Centers, Inc.

SELECTED FINANCIAL DATA
(In thousands, except per share data)

		Yea
	2001	2000
Operating Data:		
Total revenue	$ 86,308	$ 79,02
Operating expenses	60,925	56,91
Operating income	25,383	22,11
Non-operating income (loss)		
Gain on sale of property	--	-
Change in accounting method	--	-
Sale of interest rate protection agreements	--	-
Net income before extraordinary item and minority interests	25,383	22,11
Extraordinary item: Early extinguishment of debt	--	-
Net income before minority interests	25,383	22,11
Minority interests	(8,069)	(8,06
Net income	$ 17,314	$ 14,04
Per Share Data:		
Net income before extraordinary item and minority interests	$ 1.31	$ 1.1
Net income	$ 1.22	$ 1.0
Weighted average shares outstanding:		
Fully converted	19,383	18,79
Common stock	14,210	13,62
Dividends Paid:		

Cash dividends to common stockholders (1)	$ 21,998	$ 21,11
Cash dividends per share	$ 1.56	$ 1.5
Balance Sheet Data:		
Income-producing properties (net of accumulated depreciation)	$ 316,718	$ 267,68
Total assets	346,403	334,45
Total debt, including accrued interest	353,554	344,68
Total stockholders' equity (deficit)	(24,123)	(31,15
Other Data		
Funds from operations (2)		
Net income before minority interests	$ 25,383	$ 22,11
Depreciation and amortization of real property	14,758	13,53
Gain on sale of property	--	-
Change in accounting method	--	-
Debt restructuring losses:		
Sale of interest rate protection agreements.	--	-
Extraordinary item: early extinguishment of debt	--	-
Funds from operations	$ 40,141	$ 35,64
Cash flow provided by (used in):		
Operating activities	$ 31,834	$ 32,78
Investing activities	$ (21,800)	$ (43,42
Financing activities	$ (10,001)	$ 11,46

(1) Of the amounts presented, $11,976, $7,984 and $7,162, was reinvested by shareholders in newly issued common stock by operation of the Company's dividend reinvestment plan, during 2001, 2000 and 1999, respectively.

(2) Funds From Operations (FFO), presented on a fully converted basis is defined as net income before gains or losses from property sales, extraordinary items and before real estate depreciation and amortization. Prior to 1/1/2000, the FFO definition required the elimination of debt restructuring gains and losses. FFO may not be comparable to similarly titled measures employed by other REITs.

FFO does not represent cash generated from operating activities in accordance with generally accepted accounting principles and is not necessarily indicative of cash available to fund cash needs, which is disclosed in the 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 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 supplemental measure of operating performance and along with cash flow from operating activities, financing activities and investing activities, it provides investors with an indication of the ability of the Company to

incur and service debt, to make capital expenditures and to fund cash needs.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This section should be read in conjunction with the selected financial data and the Consolidated Financial Statements of the Company and The Saul Organization and the accompanying notes in "Item 6. Selected Financial Data" and "Item 8. Financial Statements and Supplementary Data," respectively, of this report. Historical results and percentage relationships set forth in these Items and this section should not be taken as indicative of future operations of the Company. Capitalized terms used but not otherwise defined in this section, have the meanings given to them in Items 1 - 6 of this Form 10-K. This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are generally characterized by terms such as "believe", "expect" and "may".

Although the Company believes that the expectations reflected in such forward-looking statements are based upon reasonable assumptions, the Company's actual results could differ materially from those given in the forward-looking statements as a result of changes in factors which include among others, the following: general economic and business conditions, which will, among other things, affect demand for retail and office space; demand for retail goods; availability and credit worthiness of the prospective tenants; lease rents and the terms and availability of financing; adverse changes in the real estate markets including, among other things, competition with other companies and technology, risks of real estate development and acquisition, governmental actions and initiatives, debt refinancing risk, conflicts of interests, maintenance of REIT status and environmental/safety requirements.

General

The following discussion is based on the consolidated financial statements of the Company as of December 31, 2001 and for the year ended December 31, 2001. Prior year data is based on the Company's consolidated financial statements as of December 31, 2000 and 1999 and for the years ended December 31, 2000 and 1999.

Critical Accounting Policies

The Company's accounting policies are in conformity with generally accepted accounting principles in the United States ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to use judgement in the application of accounting policies, including making estimates and assumptions. These judgements affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the Company's financial statements and the reported amounts of revenue and expenses during the reporting periods. If judgement or interpretation of the facts and circumstances relating to various transactions had been different, it is possible that different accounting policies would have been applied resulting in a different presentation of the financial statements. Below is a discussion of accounting policies which the Company considers critical in that they may require judgment in their application or require estimates about matters which are inherently uncertain. Additional discussion of accounting policies which the

Company considers significant, including further discussion of the critical accounting policies described below, can be found in the notes to the Consolidated Financial Statements.

Valuation of Real Estate Investments

Real estate investment properties are stated at historic cost basis less depreciation. Management believes that these assets have generally appreciated in value 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 these financial statements. Because these financial statements are prepared in conformity with accounting principles generally accepted in the United States, they do not report the current value of the Company's real estate assets.

If there is an event or change in circumstance that indicates an impairment in the value of a real estate investment property, the Company assesses an impairment in value by making a comparison of the current and projected operating cash flows of the property over its remaining useful life, on an undiscounted basis, to the carrying amount of that property. If such carrying amount is greater than the estimated projected cash flows, the

Company would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to its estimated fair market value.

Interest, real estate taxes and other carrying costs are capitalized on projects under construction. Once construction is substantially complete and the assets are placed in service, rental income, direct operating expenses, and depreciation associated with such properties are included in current operations.

In the initial rental operations of development projects, a project is considered substantially complete and available for occupancy upon completion of tenant improvements, but no later than one year from the cessation of major construction activity. Substantially completed portions of a project are accounted for as separate projects. Depreciation is calculated using the straight-line method and estimated useful lives of 33 to 50 years for buildings and up to 20 years for certain other improvements. Leasehold improvements are amortized over the lives of the related leases using the straight-line method.

Lease Acquisition Costs

Certain initial direct costs incurred by the Company in negotiating and consummating a successful lease are capitalized and amortized over the initial base term of the lease. Capitalized leasing costs consists of commissions paid to third party leasing agents as well as internal direct costs such as employee compensation and payroll related fringe benefits directly related to time spent performing leasing related activities. Such 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.

Revenue Recognition

Rental and interest income is accrued as earned except when doubt exists as to collectibility, in which case the accrual is discontinued. When rental payments due under leases vary from a straight-line basis because of free rent periods or scheduled rent increases, income is recognized on a straight-line basis throughout the initial term of the lease. 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 when the expenses are incurred. Rental income based on a tenant's revenues, known as percentage rent, is accrued when a tenant reports sales that exceed a specified breakpoint.

Legal Contingencies

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are generally covered by insurance. While the resolution of these matters cannot be predicted with certainty, the Company believes the final outcome of such matters will not have a material adverse effect on the financial position or the results of operations. Once it has been determined that a loss is probable to occur, the estimated amount of the loss is recorded in the financial statements. Both the amount of the loss and the point at which its occurrence is considered probable can be difficult to determine.

Liquidity and Capital Resources

Cash and cash equivalents were $1.8 million at December 31, 2001 and 2000. The Company's cash flow is affected by its operating, investing and financing activities, as described below.

Operating Activities

Cash provided by operating activities for the years ended December 31, 2001 and 2000 was $31.8 million and $32.8 million, respectively, and represents, in each year, cash received primarily from rental income, plus other income, less normal recurring general and administrative expenses and interest payments on debt outstanding.

Investing Activities

Cash used in investing activities for the years ended December 31, 2001 and 2000 was $21.8 million and $43.4 million, respectively, and primarily reflects the acquisition of properties and constructions in progress, net of sales of properties, during those years.

Financing Activities

Cash used in financing activities for the year ended December 31, 2001 was $10.0 million and cash provided by financing activities for the year ended December 31, 2000 was $11.5 million. Cash used in financing activities for the year ended December 31, 2001 primarily reflects:

- $51.2 million of proceeds received from notes payable incurred during the year; and
- $12.0 million of proceeds received from the issuance of common stock and convertible limited partnership interests in the Operating Partnership issued under dividend reinvestment programs;

which was partially offset by:

- the repayment of borrowings on our notes payable totaling $42.9 million; and

- distributions made to common stockholders and holders of convertible limited partnership units in the Operating Partnership during the year totaling $30.3 million.

Cash provided by financing activities for the year ended December 31, 2000 primarily reflects:

- $69.7 million of proceeds received from notes payable incurred during the year; and

- $8.0 million of proceeds received from the issuance of common stock and convertible limited partnership interests in the Operating Partnership issued under dividend reinvestment programs.

The cash provided by financing activities was partially offset by:

- the repayment of borrowings on our notes payable totaling $36.5 million;

- distributions made to common stockholders and holders of convertible limited partnership units in the Operating Partnership during the year totaling $29.4 million; and

- additions to deferred debt expense of $315,000.

The Company's principal demands for liquidity are expected to be distributions to its stockholders, debt service and loan repayments, 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% (95% for the tax years prior to January 1, 2001) of its "real estate investment trust taxable income," as defined in the Code. The Company anticipates that operating revenues will provide the funds necessary for operations, debt service, distributions, and required recurring capital expenditures. Balloon principal repayments are expected to be funded by refinancings.

Management anticipates that during the coming year the Company may: i) redevelop certain of the Shopping Centers, ii) develop additional freestanding outparcels or expansions within certain of the Shopping Centers, iii) acquire existing neighborhood and community shopping centers and/or office properties, and iv) develop new shopping center or office sites. 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 expects to fulfill its long range requirements for capital resources in a variety of ways, including undistributed cash flow from operations, secured or unsecured bank and institutional borrowings, private or public offerings of debt or equity securities and proceeds from the sales of properties. 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.

