SAUL CENTERS INC
Form 424B5
October 24, 2003

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Registration No. 333-107083

SUBJECT TO COMPLETION, DATED OCTOBER 24, 2003

PROSPECTUS SUPPLEMENT

(To Prospectus Dated September 30, 2003)

3,000,000 Depositary Shares

Each Representing $^{1}/_{100}{}^{th}$ of a Share of

% Series A Cumulative Redeemable Preferred Stock

(Liquidation Preference $25.00 Per Share)

We are offering 3,000,000 depositary shares, each representing a 1/100th fractional interest in a share of % Series A Cumulative Redeemable Preferred Stock. 30,000 shares of Series A preferred stock underlying the depositary shares will be deposited with Continental Stock Transfer & Trust Company, as depositary. We will receive all of the net proceeds from the sale of the depositary shares.

We will pay cumulative distributions on the Series A preferred stock underlying the depositary shares, from the date of original issuance, in the amount of $ per depositary share each year, which is equivalent to % of the $25.00 liquidation preference per depositary share. Dividends will be payable quarterly in arrears, beginning on January 15, 2004. We may not redeem the Series A preferred stock underlying the depositary shares before November , 2008, except in order to preserve our status as a real estate investment trust. On and after November , 2008, we may, at our option, redeem the Series A preferred shares, in whole or in part, by paying $2,500.00 per share equivalent to ($25.00 per depository share), plus any accumulated, accrued and unpaid dividends. The Series A preferred stock has no stated maturity, will not be subject to any sinking fund or mandatory redemption and will not be convertible into any of our other securities. Investors in the depositary shares will generally have no voting rights, but will have limited voting rights if we fail to pay dividends for six or more quarters (whether or not declared or consecutive) and in certain other events.

We will apply to list the depositary shares on the New York Stock Exchange under the symbol BFS PrA. If the application is approved, we expect trading on the NYSE will commence within 30 days after the initial delivery of the depositary shares to the underwriters.

Investing in our depositary shares involves risks. See Risk Factors beginning on Page 2 of the accompanying prospectus.

	Per Share	Total
Public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds, before expenses, to us	$	$

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

We have granted the underwriters the right to purchase up to 450,000 additional depositary shares from us within 30 days following the date of delivery of the depositary shares to cover over-allotments, if any.

The underwriters expect the depositary shares offered hereby will be ready for delivery in book-entry form through The Depository Trust Company on or about November , 2003.

FRIEDMAN BILLINGS RAMSEY

Ferris, Baker Watts
Incorporated

The date of this prospectus supplement is , 2003.

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Prospectus Supplement

Prospectus

You should rely only on the information contained in or incorporated by reference in this prospectus supplement or the accompanying prospectus. We and the underwriters have not authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We and the underwriters are not making an offer of these securities in any jurisdiction where the offer is not permitted. You should not assume that the information contained in or incorporated by reference in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on the front of this prospectus supplement or the date of incorporation by reference.

ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the depositary shares and the specific terms of the Series A preferred stock underlying the depositary shares and certain other matters relating to us. The second part, the accompanying prospectus, gives more general information about securities we may offer from time to time, some of which does not apply to the depositary shares we are offering and the Series A preferred stock underlying the depositary shares.

References to we, us or our refer to Saul Centers, Inc. and Saul Holdings Limited Partnership, which we refer to as the Partnership, and their respective direct or indirect owned subsidiaries, unless the context otherwise requires. We conduct our business and operations through the Partnership and/or directly or indirectly owned subsidiaries. The term you refers to a prospective investor. We are the sole general partner of the Partnership and, as of June 30, 2003, owned approximately 75.1% of the units of partnership interest in the Partnership. In addition, B. Francis Saul II, our Chairman and Chief Executive Officer, family members of Mr. Saul, entities controlled by Mr. Saul and other affiliates of Mr. Saul, whom we collectively refer to as The Saul Organization, hold the remaining units of partnership interest in the Partnership.

