SAUL CENTERS INC
Form 10-K
February 26, 2019
Table of Contents

UNITED STATES
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, 2018

o 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 Avenue, Suite 1500E, Bethesda, Maryland 20814-6522
(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
Depositary Shares each representing 1/100th of a share of 6.875% Series C Cumulative Redeemable Preferred Stock, Par Value $0.01 Per Share	New York Stock Exchange
Depositary Shares each representing 1/100th of a share of 6.125% Series D Cumulative Redeemable Preferred 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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act Yes o No x.
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 o
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for

such shorter period that the registrant was required to submit and post such files). Yes x No o

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. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o
		Emerging growth company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x.

The number of shares of Common Stock, $0.01 par value, issued and outstanding as of February 20, 2019 was 22.7 million.

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the closing price of the registrant's Common Stock on the New York Stock Exchange on June 30, 2018 was $673.7 million.

DOCUMENTS INCORPORATED BY REFERENCE:

Registrant incorporates by reference into Part III (Items 10, 11, 12, 13 and 14) of this Annual Report on Form 10-K portions of registrant's definitive Proxy Statement for the 2019 Annual Meeting of Stockholders to be filed with the Securities Exchange Commission pursuant to Regulation 14A. The definitive Proxy Statement will be filed with the Commission not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I

Cautionary Statement Regarding Forward-Looking Statements

Certain statements contained herein constitute forward-looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are not guarantees of performance. Our future results, financial condition and business may differ materially from those expressed in these forward-looking statements. You can find many of these statements by looking for words such as “plans,” “intends,” “estimates,” “anticipates,” “expects,” “believes” or similar express in this Form 10-K. These forward-looking statements are subject to numerous assumptions, risks and uncertainties. Many of the factors that will determine these items are beyond our ability to control or predict. For further discussion of these factors, see “Item 1A. Risk Factors” in this Form 10-K.

For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date of this Form 10-K or the date of any document incorporated by reference. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances after the date of this Form 10-K.

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”). The Company is required to annually distribute at least 90% of its REIT taxable income (excluding net capital gains) to its stockholders and meet certain organizational and other requirements. Saul Centers has made and intends to continue to make regular quarterly distributions to its stockholders. Saul Centers, together with its wholly owned subsidiaries and the limited partnerships of which Saul Centers or one of its subsidiaries is the sole general partner, are referred to collectively as the “Company.” B. Francis Saul II serves as Chairman of the Board of Directors and Chief Executive Officer of Saul Centers.

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 and certain other affiliated entities, each of which is controlled by B. Francis Saul II and his family members (collectively, the "Saul Organization”). On August 26, 1993, members of the Saul Organization transferred to Saul Holdings Limited Partnership, a newly formed Maryland limited partnership (the “Operating Partnership”), and two newly formed subsidiary limited partnerships (the “Subsidiary Partnerships,” and collectively with the Operating Partnership, the “Partnerships”), shopping center and mixed-use properties, and the management functions related to the transferred properties. Since its formation, the Company has developed and purchased additional properties.

Table of Contents

The following table lists the significant properties acquired, developed and/or disposed of by the Company since January 1, 2016.

Name of Property	Location	Type	Square Footage	Year of Acquisition/ Development/ Disposal
Acquisitions				
Burtonsville Town Square	Burtonsville, Maryland	Shopping Center	121,000	2017
7316 Wisconsin Avenue	Bethesda, Maryland	Mixed-Use	69,600	2018
Developments				
Park Van Ness	Washington, DC	Mixed-Use	223,400	2013-2016
750 N. Glebe Road	Arlington, Virginia	Mixed-Use		2017-2018
Ashbrook Marketplace	Ashburn, Virginia	Shopping Center		2018
Dispositions				
Crosstown Business Center	Tulsa, Oklahoma	Mixed-Use	197,100	2016
Great Eastern	District Heights, Maryland	Shopping Center	255,400	2017

As of December 31, 2018, the Company's properties (the "Current Portfolio Properties") consisted of 49 shopping center properties (the "Shopping Centers"), seven mixed-use properties, which are comprised of office, retail and multi-family residential uses (the "Mixed-Use Properties") and four (non-operating) development properties. Shopping Centers and Mixed-Use Properties represent reportable business segments for financial reporting purposes. Revenue, net income, total assets and other financial information of each reportable segment are described in Note 15 to the Consolidated Financial Statements contained in Item 8 of this Form 10-K.

Organizational Structure

The Company conducts its business through the Operating Partnership and/or directly or indirectly owned subsidiaries. The following diagram depicts the Company's organizational structure and beneficial ownership of the common and preferred stock of Saul Centers calculated pursuant to Rule 13d-3 of the Exchange Act as of December 31, 2018.

(1) The Saul Organization's ownership percentage in Saul Centers reported above does not include units of limited partnership interest of the Operating Partnership held by the Saul Organization. In general, most units are convertible into shares of the Company's common stock on a one-for-one basis. However, not all of the units may be convertible into the Company's common stock because (i) the articles of incorporation limit beneficial and constructive ownership (defined by reference to various Code provisions) to 39.9% in value of the Company's issued and outstanding common and preferred equity securities, which comprise the ownership limit and (ii) the convertibility of some of the outstanding units is subject to approval of the Company's stockholders.

Management of the Current Portfolio Properties

The Operating Partnership manages the Current Portfolio Properties and will manage any subsequently acquired or developed properties. The management of the properties includes performing property management, leasing, design, renovation, development and accounting duties for each property. The Operating Partnership provides each property with a fully integrated property management capability, with approximately 65 full-time equivalent employees at its headquarters office and 45 employees at its properties and with an extensive and mature network of relationships with tenants and potential tenants as well as with members of the brokerage and property

Table of Contents

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 information technology 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 Organization. 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 specified in a written agreement and are reviewed annually by the Audit Committee of the Company's Board of Directors.

The Company subleases its corporate headquarters space from the Saul Organization at the Company's share of the cost. A discussion of the lease terms is provided in Note 7, Long Term Lease Obligations, of the Notes to Consolidated Financial Statements.

Principal Offices

The principal offices of the Company are located at 7501 Wisconsin Avenue, Suite 1500E, Bethesda, Maryland 20814-6522, and the Company's telephone number is (301) 986-6200. The Company's internet web address is www.saulcenters.com. Information contained on the Company's website is not part of this report. The Company makes available free of charge on its website its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after the reports are electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC"). Alternatively, you may access these reports at the SEC's website: www.sec.gov.

Policies with Respect to Certain Activities

The following is a discussion of the Company's operating strategy and certain of its investment, financing and other policies. These strategies and policies have been determined by the Board of Directors and, in general, may be amended or revised from time to time by the Board of Directors without a vote of the Company's stockholders.

Operating Strategy

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

The Company's primary operating strategy is to focus on its community and neighborhood Shopping Center business and its transit-centric, primarily residential mixed-use properties to achieve both cash flow growth and capital appreciation. Community and neighborhood shopping centers typically provide reliable cash flow and steady long-term growth potential. Management actively manages 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 potential for long term 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 where possible and seek new tenants for available space in order to optimize the mix of uses to improve foot traffic through the Shopping Centers. As leases expire, management expects to revise rental rates, lease

Table of Contents

terms and conditions, relocate existing tenants, reconfigure tenant spaces and introduce new tenants with the goals of increasing occupancy, improving overall retail sales, and ultimately increasing cash flow as economic conditions improve. In those circumstances in which leases are not otherwise expiring, management selectively attempts to increase cash flow through a variety of means, or in connection with renovations or relocations, recapturing leases with below market rents and re-leasing at market rates, as well as replacing financially troubled tenants. When possible, management also will seek to include scheduled increases in base rent, as well as percentage rental provisions, in its leases.

The Company will also seek growth opportunities in its Washington, D.C. metropolitan area Mixed-Use portfolio, primarily through development and redevelopment. The Company is developing approximately 490 residential units with approximately 60,000 square feet of street-level retail space at 750 N. Glebe Road in Arlington, Virginia, which is scheduled for substantial completion in early 2020. The total cost of the project, including acquisition of land, is expected to be approximately $275.0 million, a portion of which is being financed by a $157.0 million construction-to-permanent loan. Management also intends to negotiate lease renewals or to re-lease available space in the Mixed-Use 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 characteristics such 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 Mixed-Use Properties generally are attractive and well maintained. The Shopping Centers and Mixed-Use 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. 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.

Investment in Real Estate or Interests in Real Estate

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

In 2016, the Company completed development of Park Van Ness, a 271-unit residential project with approximately 9,000 square feet of street-level retail, below street-level structured parking, and amenities including a community room, landscaped courtyards, a fitness room, a wi-fi lounge/business center, and a rooftop pool and deck. The structure comprises 11 levels, five of which on the east side are below street level. Because of the change in grade from the street eastward to Rock Creek Park, apartments on all 11 levels have park or city views. The street level retail space is 100% leased to a grocery/gourmet food market and an upscale Italian restaurant. As of December 31, 2018, 263 apartments (97.0%) were leased. The total cost of the project, excluding predevelopment expense and land, which the Company has owned, was approximately $93.0 million, a portion of which was financed with a $71.6 million construction-to-permanent loan.

In January 2016, the Company terminated a 16,500 square foot lease at 11503 Rockville Pike and received a $3.0 million lease termination fee which was recognized as revenue in the first quarter. The space was previously occupied by an office supply store that had vacated in mid-2014 and the lease was scheduled to expire in 2019. The termination fee revenue was partially offset by the loss of approximately $1.1 million in rental revenue over the remainder of 2016. The Company executed leases with two replacement tenants whose occupancy and rent commencement occurred in 2017. While the Company continues to plan for a mixed-use development at this site and its neighboring Metro Pike Center, the initial phases of this development are expected to be on the west side of Rockville Pike at Metro Pike Center. The Company has not committed to any timetable for commencement of construction.

Table of Contents

From 2014 through 2016, in separate transactions, the Company purchased four adjacent properties on North Glebe Road in Arlington, Virginia, for an aggregate $54.0 million. The Company is developing approximately 490 residential units and 60,000 square feet of retail space on 2.8 acres of land. Concrete work is substantially complete and pre-cast facade panels, masonry and windows are being installed. Interior framing, electrical, plumbing and HVAC work have commenced. The development is scheduled for substantial completion in early 2020. The total cost of the project, including acquisition of land, is expected to be approximately $275.0 million, a portion of which is being financed by a $157.0 million construction-to-permanent loan. Leases have been executed for a 41,500 square foot Target and 9,000 square feet of retail shop space, resulting in approximately 84% of the retail space being leased.

Albertson's/Safeway, currently a tenant at seven of the Company's shopping centers (two stores of which are operated by subtenants), closed two Safeway stores located at the Company's properties during the June 2016 quarter. The stores that closed were located in Broadlands Village, Loudoun County, Virginia and Briggs Chaney Plaza, Montgomery County, Maryland. The lease at Briggs Chaney remains in full force and effect and Albertson's/Safeway has executed a sublease with a replacement grocer, Global Food, for that space and Global Food commenced operations in March 2017. In February 2017, the Company terminated the lease with Albertson's/Safeway at Broadlands and received a $3.6 million termination fee which was recognized as revenue in the first quarter. The termination fee revenue was partially offset by the loss of approximately $1.6 million of rental revenue over the course of 2017. The Company executed a lease with Aldi Food Market for 20,000 square feet of this space, which opened in November 2017, and has executed a lease with LA Fitness for substantially all of the remaining space. The fitness center is projected to open for business during the fourth quarter of 2019. In August 2018, Safeway closed its store at Palm Springs Center in Florida. The lease was purchased by Publix, and the store re-opened in November 2018.

In January 2017, the Company purchased for $76.4 million, including acquisition costs, Burtonsville Town Square, a 121,000 square foot shopping center located in Burtonsville, Maryland. Burtonsville Town Square is 100% leased and anchored by Giant Food and CVS Pharmacy. The purchase was funded with a new $40.0 million mortgage loan and through the Company's credit line facility. The Company has substantially completed construction of the shell of a 16,000 square foot small shop expansion and construction of interior improvements is underway. Delivery of the first leased tenant spaces occurred in late 2018, with initial tenant openings scheduled for the first quarter of 2019. The total development cost is expected to be approximately $5.7 million. Leases have been executed for approximately 55% of the space and the Company has prospects for an additional 3,900 square feet. In addition, a lease has been executed with Taco Bell who will construct a free-standing building on a pad site within the property.

