SAUL CENTERS INC
Form 424B5
March 21, 2008

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Registration File No. 333-149463

PROSPECTUS SUPPLEMENT

(To Prospectus Dated March 10, 2008)

3,000,000 Depositary Shares

Each Representing 1/100th of a Share of

9% Series B Cumulative Redeemable Preferred Stock

(Liquidation Preference Equivalent to $25.00 Per Depositary Share)

We are offering 3,000,000 depositary shares, each representing a 1/100th fractional interest in a share of 9% Series B Cumulative Redeemable Preferred Stock. 30,000 shares of Series B preferred stock underlying the depositary shares will be deposited with Continental Stock Transfer & Trust Company, as depositary. As a holder of depositary shares, you will be entitled to all proportional rights, preferences and privileges of the Series B preferred stock represented thereby, including dividend, voting, redemption and liquidation rights and preferences. The proportionate liquidation preference of each depositary share is $25.00.

We will pay cumulative distributions on the Series B preferred stock underlying the depositary shares, from the date of original issuance, in the amount of $2.25 per depositary share each year, which is equivalent to 9% of the $25.00 liquidation preference per depositary share. Dividends will be payable quarterly in arrears, on January 15, April 15, July 15 and October 15, beginning on July 15, 2008. We may not redeem the Series B preferred stock underlying the depositary shares before March 15, 2013, except in order to preserve our status as a real estate investment trust. On and after March 15, 2013, we may, at our option, redeem shares of the Series B preferred stock, in whole or in part, by paying $2,500.00 per share ($25.00 per depositary share), plus any accumulated, accrued and unpaid dividends. The Series B preferred stock has no stated maturity, will not be subject to any sinking fund or mandatory redemption and will not be convertible into any of our other securities. Investors in the depositary shares will generally have no voting rights, but will have limited voting rights if we fail to pay dividends for six or more quarters (whether or not declared or consecutive) and in certain other events.

During any period of time that both (i) the depositary shares (or the Series B preferred stock if no longer held in depositary form) are not listed on the New York Stock Exchange, or NYSE, the American Stock Exchange, or AMEX, or NASDAQ, and (ii) we are not subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or Exchange Act, but any shares of Series B preferred stock are outstanding, we will (i) increase the cumulative cash distributions payable on the Series B preferred stock underlying the depositary shares to a fixed rate of $2.50 per depositary share per year, which is equivalent to 10% of the $25.00 liquidation preference, per depositary share and (ii) have the option to redeem the Series B preferred stock (and, therefore, the depositary shares), in whole but not in part, within 90 days of the date upon which the depositary shares (or shares of the Series B preferred stock) cease to be listed and we cease to be subject to such reporting requirements, for a redemption price of $2,500.00 per share (or $25.00 per depositary share), plus accrued and unpaid distributions, if any, to the redemption date.

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

Investing in our depositary shares and preferred stock involves risks. See Risk Factors beginning on page S-8 of this prospectus supplement and beginning on page 15 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, which is incorporated herein by reference.

	Per Share	Total
Public offering price[(1)]	$ 25.0000	$ 75,000,000
Underwriting discount	$ 0.7875	$ 2,362,500
Proceeds, before expenses, to us	$ 24.2125	$ 72,637,500

(1) Plus accrued dividends, if any, from March 27, 2008

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

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

The underwriters expect the depositary shares offered hereby will be ready for delivery in book-entry form through The Depository Trust Company on or about March 27, 2008.

Joint Book-Running Managers

RBC Capital Markets **Raymond James**

Lead Manager

Ferris, Baker Watts

Incorporated

Co-Managers

Janney Montgomery Scott LLC **BB&T Capital Markets**

The date of this prospectus supplement is March 20, 2008.

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Prospectus Supplement

Prospectus

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

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the depositary shares and the specific terms of the Series B preferred stock underlying the depositary shares and certain other matters relating to us. The second part, the accompanying prospectus, gives more general information about securities we may offer from time to time, some of which does not apply to the depositary shares and the Series B preferred stock underlying the depositary shares. We may also provide you with a free writing prospectus regarding the depositary shares and the underlying Series B preferred stock.