In this prospectus supplement, the term base rent payable under any lease refers to the minimum rent under the lease calculated in accordance with generally accepted accounting principles, which we refer to as GAAP, and excluding expenses payable by or reimbursable from the tenant under the lease.

FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus contain 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. Also, documents that we incorporate by reference into this prospectus supplement, including documents that we subsequently file with the SEC, will contain forward-looking statements. When we refer to forward-looking statements or information, sometimes we use words such as may, will, could, should, plans, intends, expects, believes, estimates, anticipates and continues and other similar words. These forward-looking statements are subject to c known and unknown risks and uncertainties, not all of which can be predicted or anticipated. We have included important factors under the section captioned Risk Factors beginning on Page 2 of the accompanying prospectus that could cause actual results, performance or achievements to differ materially from the forward-looking statements.

You should be aware that there may be other factors that could cause actual results, performance or achievements to differ materially from the forward-looking statements.

Given these uncertainties, readers are cautioned not to place undue reliance on these forward-looking statements. We also make no promise to update any of the forward-looking statements, or to publicly release the results if we revise any of them. You should carefully review the risks and the risk factors described in the section captioned Risk Factors beginning on Page 2 of the accompanying prospectus, as well as the other information in this prospectus supplement and the accompanying prospectus, before buying our depositary shares.

SUMMARY

This summary may not contain all of the information that is important to you. You should carefully read the entire prospectus supplement and the accompanying prospectus, especially the Risk Factors section on Page 2 of the accompanying prospectus and the Where You Can Find More Information section on Page S-25 of this prospectus supplement, as well as the documents incorporated by reference in this prospectus supplement and in the accompanying prospectus, before making an investment decision. Unless otherwise expressly stated or the context otherwise requires, all information in this prospectus supplement assumes that the underwriters over-allotment option is not exercised.

The Company

General. We are a self-administered and self-managed real estate company operating as a real estate investment trust, or a REIT, for federal income tax purposes. Our primary business activity is the ownership, management and development of income-producing properties. Our long-term objectives are to increase cash flow from operations and to maximize capital appreciation of our real estate. We conduct our business through the Partnership and/or directly or indirectly owned subsidiaries.

As of June 30, 2003, our properties consisted of 29 community and neighborhood shopping center properties, five predominantly office operating properties and three development and/or redevelopment properties.

Our principal executive offices are located at 7501 Wisconsin Avenue, Suite 1500, Bethesda, Maryland 20814 and our telephone number is (301) 986-6200. Our website address is www.saulcenters.com. The information contained in our website is not a part of this prospectus supplement or the accompanying prospectus. We make available free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to the foregoing as soon as reasonably practicable after electronically filed with or furnished to the SEC.

Operating Strategy. We intend to achieve our long-term objectives of increasing cash flow from operations and maximizing capital appreciation of our real estate by adhering to our property acquisition, development, management and capital strategies, all of which emphasize long-term real estate value enhancement.

Since our initial public offering in August 1993, we have grown our cash flows primarily through selective repositioning and redevelopment projects within our existing portfolio. A key goal at the time of the IPO was to increase cash flows and value on existing properties through redevelopment and re-tenanting.

Since early 2002, with many of our existing properties having been renovated or redeveloped, we have increased our focus on acquiring land sites for development and acquiring stabilized properties in locations characterized by favorable demographic trends.

In the future, we plan on continuing our expansion, redevelopment and repositioning activities within our current portfolio and undertaking prudent development and acquisition activities both in our core Baltimore and Washington, DC markets as well as other locations characterized by favorable demographic trends.

Our key operating strategies are highlighted below:

Own prime real estate We seek to own and operate community and neighborhood shopping centers in densely populated areas which we believe exhibit favorable demographic trends including high median/average household incomes and population growth.

Minimize portfolio rollover risk Our leases are generally long-term in nature, which we believe mitigates the risks associated with lease rollovers. In our shopping center portfolio, average annual lease expirations through 2011 are 7.2%, with no one year exceeding 13% of our leasable area over that period. In our office portfolio, average annual lease expirations through 2011 are 9.2%, with no one year exceeding 15% of our leasable area over that period. We actively manage our lease portfolio and commence re-tenanting activities in advance of lease expirations.