During the three months ended June 30, 2017, the Company executed a termination agreement with Kmart at Kentlands Square II. Kmart closed its 104,000 square foot store at Kentlands in September 2017, and the Company gained possession on October 31, 2017. As a result of the termination, the mortgage loan agreement requires that Saul Centers guarantee approximately $9.2 million of that loan effective October 31, 2017 (the termination date), which will be reduced upon satisfaction of conditions stated in the loan documents. Annual revenue to the Company under the Kmart lease totaled approximately $1.3 million. In September 2018, the Company executed a lease with At Home for all of the space, which opened for business in January 2019.

In May 2018, the Company acquired from the B. F. Saul Real Estate Investment Trust (the "Saul Trust"), in exchange for 176,680 limited partnership units, approximately 13.7 acres of land located at the intersection of Ashburn Village Boulevard and Russell Branch Parkway in Ashburn, Virginia. The Company has received site plan approval and building permits for an approximately 88,000 square foot neighborhood shopping center. A 29,000 square foot anchor grocery store lease has been executed with Lidl and, including an executed gas station pad lease and shop space leases, overall pre-leasing totals approximately 44% of the planned space. In addition, lease negotiations are in progress for approximately 12,000 square feet of the planned pad building and small shop space. Site work commenced in November 2018, the grocer is scheduled to begin construction in the second quarter of 2019, and the shopping center is scheduled to open in early 2020. After construction of the shopping center and upon stabilization, the Company may be obligated to issue additional limited partnership units to the Saul Trust.

8

Table of Contents

In September 2018, the Company purchased for $35.5 million, plus approximately $0.7 million of acquisition costs, a 69,600 square foot office building and the underlying ground located at 7316 Wisconsin Avenue in Bethesda, Maryland. This site has mixed-use development potential of up to 325 apartment units and approximately 10,000 square feet of street level retail pursuant to the approved Bethesda Downtown Plan. In December 2018, the Company purchased for $4.5 million, including acquisition costs, an interest in an adjacent parcel of land and retail building. The Company is evaluating concept plans for the combined property in order to increase the mixed-use development potential by up to 40 additional apartment units. The purchase price was funded through the Company's credit facility.
In light of the limited amount of quality properties for sale and the escalated pricing of properties that the Company has been presented with or has inquired about over the past year, management believes acquisition opportunities for investment in existing and new Shopping Center and Mixed-Use Properties in the near future is uncertain. Because of the Company’s conservative capital structure, including its cash and capacity under its revolving credit facility, management believes that the Company is positioned to take advantage of additional investment opportunities as attractive properties are identified and market conditions improve. (See “Item 1. Business - Capital Policies”). It is management’s view that several of the sub-markets in which the Company operates have, or are expected to have in the future, attractive supply/demand characteristics. The Company will continue to evaluate acquisition, development and redevelopment as integral parts of its overall business plan.
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, D.C./Baltimore metropolitan area and the southeastern region of the United States) 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 transit-centric, primarily residential mixed-use properties in the Washington, D.C./Baltimore metropolitan area and the southeastern region of the United States, the Company may, in the future, also acquire other types of real estate in other areas of the country as opportunities present themselves. While the Company may diversify in terms of property locations, size and market, it does not set any limit on the amount or percentage of assets that may be invested in any one property or any one geographic area.
The Company intends to engage in such future investment or development activities in a manner that is consistent with the maintenance of its status as a REIT for federal income tax purposes and that will not make the Company become regulated as an investment company under the Investment Company Act of 1940, as amended. Equity investments in acquired properties may be subject to existing mortgage financings and other indebtedness or to new indebtedness which may be incurred in connection with acquiring or refinancing these investments.
Investments in Real Estate Mortgages
While the Company’s current portfolio and business objectives emphasize equity investments in commercial and neighborhood shopping centers and mixed-use properties, the Company may, at the discretion of the Board of Directors, invest in mortgages, participating or convertible mortgages, deeds of trust and other types of real estate interests consistent with its qualification as a REIT. The Company does not presently invest, nor does it intend to invest, in real estate mortgages.
Investments in Securities of or Interests in Persons Engaged in Real Estate Activities and Other Issues
Subject to the requirements to maintain REIT qualification, the Company may invest in securities of other REITs, other entities engaged in real estate activities or securities of other issuers, including for the purpose of

exercising control over such entities. The Company does not presently invest, nor does it intend to invest, in any securities of other REITs.

Dispositions

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

In September 2017, the Company sold for $8.5 million the 255,400 square foot Great Eastern Shopping Center located in District Heights, Maryland. The Company provided $1.28 million second trust financing to the buyer, which bore interest at a fixed rate of 6%. In May 2018, the buyer repaid the loan in full and the Company recognized a $0.5 million gain that was previously deferred.

The Company may elect to dispose of other properties if, based upon management's periodic review of the Company's portfolio, the Board of Directors determines that such action would be in the best interest of the Company's stockholders.

Capital Policies

The Company has established a debt capitalization policy relative to asset value, which is computed by reference to the aggregate annualized cash flow from the properties in the Company's portfolio rather than relative to book value. The Company has used a measure tied to cash flow because it believes that the book value of its portfolio properties, which is the depreciated historical cost of the properties, does not accurately reflect the Company's ability to incur indebtedness. Asset value, however, is somewhat more variable than book value, and may not at all times reflect the fair market value of the underlying properties. 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. Given the Company's current debt level, it is management's belief that the ratio of the Company's debt to total asset value is below 50% as of December 31, 2018. The organizational documents of the Company do not limit the absolute amount or percentage of indebtedness that it may incur. The Board of Directors may, from time to time, reevaluate the Company's debt capitalization policy in light of current economic conditions, relative costs of capital, market values of the Company property portfolio, opportunities for acquisition, development or expansion, and such other factors as the Board of Directors then deems relevant. The Board of Directors may modify the Company's debt capitalization policy based on such a reevaluation without shareholder approval and consequently, may increase or decrease the Company's debt to total asset ratio above or below 50% or may waive the policy for certain periods of time, subject to maintaining compliance with financial covenants within existing debt agreements. 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.

The Company intends to finance future acquisitions and developments 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, proceeds from the Company's Dividend Reinvestment and Stock Purchase Plan, proceeds from the sale of properties and private and public offerings of debt or equity securities. 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.

Other Policies

The Company has the authority to offer equity or debt securities in exchange for property and to repurchase or otherwise acquire its common stock or other securities in the open market or otherwise, and may engage in such activities in the future. The Company expects, but is not obligated, to issue common stock to holders of units of the Operating Partnership upon exercise of their redemption rights. The Company has not engaged in

Table of Contents

trading, underwriting or agency distribution or sale of securities of other issuers other than the Operating Partnership and does not intend to do so. The Company has not made any loans to third parties, although the Company may in the future make loans to third parties. In addition, the Company has policies relating to related party transactions discussed in “Item 1A. Risk Factors.”

Competition

As an owner of, or investor in, community and neighborhood shopping centers and mixed-use properties, the Company is subject to competition from an indeterminate number of companies in connection with the acquisition, development, ownership and leasing of similar properties. These investors include investors with access to significant capital, such as domestic and foreign corporations and financial institutions, publicly traded and privately held REITs, private institutional investment funds, investment banking firms, life insurance companies and pension funds. Competition may reduce properties available for acquisition or development or increase prices for raw land or developed properties of the type in which the Company invests. The Company faces competition in providing leases to prospective tenants and in re-letting space to current tenants upon expiration of their respective leases. If tenants decide not to renew or extend their leases upon expiration, the Company may not be able to re-let the space. Even if the tenants do renew or the Company can re-let the space, the terms of renewal or re-letting, including the cost of required renovations, may be less favorable than current lease terms or than expectations for the space. This risk may be magnified if the properties owned by our competitors have lower occupancy rates than the Company’s properties. As a result, these competitors may be willing to make space available at lower prices than the space in the Current Portfolio Properties.

Management believes that success in the competition for ownership and leasing property 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 the Company’s 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. Finally, retailers at our Shopping Centers face increasing competition from outlet stores, discount shopping clubs and other forms of marketing goods, such as direct mail, internet marketing and telemarketing. This competition may reduce percentage rents payable to us and may contribute to lease defaults or insolvency of tenants.

Environmental Matters

The Current Portfolio Properties are subject to various laws and regulations relating to environmental and pollution controls. The impact upon the Company from 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 20, 2019, the Company had approximately 65 full-time equivalent employees at its headquarters office, including seven leasing agents, and 45 employees at its properties. None of the Company’s employees are covered by collective bargaining agreements. Management believes that its relationship with employees is good.

Table of Contents

Recent Developments

The recent period of economic expansion has now run in excess of five years. While economic conditions within the local Washington, DC metropolitan area have remained relatively stable, issues facing the Federal government relating to taxation, spending and interest rate policy will likely impact the office, retail and residential real estate markets over the coming years. Because the majority of the Company’s property operating income is produced by our shopping centers, we continually monitor the implications of government policy changes, as well as shifts in consumer demand between on-line and in-store shopping, on future shopping center construction and retailer store expansion plans. Based on our observations, we continue to adapt our marketing and merchandising strategies in a way to maximize our future performance. Commercial leasing percentages, on a comparable property basis, which excludes the impact of properties not in operation for the entirety of the comparable periods, increased to 95.7% at December 31, 2018, from 94.3% at December 31, 2017.

On January 23, 2018, Saul Centers sold, in an underwritten public offering, 3.0 million depositary shares, each representing 1/100th of a share of 6.125% Series D Cumulative Redeemable Preferred Stock, providing net cash proceeds of approximately $72.6 million. The depositary shares may be redeemed at the Company’s option, in whole or in part, on or after January 23, 2023, at the $25.00 liquidation preference, plus accumulated dividends to but not including the redemption date. The depositary shares pay an annual dividend of $1.53125 per share, equivalent to 6.125% of the $25.00 liquidation preference. The Series D preferred stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and is not convertible into any other securities of the Company except in connection with certain changes in control or delisting events. Investors in the depositary shares generally have no voting rights, but will have limited voting rights if the Company fails to pay dividends for six or more quarters (whether or not declared or consecutive) and in certain other events. The proceeds from the offering were used to partially redeem the Company’s 6.875% Series C Cumulative Redeemable Preferred Stock and related depositary shares.

On January 26, 2018, the Operating Partnership replaced its credit agreement with a New Credit Agreement by and among the Operating Partnership, as Borrower, Wells Fargo Bank, National Association, as Administrative Agent, Capital One, National Association, as Syndication Agent, Wells Fargo Securities, LLC and Capital One, National Association, as Joint Lead Arrangers, Wells Fargo Securities, LLC, as Sole Bookrunner and Wells Fargo Bank, National Association, Capital One, N.A., U.S. Bank National Association, TD Bank, N.A., Regions Bank and Associated Bank, National Association, as Lenders (the “New Credit Agreement”).

The New Credit Agreement consists of a $400.0 million credit facility (the “New Facility”), of which $325.0 million is a revolving credit facility (the “Revolving Line”) and $75.0 million is a term loan (the “Term Loan”). The Revolving Line matures on January 26, 2022, which term may be extended by the Company for one additional year, subject to satisfaction of certain conditions. The Term Loan matures on January 26, 2023, and may not be extended.

In general, loan availability under the New Facility is primarily determined by operating income from the Company’s existing unencumbered properties. Interest accrues at a rate of LIBOR plus a spread of 135 basis points to 195 basis points under the Revolving Line, and 130 basis points to 190 basis points under the Term Loan, each as determined by certain leverage tests. As of December 31, 2018, the applicable spread for borrowings is 135 basis points under the Revolving Line and 130 basis points under the Term Loan.

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

The Company had access to debt at attractive terms and pricing during 2016, 2017 and 2018. The Company maintains a ratio of total debt to total asset value of under 50%, which allows it to obtain additional secured borrowings if necessary. As of December 31, 2018, amortizing fixed-rate mortgage debt with staggered maturities from 2019 to 2035, represented approximately 88.2% of the Company’s notes payable, thus minimizing refinancing risk. The floating-rate debt of the Company is comprised of $122.0 million outstanding under the Company's credit facility.