References to we, us or our refer to Saul Centers, Inc. and Saul Holdings Limited Partnership, which we refer to as the Partnership, and their respective direct or indirect owned subsidiaries, unless the context otherwise requires. References to Saul Centers refer solely to Saul Centers, Inc. We conduct our business and operations through the Partnership and/or directly or indirectly owned subsidiaries. The term you refers to a prospective investor. We are the sole general partner of the Partnership and, as of December 31, 2007, owned an approximately 76.6% common partnership interest in the Partnership and a 100% Series A preferred partnership interest in the Partnership. In addition, B. Francis Saul II, our Chairman and Chief Executive Officer, family members of Mr. Saul, entities controlled by Mr. Saul and other affiliates of Mr. Saul, whom we collectively refer to as The Saul Organization, hold all of the limited partnership interests in the Partnership, which are represented by units. In general, units are convertible into shares of our common stock on a one-for-one basis.

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

FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Also, documents that we incorporate by reference into this prospectus supplement, including documents that we subsequently file with the SEC, will contain forward-looking statements. When we refer to forward-looking statements or information, sometimes we use words such as may, will, could, should, plans, intends, expects, believes, estimates, anticipates and continues and other similar words. These forward-looking statements are subject to c known and unknown risks and uncertainties, not all of which can be predicted or anticipated. Important factors that could cause actual results, performance or achievements to differ materially from the forward-looking statements include:

- risks that our tenants will not pay rent;
- risks related to our reliance on shopping center anchor tenants and other significant tenants;
- risks related to our ability to locate suitable tenants for its properties;
- risks related to changes in real estate market conditions;
- risks related to our ability to maintain internal controls and processes to ensure all transactions are accounted for properly, all relevant disclosures and filings are timely made in accordance with all rules and regulations, and any potential fraud or embezzlement is thwarted or detected;
- risks related to our substantial relationships with members of The Saul Organization;
- risks related to the loss of any member of our management team;

risks of financing, such as increases in interest rates, restrictions imposed by our debt, our ability to meet existing financial covenants and our ability to consummate planned and additional financings on acceptable terms;

- risks related to our development activities;
- risks related to our ability to integrate acquired properties and operations into existing operations;
- risks that our growth will be limited if we cannot obtain additional capital;
- risks that planned and additional acquisitions or redevelopments may not be consummated, or if they are consummated, that they will not perform as expected;
- risks generally incident to the ownership of real property, including adverse changes in economic conditions, changes in the investment climate for real estate, changes in real estate taxes and other operating expenses, adverse changes in governmental rules and fiscal policies, the relative illiquidity of real estate and environmental risks; and
- risks related to Saul Centers status as a REIT for federal income tax purposes, such as the existence of complex regulations relating to Saul Centers status as a REIT, the effect of future changes in REIT requirements as a result of new legislation and the adverse consequences of the failure to qualify as a REIT.

Given these uncertainties, readers are cautioned not to place undue reliance on these forward-looking statements. We also make no promise to update any of the forward-looking statements or to publicly release the results if we revise any of them. You should carefully review the risks and the risk factors described in the section captioned Risk Factors below and the section captioned Risk Factors beginning on page 15 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, which is incorporated herein by reference, as well as the other information in this prospectus supplement and the accompanying prospectus, before buying our depositary shares.

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SUMMARY

This summary may not contain all of the information that is important to you. You should carefully read the entire prospectus supplement, the accompanying prospectus, especially the Risk Factors section beginning on page S-8 of this prospectus supplement and the Where You Can Find More Information section beginning on page S-30 of this prospectus supplement, or any free writing prospectus as well as the documents incorporated by reference in this prospectus supplement and in the accompanying prospectus, before making an investment decision. Unless otherwise expressly stated or the context otherwise requires, all information in this prospectus supplement assumes that the underwriters over-allotment option is not exercised.

The Company

General

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

As of December 31, 2007, our properties consisted of 43 community and neighborhood shopping center properties, five predominantly office operating properties and five development and/or redevelopment properties.

Our principal executive offices are located at 7501 Wisconsin Avenue, Suite 1500, Bethesda, Maryland 20814 and our telephone number is (301) 986-6200. Our website address is www.saulcenters.com. The information contained in our website is not a part of this prospectus supplement or the accompanying prospectus.

Management

Our executive officers have been with us or our predecessor companies for an average of 19 years and combined have over 190 years of experience with us or our predecessor companies.

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Organizational Structure

We conduct our business through the Partnership and/or directly or indirectly owned subsidiaries. The following diagram depicts our 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, 2007.