Maintain a diverse tenant base As of June 30, 2003, only three tenants accounted for over 2% of our total annualized base rent, with our two largest tenants, Giant Food and the U.S. Government, representing 5.4% and 4.7%, respectively, of our total annualized base rent. We believe that our relationships with our key tenants are stable.

Maintain a prudent capital structure Given our strategy of long-term real estate ownership and consequent highly depreciated book values of our assets, we believe that our coverage ratios are an appropriate leverage measure. We intend, over the long-term, to maintain a ratio of total debt to total fair market value of assets of less than 50%. While our financial leverage may fluctuate in conjunction with acquisition or development activities, we currently intend to maintain our leverage near present levels. We seek to minimize our exposure to variable rate debt and to utilize long-term debt financing consistent with our long-term ownership strategy. As of June 30, 2003, our variable rate debt as a percentage of total debt was 12.3%, and the average maturity of our debt was 8.5 years.

Management. Our executive officers have been with us or our predecessor companies for an average of 20 years and combined have over 123 years of experience with us or our predecessor companies.

Recent Developments

Recent Acquisition. On July 28, 2003, we acquired Old Forte Village, an approximately 161,000 square foot shopping center property located on 16 acres in Fort Washington, Maryland. The anchor tenant of the property is a recently constructed, approximately 58,000 square foot Safeway supermarket, which opened in March 2003. The balance of the property consists of approximately 48,000 square feet of in-line shop space, constructed primarily in the early 1980 s, 16,000 square feet of pad site buildings and the currently vacant 39,000 square foot space previously occupied by the Safeway supermarket before moving. As of September 30, 2003, the property was 66% leased. We plan to redevelop a portion of the property where the Safeway supermarket had been previously operating. The redevelopment is anticipated to cost approximately $5.0 million, which will be funded with the net proceeds of this offering. We have submitted preliminary plans for county review and approval and are in the process of completing construction drawings and specifications.

Proposed Acquisitions. On August 1, 2003, we entered into an agreement with an unaffiliated third party to purchase approximately 13 acres of undeveloped land in Frederick, Maryland, which we expect to develop into an approximately 100,000 square foot shopping center property. Pursuant to an executed lease, the property will be anchored by an approximately 57,000 square foot Giant Food supermarket. The purchase price for the land is $9.3 million, and we anticipate construction and development costs to be approximately $12.0 million. The purchase price and construction costs will be funded with the net proceeds of this offering. We expect construction to commence in the fourth quarter of 2003 with completion anticipated for the fourth quarter of 2004. As of September 30, 2003, the property was 61% pre-leased. The pending acquisition, which we expect to close during the fourth quarter of 2003, is subject to the receipt of certain governmental permits.

On October 3, 2003, we entered into a non-binding agreement with an unaffiliated third party to purchase an approximately 130,000 square foot grocery-anchored shopping center located in northern Virginia. The purchase price is expected to be approximately $29.8 million and will be funded with the net proceeds of this offering. As of September 30, 2003, the property was 93% leased. The acquisition agreement provides us with a 45-day due diligence period, during which we may terminate the agreement at any time. The 45-day period expires on November 17, 2003. Assuming that we do not exercise our right to terminate the agreement prior to November 17, 2003, we expect that the pending acquisition will close early in the first quarter of 2004, subject to the performance of customary closing conditions.

Recent Financing. On August 5, 2003, we closed an $8.0 million fixed-rate mortgage loan. The loan accrues interest at 5.51% and matures in December 2011. The loan is collateralized by our Ashburn Village shopping center property and requires equal monthly principal and interest payments of $48,175 based upon a 25-year amortization schedule and a balloon payment of $6,465,000 at loan maturity. Net proceeds from the loan were used to repay outstanding amounts under our unsecured revolving credit facility.