Table of Contents

Acquisition and Development Activity

A significant contributor to the Company’s recent growth in its Shopping Center portfolio has been its land acquisitions and subsequent development, redevelopment of existing Shopping Centers and operating property acquisition activities. Redevelopment activities reposition the Company’s Shopping Centers to be competitive in the current retailing environment. These redevelopments typically include an update of the facade, site improvements and reconfiguring tenant spaces to accommodate tenant size requirements and merchandising evolution. During the period January 1, 2016 through December 31, 2018, the Company acquired seven significant real estate assets. Below is a discussion of significant activities.

2019 / 2018 / 2017 / 2016 Acquisitions, Developments and Redevelopments

700, 726, 730, 750 North Glebe Road

From 2014 through 2016, in separate transactions, the Company purchased four adjacent properties on North Glebe Road in Arlington, Virginia, for an aggregate $54.0 million. The Company is developing approximately 490 residential units and 60,000 square feet of retail space on 2.8 acres of land. Concrete work is substantially complete and pre-cast facade panels, masonry, and windows are being installed. Interior framing, electrical, plumbing and HVAC work have commenced. The development is scheduled for substantial completion in early 2020. The total cost of the project, including acquisition of land, is expected to be approximately $275.0 million, a portion of which is being financed by a $157.0 million construction-to-permanent loan. Leases have been executed for a 41,500 square foot Target and 9,000 square feet of retail shop space, resulting in approximately 84% of the retail space being leased.

Park Van Ness

In 2016, the Company completed development of Park Van Ness, a 271-unit residential project with approximately 9,000 square feet of street-level retail, below street-level structured parking, and amenities including a community room, landscaped courtyards, a fitness room, a wi-fi lounge/business center, and a rooftop pool and deck. The structure comprises 11 levels, five of which on the east side are below street level. Because of the change in grade from the street eastward to Rock Creek Park, apartments on all 11 levels have park or city views. The street level retail space is 100% leased to a grocery/gourmet food market and an upscale Italian restaurant. As of December 31, 2018, 263 apartments (97.0%) were leased. The total cost of the project, excluding predevelopment expense and land, which the Company has owned, was approximately $93.0 million, a portion of which was financed with a $71.6 million construction-to-permanent loan.

Thruway Pad

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

Ashbrook Marketplace

In May 2018, the Company acquired from the Saul Trust, in exchange for 176,680 limited partnership units, approximately 13.7 acres of land located at the intersection of Ashburn Village Boulevard and Russell Branch Parkway in Ashburn, Virginia. The land is zoned for up to 115,000 square feet of retail development. The Company has received site plan approval and building permits for an approximately 88,000 square foot neighborhood shopping center. A 29,000 square foot anchor grocery store lease has been executed with Lidl and, including an executed gas station pad lease and shop space leases, overall pre-leasing totals approximately 44% of the planned space. In addition, lease negotiations are in progress for approximately 12,000 square feet of the planned pad building and small shop space. Site work commenced in November 2018, the grocer is scheduled to begin construction in the second quarter of 2019, and the shopping center is scheduled to open in early 2020. After construction of the shopping center and upon stabilization, the Company may be obligated to issue additional limited partnership units to the Saul Trust.

Table of Contents

Beacon Center
In the fourth quarter of 2016, the Company purchased for $22.7 million, including acquisition costs, the land underlying Beacon Center. The land was previously leased by the Company with an annual rent of approximately $60,000. The purchase price was funded in part by an $11.25 million increase to the existing mortgage collateralized by Beacon Center and in part by the Company’s revolving credit facility.
Southdale
In the fourth quarter of 2016, the Company purchased for $15.3 million, including acquisition costs, the land underlying Southdale. The land was previously leased by the Company with an annual rent of approximately $60,000. The purchase price was funded by the Company’s revolving credit facility.
Burtonsville Town Square
In January 2017, the Company purchased for $76.4 million, including acquisition costs, Burtonsville Town Square, a 121,000 square foot shopping center located in Burtonsville, Maryland. Burtonsville Town Square is 100% leased and anchored by Giant Food and CVS Pharmacy. The purchase was funded with a new $40.0 million mortgage loan and through the Company's credit line facility. The mortgage bears interest at 3.39%, requires monthly principal and interest payments of $197,900 based upon a 25-year amortization schedule, and has a 15-year maturity. The Company has substantially completed construction of the shell of a 16,000 square foot small shop expansion and construction of interior improvements is underway. Delivery of the first leased tenant spaces occurred in late 2018, with initial tenant openings scheduled for the first quarter of 2019. The total development cost is expected to be approximately $5.7 million. Leases have been executed for approximately 55% of the space and the Company has prospects for an additional 3,900 square feet. In addition, a lease has been executed with Taco Bell who will construct a free-standing building on a pad site within the property.
Olney Shopping Center
In March 2017, the Company purchased for $3.1 million, including acquisition costs, the land underlying Olney Shopping Center. The land was previously leased by the Company with an annual rent of approximately $56,000. The purchase price was funded by the revolving credit facility.
7316 Wisconsin Avenue
In September 2018, the Company purchased for $35.5 million, plus approximately $0.7 million of acquisition costs, a 69,600 square foot office building and the underlying ground located at 7316 Wisconsin Avenue in Bethesda, Montgomery County, Maryland. This site has mixed-use development potential of up to 325 apartment units and approximately 10,000 square feet of street level retail pursuant to the approved Bethesda Downtown Plan. In December 2018, the Company purchased for $4.5 million, including acquisition costs, an interest in an adjacent parcel of land and retail building. The Company is evaluating concept plans for the combined property in order to increase the mixed-use development potential by up to 40 additional apartment units. The purchase price was funded through the Company's credit facility.
Lansdowne Town Center
In March 2019, the Company plans to commence development of a pad site expansion on land owned at its Lansdowne Town Center property in Ashburn, Virginia. Total development costs are expected to be approximately $4.0 million. A ground lease with Chick-fil-A has been executed for one pad with the building to be constructed by the tenant. A lease with Starbucks has been executed for another pad and the Company will construct the building shell. Both buildings are projected to be completed and occupied by early 2020.

Table of Contents

Item 1A. Risk Factors
RISK FACTORS
Carefully consider the following risks and all of the other information set forth in this Annual Report on Form 10-K, including the consolidated financial statements and the notes thereto. If any of the events or developments described below were actually to occur, the Company’s business, financial condition or results of operations could be adversely affected.
In this section, unless the context indicates otherwise, the terms “Company,” “we,” “us” and “our” refer to Saul Centers, Inc., and its subsidiaries, including the Operating Partnership.
Financial and economic conditions may have an adverse impact on us, our tenants’ businesses and our results of operations.

Our business may be affected by market and economic challenges experienced by the U.S. economy or real estate industry as a whole, by the local economic conditions in the markets in which our properties are located, including the impact of high unemployment, volatility in the public equity and debt markets, and international economic conditions. A prolonged deterioration of economic and other market conditions, could adversely affect our business, financial condition, results of operations or real estate values, as well as the financial condition of our tenants and lenders, which may expose us to increased risks of default by these parties.

Potential consequences of a prolonged deterioration of economic and other market conditions include:

- the financial condition of our tenants, many of which operate in the retail industry, may be adversely affected, which may result in tenant defaults under their leases due to bankruptcy, lack of liquidity, operational failures or for other reasons;
- the ability to borrow on terms and conditions that we find acceptable, or at all, may be limited, which could reduce our ability to pursue acquisition and development opportunities and refinance existing debt, reduce our returns from acquisition and development activities and increase our future interest expense;
- reduced values of our properties may limit our ability to dispose of assets at attractive prices and may reduce the ability to refinance loans; and
- one or more lenders under our credit facility could fail and we may not be able to replace the financing commitment of any such lenders on favorable terms, or at all.

Revenue from our properties may be reduced or limited if the retail operations of our tenants are not successful.

Adverse changes in consumer spending or consumer preferences for particular goods, services or store based retailing could severely impact our tenants’ ability to pay rent. Revenue from our properties depends primarily on the ability of our tenants to pay the full amount of rent due under their leases on a timely basis. The amount of rent we receive from our tenants generally will depend in part on the success of our tenants’ retail operations, making us vulnerable to general economic downturns and other conditions affecting the retail industry. Some tenants may terminate their occupancy due to an inability to operate profitably for an extended period of time, impacting the Company’s ability to maintain occupancy levels.
Any reduction in our tenants’ ability to pay base rent or percentage rent may adversely affect our financial condition and results of operations. Small business tenants and anchor retailers which lease space in the Company’s properties may experience a deterioration in their sales or other revenue, or experience a constraint on the availability of credit necessary to fund operations, which in turn may adversely impact those tenants’ ability to pay contractual base rents and operating expense recoveries. Some of our leases provide for the payment, in addition to base rent, of additional rent above the base amount according to a specified percentage of the gross sales generated by the tenants. Decreasing sales revenue by retail tenants could adversely impact the Company’s receipt of percentage rents required to be paid by tenants under certain leases.

Table of Contents

Our ability to increase our net income depends on the success and continued presence of our shopping center "anchor" tenants and other significant tenants.

Our net income could be adversely affected in the event of a downturn in the business, or the bankruptcy or insolvency, of any anchor store or anchor tenant. Our largest shopping center anchor tenant is Giant Food, which accounted for 4.7% of our total revenue for the year ended December 31, 2018. The closing of one or more anchor stores prior to the expiration of the lease of that store or the termination of a lease by one or more of a property's anchor tenants could adversely affect that property and result in lease terminations by, or reductions in rent from, other tenants whose leases may permit termination or rent reduction in those circumstances or whose own operations may suffer as a result. This could reduce our net income.

We may experience difficulty or delay in renewing leases or leasing vacant space.

We derive most of our revenue directly or indirectly from rent received from our tenants. We are subject to the risks that, upon expiration, leases for space in our properties may not be renewed, the space and other vacant space may not be re-leased, or the terms of renewal or re-lease, including the cost of required renovations or concessions to tenants, may be less favorable than previous lease terms. Constraints on the availability of credit to office and retail tenants, necessary to purchase and install improvements, fixtures and equipment, and fund start-up business expenses, could impact the Company's ability to procure new tenants for spaces currently vacant in existing operating properties or properties under development. As a result, our results of operations and our net income could be reduced.

We have substantial relationships with members of the Saul Organization whose interests could conflict with the interests of other stockholders.

Influence of Officers, Directors and Significant Stockholders.

Three of our executive officers, Mr. B. F. Saul II, our President and Chief Operating Officer, J. Page Lansdale, and our Executive Vice President-Chief Legal and Administrative Officer, Christine Nicolaides Kearns, are members of the Saul Organization, and persons associated with the Saul Organization constitute four of the ten members of our Board of Directors. In addition, as of December 31, 2018, Mr. B. F. Saul II had the potential to exercise control over 9,880,694 shares of our common stock representing 43.7% of our issued and outstanding shares of common stock. Mr. B. F. Saul II also beneficially owned, as of December 31, 2018, 7,825,980 units of the Operating Partnership. In general, these units are convertible into shares of our common stock on a one-for-one basis. The ownership limitation set forth in our articles of incorporation is 39.9% in value of our issued and outstanding equity securities (which includes both common and preferred stock). As of December 31, 2018, Mr. B. F. Saul II and members of the Saul Organization owned common stock representing approximately 37.8% in value of all our issued and outstanding equity securities. Members of the Saul Organization are permitted under our articles of incorporation to convert Operating Partnership units into shares of common stock or acquire additional shares of common stock until the Saul Organization's actual ownership of common stock reaches 39.9% in value of our equity securities. As of December 31, 2018, approximately 920,000 of the 7,825,980 units of the Operating Partnership would have been permitted to convert into additional shares of common stock, and would have resulted in Mr. B. F. Saul II and members of the Saul Organization owning common stock representing approximately 39.9% in value of all our issued and outstanding equity securities.

As a result of these relationships, members of the Saul Organization will be in a position to exercise significant influence over our affairs, which influence might not be consistent with the interests of some, or a majority, of our stockholders. Except as discussed below, we do not have any written policies or procedures for the review, approval or ratification of transactions with related persons.