As of December 31, 2001, the scheduled maturities of all debt for years ended December 31, are as follows:

Debt Maturity Schedule

(In thousands)

2002	$ 6,293
2003	65,159
2004	16,631
2005	7,713
2006	8,359
Thereafter	247,665
	$ 351,820

Management believes that the Company's current capital resources, including approximately $50,000,000 of the Company's revolving line of credit, which was available for borrowing as of December 31, 2001, will be sufficient to meet its liquidity needs for the foreseeable future.

Dividend Reinvestment and Stock Purchase Plan

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 form 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 645,420 and 514,487 shares under the Plan at a weighted average discounted price of $17.99 and $14.89 per share during the years ended December 31, 2001 and 2000, respectively.

Capital Strategy and Financing Activity

The Company's capital strategy is to maintain a ratio of 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. Management believes that current total debt remains less than 50% of total asset value.

The following is a summary of notes payable as of December 31, 2001 and 2000:

($s in thousands)	Principal Outstanding December 31, 2001	2000	Interest Rate *
Fixed Rate Mortgages:	$138,215 (a)	$140,597	7.67 %
	95,716 (b)	74,342	8.23 %
	35,583 (c)	36,279	7.88 %

	13,936 (d)	14,184	8.33 %
	10,028 (e)	10,227	6.88 %
Total Fixed Rate	293,478	275,629	7.88 %
Variable Rate Loans:			
Construction Loan	38,342 (f)	33,324	3.64 %
Line of Credit	20,000 (g)	34,500	3.69 %
Total Variable Rate	58,342	67,824	3.66 %
Total Notes Payable	$351,820	$343,453	7.18 %

*Interest rate and scheduled maturity data presented for December 31, 2001. Totals computed using weighted averages.

(a) The loan is collateralized by nine shopping centers and requires monthly principal and interest payments based upon a 25 year amortization schedule. Principal of $2,382,000 was amortized during 2001.

(b) The loan is collateralized by Avenel Business Park, Van Ness Square, Ashburn Village, Leesburg Pike, Lumberton Plaza and Village Center. The loan was amended during 2001 to include new borrowings of $24,000,000 at an average rate of 7.38%. The 8.23% blended interest rate is the weighted average of the initial loan rate and additional borrowings rates. Monthly principal and interest payments are based upon a weighted average 23 year amortization schedule. Principal of $2,626,000 was amortized during 2001.

(c) The loan is collateralized by 601 Pennsylvania Avenue and requires monthly principal and interest payments based upon a 25 year amortization schedule. Principal of $696,000 was amortized during 2001.

(d) The loan is collateralized by Shops at Fairfax and Boulevard shopping centers and requires monthly principal and interest payments based upon a 22 year amortization schedule. Principal of $248,000 was amortized during 2001.

(e) The loan is collateralized by The Glen shopping center and requires monthly principal and interest payments based upon a 23 year amortization schedule. Principal of $199,000 was amortized during 2001.

(f) The loan is a construction loan totaling $42,000,000 and is collateralized by Washington Square. Interest expense is calculated based upon the 1, 2, 3 or 6 month LIBOR rate plus a spread of 1.45% to 1.9% (determined by certain leasing and/or construction benchmarks) or upon the bank's prime rate at the Company's option. The loan was extended until January 2003 upon payment in 2001 of a fee of 1/4% or $105,000. The loan may be further extended for an additional one-year term with payment of a fee of 1/4% and the achievement of certain debt service and valuation tests, at the Company's option. The interest rate in effect on December 31, 2001 was based on a weighted average LIBOR of 1.94% and spread of 1.7%. The effective annual average interest rate, which considers debt cost amortization, was 6.15% for 2001.

(g) The loan is an unsecured revolving credit facility totaling $70,000,000. Interest expense is calculated based upon the 1,2,3 or 6 month LIBOR rate plus a spread of 1.625% to 1.875% (determined by certain debt service coverage and leverage tests) or upon the bank's reference rate at the Company's option. The line may be extended one year with payment of a fee of 1/4% at the Company's option. The interest rate in effect on December

31, 2001 was based on a weighted average LIBOR of 1.94% and spread of 1.75%. The effective annual average interest rate, which considers debt cost amortization and unused line fees, was 7.14% for 2001.

The December 31, 2001 and 2000, depreciation adjusted cost of properties collateralizing the mortgage notes payable totaled $264,831,000 and $218,415,000, respectively. Certain loans are subject to financial

19

covenant tests, the most significant of which are debt service coverage and loan to asset value requirements. The Company believes it is in compliance with all such covenants. Notes payable at December 31, 2001 and 2000, totaling $242,168,000 and $225,616,000, respectively, are guaranteed by members of The Saul Organization. The Company's interest expense coverage ratio increased to 2.63 during the past year, from 2.51 in 2000.

During 2001 the Company obtained three new mortgage loans totaling $24,000,000 from an existing lender, secured by Van Ness Square and recent developments at Ashburn Village and Avenel Business Park. The loans require monthly payments of principal and interest based upon a weighted average 21.5 year amortization period and a fixed weighted average 7.38% interest rate.

Funds From Operations

In 2001, the Company reported Funds From Operations (FFO) of $40,141,000 on a fully converted basis, representing a 12.6% increase over 2000 FFO of $35,648,000. The following table presents a reconciliation from net income before minority interests to FFO:

(In thousands)	For the Years Ended December 31, 2001	2000	1999
Net income before minority interests	$ 25,383	$ 22,114	$ 21,220
Subtract:			
Gain on sale of property	-	-	(553)
Add:			
Depreciation and amortization of real property	14,758	13,534	12,163
Funds From Operations /1/	$ 40,141	$ 35,648	$ 32,830
Average Shares and Units Used to Compute FFO per Share	19,383	18,796	18,148

Redevelopments, Renovations and Acquisitions

The Company has been selectively involved in redevelopment, renovation and acquisition activities. It continues to evaluate land parcels for retail and office development and potential acquisitions of operating properties for opportunities to enhance operating income and cash flow growth. The Company also continues to take advantage of redevelopment, renovation and expansion opportunities within the portfolio, as demonstrated by its activities in 2001 at Washington Square, Ashburn Village, French Market and Crosstown Business Center.

During 2001, the Company continued the development of Washington Square at Old Town, a new Class A mixed-use office/retail complex along North Washington Street in historic Old Town Alexandria in Northern

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/1/ FFO, as defined by the National Association of Real Estate Investment Trusts, presented on a fully converted basis and a widely accepted measure of operating performance for real estate investment trusts, is defined as net income before gains or losses from property sales, extraordinary items, and before real estate depreciation and amortization. FFO does not represent cash generated from operating activities in accordance with generally accepted accounting principles and is not necessarily indicative of cash available to fund cash needs, which is disclosed in the 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, 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 supplemental measure of operating performance and along with cash flow from operating activities, financing activities and investing activities, it provides investors with an indication of the ability of the Company to incur and service debt, to make capital expenditures and to fund other cash needs. FFO may not be comparable to similarly titled measures employed by other REITs.

Virginia. The project totals 235,000 square feet of leasable area and is well located on a two-acre site along Alexandria's main street. The project consists of two identical buildings separated by a landscaped brick courtyard. Base building construction has been completed. The build-out of office tenant areas continues. As of February 22, 2002, the Company has signed leases on 69% of the 235,000 square feet of tenant space: the 46,000 square feet of street level retail space is 98% leased and the 189,000 square feet of office space is 62% leased.

During late 1999, the Company purchased land located within the 1,580 acre community of Ashburn Village in Loudoun County, Virginia, adjacent to its 108,000 square foot Ashburn Village neighborhood shopping center. The land was developed into Ashburn Village II, a 40,200 square foot in-line and pad expansion to the existing shopping center, containing 23,600 square feet of retail space and 16,600 square feet of professional office suites. Ashburn Village II commenced operations during the third quarter of 2000. In August 2000, the Company purchased an additional 7.1 acres of land adjacent to Ashburn Village II for $1,579,000. During 2001, the Company completed the development of 4.0 acres of the land known as Ashburn Village III, consisting of a fully leased 28,000 square foot in-line and pad expansion to the retail area of the existing shopping center. The Company commenced construction on the remaining 3.1 acres known as Ashburn Village IV, during the fourth quarter of 2001. This phase will consist of an additional 25,000 square feet of retail space and will complete the development of Ashburn Village. Leases have been signed for 25% of this new shop space. Completion is scheduled for the summer of 2002.

Beginning in 1998, the Company executed a plan to redevelop its 213,000 square foot French Market shopping center, located in the northwest section of Oklahoma City, Oklahoma. The plan specified the retenanting of a 103,000 square foot anchor tenant space and conversion of an outdated mini-mall to an anchor tenant use. The former Venture store space was re-demised and leased to Bed Bath and Beyond, Staples, Famous Footwear, BridesMart and Lakeshore Learning. The former enclosed mini-mall was leased to Burlington Coat Factory and during 2000,

converted into a two-level 90,000 square foot super store, increasing the center's size to 247,000 square feet. The facade of the center was updated to complement the addition of the new tenants. The Company has recently completed construction of the final phase of the center's redevelopment after it obtained control of 20,000 square feet of space formerly operated as a grocery store. The Company re-demised the space to accommodate nine smaller tenant uses and updated the facade to complement the remainder of the center. As a result of the Company's efforts, approximately 94% of the center was leased as of December 31, 2001.

The conversion and redevelopment of the former Tulsa, Oklahoma shopping center to an office/warehouse facility named Crosstown Business Center continued throughout 2001. Twelve tenants lease 91% of the facility as of February 22, 2002.

The Company has contracted with a third party to purchase 24.0 acres of land zoned for retail development in Loudoun County, Virginia, for a purchase price of $5.3 million. Closing is scheduled for March 2002.

Portfolio Leasing Status

At December 31, 2001, the portfolio consisted of 28 Shopping Centers and five predominantly Office Properties, all of which are located in seven states and the District of Columbia.