(1) The Saul Organization s ownership percentage in Saul Centers reported above does not include units of limited partnership interest of the Partnership held by The Saul Organization. In general, units are convertible into shares of our common stock on a one-for-one basis. However, approximately 4,224,000 out of the 5,416,415 units held by The Saul Organization are not convertible into our common stock because our articles of incorporation limit beneficial and constructive ownership (defined by reference to various Code provisions) to 39.9% in value of our issued and outstanding equity securities, which we refer to as the ownership limit. As of December 31, 2007, inclusion of approximately 1,192,000 units, put The Saul Organization at the ownership limit. Although The Saul Organization s ownership was at the ownership limit as of December 31, 2007, as of such date, The Saul Organization continued to be able to purchase up to an additional 1,192,000 shares of our common stock because, for each additional share acquired, one fewer unit held by The Saul Organization would be convertible into shares of our common stock, and thus, the ownership limit would not be exceeded. Including the approximately 1,192,000 units as of December 31, 2007, The Saul Organization s beneficial ownership of Saul Centers common stock would be approximately 48.2%.

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Operating Strategy

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

For the first nine years following our initial public offering in August 1993, we grew our cash flows primarily through selective repositioning and redevelopment projects within our existing portfolio. A key goal at the time of the IPO was to increase cash flow and value on existing properties through redevelopment and re-tenanting.

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

In the future, we plan on continuing our expansion, redevelopment and repositioning activities within our current portfolio and applying prudent development and acquisition activities with an emphasis on the Washington, DC/Baltimore, MD metropolitan area and the southeastern region of the United States as well as other locations characterized by favorable demographic trends.

Our key operating strategies are highlighted below:

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

Maintain a diverse tenant base Only two retail tenants, Giant Food (4.5%) and Safeway (3.0%), and one office tenant, the United States Government (2.7%), individually accounted for more than 2.5% of the Company s total revenue for the year ended December 31, 2007. We believe that our relationships with our key tenants are stable.

Maintain a prudent capital structure Given our strategy of long-term real estate ownership and consequent highly depreciated book values of our assets, we believe that our coverage ratios are an appropriate leverage measure. We intend, over the long-term, to maintain a ratio of total debt to total asset value of 50% or less. Asset value is the aggregate fair market value of our portfolio as reasonably determined by management by reference to the portfolio s aggregate cash flow. At December 31, 2007, our management believed this ratio was 30.4%. While our financial leverage may fluctuate in conjunction with acquisition or development activities, we currently intend to maintain our leverage near present levels. We seek to minimize our exposure to variable rate debt and to utilize long-term debt financing consistent with our long-term ownership strategy. As of December 31, 2007, our variable rate debt as a percentage of total debt was only 1.5%, and the average maturity of our debt portfolio was 8.1 years.

Minimize portfolio rollover risk Our leases are generally long-term in nature, which we believe mitigates the risks associated with lease rollovers. In our shopping center portfolio, average annual lease expirations through 2016 are 8.0%, with no one year exceeding 14.6% of our gross leasable area over that period. In our office portfolio, average annual lease expirations through 2016 are 10.2%, with no one year exceeding 19.1% of our gross leasable area over that period. We actively manage our lease portfolio and commence retenanting activities in advance of lease expirations.

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Recent Developments

Recent Land Parcel Acquisitions

Westview Village. In November 2007, we purchased a 10.4 acre site in the Westview development on Buckeystown Pike (MD Route 85) in Frederick, Maryland. The purchase price was $5.0 million. Construction documents have been completed and site permits have been received for development of approximately 105,000 square feet of commercial space, including 60,000 square feet of retail shop space, 15,000 square feet of retail pads and 30,000 square feet of professional office space. We are currently marketing the space and have executed leases for 9,606 square feet of the retail space. We commenced site work construction in early 2008 and anticipate total construction and development costs, including land, to be approximately $26.0 million. Substantial completion of the building shell is scheduled for late 2008.

Northrock Land Parcel. In January 2008, we acquired approximately 15.4 acres of undeveloped land in Warrenton, Virginia. The site is located in the City of Warrenton at the southwest corner of the U. S. Route 29/211 and Fletcher Drive intersection. In January 2008, we commenced site work construction for Northrock Shopping Center, a neighborhood shopping center totaling approximately 103,000 square feet of leasable area. The Harris Teeter supermarket chain has executed a lease for a 52,700 square foot grocery store to anchor the center. The land purchase price was $12.5 million, and we anticipate total construction and development costs, including land, to be approximately $27.5 million. Substantial completion of construction is anticipated for mid 2009. We are negotiating construction financing to fund a portion of the total development costs of the Northrock project.