Table of Contents

Management Time.
Our Chief Executive Officer, President and Chief Operating Officer, Executive Vice President-Chief Legal and Administrative Officer and Senior Vice President-Chief Accounting Officer are also officers of various entities of the Saul Organization. Although we believe that these officers spend sufficient management time to meet their responsibilities as our officers, the amount of management time devoted to us will depend on our specific circumstances at any given point in time. As a result, in a given period, these officers may spend less than a majority of their management time on our matters. Over extended periods of time, we believe that our Chief Executive Officer will spend less than a majority of his management time on Company matters, while our President and Chief Operating Officer, Executive Vice President-Chief Legal and Administrative Officer and Senior Vice President-Chief Accounting Officer may or may not spend less than a majority of their time on our matters.
Exclusivity and Right of First Refusal Agreements.
We will acquire, develop, own and manage shopping center properties and will own and manage other commercial properties, and, subject to certain exclusivity agreements and rights of first refusal to which we are a party, the Saul Organization will continue to develop, acquire, own and manage commercial properties and own land suitable for development as, among other things, shopping centers and other commercial properties. Therefore, conflicts could develop in the allocation of acquisition and development opportunities with respect to commercial properties other than shopping centers and with respect to development sites, as well as potential tenants and other matters, between us and the Saul Organization. The agreement relating to exclusivity and the right of first refusal between us and the Saul Organization generally requires the Saul Organization to conduct its shopping center business exclusively through us and to grant us a right of first refusal to purchase commercial properties and development sites in certain market areas that become available to the Saul Organization. The Saul Organization has granted the right of first refusal to us, acting through our independent directors, in order to minimize potential conflicts with respect to commercial properties and development sites. We and the Saul Organization have entered into this agreement in order to minimize conflicts with respect to shopping centers and certain of our commercial properties.
We own real estate assets in the Twinbrook area of Rockville, Maryland, which are adjacent to real estate assets owned by the Saul Trust, a member of the Saul Organization. We have entered into an agreement with the Saul Trust, which originally expired on December 31, 2015, and which was extended to December 31, 2016, to share, on a pro rata basis, third-party predevelopment costs related to the planning of the future development of the adjacent sites. On December 8, 2016, we entered into a replacement agreement with the Saul Trust which extended the expiration date to December 31, 2017 and provides for automatic twelve month renewals unless either party provides notice of termination. Conflicts with respect to payments and allocations of costs may arise under the agreement.
Shared Services.
We share with the Saul Organization certain ancillary functions, such as computer and payroll services, benefits administration and in-house legal services. The terms of all sharing arrangements, including payments related thereto, are reviewed periodically by our Audit Committee, which is comprised solely of independent directors. Included in our general and administrative expenses or capitalized to specific development projects, for the year ended December 31, 2018, are charges totaling $8.4 million, related to such shared services, which included rental payments for the Company’s headquarters lease, which were billed by the Saul Organization. Although we believe that the amounts allocated to us for such shared services represent a fair allocation between us and the Saul Organization, we have not obtained a third party appraisal of the value of these services.
The B. F. Saul Insurance Agency of Maryland, Inc., a subsidiary of the B. F. Saul Company and a member of the Saul Organization, is a general insurance agency that receives commissions and counter-signature fees in connection with our insurance program. Such commissions and fees amounted to approximately $407,900 for the year ended December 31, 2018.

Table of Contents

Related Party Rents.

We sublease space for our corporate headquarters from a member of the Saul Organization, the building of which is owned by another member of the Saul Organization. The lease commenced in March 2002 and expires in February 2022. The Company and the Saul Organization entered into a Shared Services Agreement whereby each party pays a portion of the total rental payments based on a percentage proportionate to the number of employees employed by each party. The Company's rent expense for the year ended December 31, 2018 was $779,800. Although the Company believes that this lease has terms comparable to what would have been obtained from a third party landlord, it did not seek bid proposals from any independent third parties when entering into its new corporate headquarters lease.

Conflicts Based on Individual Tax Considerations.

The tax basis of members of the Saul Organization in our portfolio properties which were contributed to certain partnerships at the time of our initial public offering in 1993 was substantially less than the fair market value thereof at the time of their contribution. In the event of our disposition of such properties, a disproportionately large share of the gain for federal income tax purposes would be allocated to members of the Saul Organization. In addition, future reductions of the level of our debt, or future releases of the guarantees or indemnities with respect thereto by members of the Saul Organization, would cause members of the Saul Organization to be considered, for federal income tax purposes, to have received constructive distributions. Depending on the overall level of debt and other factors, these distributions could be in excess of the Saul Organization's bases in their Partnership units, in which case such excess constructive distributions would be taxable.

Consequently, it is in the interests of the Saul Organization that we continue to hold the contributed portfolio properties, that a portion of our debt remains outstanding or is refinanced and that the Saul Organization guarantees and indemnities remain in place, in order to defer the taxable gain to members of the Saul Organization. Therefore, the Saul Organization may seek to cause us to retain the contributed portfolio properties, and to refrain from reducing our debt or releasing the Saul Organization guarantees and indemnities, even when such action may not be in the interests of some, or a majority, of our stockholders. In order to minimize these conflicts, decisions as to sales of the portfolio properties, or any refinancing, repayment or release of guarantees and indemnities with respect to our debt, will be made by the independent directors.

Ability to Block Certain Actions.

Under applicable law and the limited partnership agreement of the Operating Partnership, consent of the limited partners is required to permit certain actions, including the sale of all or substantially all of the Operating Partnership's assets. Therefore, members of the Saul Organization, through their status as limited partners in the Operating Partnership, could prevent the taking of any such actions, even if they were in the interests of some, or a majority, of our stockholders.

The amount of debt we have and the restrictions imposed by that debt could adversely affect our business and financial condition.

As of December 31, 2018, we had approximately $1.0 billion of debt outstanding, $910.2 million of which was long-term fixed-rate debt secured by 36 of our properties and $122.0 million of which was variable-rate debt due under our credit facility.

We currently have a general policy of limiting our borrowings to 50 percent of asset value, i.e., the value of our portfolio, as determined by our Board of Directors by reference to the aggregate annualized cash flow from our portfolio. Our organizational documents contain no limitation on the amount or percentage of indebtedness which we may incur. Therefore, the Board of Directors could alter or eliminate the current limitation on borrowing at any time. If our debt capitalization policy were changed, we could increase our leverage, resulting in an increase in debt service that could adversely affect our operating cash flow and our ability to make expected distributions to stockholders, and in an increased risk of default on our obligations.

Table of Contents

We have established our debt capitalization policy relative to asset value, which is computed by reference to the aggregate annualized cash flow from the properties in our portfolio rather than relative to book value. We have used a measure tied to cash flow because we believe that the book value of our portfolio properties, which is the depreciated historical cost of the properties, does not accurately reflect our ability to borrow. Asset value, however, is somewhat more variable than book value, and may not at all times reflect the fair market value of the underlying properties.

The amount of our debt outstanding from time to time could have important consequences to our stockholders. For example, it could:

- require us to dedicate a substantial portion of our cash flow from operations to payments on our debt, thereby reducing funds available for operations, property acquisitions and other appropriate business opportunities that may arise in the future;
- limit our ability to obtain any additional financing we may need in the future for working capital, debt refinancing, capital expenditures, acquisitions, development or other general corporate purposes;
- make it difficult to satisfy our debt service requirements;
- limit our ability to make distributions on our outstanding common and preferred stock;
- require us to dedicate increased amounts of our cash flow from operations to payments on our variable rate, unhedged debt if interest rates rise;
- limit our flexibility in planning for, or reacting to, changes in our business and the factors that affect the profitability of our business, which may place us at a disadvantage compared to competitors with less debt or debt with less restrictive terms; and
- limit our ability to obtain any additional financing we may need in the future for working capital, debt refinancing, capital expenditures, acquisitions, development or other general corporate purposes.

Our ability to make scheduled payments of the principal of, to pay interest on, or to refinance, our indebtedness will depend primarily on our future performance, which to a certain extent is subject to economic, financial, competitive and other factors described in this section. If we are unable to generate sufficient cash flow from our business in the future to service our debt or meet our other cash needs, we may be required to refinance all or a portion of our existing debt, sell assets or obtain additional financing to meet our debt obligations and other cash needs. Our ability to refinance, sell assets or obtain additional financing may not be possible on terms that we would find acceptable.

We are obligated to comply with financial and other covenants in our debt that could restrict our operating activities, and the failure to comply could result in defaults that accelerate the payment under our debt.

Our secured debt generally contains customary covenants, including, among others, provisions:

- relating to the maintenance of the property securing the debt;
- restricting our ability to assign or further encumber the properties securing the debt; and
- restricting our ability to enter into certain new leases or to amend or modify certain existing leases without obtaining consent of the lenders.

Our unsecured debt generally contains various restrictive covenants. The covenants in our unsecured debt include, among others, provisions restricting our ability to:

- incur additional unsecured debt;
- guarantee additional debt;
- make certain distributions, investments and other restricted payments, including distribution payments on our outstanding stock;

Table of Contents

- create certain liens;
- increase our overall secured and unsecured borrowing beyond certain levels; and
- consolidate, merge or sell all or substantially all of our assets.

Our ability to meet some of the covenants in our debt, including covenants related to the condition of the property or payment of real estate taxes, may be dependent on the performance by our tenants under their leases.

In addition, our credit facility requires us and our subsidiaries to satisfy financial covenants. The material financial covenants require us, on a consolidated basis, to:

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

As of December 31, 2018, we were in compliance with all such covenants. If we were to breach any of our debt covenants and did not cure the breach within any applicable cure period, our lenders could require us to repay the debt immediately, and, if the debt is secured, could immediately begin proceedings to take possession of the property securing the loan. Some of our debt arrangements are cross-defaulted, which means that the lenders under those debt arrangements can put us in default and require immediate repayment of their debt if we breach and fail to cure a covenant under certain of our other debt obligations. As a result, any default under our debt covenants could have an adverse effect on our financial condition, our results of operations, our ability to meet our obligations and the market value of our shares.

Our development activities are inherently risky.

The ground-up development of improvements on real property, which is different from the renovation and redevelopment of existing improvements, presents substantial risks. In addition to the risks associated with real estate investment in general as described elsewhere, the risks associated with our remaining development activities include:

- significant time lag between commencement and completion subjects us to greater risks due to fluctuation in the general economy;
- failure or inability to obtain construction or permanent financing on favorable terms;
- expenditure of money and time on projects that may never be completed;
- inability to achieve projected rental rates or anticipated pace of lease-up;
- higher-than-estimated construction costs, including labor and material costs; and
- possible delay in completion of the project because of a number of factors, including weather, labor disruptions, construction delays or delays in receipt of zoning or other regulatory approvals, or acts of God (such as fires, earthquakes or floods).

Redevelopments and acquisitions may fail to perform as expected.

Our investment strategy includes the redevelopment and acquisition of community and neighborhood shopping centers that are anchored by supermarkets, drugstores or high volume, value-oriented retailers that provide consumer necessities. The redevelopment and acquisition of properties entails risks that include the following, any of which could adversely affect our results of operations and our ability to meet our obligations:

- our estimate of the costs to improve, reposition or redevelop a property may prove to be too low, and, as a result, the property may fail to achieve the returns we have projected, either temporarily or for a longer time;
- we may not be able to identify suitable properties to acquire or may be unable to complete the acquisition of the properties we identify;

Table of Contents

- we may not be able to integrate new developments or acquisitions into our existing operations successfully;
- properties we redevelop or acquire may fail to achieve the occupancy or rental rates we project at the time we make the decision to invest, which may result in the properties' failure to achieve the returns we projected;
- our pre-acquisition evaluation of the physical condition of each new investment may not detect certain defects or identify necessary repairs until after the property is acquired, which could significantly increase our total acquisition costs; and
- our investigation of a property or building prior to our acquisition, and any representations we may receive from the seller, may fail to reveal various liabilities, which could reduce the cash flow from the property or increase our acquisition cost.

Our ability to grow will be limited if we cannot obtain additional capital.

Our growth strategy includes the redevelopment of properties we already own and the acquisition of additional properties. Because we are required to distribute to our stockholders at least 90% of our taxable income each year to continue to qualify as a real estate investment trust, or REIT, for federal income tax purposes, in addition to our undistributed operating cash flow, we rely upon the availability of debt or equity capital to fund our growth, which financing may or may not be available on favorable terms or at all. The debt could include mortgage loans from third parties or the sale of debt securities. Equity capital could include our common stock or preferred stock. Additional financing, refinancing or other capital may not be available in the amounts we desire or on favorable terms. Our access to debt or equity capital depends on a number of factors, including the general state of the capital markets, the market's perception of our growth potential, our ability to pay dividends, and our current and potential future earnings. Depending on the outcome of these factors, we could experience delay or difficulty in implementing our growth strategy on satisfactory terms, or be unable to implement this strategy.