As of December 31, 2001, 93.5% of the Company's approximately 6,200,000 square feet of space was leased. On a same center basis (excluding Washington Square which was under development during 2001 and the prior year) 94.5% of the Company's approximately 5,900,000 square feet of operating leasable space was leased to tenants, as compared to 92.9% at December 31, 2000. The shopping center portfolio was 94.3% leased at December 31, 2001 compared to 94.1% at December 31, 2000. The Office Properties (excluding Washington Square) were 95.5% leased at December 31, 2001 compared to 86.8% as of December 31, 2000. The overall improvement in year-end 2001 same center leasing percentage resulted primarily from the Company's successful leasing at Crosstown Business Center, which improved from 41% at year end 2000 to 82% at year end 2001.

Results of Operations

The following discussion compares the results of the Company for the year ended December 31, 2001 with the year ended December 31, 2000, and compares the year ended December 31, 2000 with the year ended December 31, 1999. This information should be read in conjunction with the accompanying consolidated financial statements and the notes related thereto.

Years Ended December 31, 2001 and 2000

Revenues for the year ended December 31, 2001 ("2001"), totaled $86,308,000 compared to $79,029,000 for the comparable period in 2000 ("2000"), an increase of $7,279,000 (9.2%).

Base rent increased to $69,662,000 in 2001 from $63,837,000 in 2000, representing a $5,825,000 (9.1%) increase. The increase in base rent resulted primarily from new leases in effect at recently developed and acquired properties: Ashburn Village II and III and a portion of Washington Square

(approximately 100,000 square feet) during the 2001 Year.

Expense recoveries increased to $11,456,000 in 2001 from $10,129,000 in 2000, representing an increase of $327,000 (2.9%).

Percentage rent was $2,113,000 in 2001, compared to $2,097,000 in 2000, representing an increase of $16,000 (0.8%).

Other income, which consists primarily of parking income at three of the Office Properties, kiosk leasing, temporary leases and payments associated with early termination of leases, was $3,077,000 in 2001, compared to $1,966,000 in 2000, representing an increase of $1,111,000 (56.5%). The increase in other income resulted from a $442,000 increase in lease termination payments compared to the prior year, collection of $363,000 from the estate of a former tenant in bankruptcy and a $304,000 increase in parking rents primarily due to the commencement of operations at Washington Square.

Operating expenses, which consist mainly of repairs and maintenance, utilities, payroll and insurance expense, increased $232,000 (2.8%) to $8,503,000 in 2001 from $8,271,000 in 2000.

The provision for credit losses was $617,000 in 2001 compared to $467,000 in 2000, representing an increase of $150,000 (32.1%). The comparative credit loss increase resulted primarily from additions to credit loss reserves for three retail tenants and an office tenant in bankruptcy and unpaid rents in dispute with two shopping center tenants and an office tenant.

Real estate taxes were $7,226,000 in 2001 compared to $6,451,000 in 2000, representing an increase of $775,000 (12.0%). Approximately half of the increase was attributable to development properties placed in service during the latter half of 2000 and during 2001. Approximately a quarter of the increase resulted from an assessment increase for the Company's Thruway shopping center.

Interest expense was $24,920,000 in 2001 compared to $23,843,000 in 2000, representing an increase of $1,077,000 (4.5%). The increase in interest expense resulted from increased borrowings related to the development and acquisition of properties placed in service during 2001 and 2000.

Amortization of deferred debt expense was $566,000 in 2001 compared to $458,000 in 2000, an increase of $108,000 (23.6%). The increase resulted from a full year of amortizing the costs of renewing and amending the Company's revolving line of credit in July 2000 and $38 million of new long term debt put in place during 2000 and 2001.

Depreciation and amortization expense was $14,758,000 in 2001 compared to $13,534,000 in 2000, representing an increase of $1,224,000 (9.0%). The increase resulted from increased amortization of leasing costs

and depreciation of construction costs related to newly developed and acquired properties placed in service during 2001 and 2000.

General and administrative expense, which consists primarily of administrative payroll and other overhead expenses, was $4,335,000 in 2001 compared to $3,891,000 in 2000, representing an increase of $444,000 (11.4%). Approximately half of the year over year increase resulted from additional payroll expenses and a quarter of the increase resulted from the write-off of abandoned acquisition costs.

Years Ended December 31, 2000 and 1999

Revenues for the year ended December 31, 2000 ("2000"), totaled $79,029,000 compared to $73,791,000 for the comparable period in 1999 ("1999"), an increase of $5,238,000 (7.1%).

Base rent increased to $63,837,000 in 2000 from $59,200,000 in 1999, representing a $4,637,000 (7.8%) increase. The increase in base rent resulted primarily from new leases in effect at recently redeveloped shopping centers (Shops at Fairfax/Boulevard, Thruway, French Market and Ashburn Village), a 4% average annual occupancy increase at Avenel Business Park, and a 60,000 square foot tenant paying higher rent while holding over beyond its scheduled lease expiration at 601 Pennsylvania Avenue. The increase in base rent was diminished in part by decreasing occupancy at Lexington Mall and the absence of rent from Park Road, sold in December 1999.

Expense recoveries increased to $11,129,000 in 2000 from $10,176,000 in 1999, representing an increase of $953,000 (9.4%). Expense recovery income increased primarily as a result of substantial snow removal expenses during 2000 which were recovered from many of the Company's shopping center tenants and to a lesser extent, improved occupancy rates which allowed a greater percentage of operating expenses to be recovered from tenants.

Percentage rent was $2,097,000 in 2000, compared to $2,222,000 in 1999, representing a decrease of $125,000 (5.6%). The decrease in percentage rent resulted primarily from the rollover of an anchor tenant lease into higher paying base rent in lieu of percentage rent at Giant shopping center.

Other income, which consists primarily of parking income at two of the Office Properties, kiosk leasing, temporary leases and payments associated with early termination of leases, was $1,966,000 in 2000, compared to $2,193,000 in 1999, representing a decrease of $227,000 (10.4%). The decrease in other income resulted from a $252,000 reduction in lease termination payments compared to the prior year.

Operating expenses, which consist mainly of repairs and maintenance, utilities, payroll and insurance expense, increased $551,000 (7.1%) to $8,271,000 in 2000 from $7,720,000 in 1999. The increase was primarily caused by higher snow removal expenses resulting from two severe snowstorms impacting the Mid-Atlantic region during January and February 2000, offset in part by cost savings achieved by reducing maintenance and utility expenses attributable to the elimination of the interior mall area, replaced by Burlington Coat Factory's new super store, as a result of the Company's redevelopment of French Market.

The provision for credit losses was $467,000 in 2000 compared to $295,000 in 1999, representing an increase of $172,000 (58.3%). The comparative credit loss increase resulted from unusually low credit loss activity in 1999, additions to credit loss reserves for two retail tenants in bankruptcy and rent in dispute with an office tenant.

Real estate taxes were $6,451,000 in 2000 compared to $6,207,000 in 1999, representing an increase of $244,000 (3.9%).

Interest expense was $23,843,000 in 2000 compared to $22,568,000 in 1999, representing an increase of $1,275,000 (5.6%). The increase in interest expense resulted from increased borrowings related to newly developed and acquired properties placed in service during 2000 and 1999, and to a lesser extent, the higher costs of borrowing in 2000 resulting from higher interest rates compared to 1999.

Amortization of deferred debt expense was $458,000 in 2000 compared to $416,000 in 1999, an increase of $42,000 (10.1%). The increase resulted from the Company's new $14,300,000 long term financing secured by the Shops at Fairfax and Boulevard shopping centers and the costs of renewing and amending the Company's revolving credit facility.

Depreciation and amortization expense was $13,534,000 in 2000 compared to $12,163,000 in 1999, representing an increase of $1,371,000 (11.3%). The increase resulted from increased depreciation related to newly developed and acquired properties placed in service during 2000 and 1999.

General and administrative expense, which consists primarily of administrative payroll and other overhead expenses, was $3,891,000 in 2000 compared to $3,755,000 in 1999, representing an increase of $136,000 (3.6%).

In 1999 the Company reported a gain on sale of property of $553,000 resulting from the District of Columbia's purchase of the Company's Park Road property as part of an assemblage of parcels for a neighborhood revitalization project. There were no property sales in 2000.

Item 7a. 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 does not enter into financial instruments for trading purposes.

The Company is exposed to interest rate fluctuations primarily as a result of its variable rate debt used to finance the Company's development and acquisition activities and for general corporate purposes. As of December 31, 2001, the Company had variable rate indebtedness totaling $58,342,000. Interest rate fluctuations will affect the Company's interest expense on its variable rate debt. If the interest rate on the Company's variable rate debt instruments outstanding at December 31, 2001 had been one percent higher, annual interest expense relating to these debt instruments would have increased by $583,000, based on those balances. Interest rate fluctuations will also affect the fair value of the Company's fixed rate debt instruments. As of December 31, 2001, the Company had fixed rate indebtedness totaling $293,478,000. If interest rates on the Company's fixed rate debt instruments at December 30, 2001 had been one percent higher, the fair value of those debt instruments on that date would have decreased by approximately $18,949,000.

Item 8. Financial Statements and Supplementary Data

The financial statements of the Company and its consolidated subsidiaries are included in this report on the pages indicated, and are incorporated herein by reference:

Page		
F-1	(a)	Report of Independent Public Accountants
F-2	(b)	Consolidated Balance Sheets - December 31, 2001 and 2000
F-3	(c)	Consolidated Statements of Operations - Years ended December 31, 2001, 2000 and 1999.
F-4	(d)	Consolidated Statements of Stockholders' Equity - Years ended December 31, 2001, 2000 and 1999.