Proposed Acquisitions

In February 2008, we entered into an agreement with an unaffiliated third party to purchase three shopping center properties. These properties are:

- Great Falls Center in Great Falls, Virginia, an approximately 89,000 square foot Safeway anchored center,
- BJ s Wholesale in Alexandria, Virginia, an approximately 115,000 square foot single tenant net ground lease property, and
- Marketplace at Sea Colony in Bethany Beach, Delaware, an approximately 22,000 square foot neighborhood shopping center.

The total purchase price is expected to be approximately $60.6 million. We will assume $10.3 million in permanent financing and expect to obtain an additional $24.0 million in permanent financing subsequent to or at closing. The balance of the purchase price will be funded with the net proceeds of this offering. As of February 29, 2008, the three-property portfolio was 98% leased. We expect to close these acquisitions by the end of the first quarter of 2008; however, these acquisitions are subject to satisfactory completion of due diligence and other customary closing conditions. There can be no assurance that we will complete these acquisitions.

Proposed Development

Clarendon Center. We own an assemblage of land parcels (including our Clarendon and Clarendon Station operating properties) totaling approximately 1.5 acres adjacent to the Clarendon Metro Station in Arlington, Virginia. In June 2006, we obtained zoning approvals for a mixed-use development project to include up to approximately 45,000 square feet of retail space, 170,000 square feet of office space and 244 residential units. We have substantially completed construction documents. The total development costs are expected to be approximately $190.0 million, a portion of which will be funded with a construction loan that we are presently negotiating. An existing vacant building located on a portion of the land is being demolished to prepare this

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portion of the site for development, with site construction expected to commence in the spring of 2008. We estimate substantial completion of shell construction in late 2010.

The Offering

For a more complete description of the rights, preferences and other terms of the Series B preferred stock underlying the depositary shares specified in the following summary, please see the information under the caption Description of Series B Preferred Stock and Depositary Shares beginning on page S-20 in this prospectus supplement and Description of Preferred Stock and Description of Depositary Shares beginning on pages 3 and 8, respectively, in the accompanying prospectus.

Issuer	Saul Centers, Inc.
Securities Offered	3,000,000 depositary shares, each representing a 1/100th fractional interest in a share of 9% Series B Cumulative Redeemable Preferred Stock.
Dividend Rate and Payment Dates	Dividends on the offered shares are cumulative from the date of their original issue and are payable quarterly in arrears on the fifteenth day of January, April, July and October of each year, when and as declared, beginning on July 15, 2008. We will pay cumulative dividends on the Series B preferred stock underlying the depositary shares at the fixed rate of $2.25 per depositary share each year, which is equivalent to 9% of the $25.00 liquidation preference per depositary share. The first dividend we will pay on July 15, 2008 will be for more than a full quarter and will cover the period from the first date we issue and sell the depositary shares through June 30, 2008. Dividends on the Series B preferred stock underlying the depositary shares will continue to accumulate even if any of our agreements prohibit the current payment of dividends, we do not have earnings or funds legally available to pay the dividends or our board of directors does not declare the payment of the dividends.

During any period of time that both (i) the depositary shares (or the Series B Preferred Stock if no longer held in depositary form) are not listed on the NYSE, the AMEX or NASDAQ, and (ii) we are not subject to the reporting requirements of the Exchange Act, but any shares of Series B Preferred Stock are outstanding, we will increase the cumulative cash distributions payable on the Series B preferred stock underlying the depositary shares to a fixed rate of $2.50 per depositary share per year, which is equivalent to 10% of the $25.00 liquidation preference, per depositary share. See Description of Series B Preferred Stock and Depositary Shares Dividends beginning on page S-21 of this prospectus supplement.

Liquidation Preference	The liquidation preference of each share of Series B preferred stock is $2,500.00 ($25.00 per depositary share). Upon liquidation, Series B preferred stockholders will be entitled to receive the liquidation preference with respect to their shares of Series B preferred stock plus an amount equal to accumulated but unpaid dividends with respect to such shares. See Description of Series B Preferred Stock and

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	Depositary Shares Liquidation Preference on page S-22 of this prospectus supplement.
Optional Redemption	The Series B preferred stock underlying the depositary shares is not redeemable prior to March 15, 2013, except in limited circumstances relating to the preservation of our qualification as a REIT. On and after March 15, 2013, the Series B preferred stock will be redeemable at our option for cash, in whole or, from time to time, in part, at a price per share equal to $2,500.00 per share (or $25.00 per depositary share), plus all accumulated, accrued and unpaid dividends (whether or not declared) on each share of Series B preferred stock, if any, to the redemption date.