Our performance and value are subject to general risks associated with the real estate industry.

Our economic performance and the value of our real estate assets, and, consequently, the value of our investments, are subject to the risk that if our properties do not generate revenue sufficient to meet our operating expenses, including debt service and capital expenditures, our cash flow and ability to pay distributions to our stockholders will be adversely affected. As a real estate company, we are susceptible to the following real estate industry risks:

- economic downturns in the areas where our properties are located;
- adverse changes in local real estate market conditions, such as oversupply or reduction in demand;
- changes in tenant preferences that reduce the attractiveness of our properties to tenants;
- zoning or regulatory restrictions;
- decreases in market rental rates;
- weather conditions that may increase energy costs and other operating expenses;
- costs associated with the need to periodically repair, renovate and re-lease space; and
- increases in the cost of adequate maintenance, insurance and other operating costs, including real estate taxes, associated with one or more properties, which may occur even when circumstances such as market factors and competition cause a reduction in revenue from one or more properties, although real estate taxes typically do not increase upon a reduction in such revenue.

Geographic concentration of our portfolio may make us particularly susceptible to adverse economic developments in the real estate markets of those areas.

Over 85% of our property operating income is generated by properties in the metropolitan Washington, DC/Baltimore area. As a result, our financial condition, operating results and ability to make distributions could be materially and adversely impacted by significant adverse economic changes affecting the real estate markets in that

Table of Contents

area. In turn, our common stock is subject to greater risk vis-a-vis other enterprises whose portfolio contains greater geographic diversity.

Adverse trends in the retail and office real estate sectors.

Tenants at our retail properties face continual competition in attracting customers from Internet shopping, retailers at other shopping centers, catalogue companies, online merchants, television shopping networks, warehouse stores, large discounters, outlet malls, wholesale clubs, direct mail and telemarketers. Such competition could have a material adverse effect on our ability to lease space in our retail properties and on the rents we can charge or the concessions we can grant. This in turn could materially and adversely affect our results of operations and cash flows, and could affect the realizable value of our assets upon sale. Further, as new technologies emerge, the relationships among customers, retailers, and shopping centers are evolving rapidly and it is critical we adapt to such new technologies and relationships on a timely basis. We may be unable to adapt quickly and effectively, which could adversely impact our financial performance.

Some businesses are rapidly evolving to make employee telecommuting, flexible work schedules, open workplaces and teleconferencing increasingly common. These practices enable businesses to reduce their space requirements. A continuation of the movement towards these practices could over time erode the overall demand for office space and, in turn, place downward pressure on occupancy, rental rates and property valuations, each of which could have an adverse effect on our financial position, results of operations, cash flows and ability to make distributions to our stockholders.

Many real estate costs are fixed, even if income from our properties decreases.

Our financial results depend primarily on leasing space in our properties to tenants on terms favorable to us. Costs associated with real estate investment, such as real estate taxes and maintenance costs, generally are not reduced even when a property is not fully occupied, rental rates decrease, or other circumstances cause a reduction in income from the investment. As a result, cash flow from the operations of our properties may be reduced if a tenant does not pay its rent or we are unable to rent our properties on favorable terms. Under those circumstances, we might not be able to enforce our rights as landlord without delays, and may incur substantial legal costs. Additionally, new properties that we may acquire or develop may not produce any significant revenue immediately, and the cash flow from existing operations may be insufficient to pay the operating expenses and debt service associated with that property until the property is fully leased.

Competition may limit our ability to purchase new properties and generate sufficient income from tenants.

Numerous commercial developers and real estate companies compete with us in seeking tenants for properties and properties for acquisition. This competition may:

- reduce properties available for acquisition;
- increase the cost of properties available for acquisition;
- reduce rents payable to us;
- interfere with our ability to attract and retain tenants;
- lead to increased vacancy rates at our properties; and
- adversely affect our ability to minimize expenses of operation.

Retailers at our shopping center properties also face increasing competition from outlet stores, discount shopping clubs, and other forms of marketing of goods, such as direct mail, internet marketing and telemarketing. This competition may reduce percentage rents payable to us and may contribute to lease defaults and insolvency of tenants. If we are unable to continue to attract appropriate retail tenants to our properties, or to purchase new properties in our geographic markets, it could materially affect our ability to generate net income, service our debt and make distributions to our stockholders.

Table of Contents

We may be unable to sell properties when appropriate because real estate investments are illiquid.

Real estate investments generally cannot be sold quickly. In addition, there are some limitations under federal income tax laws applicable to real estate and to REITs in particular that may limit our ability to sell our assets. We may not be able to alter our portfolio promptly in response to changes in economic or other conditions. Our inability to respond quickly to adverse changes in the performance of our investments could have an adverse effect on our ability to meet our obligations and make distributions to our stockholders.

Our insurance coverage on our properties may be inadequate.

We carry comprehensive insurance on all of our properties, including insurance for liability, earthquake, fire, flood, terrorism and rental loss. These policies contain coverage limitations. We believe this coverage is of the type and amount customarily obtained for or by an owner of real property assets. We intend to obtain similar insurance coverage on subsequently acquired properties.

As a consequence of the September 11, 2001 terrorist attacks and other significant losses incurred by the insurance industry, the availability of insurance coverage has decreased and the prices for insurance have increased. As a result, we may be unable to renew or duplicate our current insurance coverage in adequate amounts or at reasonable prices. In addition, insurance companies may no longer offer coverage against certain types of losses, such as losses due to terrorist acts and toxic mold, or, if offered, the expense of obtaining these types of insurance may not be justified. We therefore may cease to have insurance coverage against certain types of losses and/or there may be decreases in the limits of insurance available. If an uninsured loss or a loss in excess of our insured limits occurs, we could lose all or a portion of the capital we have invested in a property, as well as the anticipated future revenue from the property, but still remain obligated for any mortgage debt or other financial obligations related to the property. Material losses in excess of insurance proceeds may occur in the future. Also, due to inflation, changes in codes and ordinances, environmental considerations and other factors, it may not be feasible to use insurance proceeds to replace a building after it has been damaged or destroyed. Events such as these could adversely affect our results of operations and our ability to meet our obligations, including distributions to our stockholders.

Environmental laws and regulations could reduce the value or profitability of our properties.

All real property and the operations conducted on real property are subject to federal, state and local laws, ordinances and regulations relating to hazardous materials, environmental protection and human health and safety. Under various federal, state and local laws, ordinances and regulations, we and our tenants may be required to investigate and clean up certain hazardous or toxic substances released on or in properties we own or operate, and also may be required to pay other costs relating to hazardous or toxic substances. This liability may be imposed without regard to whether we or our tenants knew about the release of these types of substances or were responsible for their release. The presence of contamination or the failure to properly remediate contamination at any of our properties may adversely affect our ability to sell or lease those properties or to borrow using those properties as collateral. The costs or liabilities could exceed the value of the affected real estate. We are not aware of any environmental condition with respect to any of our properties that management believes would have a material adverse effect on our business, assets or results of operations taken as a whole. The uses of any of our properties prior to our acquisition of the property and the building materials used at the property are among the property-specific factors that will affect how the environmental laws are applied to our properties. If we are subject to any material environmental liabilities, the liabilities could adversely affect our results of operations and our ability to meet our obligations.

We cannot predict what other environmental legislation or regulations will be enacted in the future, how existing or future laws or regulations will be administered or interpreted or what environmental conditions may be found to exist on the properties in the future. Compliance with existing and new laws and regulations may require us or our tenants to spend funds to remedy environmental problems. Our tenants, like many of their competitors, have incurred, and will continue to incur, capital and operating expenditures and other costs associated with complying with these laws and regulations, which will adversely affect their potential profitability. Generally, our tenants must comply with environmental laws and meet remediation requirements. Our leases typically impose obligations on our tenants to indemnify us from any compliance costs we may incur as a result of the environmental conditions on the property caused by the tenant. If a tenant fails to or cannot comply, we could be forced to pay these costs. If not

23

Table of Contents

addressed, environmental conditions could impair our ability to sell or re-lease the affected properties in the future or result in lower sales prices or rent payments.

The Americans with Disabilities Act of 1990 (the "ADA") could require us to take remedial steps with respect to newly acquired properties.

The properties, as commercial facilities, are required to comply with Title III of the ADA. Investigation of a property may reveal non-compliance with the ADA. The requirements of the ADA, or of other federal, state or local laws, also may change in the future and restrict further renovations of our properties with respect to access for disabled persons. Future compliance with the ADA may require expensive changes to the properties.

The revenue generated by our tenants could be negatively affected by various federal, state and local laws to which they are subject.

We and our tenants are subject to a wide range of federal, state and local laws and regulations, such as local licensing requirements, consumer protection laws and state and local fire, life-safety and similar requirements that affect the use of the properties. The leases typically require that each tenant comply with all regulations. Failure to comply could result in fines by governmental authorities, awards of damages to private litigants, or restrictions on the ability to conduct business on such properties. Non-compliance of this sort could reduce our revenue from a tenant, could require us to pay penalties or fines relating to any non-compliance, and could adversely affect our ability to sell or lease a property.

Failure to qualify as a REIT for federal income tax purposes would cause us to be taxed as a corporation, which would substantially reduce funds available for payment of distributions.

We believe that we are organized and qualified as a REIT, and currently intend to operate in a manner that will allow us to continue to qualify as a REIT for federal income tax purposes under the Code. However, the IRS could successfully assert that we are not qualified as such. In addition, we may not remain qualified as a REIT in the future. Qualification as a REIT involves the application of highly technical and complex Code provisions. The complexity of these provisions and of the applicable income tax regulations that have been issued under the Code by the United States Department of Treasury is greater in the case of a REIT that holds its assets in partnership form. Certain facts and circumstances not entirely within our control may affect our ability to qualify as a REIT. For example, in order to qualify as a REIT, at least 95% of our gross income in any year must be derived from qualifying rents and other income. Satisfying this requirement could be difficult, for example, if defaults by tenants were to reduce the amount of income from qualifying rents. Also, we must make annual distributions to stockholders of at least 90% of our net taxable income (excluding capital gains). In addition, new legislation, new regulations, new administrative interpretations or new court decisions may significantly change the tax laws with respect to qualification as a REIT or the federal income tax consequences of such qualification. If we fail to qualify as a REIT:

- we would not be allowed a deduction for dividend distributions to stockholders in computing taxable income;
- we would be subject to federal income tax at regular corporate rates;
- unless we are entitled to relief under specific statutory provisions, we could not elect to be taxed as a REIT for four taxable years following the year during which we were disqualified;
- we could be required to pay significant income taxes, which would substantially reduce the funds available for investment and for distribution to our stockholders for each year in which we failed to qualify; and
- we would no longer be required by law to make any distributions to our stockholders.

We believe that the Operating Partnership is treated as a partnership, and not as a corporation, for federal income tax purposes. If the IRS were to challenge successfully the status of the Operating Partnership as a partnership for federal income tax purposes:

- the Operating Partnership would be taxed as a corporation;
- we would cease to qualify as a REIT for federal income tax purposes; and

Table of Contents

- the amount of cash available for distribution to our stockholders would be substantially reduced.

We may be required to incur additional debt to qualify as a REIT.

As a REIT, we must make annual distributions to stockholders of at least 90% of our REIT taxable income. We are subject to income tax on amounts of undistributed REIT taxable income and net capital gain. In addition, we would be subject to a 4% excise tax if we fail to distribute sufficient income to meet a minimum distribution test based on our ordinary income, capital gain and aggregate undistributed income from prior years. We intend to make distributions to stockholders to comply with the Code's distribution provisions and to avoid federal income and excise tax. We may need to borrow funds to meet our distribution requirements because:

- our income may not be matched by our related expenses at the time the income is considered received for purposes of determining taxable income; and
- non-deductible capital expenditures or debt service requirements may reduce available cash but not taxable income.

In these circumstances, we might have to borrow funds on unfavorable terms and even if our management believes the market conditions make borrowing financially unattractive.

U.S. federal tax reform legislation now and in the future could affect REITs, both positively and negatively, in ways that are difficult to anticipate.

The Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act"), signed into law on December 22, 2017, represents sweeping tax reform legislation that makes significant changes to corporate and individual tax rates and the calculation of taxes. While we currently do not expect the 2017 Tax Act will have a significant direct impact on us, it may impact us indirectly as our tenants and the jurisdictions in which we do business, as well as the overall investment thesis for REITs, may be impacted both positively and negatively in ways that are difficult to predict. Additionally, the overall impact of the 2017 Tax Act depends on future interpretations and regulations that may be issued by federal tax authorities, as well as changes in state and local taxation in response to the 2017 Tax Act, and it is possible that such future interpretations, regulations and other changes could adversely impact us.

To maintain our status as a REIT, we limit the amount of shares any one stockholder can own.

The Code imposes certain limitations on the ownership of the stock of a REIT. For example, not more than 50% in value of our outstanding shares of capital stock may be owned, actually or constructively, by five or fewer individuals (as defined in the Code). To protect our REIT status, our articles of incorporation restrict beneficial and constructive ownership (defined by reference to various Code provisions) to no more than 2.5% in value of our issued and outstanding equity securities by any single stockholder with the exception of members of the Saul Organization, who are restricted to beneficial and constructive ownership of no more than 39.9% in value of our issued and outstanding equity securities.

The constructive ownership rules are complex. Shares of our capital stock owned, actually or constructively, by a group of related individuals and/or entities may be treated as constructively owned by one of those individuals or entities. As a result, the acquisition of less than 2.5% or 39.9% in value of our issued and outstanding equity securities, by an individual or entity could cause that individual or entity (or another) to own constructively more than 2.5% or 39.9% in value of the outstanding stock. If that happened, either the transfer or ownership would be void or the shares would be transferred to a charitable trust and then sold to someone who can own those shares without violating the respective ownership limit.

As of December 31, 2018, Mr. B. F. Saul II and members of the Saul Organization owned common stock representing approximately 37.8% in value of all our issued and outstanding equity securities. In addition, members of the Saul Organization beneficially owned Operating Partnership units that are, in general, convertible into our common stock on a one-for-one basis. Members of the Saul Organization are permitted under our articles of incorporation to convert Operating Partnership units into shares of common stock or acquire additional shares of common stock until the Saul Organization's actual ownership of common stock reaches 39.9% in value of our equity securities.

Table of Contents

The Board of Directors may waive these restrictions on a case-by-case basis. The Board has authorized the Company to grant waivers to look-through entities, such as mutual funds, in which shares of equity stock owned by the entity are treated as owned proportionally by individuals who are the beneficial owners of the entity. Even though these entities may own stock in excess of the 2.5% ownership limit, no individual beneficially or constructively would own more than 2.5%. The Board of Directors has agreed to waive the ownership limit with respect to certain mutual funds and similar investors. In addition, the Board of Directors has agreed to waive the ownership limit with respect to certain bank pledgees of shares of our common stock and units issued by the Operating Partnership and held by members of the Saul Organization.

The ownership restrictions may delay, defer or prevent a transaction or a change of our control that might involve a premium price for our equity stock or otherwise be in the stockholders' best interest.

We cannot assure you we will continue to pay dividends at historical rates.

Our ability to continue to pay dividends on our common stock at historical rates or to increase our common stock dividend rate will depend on a number of factors, including, among others, the following:

- our financial condition and results of future operations;
- the performance of lease terms by tenants;
- the terms of our loan covenants; and
- our ability to acquire, finance, develop or redevelop and lease additional properties at attractive rates.

If we do not maintain or increase the dividend rate on our common stock, it could have an adverse effect on the market price of our common stock and other securities. Payment of dividends on our common stock may be subject to payment in full of the dividends on any preferred stock or depositary shares and payment of interest on any debt securities we may offer.

Certain tax and anti-takeover provisions of our articles of incorporation and bylaws may inhibit a change of our control.

Certain provisions contained in our articles of incorporation and bylaws and the Maryland General Corporation Law may discourage a third party from making a tender offer or acquisition proposal to us. If this were to happen, it could delay, deter or prevent a change in control or the removal of existing management. These provisions also may delay or prevent the stockholders from receiving a premium for their stock over then-prevailing market prices. These provisions include:

- the REIT ownership limit described above;
- authorization of the issuance of our preferred stock with powers, preferences or rights to be determined by the Board of Directors;
- a staggered, fixed-size Board of Directors consisting of three classes of directors;
- special meetings of our stockholders may be called only by the Chairman of the Board, the president, by a majority of the directors or by stockholders possessing no less than 25% of all the votes entitled to be cast at the meeting;
- the Board of Directors, without a stockholder vote, can classify or reclassify unissued shares of preferred stock;
- a member of the Board of Directors may be removed only for cause upon the affirmative vote of 75% of the Board of Directors or 75% of the then-outstanding capital stock;
- advance notice requirements for proposals to be presented at stockholder meetings; and
- the terms of our articles of incorporation regarding business combinations and control share acquisitions.

Table of Contents

Cybersecurity risks and cyber incidents could adversely affect our business, disrupt operations and expose us to liabilities to tenants, employees, capital providers and other third parties.

We use information technology and other computer resources to carry out important operational activities and to maintain our business records. As part of our normal business activities, we collect and store certain personal identifying and confidential information relating to our tenants, employees, vendors and suppliers, and maintain operational and financial information related to our business. We have implemented systems and processes intended to address ongoing and evolving cybersecurity risks, secure our information technology, applications and computer systems, and prevent unauthorized access to or loss of sensitive, confidential and personal data. Although we and our service providers employ what we believe are adequate security, disaster recovery and other preventative and corrective measures, our security measures, taken as a whole, may not be sufficient for all possible situations and may be vulnerable to, among other things, hacking, employee error, system error, and faulty password management.

Our ability to conduct our business may be impaired if our information technology resources, including our websites or e-mail systems, are compromised, degraded, damaged or fail, whether due to a virus or other harmful circumstance, intentional penetration or disruption of our information technology resources by a third party, natural disaster, hardware or software corruption or failure or error or poor product or vendor/developer selection (including a failure of security controls incorporated into or applied to such hardware or software), telecommunications system failure, service provider error or failure, intentional or unintentional personnel actions, or lost connectivity to our networked resources. A significant and extended disruption could damage our reputation and cause us to lose tenants and revenues; result in the unintended and/or unauthorized public disclosure or the misappropriation of proprietary, personal identifying and confidential information; and require us to incur significant expenses to address and remediate or otherwise resolve these kinds of issues. The release of confidential information may also lead to litigation or other proceedings against us by affected individuals, business partners and/or regulators, and the outcome of such proceedings, which could include losses, penalties, fines, injunctions, expenses and charges recorded against our earnings and cause us reputational harm, could have a material and adverse effect on our business and consolidated financial statements. In addition, the costs of maintaining adequate protection against data security threats, based on considerations of their evolution, increasing sophistication, pervasiveness and frequency and/or government-mandated standards or obligations regarding protective efforts, could be material to our consolidated financial statements in a particular period or over various periods.

We may amend or revise our business policies without your approval.

Our Board of Directors may amend or revise our operating policies without stockholder approval. Our investment, financing and borrowing policies and policies with respect to all other activities, such as growth, debt, capitalization and operations, are determined by the Board of Directors or those committees or officers to whom the Board of Directors has delegated that authority. The Board of Directors may amend or revise these policies at any time and from time to time at its discretion. A change in these policies could adversely affect our financial condition and results of operations, and the market price of our securities.

Item 1B. Unresolved Staff Comments

We have received no written comments from the Securities and Exchange Commission staff regarding our periodic or current reports in the 180 days preceding December 31, 2018 that remain unresolved.

Item 2. Properties

Overview

As of December 31, 2018, the Company is the owner, developer and operator of a real estate portfolio composed of 56 operating properties, totaling approximately 9.3 million square feet of gross leasable area ("GLA"), and four development parcels. The properties are located primarily in the Washington, D.C./Baltimore, Maryland metropolitan area. The operating property portfolio is composed of 49 neighborhood and community Shopping Centers, and seven predominantly Mixed-Use Properties totaling approximately 7.8 million and 1.5 million square feet of commercial GLA, respectively. No single property accounted for more than 6.5% of the total gross leasable area. A majority of the Shopping Centers are anchored by several major tenants. Thirty-two of the Shopping Centers

Table of Contents

were anchored by a grocery store and offer primarily day-to-day necessities and services. Two retail tenants, Giant Food (4.7%), a tenant at ten Shopping Centers, and Capital One Bank (2.7%), a tenant at 17 properties, individually accounted for 2.5% or more of the Company’s total revenue for the year ended December 31, 2018.

The following table sets forth average annualized base rent per square foot and average annualized effective rent per square foot for the Company's Commercial properties (all properties except for the Clarendon Center and Park Van Ness apartments). For purposes of this table, annualized effective rent is annualized base rent minus amortized tenant improvements and amortized leasing commissions.

	Year ended December 31,				
	2018	2017	2016	2015	2014
Base rent	$20.13	$19.49	$18.73	$18.52	$18.07
Effective rent	$18.20	$17.67	$16.95	$16.81	$16.45

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 Policies.”

The Shopping Centers

Community and neighborhood shopping centers typically are anchored by one or more grocery stores, 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.

In general, the Shopping Centers are seasoned community and neighborhood shopping centers located in well established, highly developed, densely populated, middle and upper income areas. The 2018 average estimated population within a one- and three-mile radius of the Shopping Centers is approximately 15,100 and 93,800, respectively. The 2018 average household income within the one- and three-mile radius of the Shopping Centers is approximately $115,900 and $119,500, respectively, compared to a national average of $83,700. Because the Shopping Centers generally are located in highly developed areas, management believes that there is little likelihood that significant numbers of competing centers will be developed in the future.

The Shopping Center properties range in size from approximately 19,000 to 573,500 square feet of GLA, with six in excess of 300,000 square feet, and average approximately 158,200 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. Thirty-two of the Shopping Centers are anchored by a grocery store.

Lease Expirations of Shopping Center Properties

The following table sets forth, by year of expiration, the aggregate amount of base rent and leasable area for leases in place at the Shopping Centers that the Company owned as of December 31, 2018, for each of the next ten years beginning with 2019, assuming that none of the tenants exercise renewal options and excluding an aggregate of 312,521 square feet of unleased space, which represented 4.0% of the GLA of the Shopping Centers as of December 31, 2018.

Table of Contents

Lease Expirations of Shopping Center Properties

Year of Lease Expiration	Leasable Area Represented by Expiring Leases		Percentage of Leasable Area Represented by Expiring Leases		Annual Base Rent Under Expiring Leases (1)	Percentage of Annual Base Rent Under Expiring Leases		Annual Base Rent per Square Foot
2019	907,990	sf	11.7	%	$16,438,484	12.6	%	$18.10
2020	999,815		12.9	%	18,665,941	14.3	%	18.67
2021	1,001,163		12.9	%	17,466,971	13.4	%	17.45
2022	1,001,360		12.9	%	18,706,479	14.3	%	18.68
2023	1,106,356		14.3	%	20,043,966	15.3	%	18.12
2024	578,145		7.5	%	10,552,704	8.1	%	18.25
2025	273,995		3.5	%	5,604,990	4.3	%	20.46
2026	264,720		3.4	%	5,031,965	3.9	%	19.01
2027	159,489		2.1	%	4,359,926	3.3	%	27.34
2028	466,035		6.0	%	3,402,090	2.6	%	7.30
Thereafter	678,682		8.8	%	10,332,432	7.9	%	15.22
Total	7,437,750	sf	96.0	%	$130,605,948	100.0	%	17.56

(1) Calculated using annualized contractual base rent payable as of December 31, 2018 for the expiring GLA, excluding expenses payable by or reimbursable from tenants.

The Mixed-Use Properties

All of the Mixed-Use Properties are located in the Washington, D.C. metropolitan area and contain an aggregate GLA of approximately 1.5 million square feet, comprised of 1.0 million and 0.1 million square feet of office and retail space, respectively, and 515 apartments. The Mixed-Use Properties represent three distinct styles of facilities, are located in differing commercial environments with distinctive demographic characteristics, and are geographically removed from one another. Accordingly, management believes that the Washington, D.C. area mixed-use properties compete for tenants in different commercial and geographic sub-markets of the metropolitan Washington, D.C. market and do not compete with one another.