F-5	(e)	Consolidated Statements of Cash Flows - Years ended December 31, 2001, 2000 and 1999.
F-6	(f)	Notes to Consolidated Financial Statements

The selected quarterly financial data included in Note 14 of the Notes to Consolidated Financial Statements referred to above are incorporated herein by reference.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

PART III

Certain information Part III requires will be filed in a definitive proxy statement with the SEC pursuant to Regulation 14A (the "Proxy Statement") not later than 120 days after the end of the fiscal year covered by this Report, and certain information to be included therein is incorporated herein by reference. Only those sections or pages of the Proxy Statement which specifically address the items set forth herein are incorporated by reference.

Item 10. Directors and Executive Officers of the Registrant

The information this Item requires is incorporated by reference to the information under the captions "Election of Directors" and "Compensation of Directors" on pages 3 through 7 of the Company's Proxy Statement to be filed with the SEC for its annual shareholders' meeting to be held on April 26, 2002.

Item 11. Executive Compensation

The information this Item requires is incorporated by reference to the information under the captions "Compensation Committee Report," "Executive Compensation" and "Performance Graph" on pages 6, 7 and 10, respectively, of the Company's Proxy Statement to be filed with the SEC for its annual shareholders' meeting to be held on April 26, 2002.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information this Item requires is incorporated by reference to the information under the caption "Security Ownership of Certain Beneficial Owners and Management" on page 11 of the Company's Proxy Statement to be filed with the SEC for its annual shareholders' meeting to be held on April 26, 2002.

Item 13. Certain Relationships and Related Transactions

The information this Item requires is incorporated by reference to the information under the caption "Certain Relationships and Transactions" on page 13 of the Company's Proxy Statement to be filed with the SEC for its annual shareholders' meeting to be held on April 26, 2002.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) The following documents are filed as part of this report:

1. Financial Statements

The following financial statements of the Company and their consolidated subsidiaries are incorporated by reference in Part II, Item 8.

(a) Report of Independent Public Accountants

(b) Consolidated Balance Sheets - December 31, 2001 and 2000

(c) Consolidated Statements of Operations - Years ended December 31, 2001, 2000 and 1999

(d) Consolidated Statements of Stockholders' Equity - Years ended December 31, 2001, 2000 and 1999

(e) Consolidated Statements of Cash Flows - Years ended December 31, 2001, 2000 and 1999

(f) Notes to Consolidated Financial Statements

2. Financial Statement Schedule and Supplementary Data

(a) Selected Quarterly Financial Data for the Company are incorporated by reference in Part II, Item 8

(b) Report of Independent Public Accountants on the Schedule (included in Report of Independent Public Accountants on the Financial Statements)

(c) Schedule of the Company:

Schedule III - Real Estate and Accumulated Depreciation

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

3. Exhibits

(a) First Amended and Restated Articles of Incorporation of Saul Centers, Inc. filed with the Maryland Department of Assessments and Taxation on August 23, 1993 and filed as Exhibit 3.(a) of the 1993 Annual Report of the Company on Form 10-K is hereby incorporated by reference.

(b) Amended and Restated Bylaws of Saul Centers, Inc. as in effect at and after August 24, 1993 and as of August 26, 1993 and filed as Exhibit 3(b) of the 1993 Annual Report of the Company on Form 10-K is hereby incorporated by reference. The First Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Subsidiary I Limited Partnership, the Second Amendment to the First Amended and Restated Agreement of Limited

Partnership of Saul Subsidiary I Limited Partnership, the Third Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Subsidiary I Limited Partnership and the Fourth Amendment to the First Amended

and Restated Agreement of Limited Partnership of Saul Subsidiary I Limited Partnership as filed as Exhibit 3.(b) of the 1997 Annual Report of the Company on Form 10-K is hereby incorporated by reference.

10. (a) First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership filed as Exhibit No. 10.1 to Registration Statement No. 33-64562 is hereby incorporated by reference. The First Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership, the Second Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership, and the Third Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership filed as Exhibit 10.(a) of the 1995 Annual Report of the Company on Form 10-K is hereby incorporated by reference. The Fourth Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership filed as Exhibit 10.(a) of the March 31, 1997 Quarterly Report of the Company is hereby incorporated by reference. The Fifth Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership filed as Exhibit 4.(c) to Registration Statement No. 333-41436, is hereby incorporated by reference.

(b) First Amended and Restated Agreement of Limited Partnership of Saul Subsidiary I Limited Partnership and Amendment No. 1 thereto filed as Exhibit 10.2 to Registration Statement No. 33-64562 are hereby incorporated by reference. The Second Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Subsidiary I Limited Partnership, the Third Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Subsidiary I Limited Partnership and the Fourth Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Subsidiary I Limited Partnership as filed as Exhibit 10.(b) of the 1997 Annual Report of the Company on Form 10-K is hereby incorporated by reference.

(c) First Amended and Restated Agreement of Limited Partnership of Saul II Subsidiary Partnership and Amendment No. 1 thereto filed as Exhibit 10.3 to Registration Statement No. 33-64562 are hereby incorporated by reference.

(d) Property Conveyance Agreement filed as Exhibit 10.4 to Registration Statement No. 33-64562 is hereby incorporated by reference.

(e) Management Functions Conveyance Agreement filed as Exhibit 10.5 to Registration Statement No. 33-64562 is hereby incorporated by reference.

(f) Registration Rights and Lock-Up Agreement filed as Exhibit 10.6 to Registration Statement No. 33-64562 is hereby incorporated by reference.

(g) Exclusivity and Right of First Refusal Agreement filed as Exhibit 10.7 to Registration Statement No. 33-64562 is hereby incorporated by reference.

(h) Saul Centers, Inc. 1993 Stock Option Plan filed as Exhibit 10.8 to Registration Statement No. 33-64562 is hereby incorporated by reference.

(i) Agreement of Assumption dated as of August 26, 1993 executed by Saul Holdings Limited Partnership and filed as Exhibit 10. (I) of the 1993 Annual Report of the Company on Form 10-K is hereby incorporated by reference.

(j) Saul Centers, Inc. Dividend Reinvestment and Stock Purchase Plan as filed with the Securities and Exchange Commission as File No. 333-54232 is hereby incorporated by reference.

(k) Deferred Compensation Plan for Directors dated as of December 13, 1993 as filed as Exhibit 10.(r) of the 1995 Annual Report of the Company on Form 10-K, as amended and restated by the Deferred Compensation and Stock Plan for Directors, dated as of March 18, 1999, filed as Exhibit 10.(k) of the March 31, 1999 Quarterly Report of the Company, is hereby incorporated by reference.

(l) Deed of Trust, Assignment of Rents, and Security Agreement dated as of June 9, 1994 by and between Saul Holdings Limited Partnership and Ameribanc Savings Bank, FSB as filed as Exhibit 10.(t) of the 1995 Annual Report of the Company on Form 10-K is hereby incorporated by reference.

(m) Deed of Trust Note dated as of January 22, 1996 by and between Saul Holdings Limited Partnership and Clarendon Station Limited Partnership, filed as Exhibit 10.(s) of the March 31, 1997 Quarterly Report of the Company, is hereby incorporated by reference.

(n) Loan Agreement dated as of November 7, 1996 by and among Saul Holdings Limited Partnership, Saul Subsidiary II Limited Partnership and PFL Life Insurance Company, c/o AEGON USA Realty Advisors, Inc., filed as Exhibit 10.(t) of the March 31, 1997 Quarterly Report of the Company, is hereby incorporated by reference.

(o) Promissory Note dated as of January 10, 1997 by and between Saul Subsidiary II Limited Partnership and The Northwestern Mutual Life Insurance Company, filed as Exhibit 10.(z) of the March 31, 1997 Quarterly Report of the Company, is hereby incorporated by reference.

(p) Loan Agreement dated as of October 1, 1997 between Saul Subsidiary I Limited Partnership, as Borrower and Nomura Asset Capital Corporation, as Lender, is as filed as Exhibit 10.(p) of the 1997 Annual Report of the Company on Form 10-K is hereby incorporated by reference.

(q) Revolving Credit Agreement dated as of October 1, 1997 by and between Saul Holdings Limited Partnership and Saul Subsidiary II Limited Partnership, as Borrower and U.S. Bank National Association, as agent, is as filed as Exhibit 10.(q) of the 1997 Annual Report of the Company on Form 10-K, as amended by the First Amendment to Revolving Credit Agreement dated as of July 18, 2000, as filed as Exhibit 10.(q) of the September 30, 2000 Quarterly Report of the Company, is hereby incorporated by reference.

(r) Promissory Note, dated as of November 30, 1999 by and between Saul Holdings Limited Partnership as Borrower and Wells Fargo Bank National Association as Lender, filed as Exhibit 10.(r) of the 1999 Annual Report of the Company on Form 10-K is hereby incorporated by reference.

23. Consent of Independent Public Accountants is filed herewith.

99. Letter from the Company to the SEC regarding Anthur Andersen LLP.

Reports on Form 8-K.

None.