During any period of time that both (i) the depositary shares (or the Series B preferred stock if no longer held in depositary form) are not listed on the NYSE, the AMEX or NASDAQ, and (ii) we are not subject to the reporting requirements of the Exchange Act, but any shares of Series B preferred stock are outstanding, we will have the option to redeem the Series B preferred stock (and, therefore, the depositary shares), in whole but not in part, within 90 days of the date upon which the depositary shares (or shares of the Series B preferred stock) cease to be listed and we cease to be subject to such reporting requirements, for a redemption price of $2,500.00 per share (or $25.00 per depositary share), plus accrued and unpaid distributions, if any, to the redemption date.

Maturity	The Series B preferred stock underlying the depositary shares does not have any maturity date. Accordingly, the Series B preferred stock will remain outstanding indefinitely unless we decide to redeem them.
Restrictions on Ownership	Ownership by a single holder of more than 2.5% or, in the case of The Saul Organization, of more than 39.9%, in value of our issued and outstanding equity securities (which include the depositary shares) is restricted in an effort to ensure that we remain a qualified REIT for U.S. federal income tax purposes. See Certain Provisions of Maryland Law and Our Articles of Incorporation and Bylaws Restrictions on Ownership and Transfer beginning on page 10 of the accompanying prospectus.
Ranking	The Series B preferred stock underlying the depositary shares will rank, as to dividend rights and rights upon our liquidation, dissolution or winding up, senior to shares of our common stock and on a parity with our outstanding 8% Series A Cumulative Redeemable Preferred Stock, which we refer to as our Series A preferred stock, and any equity securities that we may issue in the future, the terms of which specifically provide that such equity securities rank on a parity with the Series B preferred stock.
Voting Rights	Holders of the depositary shares representing interests in the Series B preferred stock will generally have no voting rights. However, if dividends on any outstanding shares of Series B preferred stock have

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not been paid for six or more quarterly periods (whether or not declared or consecutive), holders of depositary shares representing interests in the Series B preferred stock (voting separately as a class with all other series of preferred stock upon which like voting rights have been conferred and are exercisable, including the Series A preferred stock) will be entitled to elect two additional directors to our board of directors to serve until all unpaid dividends have been fully paid or declared and set apart for payment.

In addition, certain material and adverse changes to the terms of the Series B preferred stock cannot be made without the affirmative vote of holders of at least 66 2/3% of the outstanding shares of Series B preferred stock, voting as a separate class. See Description of Series B Preferred Stock and Depositary Shares Voting Rights beginning on page S-24 of this prospectus supplement.

In any matter in which the Series B preferred stock may vote, each depositary share will be entitled to 1/100th of a vote.

Listing	We will apply to list the depositary shares on the NYSE under the symbol BFS PrB. If the application is approved, we expect trading on the NYSE will commence within 30 days after the initial delivery of the depositary shares to the underwriters. The Series B preferred stock is not listed and we do not expect that there will be any other trading market for the Series B preferred stock. We cannot assure you that our listing application will be approved within 30 days or at all.
Form	The depositary shares will be issued and maintained in book-entry form registered in the name of the nominee of The Depositary Trust Company except under limited circumstances.
Use of Proceeds	We intend to contribute the net proceeds from this offering to the Partnership in exchange for a preferred interest in the Partnership. The terms of the preferred interest in the Partnership will be substantially equivalent to the terms of the Series B preferred stock. The Partnership intends to use \$26.3 million of the amounts received from us to purchase the properties described under Summary Recent Developments Proposed Acquisitions above. We intend to use \$22.0 million to reduce amounts outstanding under our unsecured revolving credit facility. We intend to use the remaining net proceeds to fund the development of the properties described under Summary Recent Developments Recent Land Parcel Acquisitions and Summary Recent Developments Proposed Development above.
Risk Factors	See Risk Factors beginning on page S-8 of this prospectus supplement and beginning on page 15 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, which is incorporated herein by reference for a discussion of factors you should carefully consider before deciding to invest in our depositary shares.

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RISK FACTORS

You should carefully consider the risks described below, as well as the risks described in the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, before making a decision to invest in our depositary shares or preferred stock. These risks are not the only ones faced by us. The trading price of the depositary shares could decline due to any of these risks, and you may lose all or part of your investment. This prospectus supplement and the accompanying prospectus and the documents incorporated herein and therein by reference also contain forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and in the documents incorporated herein by reference, particularly in the section captioned Risk Factors beginning on page 15 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, which is incorporated herein by reference.