601 Pennsylvania Avenue is a nine-story, 227,700 square foot Class A office building (with a small amount of street level retail space) built in 1986 and situated in a prime location in downtown Washington, D.C. Washington Square at Old Town is a 236,400 square foot Class A mixed-use office/retail complex completed in 2000 and located on a two-acre site along Alexandria’s main street, North Washington Street, in historic Old Town Alexandria, Virginia. Avenel Business Park is a 390,700 square foot research park located in the suburban Maryland, I-270 biotech corridor. The business park consists of twelve one-story buildings built in six phases, completed between 1981 and 2000. Clarendon Center, constructed in 2010, is a mixed-use Class A commercial and residential project located at the Clarendon Metro station in Arlington County, Virginia, which contains 171,600 square feet of office, 41,700 square feet of retail and 244 apartment units.

In 2016, the Company completed development of Park Van Ness, a 271-unit residential project with approximately 9,000 square feet of street-level retail, below street-level structured parking, and amenities including a community room, landscaped courtyards, a fitness room, a wi-fi lounge/business center, and a rooftop pool and deck. The structure comprises 11 levels, five of which on the east side are below street level. Because of the change in grade from the street eastward to Rock Creek Park, apartments on all 11 levels have park or city views. The street level retail space is 100% leased to a grocery/gourmet food market and an upscale Italian restaurant. As of December 31, 2018, 263 apartments (97.0%) were leased. The total cost of the project, excluding predevelopment expense and land, which the Company has owned, was approximately $93.0 million, a portion of which was financed with a $71.6 million construction-to-permanent loan.

29

Table of Contents

Lease Expirations of Mixed-Use Properties

The following table sets forth, by year of expiration, the aggregate amount of base rent and leasable area for commercial leases in place at the Mixed-Use Properties that the Company owned as of December 31, 2018, for each of the next ten years beginning with 2019, assuming that none of the tenants exercise renewal options and excluding an aggregate of 87,895 square feet of unleased office and retail space, which represented 7.7% of the GLA of the commercial space within the Mixed-Use Properties as of December 31, 2018.

Commercial Lease Expirations of Mixed-Use Properties

Year of Lease Expiration	Leasable Area Represented by Expiring Leases		Percentage of Leasable Area Represented by Expiring Leases		Annual Base Rent Under Expiring Leases (1)	Percentage of Annual Base Rent Under Expiring Leases		Annual Base Rent per Square Foot
2019	86,246	sf	7.5	%	$3,425,301	8.5	%	$39.72
2020	175,050		15.2	%	4,332,403	10.7	%	24.75
2021	132,903		11.6	%	5,769,589	14.3	%	43.41
2022	95,068		8.3	%	4,101,692	10.2	%	43.14
2023	178,554		15.6	%	8,107,854	20.1	%	45.41
2024	107,367		9.3	%	5,760,408	14.3	%	53.65
2025	30,605		2.7	%	1,098,657	2.7	%	35.90
2026	69,693		6.1	%	4,229,511	10.5	%	60.69
2027	46,934		4.1	%	1,291,465	3.2	%	27.52
2028	35,374		3.1	%	1,242,629	3.1	%	35.13
Thereafter	100,749		8.8	%	990,215	2.4	%	9.83
Total	1,058,543	sf	92.3	%	$40,349,724	100.0	%	38.12

(1) Calculated using annualized contractual base rent payable as of December 31, 2018, for the expiring GLA, excluding expenses payable by or reimbursable from tenants.

As of December 31, 2018, the Company had 506 apartment leases, 407 of which will expire in 2019 and 99 of which will expire in 2020. Annual base rent due under these leases is $7.1 million and $4.5 million for the years ending December 31, 2019 and 2020, respectively.

Table of Contents

Current Portfolio Properties

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

Property	Location	Leasable Area (Square Feet)	Year Acquired or Developed (Renovated)	Land Area (Acres)	Percentage Leased as of December 31, (1) 2018	2017	2016	2015	2014	Anchor / Significant Tenants
Shopping Centers										
Ashburn Village	Ashburn, VA	221,596	1994-2006	26.4	97 %	94 %	91 %	95 %	93 %	Giant Food, Hallmark Cards, McDonald's, Burger King, Dunkin Donuts, Kinder Care, Blue Ridge Grill
Ashland Square Phase I	Dumfries, VA	23,120	2007	2.0	100 %	100 %	100 %	100 %	100 %	Capital One Bank, CVS Pharmacy, The All American Steakhouse
Beacon Center	Alexandria, VA	356,971	1972 (1993/99/07)	32.3	100 %	100 %	100 %	100 %	100 %	Lowe's Home Improvement Center, Giant Food, Home Goods, Outback Steakhouse, Marshalls, Party Depot, Panera Bread, TGI Fridays, Starbucks, Famous Dave's, Chipotle, Capital One Bank
BJ’s Wholesale Club	Alexandria, VA	115,660	2008	9.6	100 %	100 %	100 %	100 %	100 %	BJ's Wholesale Club
Boca Valley Plaza	Boca Raton, FL	121,269	2004	12.7	96 %	95 %	95 %	100 %	89 %	Publix, Wells Fargo, Palm Beach

Boulevard	Fairfax, VA	49,140	1994 (1999/09)	5.0	100 %	100 %	100 %	100 %	98 %	Fitness, Anthony's Clothing Panera Bread, Party City, Petco, Capital One Bank
Briggs Chaney MarketPlace	Silver Spring, MD	194,258	2004	18.2	92 %	100 %	98 %	99 %	99 %	Global Food, Ross Dress For Less, Family Dollar, Advance Auto Parts, McDonald's, Dunkin Donuts
Broadlands Village	Ashburn, VA	174,438	2003-2006	24.0	98 %	77 %	100 %	98 %	97 %	Aldi Grocery, The All American Steakhouse, Bonefish Grill, Dollar Tree, Starbucks, Minnieland Day Care, Capital One Bank, LA Fitness
Burtonsville Town Square	Burtonsville, MD	122,052	2017	26.3	100 %	100 %	N/A	N/A	N/A	Giant Food, Petco, Starbucks, Green Turtle, Capital One Bank, CVS Pharmacy, Roy Rogers, MR. TIRE
Countryside Marketplace	Sterling, VA	138,804	2004	16.0	96 %	94 %	94 %	93 %	91 %	Safeway, CVS Pharmacy, Starbucks, McDonald's
Cranberry Square	Westminster, MD	141,450	2011	18.9	97 %	100 %	100 %	97 %	97 %	Giant Food, Staples, Party City, Pier 1 Imports, Jos. A. Bank, Wendy's, Giant Gas

										Station
Cruse MarketPlace	Cumming, GA	78,686	2004	10.6	96 %	87 %	92 %	92 %	88 %	Publix, Subway, Orange Theory, Anytime Fitness
Flagship Center	Rockville, MD	21,500	1972, 1989	0.5	100 %	100 %	100 %	100 %	100 %	Capital One Bank, Bank of America
French Market	Oklahoma City, OK	246,148	1974 (1984/98)	13.8	96 %	97 %	98 %	98 %	100 %	Burlington Coat Factory, Bed Bath & Beyond, Staples, Petco, The Tile Shop, Lakeshore Learning Center, Dollar Tree, Verizon, Raising Cane's
Germantown	Germantown, MD	18,982	1992	2.7	100 %	100 %	100 %	100 %	86 %	CVS Pharmacy, Jiffy Lube
The Glen	Woodbridge, VA	136,440	1994 (2005)	14.7	96 %	96 %	97 %	95 %	94 %	Safeway Marketplace, The All American Steakhouse, Panera Bread, Five Guys, Chipotle
Great Falls Center	Great Falls, VA	91,666	2008	11.0	100 %	100 %	98 %	100 %	98 %	Safeway, CVS Pharmacy, Capital One Bank, Starbucks, Subway, Long & Foster
Hampshire Langley	Takoma Park, MD	131,700	1972 (1979)	9.9	100 %	100 %	100 %	100 %	100 %	Mega Mart, Starbucks, Chuck E. Cheese's, Sardi's Chicken, Capital One

										Bank, Kool Smiles
Hunt Club Corners	Apopka, FL	107,103	2006	13.9	97 %	93 %	97 %	94 %	94 %	Publix, Pet Supermarket, Sprint
Jamestown Place	Altamonte Springs, FL	96,201	2005	10.9	100 %	93 %	95 %	90 %	92 %	Publix, Carrabas Italian Grill, Orlando Health

31

Table of Contents

Property	Location	Leasable Area (Square Feet)	Year Acquired or Developed (Renovated)	Land Area (Acres)	Percentage Leased as of December 31, (1) 2018	2017	2016	2015	2014	Anchor / Significant Tenants
Shopping Centers (Continued)										
Kentlands Square I	Gaithersburg, MD	114,381	2002	11.5	98 %	98 %	98 %	100%	100%	Lowe's Home Improvement Center, Chipotle
Kentlands Square II	Gaithersburg, MD	246,965	2011, 2013	23.4	99 %	57 %	100%	100%	98 %	Giant Food, At Home, Party City, Panera Bread, Not Your Average Joe's, Hallmark, Chick-Fil-A, Coal Fire Pizza, Cava Mezza Grill, Zengo Cycle, Fleet Feet
Kentlands Place	Gaithersburg, MD	40,697	2005	3.4	93 %	93 %	100%	96 %	100%	Elizabeth Arden's Red Door Salon, Bonefish Grill
Lansdowne Town Center	Leesburg, VA	189,422	2006	23.4	96 %	93 %	88 %	89 %	97 %	Harris Teeter, CVS Pharmacy, Panera Bread, Starbucks, Capital One Bank, Ford's Fish Shack, Fusion Learning
Leesburg Pike Plaza	Baileys Crossroads, VA	97,752	1966 (1982/95)	9.4	100%	95 %	95 %	100%	100%	CVS Pharmacy, Party Depot, FedEx Office, Capital One Bank, Five Guys
Lumberton Plaza	Lumberton, NJ	192,718	1975 (1992/96)	23.3	70 %	84 %	91 %	90 %	94 %	Aldi Grocery, Rite Aid, Family Dollar, Retro Fitness, Big Lots, Pet Valu
Metro Pike Center	Rockville, MD	67,488	2010	4.6	69 %	67 %	69 %	89 %	80 %	McDonald's, Dunkin Donuts, 7-Eleven, Palm Beach Tan, Mattress Warehouse
Shops at Monocacy	Frederick, MD	109,144	2004	13.0	99 %	99 %	100%	100%	97 %	Giant Food, Giant Gas Station, Panera Bread, Five Guys, California

															Tortilla, Firehouse Subs, Comcast, Capital One Bank
Northrock	Warrenton, VA	100,032	2009	15.4	100	%	99	%	99	%	92	%	95	%	Harris Teeter, Longhorn Steakhouse, Ledo's Pizza, Capital One Bank, Jos. A Bank, Novant Health
Olde Forte Village	Ft. Washington, MD	143,577	2003	16.0	96	%	99	%	97	%	97	%	98	%	Safeway, Advance Auto Parts, Dollar Tree, McDonald's, Wendy's, Ledo's Pizza, Capital One Bank
Olney	Olney, MD	53,765	1975 (1990)	3.7	94	%	92	%	90	%	97	%	92	%	Rite Aid, Olney Grill, Ledo's Pizza, Popeye's, Sardi's Fusion
Orchard Park	Dunwoody, GA	87,365	2007	10.5	100	%	98	%	97	%	98	%	98	%	Kroger, Subway, Jett Ferry Dental
Palm Springs Center	Altamonte Springs, FL	126,446	2005	12.0	100	%	94	%	100	%	98	%	91	%	Publix, Duffy's Sports Grill, Toojay's Deli, The Tile Shop, Rockler Tools, Humana Health, Sola Salons
Ravenwood	Baltimore, MD	93,328	1972 (2006)	8.0	92	%	100	%	100	%	99	%	96	%	Giant Food, Starbucks, Dominos, Bank of America
11503 Rockville Pike/5541 Nicholson Lane	Rockville, MD	40,249	2010/2012	3.0	61	%	61	%	63	%	63	%	63	%	Dr. Boyd's Pet Resort, Metropolitan Emergency Animal Clinic
1500/1580/1582/1584 Rockville Pike	Rockville, MD	110,128	2012/2014	10.3	93	%	96	%	87	%	90	%	99	%	Party City, CVS Pharmacy, Sheffield Furniture
Seabreeze Plaza	Palm Harbor, FL	146,673	2005	18.4	99	%	98	%	98	%	95	%	97	%	Publix, Earth Origins Health Food, Petco, Planet Fitness, Vision Works
Marketplace at Sea Colony	Bethany Beach, DE	21,677	2008	5.1	100	%	100	%	94	%	95	%	91	%	Seacoast Realty, Armand's Pizza, Candy Kitchen, Summer Salts, Fin's Alehouse
Seven Corners		573,481	1973 (1994)	31.6	100	%	100	%	100	%	100	%	100	%	