28

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SAUL CENTERS, INC.
(Registrant)

Date: March 22, 2002 /s/ B. Francis Saul II

B. Francis Saul II
Chairman of the Board of Directors
& Chief Executive Officer
(Principal Executive Officer)

Date: March 22, 2002 /s/ B. Francis Saul III

B. Francis Saul III, Vice Chairman
and Director

Date: March 22, 2002 /s/ Philip D. Caraci

Philip D. Caraci, President and Director

Date: March 22, 2002	/s/ Scott V. Schneider
	Scott V. Schneider, Senior Vice President, Treasurer and Secretary (Principal Financial and Accounting Officer)
Date: March 22, 2002	/s/ Gilbert M. Grosvenor
	Gilbert M. Grosvenor, Director
Date: March 22, 2002	/s/ Philip C. Jackson Jr.
	Philip C. Jackson Jr., Director
Date: March 22, 2002	/s/ General Paul X. Kelley
	General Paul X. Kelley, Director
Date: March 22, 2002	/s/ Charles R. Longsworth
	Charles R. Longsworth, Director
Date: March 22, 2002	/s/ Patrick F. Noonan
	Patrick F. Noonan, Director
Date: March 22, 2002	/s/ Mr. Mark Sullivan III
	Mark Sullivan III, Director
Date: March 22, 2002	/s/ James W. Symington
	James W. Symington, Director
Date: March 22, 2002	/s/ John R. Whitmore
	John R. Whitmore, Director

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of Saul Centers, Inc.:

We have audited the accompanying consolidated balance sheets of Saul Centers, Inc. (a Maryland corporation) and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Saul Centers, Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Vienna, Virginia
February 13, 2002

F-1

Saul Centers, Inc.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)	Dece 2001
Assets	
Real estate investments	
Land	$ 67,710
Buildings and equipment	385,936
	453,646
Accumulated depreciation	(136,928
	316,718
Construction in progress	1,163
Cash and cash equivalents	1,805
Accounts receivable and accrued income, net	9,217
Prepaid expenses	12,514
Deferred debt costs, net	3,563
Other assets	1,423
Total assets	$ 346,403
Liabilities	
Notes payable	$ 351,820
Accounts payable, accrued expenses and other liabilities	14,697
Deferred income	4,009
Total liabilities	370,526
Minority interests	--
Stockholders' equity (deficit)	
Common stock, $0.01 par value, 30,000,000 shares	

authorized, 14,535,803 and 13,869,535 shares issued and outstanding, respectively	145
Additional paid-in capital	64,564
Accumulated deficit	(88,832
Total stockholders' equity (deficit)	(24,123
Total liabilities and stockholders' equity (deficit)	$ 346,403

The accompanying notes are an integral part of these statements.

Saul Centers, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Year Ende	
(Dollars in thousands, except per share amounts)	2001	2000
Revenues		
Base rent	$ 69,662	$
Expense recoveries	11,456	
Percentage rent	2,113	
Other	3,077	
Total revenues	86,308	
Operating expenses		
Property operating expenses	8,503	
Provision for credit losses	617	
Real estate taxes	7,226	
Interest expense	24,920	
Amortization of deferred debt costs	566	
Depreciation and amortization	14,758	
General and administrative	4,335	
Total operating expenses	60,925	
Operating income	25,383	
Non-operating item		
Gain on sale of property	--	
Net income before minority interests	25,383	

Minority interests		
Minority share of income	(6,777)	
Distributions in excess of earnings	(1,292)	
Total minority interests	(8,069)	
Net income	$ 17,314	$
Per share (basic and dilutive)		
Net income before minority interests	$ 1.31	$
Net income	$ 1.22	$

The accompanying notes are an integral part of these statements.

Saul Centers, Inc.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

(Dollars in thousands, except per share amounts)	Common Stock	Additional Paid-in Capital	A
Stockholders' equity (deficit):			
Balance, December 31, 1998	$ 129	$ 31,967	$
Issuance of 497,767 shares of common stock	4	7,158	
Issuance of 373,546 convertible limited partnership units in the Operating Partnership	--	5,491	
Net income	--	--	
Distributions ($1.17 per share)	--	--	
Distributions payable ($.39 per share)	--	--	
Balance, December 31, 1999	133	44,616	
Issuance of 535,390 shares of common stock	6	7,978	
Net income	--	--	
Distributions ($1.17 per share)	--	--	
Distributions payable ($.39 per share)	--	--	

Balance, December 31, 2000	139	52,594	
Issuance of 666,268 shares of common stock	6	11,970	
Net income	--	--	
Distributions ($1.17 per share)	--	--	
Distributions payable ($.39 per share)	--	--	
Balance, December 31, 2001	$ 145	$ 64,564	$

The accompanying notes are an integral part of these statements.

Saul Centers, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	For the Y 2001	
Cash flows from operating activities:		
Net income	$ 17,314	$
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interests	8,069	
Gain on sale of property	--	
Depreciation and amortization	15,324	
Provision for credit losses	617	
Increase in accounts receivable	(823)	
Increase in prepaid expenses	(5,568)	
Decrease (increase) in other assets	347	
(Decrease) increase in accounts payable, accrued expenses and other liabilities	(4,895)	
Increase (decrease) in deferred income	1,449	
Other, net	--	
Net cash provided by operating activities	31,834	
Cash flows from investing activities:		
Net proceeds from sale of property	--	
Additions to real estate investments	(13,055)	
Additions to construction in progress	(8,745)	
Net cash used in investing activities	(21,800)	
Cash flows from financing activities:		

Proceeds from notes payable	51,218	
Repayments on notes payable	(42,851)	
Additions to deferred debt costs	(17)	
Proceeds from the issuance of common stock and convertible limited partnership units in the Operating Partnership	11,976	
Distributions to common stockholders and holders of convertible limited partnership units in the Operating Partnership	(30,327)	
Net cash (used in) provided by financing activities	(10,001)	
Net increase (decrease) in cash and cash equivalents	33	
Cash and cash equivalents, beginning of year	1,772	
Cash and cash equivalents, end of year	$ 1,805	$

Supplemental disclosures of cash flow information:

Cash paid for interest, net of amount capitalized	$ 24,419	$

The accompanying notes are an integral part of these statements.

F-5

SAUL CENTERS, INC.
Notes to Consolidated Financial Statements

1. ORGANIZATION, FORMATION, AND BASIS OF PRESENTATION

Organization

Saul Centers, Inc. ("Saul Centers") was incorporated under the Maryland General Corporation Law on June 10, 1993. The authorized capital stock of Saul Centers consists of 30,000,000 shares of common stock, having a par value of $0.01 per share, and 1,000,000 shares of preferred stock. Each holder of common stock is entitled to one vote for each share held. 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". Saul Centers operates as a real estate investment trust under the Internal Revenue Code of 1986, as amended (a "REIT").

Formation and Structure of Company

Saul Centers was formed to continue and expand the shopping center business previously owned and conducted by the B.F. Saul Real Estate Investment Trust, the B.F. Saul Company, Chevy Chase Bank, F.S.B. and certain other affiliated entities (collectively, "The Saul Organization"). On August 26, 1993, 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") shopping center and office properties, and the management functions related to the transferred properties. Since its formation, the Company has purchased and developed additional properties. The Company is currently developing Ashburn Village IV, an in-line retail and retail pad expansion to the Ashburn Village shopping center. The Company recently completed development of Ashburn Village

III, Washington Square at Old Town and Crosstown Business Center. As of December 31, 2001, the Company's properties (the "Current Portfolio Properties") consisted of 27 operating shopping center properties and Ashburn Village IV (the "Shopping Centers") and 5 predominantly office operating properties (the "Office Properties"). To facilitate the placement of collateralized mortgage debt, the Company established Saul QRS, Inc. a wholly owned subsidiary of Saul Centers. Saul QRS, Inc. was established to succeed to the interest of Saul Centers as the sole general partner of Saul Subsidiary I Limited Partnership.

As a consequence of the transactions constituting the formation of the Company, Saul Centers serves as the sole general partner of the Operating Partnership and of Saul Subsidiary II Limited Partnership, while Saul QRS, Inc. serves as the sole general partner of Saul Subsidiary I Limited Partnership. The remaining limited partnership interests in Saul Subsidiary I Limited Partnership and Saul Subsidiary II Limited Partnership are held by the Operating Partnership as the sole limited partner. Through this structure, the Company owns 100% of the Current Portfolio Properties.

Basis of Presentation

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Company, which conducts all of its activities through its subsidiaries, the Operating Partnership and Subsidiary Partnerships, engages in the ownership, operation, management, leasing, acquisition, renovation, expansion, development and financing of community and neighborhood shopping centers and office properties, primarily in the Washington DC/Baltimore metropolitan area. Because the properties are located primarily in the Washington DC/Baltimore metropolitan area, the Company is subject to a concentration of credit risk related to these properties. A majority of the Shopping Centers are anchored by several major tenants. Seventeen of the Shopping Centers are anchored by a grocery store and offer primarily day-to-day necessities and services. As of

December 31, 2001, no single Shopping Center accounted for more than 11.5% of the total Shopping Center gross leasable area. Only one retail tenant, Giant Food, at 6.2%, accounted for more than 2.1% of the Company's 2001 total revenues. No office tenant other than the United States Government, at 9.7%, accounted for more than 1.1% of 2001 total revenues.

Principles of Consolidation

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

eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Real Estate Investment Properties

Real estate investment properties are stated at historic cost basis less depreciation. Management believes that these assets have generally appreciated in value 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 these financial statements. These financial statements are prepared in conformity with accounting principles generally accepted in the United States, and accordingly, do not report the current value of the Company's real estate assets.

If there is an event or change in circumstance that indicates an impairment in the value of a real estate investment property, the Company's policy is to assess any impairment in value by making a comparison of the current and projected operating cash flows of the property over its remaining useful life, on an undiscounted basis, to the carrying amount of that property. If such carrying amount is in excess of the estimated projected operating cash flows of the property, the Company would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to its estimated fair market value. The Company has not recognized an impairment loss in 2001, 2000 or 1999 on any of its real estate.

Interest, real estate taxes and other carrying costs are capitalized on projects under construction. Once construction is substantially complete and the assets are placed in service, rental income, direct operating expenses, and depreciation associated with such properties are included in current operations. Expenditures for repairs and maintenance, which includes contract services such as grounds maintenance, lot sweeping and snow removal, are charged to operations as incurred. Repairs and maintenance expense totaled $2,913,000, $3,144,000 and $2,815,000, for 2001, 2000 and 1999, respectively, and is included in operating expenses in the accompanying consolidated financial statements. Interest expense capitalized totaled $1,640,000, $2,681,000 and $934,000, for 2001, 2000 and 1999, respectively.

In the initial rental operations of development projects, a project is considered substantially complete and available for occupancy upon completion of tenant improvements, but no later than one year from the cessation of major construction activity. Substantially completed portions of a project are accounted for as separate projects. Depreciation is calculated using the straight-line method and estimated useful lives of 33 to 50 years for buildings and up to 20 years for certain other improvements. Leasehold improvements are amortized over the lives of the related leases using the straight-line method.