Risks Relating to This Offering

There is no established market for the depositary shares and the market value of the depositary shares could be substantially affected by various factors.

The depositary shares are a new issue of securities with no established trading market. We intend to apply to list the depositary shares on the NYSE. We cannot assure you that our listing application will be approved by the NYSE. However, even if approved for listing by the NYSE, an active trading market on the NYSE for the depositary shares may not develop or last, in which case the trading price of the depositary shares could be adversely affected. If an active trading market does develop on the NYSE, the depositary shares may trade at prices higher or lower than their initial offering price.

The trading price of our depositary shares would also depend on many factors, including:

- prevailing interest rates;
- the market for similar securities;
- general economic conditions;
- our financial condition, results of operations and prospects; and
- the matters discussed in this prospectus supplement under the captions Risk Factors and Forward-Looking Statements and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 under the caption Risk Factors.

We have been advised by some of the underwriters that they intend to make a market in our depositary shares, but they are not obligated to do so and may discontinue market-making at any time without notice.

Our ability to pay dividends is limited by the requirements of Maryland law.

Our ability to pay dividends on the Series B preferred stock is limited by the laws of Maryland. Under Maryland General Corporation Law, a Maryland corporation may not make a distribution if, after giving effect to the distribution, the corporation would not be able to pay its debts as the debts become due in the usual course of business, or the corporation s total assets would be less than the sum of its total liabilities plus the amount that would be needed, if the corporation were dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the distribution. Accordingly, we may not make a distribution on the Series B preferred stock if, after giving effect to the distribution, we would not be able to pay our debts as they become due in the usual course of business or our total assets would be less than the sum of our total liabilities plus the amount that would be needed to satisfy the

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preferential rights upon dissolution of the holders of any shares of the preferred shares then outstanding, if any, with preferences senior to those of the Series B preferred stock.

We may incur additional indebtedness, which may harm our financial position and cash flow and potentially impact our ability to pay dividends on the Series B preferred stock.

Our organizational documents contain no limitation on the amount or percentage of indebtedness which we may incur. As of December 31, 2007, we had approximately $532.7 million of debt outstanding, $524.7 million of which was long-term fixed rate debt and was secured by 35 of our properties. The remaining $8.0 million of outstanding debt was borrowed under the revolving credit facility. We may incur additional indebtedness and become more highly leveraged, which could harm our financial position and potentially limit our cash available to pay dividends. As a result, we may not have sufficient funds remaining to satisfy our dividend obligations relating to our Series B preferred stock if we incur additional indebtedness.

We cannot assure you that we will be able to pay dividends regularly.

Our ability to pay dividends in the future is dependent on our ability to operate profitably and to generate cash from our operations and the operations of our subsidiaries. We cannot guarantee that we will be able to pay dividends on a regular quarterly basis in the future. Furthermore, any new shares of common stock issued will substantially increase the cash required to continue to pay cash dividends at current levels. Any common stock or preferred stock that may in the future be issued to finance acquisitions, upon exercise of stock options or otherwise, would have a similar effect.

Our ability to issue preferred stock in the future could adversely affect the rights of holders of our preferred shares.

Our articles of incorporation authorize us to issue up to 1,000,000 shares of preferred stock in one or more series on terms determined by our board of directors. As of December 31, 2007, we had 40,000 shares of Series A preferred stock outstanding. However, the use of depositary shares enables us to issue significant amounts of preferred stock, notwithstanding the number of shares authorized by our articles of incorporation. Our future issuance of any series of preferred stock under our articles of incorporation could therefore effectively diminish our ability to pay dividends on, and the liquidation preference of, our Series B preferred stock.

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SELECTED FINANCIAL INFORMATION

The following information is unaudited but was derived from our audited consolidated financial statements. The information is only a summary and does not provide all of the information contained in our consolidated financial statements, including the related notes, Management s Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures about Market Risk, which are included in our Annual Report on Form 10-K for the year ended December 31, 2007.