THE OFFERING

For a more complete description of the rights, preferences and other terms of the Series A preferred stock underlying the depositary shares specified in the following summary, please see the information under the captions Description of Series A Preferred Stock and Depositary Shares beginning on Page S-17 of this prospectus supplement and Description of Preferred Stock and Description of Depositary Shares beginning on Pages 15 and 18, respectively, of the accompanying prospectus.

Issuer	Saul Centers, Inc.
Securities Offered	3,000,000 depositary shares, each representing a 1/100th fractional interest in a share of % Series A Cumulative Redeemable Preferred Stock.
Dividend Rate and Payment Dates	Dividends on the offered shares are cumulative from the date of their original issue and are payable quarterly in arrears on the fifteenth day of January, April, July and October of each year, or, if not a business day, the next succeeding business day, when and as declared, beginning on January 15, 2004. We will pay cumulative dividends on the Series A preferred stock underlying the depositary shares at the fixed rate of $ per depositary share each year, which is equivalent to % of the $25.00 liquidation preference per depositary share. The first dividend we will pay on January 15, 2004 will be for less than a full quarter and will cover the period from the first date we issue and sell the depositary shares through January 14, 2004. Dividends on the Series A preferred stock underlying the depositary shares will continue to accumulate even if any of our agreements prohibit the current payment of dividends, we do not have earnings or funds legally available to pay the dividends or our board of directors does not declare the payment of the dividends. See Description of Series A Preferred Stock and Depositary Shares Dividends on Page S-18 of this prospectus supplement.
Liquidation Preference	The liquidation preference of each share of Series A preferred stock is $2,500.00 ($25.00 per depositary share). Upon liquidation, Series A preferred stockholders will be entitled to receive the liquidation preference with respect to their shares of Series A preferred stock plus an amount equal to accumulated but unpaid dividends with respect to such shares. See Description of Series A Preferred Stock and Depositary Shares Liquidation Preference on Page S-19 of this prospectus supplement.
Optional Redemption	The Series A preferred stock underlying the depositary shares is not redeemable prior to November , 2008, except in limited circumstances relating to the preservation of our qualification as a REIT. On and after November , 2008, the Series A preferred stock will be redeemable at our option for cash, in whole or, from time to time, in part, at a price per share equal to $2,500.00 per share (or $25.00 per depositary share), plus all accumulated, accrued and unpaid dividends on each share of Series A preferred stock, if any, to the redemption date.

Maturity	The Series A preferred stock underlying the depositary shares do not have any maturity date. Accordingly, the Series A preferred stock will remain outstanding indefinitely unless we decide to redeem them.
Restriction on Ownership	Ownership by a single holder of more than 5% or, in the case of The Saul Organization, of more than 29.9%, in value of our issued and outstanding equity securities (which include the depositary shares) is restricted in an effort to ensure that we remain a qualified REIT for U.S. federal income tax purposes. See Provisions of Maryland Law and Our Articles of Incorporation and Bylaws Restrictions on Ownership and Transfer beginning on Page 20 of the accompanying prospectus.
Ranking	The Series A preferred stock underlying the depositary shares will rank, as to dividend rights and rights upon our liquidation, dissolution or winding up, senior to shares of our common stock and on a parity with any equity securities that we may issue in the future, the terms of which specifically provide that such equity securities rank on a parity with the Series A preferred stock.
Voting Rights	Holders of the depositary shares representing interests in the Series A preferred stock will generally have no voting rights. However, if dividends on any outstanding shares of Series A preferred stock have not been paid for six or more quarterly periods (whether or not declared or consecutive), holders of depositary shares representing interests in the Series A preferred stock (voting separately as a class with all other series of preferred stock upon which like voting rights have been conferred and are exercisable) as a separate class, will be entitled to elect two additional directors to our board of directors to serve until all unpaid dividends have been fully paid or declared and set apart for payment. In addition, certain material and adverse changes to the terms of the Series A preferred stock cannot be made without the affirmative vote of holders of at least 66 $^{2}/3$% of the outstanding shares of Series A preferred stock, voting as a separate class. See Description of Series A Preferred Stock and Depositary Shares Voting Rights beginning on Page S-20 of this prospectus supplement.
	In any matter in which the Series A preferred stock may vote, each depositary share will be entitled to 1/100th of a vote.
Listing	We will apply to list the depositary shares on the New York Stock Exchange under the symbol BFS PrA. If the application is approved, we expect trading on the New York Stock Exchange will commence within 30 days after the initial delivery of the depositary shares to the underwriters. The Series A preferred stock is not listed and we do not expect that there will be any other trading market for the Series A preferred stock.
Form	The depositary shares will be issued and maintained in book-entry form registered in the name of the nominee of The Depositary Trust Company except under limited circumstances.