Lease Acquisition Costs

Certain initial direct costs incurred by the Company in negotiating and consummating a successful lease are capitalized and amortized over the initial base term of the lease. These costs, net of accumulated amortization, are included in prepaid expenses and total $10,419,000 and $7,708,000 as of December 31, 2001 and 2000, respectively.

SAUL CENTERS, INC.
Notes to Consolidated Financial Statements

Capitalized leasing costs consist of commissions paid to third party leasing agents as well as internal direct costs such as employee compensation and payroll related fringe benefits directly related to time spent performing leasing related activities. Such 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.

Construction in Progress

Construction in progress includes the costs of active development projects and other predevelopment project costs. Development costs include direct construction costs and indirect costs such as architectural, engineering, construction management and carrying costs consisting of interest, real estate taxes and insurance. Construction in progress balances as of December 31, 2001 and 2000 are as follows:

Construction in Progress

(In thousands)

	December 31, 2001	December 31, 2000
Ashburn Village IV	$ 1,163	$ 692
Ashburn Village III	--	1,413
Washington Square	--	38,588
Crosstown Business Center	--	455
Balance	$ 1,163	$41,148

Accounts Receivable and Accrued Income

Accounts receivable primarily represent amounts currently due from tenants in accordance with the terms of the respective leases. In addition, accounts receivable include $4,675,000 and $3,053,000 at December 31, 2001 and 2000, respectively, representing minimum rental income accrued on a straight-line basis to be paid by tenants over the term of the respective leases. Receivables are reviewed monthly and reserves are established with a charge to current period operations when, in the opinion of management, collection of the receivable is doubtful. Accounts receivable in the accompanying consolidated financial statements are shown net of an allowance for doubtful accounts of $559,000 and $563,000, at December 31, 2001 and 2000, respectively.

Allowance for Doubtful Accounts

(In thousands)

	For the Years Ended December 31,	
	2001	2000
Beginning Balance	$563	$594
Provision for Credit Losses	617	467
Charge-offs	-621	-498
Ending Balance	$559	$563

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 over the terms of the respective loans or agreements. Deferred debt costs in the accompanying consolidated financial statements are shown net of accumulated amortization of $1,968,000 and $1,402,000, at December 31, 2001 and 2000, respectively.

Deferred Income

Deferred income consists of payments received from tenants prior to the time they are earned and recognized by the Company as revenue. These payments include prepayment of the following month's rent, prepayment of real estate taxes when the taxing jurisdiction has a fiscal year differing from the calendar year

reimbursements specified in the lease agreement and payments by tenants for tenant construction work provided by the Company.

Revenue Recognition

Rental and interest income is accrued as earned except when doubt exists as to collectibility, in which case the accrual is discontinued. 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 in accordance with accounting principles generally accepted in the United States. 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 when the expenses are incurred. Rental income based on a tenant's revenues ("percentage rent") is accrued when a tenant reports sales that exceed a specified breakpoint.

Income Taxes

The Company made an election to be treated, and intends to continue operating so as to qualify as a REIT under sections 856 through 860 of the Internal Revenue Code of 1986, as amended, commencing with its taxable year ending December 31, 1993. A REIT generally will not be subject to federal income taxation on that portion of its income that qualifies as REIT taxable income to

the extent that it distributes at least 90% of its REIT taxable income to stockholders 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, 2001 and 2000, the total tax basis of the Company's assets was $375,210,000 and $362,586,000, and the tax basis of the liabilities was $362,464,000 and $353,908,000, respectively.

Deferred Compensation and Stock Plan for Directors

Saul Centers has established a Deferred Compensation and Stock Plan for Directors (the "Plan") for the benefit of its directors and their beneficiaries. A director may elect to defer all or part of his or her director's fees and has the option to have the fees paid in cash, in shares of common stock or in a combination of cash and shares of common stock upon termination from the Board of Directors. If the director elects to have fees paid in stock, the number of shares allocated to the director is determined by the market price of the common stock on the day the fee is earned. As of December 31, 2001, 120,000 shares were authorized and registered for use under the Plan, and 112,000 shares had been credited to the directors' deferred fee accounts.

Beginning in 1999, pursuant to the Plan, 100 shares of the Company's common stock are awarded annually 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 issued on the date of the Annual Meeting, their issuance may not be deferred and transfer of the shares is restricted for a period of twelve months following the date of issue.

Recent Accounting Pronouncements

Saul Centers, Inc. will adopt Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") 144, "Accounting for Impairment or Disposal of Long-Lived Assets," effective January 1, 2002. This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The Statement retains the requirements of SFAS 121, "Accounting for the Impairment of Long Lived Assets and for Long-Lived Assets to be Disposed Of" for long-lived assets to be held and used. SFAS 144 also supercedes the accounting and reporting provisions of APB Opinion No. 30 for segments of a business to be disposed of, but retains APB Opinion No. 30's requirement to report discontinued operations separately from continuing operations and extends that reporting to a component of an entity that either has been disposed of or is classified as held for sale. The adoption of SFAS 144 will not have a material impact on the Company's financial statements.

Cash and Cash Equivalents

Cash and cash equivalents includes cash and short-term investments with maturities of three months or less measured from the acquisition date.

Per Share Data

Per share data is calculated in accordance with SFAS No. 128, "Earnings Per Share". The Company has no dilutive securities, therefore, basic and diluted earnings per share are identical. Net income before minority interests is presented on a fully converted basis, that is, assuming the limited partners exercise their right to convert their partnership ownership into shares of Saul

Centers and is computed using weighted average shares outstanding of 19,382,715, 18,795,571 and 18,147,954, for the years ended December 31, 2001, 2000 and 1999, respectively. Per share data relating to net income after minority interests is computed on the basis of 14,210,474, 13,623,330 and 13,100,295, weighted average common shares for the years ended December 31, 2001, 2000 and 1999, respectively.

3. MINORITY INTERESTS - HOLDERS OF CONVERTIBLE LIMITED PARTNERSHIP UNITS IN THE OPERATING PARTNERSHIP

The Saul Organization has a 26.2% limited partnership interest, represented by 5,172,241 convertible limited partnership units, in the Operating Partnership, as of December 31, 2001. These convertible limited partnership units are convertible into shares of Saul Centers' common stock on a one-for-one basis, provided the rights may not be exercised at any time that The Saul Organization owns, directly or indirectly, in the aggregate more than 29.9% of the outstanding equity securities of Saul Centers. The impact of the Saul Organization's 26.2% limited partnership interest in the Operating Partnership is reflected as minority interests in the accompanying consolidated financial statements.

4. NOTES PAYABLE

During 2001 the Company obtained three new mortgage loans totaling $24,000,000 from an existing lender, secured by Van Ness Square and recent developments at Ashburn Village and Avenel Business Park. The loans require monthly payments of principal and interest based upon a weighted average 21.5 year amortization period and a fixed weighted average 7.38% interest rate. The Company also extended until January 2003, its $42,000,000 construction loan used to finance the building of Washington Square at Old Town. Borrowings on the Company's $70,000,000 unsecured line of credit totaled $20,000,000 at December 31, 2001, leaving $50,000,000 available for future use. The following is a summary of notes payable as of December 31, 2001 and 2000:

SAUL CENTERS, INC.
Notes to Consolidated Financial Statements

($s in thousands)	Principal Outstanding December 31, 2001		2000	Interest Rate *
Fixed Rate Mortgages:	$ 138,215	(a)	$ 140,597	7.67 %
	95,716	(b)	74,342	8.23 %
	35,583	(c)	36,279	7.88 %
	13,936	(d)	14,184	8.33 %
	10,028	(e)	10,227	6.88 %
Total Fixed Rate	293,478		275,629	7.88 %
Variable Rate Loans:				
Construction Loan	38,342	(f)	33,324	3.64 %
Line of Credit	20,000	(g)	34,500	3.69 %
Total Variable Rate	58,342		67,824	3.66 %

Total Notes Payable	$ 351,820	$ 343,453	7.18 %

*Interest rate and scheduled maturity data presented for December 31, 2001. Totals computed using weighted averages.

(a) The loan is collateralized by nine shopping centers and requires monthly principal and interest payments based upon a 25 year amortization schedule. Principal of $2,382,000 was amortized during 2001.

(b) The loan is collateralized by Avenel Business Park, Van Ness Square, Ashburn Village, Leesburg Pike, Lumberton Plaza and Village Center. The loan was amended during 2001 to include new borrowings of $24,000,000 at an average rate of 7.38%. The 8.23% blended interest rate is the weighted average of the initial loan rate and additional borrowings rates. Monthly principal and interest payments are based upon a weighted average 23 year amortization schedule. Principal of $2,626,000 was amortized during 2001.

(c) The loan is collateralized by 601 Pennsylvania Avenue and requires monthly principal and interest payments based upon a 25 year amortization schedule. Principal of $696,000 was amortized during 2001.

(d) The loan is collateralized by Shops at Fairfax and Boulevard shopping centers and requires monthly principal and interest payments based upon a 22 year amortization schedule. Principal of $248,000 was amortized during 2001.

(e) The loan is collateralized by The Glen shopping center and requires monthly principal and interest payments based upon a 23 year amortization schedule. Principal of $199,000 was amortized during 2001.

(f) The loan is a construction loan totaling $42,000,000 and is collateralized by Washington Square. Interest expense is calculated based upon the 1, 2, 3 or 6 month LIBOR rate plus a spread of 1.45% to 1.9% (determined by certain leasing and/or construction benchmarks) or upon the bank's prime rate at the Company's option. The loan was extended until January 2003 upon payment in 2001 of a fee of 1/4% or $105,000. The loan may be further extended for an additional one-year term with payment of a fee of 1/4% and the achievement of certain debt service and valuation tests, at the Company's option. The interest rate in effect on December 31, 2001 was based on a weighted average LIBOR of 1.94% and spread of 1.7%. The effective annual average interest rate, which considers debt cost amortization, was 6.15% for 2001.