(Dollars in thousands, except per share data)	As of or for the Year Ended December 31,				
	2007	**2006**	**2005**	**2004**	**2003**
Operating Data:					
Total revenue	$ 150,585	$ 137,978	$ 127,015	$ 112,842	$ 97,884
Operating expenses	105,203	97,505	89,990	79,135	70,738
Operating income	45,382	40,473	37,025	33,707	27,146
Non-operating income (loss)					
Gain on property disposition	139			572	182
Income before minority interests	45,521	40,473	37,025	34,279	27,328
Minority interests	(8,818)	(7,793)	(7,798)	(8,105)	(8,086)
Net income	36,703	32,680	29,227	26,174	19,242
Preferred dividends	(8,000)	(8,000)	(8,000)	(8,000)	(1,244)
Net income available to common stockholders	$ 28,703	$ 24,680	$ 21,277	$ 18,174	$ 17,998
Per Share Data (diluted):					
Net income available to common stockholders	$ 1.62	$ 1.43	$ 1.27	$ 1.12	$ 1.15
Basic and diluted shares outstanding					
Weighted average common shares basic	17,589	17,075	16,663	16,154	15,591
Effect of dilutive options	180	158	107	57	17
Weighted average common shares diluted	17,769	17,233	16,770	16,211	15,608
Weighted average convertible limited partnership units	5,416	5,395	5,233	5,194	5,182
Weighted average common shares and fully converted limited partnership units diluted	23,185	22,628	22,003	21,405	20,790
Dividends Paid:					
Cash dividends to common stockholders (1)	$ 31,026	$ 28,579	$ 26,542	$ 25,061	$ 24,171
Cash dividends per share	$ 1.77	$ 1.68	$ 1.60	$ 1.56	$ 1.56
Balance Sheet Data:					
Real estate investments (net of accumulated depreciation)	$ 657,258	$ 627,651	$ 567,417	$ 501,388	$ 387,292
Total assets	727,443	700,537	631,469	583,396	471,616
Total debt, including accrued interest	535,319	525,125	484,902	455,925	359,051
Preferred stock	100,000	100,000	100,000	100,000	100,000
Total stockholders equity (deficit)	148,779	132,091	111,414	100,964	92,643

(Continued on next page)

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	As of or for the Year Ended December 31,				
	2007	2006	2005	2004	2003
Other Data:					
Cash flow provided by (used in):					
Operating activities	$ 71,197	$ 62,174	$ 58,674	$ 50,686	$ 37,716
Investing activities	(52,036)	(65,699)	(73,805)	(113,467)	(49,121)
Financing activities	(21,457)	3,579	(10,423)	51,098	55,340
Funds from operations (FFO) (2)					
Net income	$ 36,703	$ 32,680	$ 29,227	$ 26,174	$ 19,242
Minority interests	8,818	7,793	7,798	8,105	8,086
Real estate depreciation and amortization	26,464	25,648	24,197	21,324	17,838
Gain on property disposition	(139)			(572)	(182)
FFO	71,846	66,121	61,222	55,031	44,984
Preferred dividends	(8,000)	(8,000)	(8,000)	(8,000)	(1,244)
FFO available to common stockholders	$ 63,846	$ 58,121	$ 53,222	$ 47,031	$ 43,740

(1) Of the amounts presented, $18,725, $14,842, $15,330, $13,774 and $13,349 was reinvested by stockholders in newly issued common stock by operation of our dividend reinvestment plan for the years ended 2007, 2006, 2005, 2004 and 2003, respectively.

(2) Funds from operations, commonly referred to as FFO, is a widely accepted non-GAAP financial measure of operating performance for REITs. The National Association of Real Estate Investment Trusts (NAREIT) developed FFO as a relative non-GAAP financial measure of performance of an equity REIT in order to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP. FFO is defined by NAREIT as net income, computed in accordance with GAAP, plus minority interests, extraordinary items and real estate depreciation and amortization, excluding gains or losses from property sales. FFO does not represent cash generated from operating activities in accordance with GAAP and is not necessarily indicative of cash available to fund cash needs. There are no material legal or functional restrictions on the use of FFO. FFO should not be considered as an alternative to net income, its most directly comparable GAAP measure, as a indicator of our operating performance, or as an alternative to cash flows as a measure of liquidity. Management considers FFO a meaningful supplemental measure of operating performance because it primarily excludes the assumption that the value of the real estate assets diminishes predictably over time (i.e. depreciation), which is contrary to what we believe occurs with our assets, and because industry analysts have accepted it as a performance measure. FFO may not be comparable to similarly titled measures employed by other REITs. Because FFO is a non-GAAP financial measure, our presentation of FFO for all periods is reconciled to its most directly comparable GAAP measure, net income.