Use of Proceeds	We intend to contribute the net proceeds from this offering to the Partnership in exchange for a preferred interest in the Partnership. The terms of the preferred interest in the Partnership will be substantially equivalent to the terms of the Series A preferred stock. The Partnership intends to use $5.0 million of the amounts received from us to complete the redevelopment described under Recent Developments Recent Acquisition above and $51.1 million of the amounts received from us to purchase the properties and complete the related redevelopments described under Recent Developments Proposed Acquisitions above. The remaining $16.2 million will be used to reduce amounts outstanding under our unsecured revolving credit facility. In the event that we do not acquire the properties or complete the related redevelopments described under Recent Developments Proposed Acquisitions, we intend to use all of the net proceeds to repay amounts outstanding under our revolving credit facility, to fund other property acquisitions or redevelopments and for general corporate purposes.
Risk Factors	See Risk Factors beginning on Page 2 of the accompanying prospectus and other information contained herein for a discussion of factors you should carefully consider before deciding to invest in our depositary shares.

SELECTED FINANCIAL INFORMATION

The following information is unaudited and was derived from our consolidated financial statements. The information is only a summary and does not provide all of the information contained in our consolidated financial statements, including the related notes, Management s Discussion and Analysis of Financial Condition and Results of Operations, and Quantitative and Qualitative Disclosures about Market Risk, which are included in our Annual Report on Form 10-K for the year ended December 31, 2002, as amended. Information as of or for the six months ended June 30, 2003 does not purport to be indicative of our financial condition or results of operations to be expected as of or for the year ending December 31, 2003.

(Dollars in thousands, except per share data)	**As of or for the Six Months Ended June 30,**		**As of or for the Year Ended December 31,**				
	2003	**2002**	**2002**	**2001**	**2000**	**1999**	**1998**
Operating Data:							
Total revenue	$ 47,096	$ 45,984	$ 93,963	$ 86,308	$ 79,029	$ 73,791	$ 70,583
Operating expenses							
Interest expense	12,960	12,422	25,113	24,920	23,843	22,568	22,627
Other	21,581	20,137	42,640	36,005	33,072	30,556	30,766
Operating income	12,555	13,425	26,210	25,383	22,114	20,667	17,190
Non-operating income (loss)							
Gain on sale of property		1,426	1,426			553	
Change in accounting method							(771)
Income before extraordinary item and minority interests	12,555	14,851	27,636	25,383	22,114	21,220	16,419
Extraordinary item: Early extinguishment of debt							(50)
Income before minority interests	12,555	14,851	27,636	25,383	22,114	21,220	16,369
Minority interests	(4,040)	(4,034)	(8,070)	(8,069)	(8,069)	(7,923)	(7,240)
Net income	8,515	10,817	19,566	17,314	14,045	13,297	9,129
Minority interests	4,040	4,034	8,070	8,069	8,069	7,923	7,240
Depreciation and amortization of real property	8,327	8,304	17,821	14,758	13,534	12,163	12,578
Gain on sale of property		(1,426)	(1,426)			(553)	
Change in accounting method							771
Funds from operations (1)	$ 20,882	$ 21,729	$ 44,031	$ 40,141	$ 35,648	$ 32,830	$ 29,718
Per Share Data (diluted):							
Net income before extraordinary item and minority interests	$ 0.61	$ 0.75	$ 1.38	$ 1.31	$ 1.18	$ 1.17	$ 0.95