(g) The loan is an unsecured revolving credit facility totaling $70,000,000. Interest expense is calculated based upon the 1,2,3 or 6 month LIBOR rate plus a spread of 1.625% to 1.875% (determined by certain debt service coverage and leverage tests) or upon the bank's reference rate at the Company's option. The line may be extended one year with payment of a fee of 1/4% at the Company's option. The interest rate in effect on December 31, 2001 was based on a weighted average LIBOR of 1.94% and spread of 1.75%. The effective annual average interest rate, which considers debt cost amortization and unused line fees, was 7.14% for 2001.

The December 31, 2001 and 2000, depreciation adjusted cost of properties collateralizing the mortgage notes payable totaled $264,831,000 and $218,415,000, respectively. Certain loans are subject to financial covenant tests, the most significant of which are debt service coverage and loan to asset value requirements. The Company

SAUL CENTERS, INC.
Notes to Consolidated Financial Statements

believes it is in compliance with all such covenants. Notes payable at December 31, 2001 and 2000, totaling $242,168,000 and $225,616,000, respectively, are guaranteed by members of The Saul Organization.

As of December 31, 2001, the scheduled maturities of all debt for years ended December 31, are as follows:

Debt Maturity Schedule (In thousands)

2002	$ 6,293
2003	65,159
2004	16,631
2005	7,713
2006	8,359
Thereafter	247,665
	$ 351,820

5. LEASE AGREEMENTS

Lease income includes primarily base rent arising from noncancelable commercial leases. Base rent for the years ended December 31, 2001, 2000 and 1999, amounted to $69,662,000, $63,837,000 and $59,200,000, respectively. Future base rent under noncancelable leases for years ended December 31, is as follows:

Future Base Rental Income (In thousands)

2002	$ 65,331
2003	60,114
2004	54,675
2005	48,569
2006	41,640
Thereafter	253,310
	$ 523,639

The majority of the leases also provide for rental increases and expense recoveries based on increases in the Consumer Price Index or increases in operating expenses, or both. These increases 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, 2001, 2000 and 1999 amounted to $11,456,000, $11,129,000 and $10,176,000, 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 $2,113,000, $2,097,000 and $2,222,000, for the years ended December 31, 2001, 2000 and 1999, respectively.

6. LONG-TERM LEASE OBLIGATIONS

Certain properties are subject to noncancelable long-term leases which apply to land underlying the Shopping Centers. Certain of the leases provide for periodic adjustments of the base annual rent and require the payment of real estate taxes on the underlying land. The leases will expire between 2058 and 2068. Reflected in the accompanying consolidated financial statements is minimum ground rent expense of $167,000, $157,000 and $154,000, for each of the years ended December 31, 2001, 2000 and 1999, respectively. The minimum future rental commitments under these ground leases are as follows:

Ground Lease Rental Commitments

(In thousands)

	Annually 2002-2006	Total Thereafter
Beacon Center	$ 53	$ 3,289
Olney	51	4,474
Southdale	60	3,665
Total	$ 164	$ 11,428

In addition to the above, Flagship Center consists of two developed outparcels 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.

7. STOCKHOLDERS' EQUITY AND MINORITY INTERESTS

The consolidated statement of operations for the year ended December 31, 2001 includes a charge for minority interests of $8,069,000, consisting of $6,777,000 related to The Saul Organization's share of the net income for the year and $1,292,000 related to distributions to minority interests in excess of allocated net income for the year. The charge for the year ended December 31, 2000 of $8,069,000 consists of $6,081,000 related to The Saul Organization's share of the net income for the year and $1,988,000 related to distributions to minority interests in excess of allocated net income for the year. The charge for the year ended December 31, 1999 of $7,923,000 consists of $5,899,000 related to The Saul Organization's share of net income for the year and $2,024,000 related to distributions to minority interests in excess of allocated net income for the year.

8. RELATED PARTY TRANSACTIONS

In October 2000, the Company purchased, through its Operating Partnership, Avenel VI, a 30,000 square foot office/flex property for $4,200,000 based on an independent third party appraisal. The seller was a member of The Saul Organization.

In August 2000 and October 1999, the Company purchased land parcels of 7.11

and 6.47 acres, located within the 1,580 acre community of Ashburn Village in Loudoun County, Virginia, adjacent to its Ashburn Village neighborhood shopping center at a price of $1,580,000 and $1,438,000, respectively, based on an independent third party appraisal. The land is being developed to expand the existing shopping center. The seller was a member of The Saul Organization.

Chevy Chase Bank, an affiliate of The Saul Organization, leases space in 13 of the Company's properties. Total rental income from Chevy Chase Bank amounted to $1,330,000, $1,223,000 and $1,169,000, for the years ended December 31, 2001, 2000 and 1999, respectively.

The Chairman and Chief Executive Officer, the Vice Chairman and the President of the Company are officers of The Saul Organization but devote a substantial amount of time to the management of the Company. The annual compensation for these officers is fixed by the Compensation Committee of the Board of Directors.

The Company shares with The Saul Organization on a prorata basis certain ancillary functions such as computer and payroll services and insurance expense based on management's estimate of usage or time incurred, as applicable. Also, The Saul Organization subleases office space to the Company. The terms of all such arrangements with The Saul Organization, including payments related thereto, are periodically reviewed by the Audit Committee of the Board of Directors. Included in general and administrative expense for the years ended December 31, 2001, 2000 and 1999, are charges totaling $1,971,000, $2,091,000 and $1,798,000, related to shared

services, of which $2,010,000, $2,056,000 and $1,773,000, were paid during the years ended December 31, 2001, 2000 and 1999, respectively.

9. STOCK OPTION PLAN

The Company has established a stock option plan for the purpose of attracting and retaining executive officers and other key personnel. The plan provides for grants of options to purchase a specified number of shares of common stock. A total of 400,000 shares are available under the plan. The 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.

The Compensation Committee has granted options to purchase a total of 180,000 shares (90,000 shares from incentive stock options and 90,000 shares from nonqualified stock options) to five Company officers. The options vested 25% per year over four years, have an exercise price of $20 per share and a term of ten years, subject to earlier expiration upon termination of employment. A total of 170,000 of the options expire September 23, 2003 and 10,000 expire September 24, 2004. As of December 31, 2001, all 180,000 of the options were fully vested. No compensation expense has been recognized as a result of these grants.

10. NON-OPERATING ITEMS

Gain on Sale of Property

Gain on sale of property of $553,000 in 1999 resulted from the District of

Columbia's purchase of the Company's Park Road property as part of an assemblage of parcels for a neighborhood revitalization project. There were no property sales in 2001 or 2000.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, "Disclosure about Fair Value of Financial Instruments," requires disclosure about the fair value of financial instruments. The carrying values of cash, accounts receivable, accounts payable and accrued expenses are reasonable estimates of their fair value. Based on interest rates currently available to the Company, the carrying value of the variable rate credit line payable is a reasonable estimation of fair value, because the debt bears interest based on short-term interest rates. Based upon management's estimate of borrowing rates and loan terms currently available to the Company for fixed rate financing in the amount of the total notes payable, the fair value is not materially different from its carrying value.

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.

The Company has contracted with a third party to purchase 24.0 acres of land zoned for retail development in Loudoun County, Virginia, for a purchase price of $5.3 million. Closing is scheduled for March 2002.

SAUL CENTERS, INC.
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.

Of the distributions paid during 2001, $1.53 per share represented ordinary dividend income and $0.03 per share represented return of capital to the shareholders. The following summarizes distributions paid during the years ended December 31, 2001, 2000 and 1999, including activity in the Plan:

Total Distributions to		Dividend Reinvestment		
Common Stockholders	Limited Partnership Unitholders	Common Stock Issued	Units Issued	S

	(in thousands)	(in thousands)		
Distributions during 2001				
October 31	$ 5,599	$ 2,018	176,319	--
July 31	5,529	2,017	175,790	--
April 30	5,460	2,017	169,753	--
January 31	5,410	2,017	123,561	--
	$ 21,998	$ 8,069	645,423	--
Distributions during 2000				
October 31	$ 5,356	$ 2,018	133,435	--
July 31	5,305	2,017	125,705	--
April 28	5,254	2,017	125,558	--
January 31	5,202	2,017	129,789	--
	$ 21,117	$ 8,069	514,487	--
Distributions during 1999				
October 29	$ 5,148	$ 2,017	130,753	--
July 30	5,100	2,018	119,142	126,967
April 30	5,075	1,967	111,990	119,877
January 29	4,985	1,921	116,727	126,702
	$ 20,308	$ 7,923	478,612	373,546

In December 2001, 2000 and 1999, the Board of Directors of the Company authorized a distribution of $0.39 per share payable in January 2002, 2001 and 2000, to holders of record on January 17, 2002, January 17, 2001 and January 15, 2000, respectively. As a result, $5,670,000, $5,410,000 and $5,202,000, were paid to common shareholders on January 31, 2002, January 31, 2001 and January 31, 2000, respectively. Also, $2,017,000, $2,017,000 and $2,017,000, were paid to limited partnership unitholders on January 31, 2002, January 31, 2001 and January 31, 2000 ($0.39 per Operating Partnership unit), respectively. These amounts are reflected as a reduction of stockholders' equity and are included in accounts 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 years 2001, 2000 and 1999.