Falls Church, VA	The Home Depot, Shoppers Food & Pharmacy, Michaels Arts & Crafts, Barnes & Noble, Ross Dress For Less, Ski Chalet, Off-Broadway Shoes, JoAnn Fabrics, Dress Barn, Starbucks, Dogfishhead Ale House, Red Robin Gourmet Burgers, Chipotle, Wendy's, Burlington Coat Factory, Mattress Warehouse

Table of Contents

Property	Location	Leasable Area (Square Feet)	Year Acquired or Developed (Renovated)	Land Area (Acres)	Percentage Leased as of December 31, [1] 2018	2017	2016	2015	2014	Anchor / Significant Tenants
Shopping Centers (Continued)										
Severna Park Marketplace	Severna Park, MD	254,011	2011	20.6	100 %	100 %	98 %	100 %	100 %	Giant Food, Kohl's, Office Depot, A.C. Moore, Goodyear, Chipotle, McDonald's, Jos. A. Bank, Sprint, Five Guys, Unleashed (Petco), Mod Pizza, Jersey Mike's
Shops at Fairfax	Fairfax, VA	68,762	1975 (1993/99)	6.7	100 %	97 %	97 %	100 %	98 %	Super H Mart, Subway
Smallwood Village Center	Waldorf, MD	173,341	2006	25.1	79 %	83 %	80 %	69 %	72 %	Safeway, CVS Pharmacy, Family Dollar
Southdale	Glen Burnie, MD	485,628	1972 (1986)	39.8	100 %	99 %	98 %	95 %	89 %	The Home Depot, Michaels Arts & Crafts, Marshalls, PetSmart, Value City Furniture, Athletic Warehouse, Starbucks, Gallo Clothing, Office Depot, The Tile Shop, Mercy Health Care, Massage Envy, Potbelly, Capital One

										Bank, Chipotle, Banfield Vets
Southside Plaza	Richmond, VA	371,761	1972	32.8	89 %	91 %	91 %	98 %	98 %	Community Supermarket, Maxway, Citi Trends, City of Richmond, McDonald's, Burger King, Kool Smiles
South Dekalb Plaza	Atlanta, GA	163,418	1976	14.6	93 %	89 %	88 %	91 %	94 %	Maxway, Big Lots, Emory Clinic, Dollar Tree, Shoe Land
Thruway	Winston-Salem, NC	366,693	1972 (1997)	31.5	96 %	95 %	98 %	96 %	97 %	Harris Teeter, Trader Joe's, Stein Mart, Talbots, Hanes Brands, Jos. A. Bank, Bonefish Grill, Chico's, Ann Taylor Loft, Rite Aid, FedEx Office, Plow & Hearth, New Balance, Aveda Salon, Carter's Kids, McDonald's, Chick-Fil-A, Wells Fargo Bank, Francesca's Collections, Great Outdoor Provision Company, White House / Black Market, Soma, J. Crew, Chop't, Lululemon
Village Center	Centreville, VA	145,651	1990	17.2	98 %	98 %	95 %	94 %	98 %	Giant Food, Tuesday Morning, Starbucks, McDonald's,

Westview Village	Frederick, MD		97,858	2009	11.6	99	%	95	%	100	%	100	%	90	%	Pet Supplies Plus, Bikram Yoga, Capital One Bank Silver Diner, Sleepy's, Music & Arts, Firehouse Subs, CiCi's Pizza, Café Rio, Five Guys, Regus, Krispy Kreme
White Oak	Silver Spring, MD		480,676	1972 (1993)	27.9	99	%	100	%	100	%	99	%	100	%	Giant Food, Sears, Walgreens, Boston Market, Sarku
Total Shopping Centers		(3)	7,750,271		753.2	96.0	%	94.3	%	96.1	%	96.2	%	95.7	%	

33

Table of Contents

Property	Location	Leasable Area (Square Feet)	Year Acquired or Developed (Renovated)	Land Area (Acres)	Percentage Leased as of December 31, [1] 2018	2017	2016	2015	2014	Anchor / Significan Tenants
Mixed-Use Properties										
Avenel Business Park	Gaithersburg, MD	390,683	1981-2000	37.1	90 %	88 %	83 %	84 %	88 %	General Services Administ Gene Dx, American Culture Collection
Clarendon Center-North Block	Arlington, VA	108,386	2010	0.6	100 %	100 %	99 %	96 %	96 %	Pete's Ne Haven Pi AT&T Mobility, Dunkin D
Clarendon Center-South Block	Arlington, VA	104,894	2010	1.3	97 %	100 %	100 %	100 %	100 %	Airline Reporting Corporati Trader Jo Circa, Bu Herbert E Bracket R South Blo Blends, Winston Partners, Keppler Speakers Bureau, E Managem Co., Lead Institute, Capital O Bank, Ma Envy
Clarendon Center Residential-South Block (244 units)		188,671	2010		100 %	96 %	97 %	99 %	98 %	
Park Van Ness-Residential (271 units)	Washington, DC	214,600	2016	1.4	97 %	96 %	73 %	N/A	N/A	
Park Van Ness-Retail	Washington, DC	8,847	2016		100 %	100 %	100 %	N/A	N/A	Uptown M Sfoglina House
601 Pennsylvania Ave.	Washington, DC	227,651	1973 (1986)	1.0	98 %	100 %	98 %	98 %	96 %	National Gallery o

Washington Square	Alexandria, VA	236,376	1975 (2000)	2.0	91 %	94 %	89 %	95 %	82 %	American of Health Credit Ur National Southern Company Global, C Grille, M Best & Friedrich Freeman Expositio Academy Managed Pharmacy Cooper C National Associati Marketing General, Alexandr Economic Developn Trader Jo FedEx Of Talbots, Starbucks Virginia
7316 Wisconsin Ave.	Bethesda, MD	69,601	2018	0.6	73 %	N/A	N/A	N/A	N/A	
Total Mixed Use Properties		(3) 1,549,709		44.0	92.3 % (2)	94.5 % (2)	91.0 % (2)	92.2 % (2)	90.3 % (2)	
Total Portfolio		(3) 9,299,980		797.2	95.5 % (2)	94.3 % (2)	95.5 % (2)	95.7 % (2)	95.1 % (2)	
Land and Development Parcels										
Ashbrook Marketplace	Ashburn, VA		2018	13.7		Currently developing an approximately 88,000 sq foot neighborhood shopping center. Site work commenced in late 2018.				
Ashland Square Phase II	Manassas, VA		2004	17.3		Marketing to grocers and other retail businesses, development timetable yet to be finalized.				
N. Glebe Road	Arlington, VA		2014-2016	2.8		Construction of a 490-unit residential project with 60,000 square feet of retail space is currently in p				
New Market	New Market, MD		2005	35.5		Parcel will accommodate retail development in ex of 120,000 SF near I-70, east of Frederick, Maryl development timetable has not been determined.				
Total Development Properties				69.3						

(1) Percentage leased is a percentage of rentable square feet leased for commercial space and a percentage of units leased for apartments. Includes only operating properties owned as of December 31, 2018. As such, prior year

totals do not agree to prior year tables.

(2) Total percentage leased is for commercial space only.

(3) Prior year leased percentages for Total Shopping Centers, Total Mixed-Use Properties and Total Portfolio have been recalculated to exclude the impact of properties sold or removed from service and, therefore, the percentages reported in this table may be different than the percentages previously reported.

Table of Contents

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. Mine Safety Disclosures

Not applicable.

Table of Contents

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Shares of Saul Centers common stock are listed on the New York Stock Exchange under the symbol "BFS".

Holders

The approximate number of holders of record of the common stock was 166 as of February 20, 2019.

Dividends and Distributions

Under the Code, REITs are subject to numerous organizational and operating requirements, including the requirement to distribute at least 90% of REIT taxable income. The Company distributed more than the required amount in 2018 and 2017. See Notes to Consolidated Financial Statements, No. 13, "Distributions." The Company may or may not elect to distribute in excess of 90% of REIT taxable income in future years.

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

Acquisition of Equity Securities by the Saul Organization

Through participation in the Company's Dividend Reinvestment Plan, during the quarter ended December 31, 2018, (a) B. Francis Saul II, the Company's Chairman of the Board and Chief Executive Officer, (b) his spouse, (c) the Saul Trust and B. F. Saul Company, for each of which Mr. B. F. Saul II serves as either President or Chairman, and (d) B. F. Saul Property Company, Avenel Executive Park Phase II, LLC, SHLP Unit Acquisition Corp. and Dearborn, LLC, which are wholly-owned subsidiaries of either B. F. Saul Company or the Saul Trust, acquired an aggregate of 162,367 shares of common stock and 13,867 limited partnership units at an average price of $49.41 per share/unit, in respect of the October 31, 2018 dividend distribution.

No shares were acquired pursuant to a publicly announced plan or program.

Table of Contents

Performance Graph

Rules promulgated under the Exchange Act require the Company to present a graph comparing the cumulative total stockholder return on its Common Stock with the cumulative total stockholder return of (i) a broad equity market index, and (ii) a published industry index or peer group. The following graph compares the cumulative total stockholder return of the Company’s common stock, based on the market price of the common stock and assuming reinvestment of dividends, with the National Association of Real Estate Investment Trust Equity Index (“NAREIT Equity”), the S&P 500 Index (“S&P 500”) and the Russell 2000 Index (“Russell 2000”). The graph assumes the investment of $100 on December 31, 2013.

	Period Ended					
Index	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Saul Centers, Inc. [1]	$100.00	$123.76	$114.49	$153.66	$142.31	$108.64
S&P 500 [2]	$100.00	$113.69	$115.26	$129.05	$157.22	$150.33
Russell 2000 [3]	$100.00	$104.89	$100.26	$121.63	$139.44	$124.09
NAREIT Equity [4]	$100.00	$130.14	$134.30	$145.74	$153.36	$146.27

[1] Source: S&P Capital I.Q.
[2] Source: Bloomberg
[3] Source: FTSE Russell
[4] Source: National Association of Real Estate Investment Trusts

37

Table of Contents

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.

SELECTED FINANCIAL DATA

	Years Ended December 31,				
(In thousands, except per share data)	2018	2017	2016	2015	2014
Operating Data:					
Total property revenue	$227,904	$227,205	$217,019	$209,026	$207,017
Total property expenses	56,263	55,592	53,701	51,143	49,513
Property operating income	171,641	171,613	163,318	157,883	157,504
Other revenue	272	80	51	51	75
Total other expenses	(109,360)	(111,095)	(107,656)	(105,004)	(105,650)
Operating income	62,553	60,598	55,713	52,930	51,929
Non-operating income:					
Change in fair value of derivatives	(3)	70	(6)	(10)	(10)
Gains on sales of properties	509	—	1,013	11	6,069
Net income	63,059	60,668	56,720	52,931	57,988
Income attributable to noncontrolling interests	(12,505)	(12,411)	(11,441)	(10,463)	(11,045)
Net income attributable to Saul Centers, Inc.	50,554	48,257	45,279	42,468	46,943
Preferred stock redemption	(2,328)	—	—	—	(1,480)
Preferred dividends	(12,262)	(12,375)	(12,375)	(12,375)	(13,361)
Net income available to common stockholders	$35,964	$35,882	$32,904	$30,093	$32,102
Per Share Data (diluted):					
Net income available to common stockholders	$1.60	$1.63	$1.52	$1.42	$1.54
Basic and Diluted Shares Outstanding:					
Weighted average common shares - basic	22,383	21,901	21,505	21,127	20,772
Effect of dilutive options	42	107	110	69	49
Weighted average common shares - diluted	22,425	22,008	21,615	21,196	20,821
Weighted average convertible limited partnership units	7,731	7,503	7,375	7,253	7,156
Weighted average common shares and fully converted limited partnership units - diluted	30,156	29,511	28,990	28,449	27,977
Dividends Paid:					
Cash dividends to common stockholders (1)	$46,306	$44,576			