(In thousands, except per share amounts)	Three Months Ended

	12/31/2001	09/30/2001	06/30/2
Revenues	$ 22,620	$ 21,533	$ 20,
Net income before minority interests	7,119	6,289	5,
Minority interests	(2,018)	(2,017)	(2,
Net income	$ 5,101	$ 4,272	$ 3,
Per Share Data:			
Net income before minority interests	$ 0.36	$ 0.32	$ 0
Net income	$ 0.35	$ 0.30	$ 0

	Three Months Ended		
	12/31/2000	09/30/2000	06/30/2
Revenues	$ 20,910	$ 19,724	$ 18,
Net income before minority interests	5,539	5,859	5,
Minority interests	(2,018)	(2,017)	(2,
Net income	$ 3,521	$ 3,842	$ 3,
Per Share Data:			
Net income before minority interests	$ 0.29	$ 0.31	$ 0
Net income	$ 0.25	$ 0.28	$ 0

	Three Months Ended		
	12/31/1999	09/30/1999	06/30/1
Revenues	$ 19,398	$ 18,409	$ 18,

Net income before minority interests	6,103	5,145	4,
Minority interests	(2,017)	(2,018)	(1,
Net income	$ 4,086	$ 3,127	$ 2,
Per Share Data:			
Net income before minority interests	$ 0.33	$ 0.28	$ 0
Net income	$ 0.31	$ 0.24	$ 0

SAUL CENTERS, INC.
Notes to Consolidated Financial Statements

15 BUSINESS SEGMENTS

The company has two reportable business segments: Shopping Centers and Office Properties. The accounting policies of the segments presented below are the same as those described in the summary of significant accounting policies (see Note 1). The Company evaluates performance based upon income from real estate for the combined properties in each segment.

(in thousands)	Shopping Centers	Office Properties	Corpor and Ot
2001			
Real estate rental operations:			
Revenues	$ 58,714	$ 27,427	$
Expenses	(10,324)	(6,022)	
Income from real estate	48,390	21,405	
Interest expense & amortization of debt costs	--	--	(25,
General and administrative	--	--	(4,
Subtotal	48,390	21,405	(29,
Depreciation and amortization	(9,751)	(5,007)	
Minority interests	--	--	(8,
Net income	$ 38,639	$ 16,398	$ (37,
Capital investment	$ 8,220	$ 13,580	$
Total assets	$ 192,762	$ 124,529	$ 29,
2000			

Real estate rental operations:			
Revenues	$ 56,969	$ 21,837	$
Expenses	(10,252)	(4,937)	
Income from real estate	46,717	16,900	
Interest expense & amortization of debt costs	--	--	(24,
General and administrative	--	--	(3,
Subtotal	46,717	16,900	(27,
Depreciation and amortization	(6,453)	(4,079)	
Minority interests	--	--	(8,
Net income	$ 37,264	$ 12,821	$ (36,
Capital investment	$ 14,886	$ 28,540	$
Total assets	$ 185,518	$ 117,497	$ 31,

1999			
Real estate rental operations:			
Revenues	$ 54,510	$ 19,183	$
Expenses	(9,604)	(4,618)	
Income from real estate	44,906	14,565	
Interest expense & amortization of debt costs	--	--	(22,
General and administrative	--	--	(3,
Subtotal	46,906	14,565	(26,
Depreciation and amortization	(8,414)	(3,749)	
Gain on property sale	553	--	
Minority interests	--	--	7,
Net income	$ 37,045	$ 10,816	$ (34,
Capital investment	$ 16,939	$ 21,699	$
Total assets	$ 186,769	$ 90,185	$ 22,

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of Saul Centers, Inc.:

We have audited in accordance with auditing standards generally accepted in the United States, the consolidated financial statements of Saul Centers, Inc. (the "Company") included in this Form 10-K and have issued our report thereon dated February 13, 2002. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule III, "Real Estate and Accumulated Depreciation" is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. The schedule has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, fairly states in all

material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Vienna, Virginia
February 13, 2002

Schedule III

SAUL CENTERS, INC.
Real Estate and Accumulated Depreciation
December 31, 2000
(Dollars in Thousands)

	Initial Basis	Costs Capitalized Subsequent to Acquisition	Basis at Cl	
			Land	Buildings and Improvements
Shopping Centers				
Ashburn Village, Ashburn, VA	$ 11,431	$ 6,113	$ 5,158	$ 12,386
Beacon Center, Alexandria, VA	1,493	14,527	--	14,926
Belvedere, Baltimore, MD	932	834	263	1,503
Boulevard, Fairfax, VA	4,883	1,410	3,687	2,606
Clarendon, Arlington, VA	385	396	635	146
Clarendon Station, Arlington, VA	834	37	425	446
Flagship Center, Rockville, MD	160	9	169	--
French Market, Oklahoma City, OK	5,781	8,546	1,118	13,209
Germantown, Germantown, MD	3,576	298	2,034	1,840
Giant, Baltimore, MD	998	303	422	879
The Glen, Lake Ridge, VA	12,918	414	5,300	8,032
Great Eastern, District Heights., MD	3,472	9,323	2,263	10,532
Hampshire Langley, Langley Park, MD	3,159	2,416	1,856	3,719
Leesburg Pike, Baileys Crossroads, VA	2,418	5,099	1,132	6,385
Lexington Mall, Lexington, KY	4,868	5,904	2,111	8,661
Lumberton Plaza, Lumberton, NJ	4,400	8,269	950	11,719
Olney, Olney, MD	1,884	1,281	--	3,165
Ravenwood, Baltimore, MD	1,245	1,645	703	2,187
Seven Corners, Falls Church, VA	4,848	39,215	4,913	39,150
Shops at Fairfax, Fairfax, VA	2,708	10,240	992	11,956
Southdale, Glen Burnie, MD	3,650	15,202	--	18,230
Southside Plaza, Richmond, VA	6,728	3,637	1,878	8,487
South Dekalb Plaza, Atlanta, GA	2,474	2,714	703	4,485
Thruway, Winston-Salem, NC	4,778	12,785	5,464	11,994
Village Center, Centreville, VA	16,502	1,081	7,851	9,732
West Park, Oklahoma City, OK	1,883	602	485	2,000
White Oak, Silver Spring, MD	6,277	3,659	4,787	5,149
Total Shopping Centers	114,685	155,959	55,299	213,524

Office Properties				
Avenel Business Park, Gaithersburg, MD	21,459	17,525	3,851	35,133
Crosstown Business Center, Tulsa, OK	3,454	1,822	604	4,672
601 Pennsylvania Ave., Washington DC	5,479	44,737	5,667	44,549
Van Ness Square, Washington, DC	812	25,929	831	25,910
Total Office Properties	31,204	90,013	10,953	110,264
Total	$ 145,889	$ 245,972	$ 66,252	$ 323,788

	Accumulated Depreciation	Book Value	Related Debt	Date of Constructio
Shopping Centers				
Ashburn Village, Ashburn, VA	$ 1,432	$ 16,112	$ 11,902	1994 & 200
Beacon Center, Alexandria, VA	5,769	10,251	7,414	1960 & 197
Belvedere, Baltimore, MD	784	982	2,640	1958
Boulevard, Fairfax, VA	274	6,019	6,687	1969
Clarendon, Arlington, VA	37	744	328	1949
Clarendon Station, Arlington, VA	60	811	96	1949
Flagship Center, Rockville, MD	--	169	548	1972
French Market, Oklahoma City, OK	3,573	10,754	3,176	1972
Germantown, Germantown, MD	484	3,390	1,168	1990
Giant, Baltimore, MD	602	699	2,678	1959
The Glen, Lake Ridge, VA	1,410	11,922	10,277	1993
Great Eastern, District Heights., MD	2,814	9,981	11,477	1958 & 196
Hampshire Langley, Langley Park, MD	1,977	3,598	10,511	1960
Leesburg Pike, Baileys Crossroads, VA	3,298	4,219	11,717	1965
Lexington Mall, Lexington, KY	4,573	6,199	6,311	1971 & 197
Lumberton Plaza, Lumberton, NJ	6,191	6,478	8,266	1975
Olney, Olney, MD	1,709	1,456	2,448	1972
Ravenwood, Baltimore, MD	689	2,201	6,776	1959
Seven Corners, Falls Church, VA	11,441	32,622	45,875	1956
Shops at Fairfax, Fairfax, VA	2,445	10,503	9,637	1975
Southdale, Glen Burnie, MD	10,885	7,967	8,217	1962 & 198
Southside Plaza, Richmond, VA	5,479	4,886	10,158	1958
South Dekalb Plaza, Atlanta, GA	2,376	2,812	2,545	1970
Thruway, Winston-Salem, NC	4,679	12,884	26,241	1955 & 196
Village Center, Centreville, VA	2,054	15,529	9,219	1990
West Park, Oklahoma City, OK	981	1,504	110	1974
White Oak, Silver Spring, MD	3,002	6,934	24,240	1958 & 196
Total Shopping Centers	79,018	191,626	240,612	
Office Properties				
Avenel Business Park, Gaithersburg, MD	12,218	26,766 --	25,978	1984, 1986 1990, 1998 & 2000
Crosstown Business Center, Tulsa, OK	2,067	3,209	--	1974

601 Pennsylvania Ave., Washington DC	19,197	31,019	36,279	1986
Van Ness Square, Washington, DC	11,680	15,061	7,260	1990
Total Office Properties	45,162	76,055	69,517	
Total	$ 124,180	$ 267,681	$ 310,129	

Schedule III

SAUL CENTERS, INC.
Real Estate and Accumulated Depreciation
December 31, 2000

Depreciation and amortization related to the real estate investments reflected in the statements of operations is calculated over the estimated useful lives of the assets as follows:

Base building	33 - 50 years
Building components	20 years
Tenant improvements	The lesser of the term of the lease or the useful life of the improvements

The aggregate remaining net basis of the real estate investments for federal income tax purposes was approximately $294,989,000 at December 31, 2000. Depreciation and amortization are provided on the declining balance and straight-line methods over the estimated useful lives of the assets.

The changes in total real estate investments and related accumulated depreciation for each of the years in the three year period ended December 31, 2000 are summarized as follows.

(In thousands)	2000	1999
Total real estate investments:		
Balance, beginning of year	$ 368,382	$ 348,061
Improvements	23,479	21,943
Sales	--	1,192
Retirements	--	430
Balance, end of year	$ 391,861	$ 368,382
Total accumulated depreciation:		
Balance, beginning of year	$ 112,272	$ 101,910
Depreciation expense	11,908	10,714
Sales	--	42

Retirements	--	310
Balance, end of year	$ 124,180	$ 112,272