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PROPERTIES

Overview

As of December 31, 2007, we were the owner and operator of a real estate portfolio of 48 operating properties totaling approximately 8,009,000 square feet of gross leasable area located primarily in the Washington, DC/Baltimore, MD metropolitan area. Our 43 neighborhood and community shopping center properties contained approximately 6,803,000 square feet of gross leasable area, and our five predominantly office properties contained approximately 1,206,000 square feet of gross leasable area. As of December 31, 2007, approximately 95.3% of our gross leasable area was leased.

Shopping Center Properties

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

As of December 31, 2007, our shopping center properties ranged in size from 4,000 to 569,000 square feet of gross leasable area, with six in excess of 300,000 square feet, and a weighted average of approximately 158,000 square feet. A majority of our shopping center properties are anchored by several major tenants and other tenants offering primarily day-to-day necessities and services. Twenty-nine of our 43 shopping center properties are anchored by a grocery store.

The following table sets forth certain information about our shopping center properties as of December 31, 2007.

Property	Location	Gross Leasable Area (Square Feet)	Year Developed or Acquired (Renovated)	Land Area (Acres)	Percentage Leased as of December 31, 2007	2006	Anchor/Notable Tenants
Ashburn Village	Ashburn, VA	221,687	1994/2000/01/02/06	26.4	95%	99%	Giant Food, Ruby Tuesday, Hallmark Cards, Starbucks Coffee
Ashland Square Phase I	Manassas, VA	3,650	2007	2.0	100%	N/A	
Beacon Center	Alexandria, VA	356,115	1972 (1993/99/07)	32.3	100%	100%	Lowe s, Giant Food, Office Depot, Outback Steakhouse, Marshalls, Hancock Fabrics, Party Depot, Panera Bread, TGI Fridays, Starbucks Coffee
Belvedere	Baltimore, MD	54,941	1972	4.8	36%	41%	Family Dollar
Boca Valley Plaza	Boca Raton, FL	121,269	2004	12.7	96%	97%	Publix, Wachovia Bank
Boulevard	Fairfax, VA	56,350	1994 (1999)	5.0	100%	100%	Panera Bread, Party City, Petco
Briggs Chaney MarketPlace	Silver Spring, MD	194,347	2004	18.2	99%	100%	Safeway, Ross Dress for Less, Chuck E. Cheese, Family Dollar
Broadlands Village I, II & III	Ashburn, VA	159,734	2003/04/06	24.0	98%	100%	Safeway, The Original Steakhouse and Sports Theatre, Bonefish Grill, Starbucks Coffee
Clarendon/Clarendon Station	Arlington, VA	11,808	1973/1996	0.6	61%	70%	
Countryside	Sterling, VA	141,696	2004	16.0	97%	96%	Safeway, CVS Pharmacy, Starbucks Coffee
Cruse MarketPlace	Cumming, GA	78,686	2004	10.6	97%	97%	Publix

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Property	Location	Gross Leasable Area (Square Feet)	Year Developed or Acquired (Renovated)	Land Area (Acres)	Percentage Leased as of December 31, 2007	2006	Anchor/Notable Tenants
Flagship Center	Rockville, MD	21,500	1972, 1989	0.5	100%	100%	
French Market	Oklahoma City, OK	244,724	1974 (1984/98)	13.8	94%	93%	Burlington Coat Factory, Bed Bath & Beyond, Staples, Famous Footwear, Lakeshore Learning Center, Alfred Angelo, Dollar Tree
Germantown	Germantown, MD	27,241	1992	2.7	84%	92%	
Giant	Baltimore, MD	70,040	1972 (1990)	5.0	100%	100%	Giant Food
The Glen	Lake Ridge, VA	134,317	1994 (2005)	14.7	96%	98%	Safeway Marketplace, The Original Steakhouse and Sports Theatre, Panera Bread
Great Eastern	District Heights, MD	254,448	1972 (1995)	31.9	99%	100%	Giant Food, Pep Boys, Big Lots, Capital Sports Complex
Hampshire Langley	Takoma Park, MD	131,700	1972 (1979)	9.9	100%	100%	Safeway, Radio Shack, Starbucks Coffee
Hunt Club Corners	Apopka, FL	101,522	2006	13.1	99%	94%	Publix, Walgreens, Radio Shack
Jamestown Place	Altamonte Springs, FL	96,372	2005	10.9	95%	100%	Publix, Carrabas Italian Grill
Kentlands Square	Gaithersburg, MD	114,381	2002	11.5	100%	100%	Lowe s, Chipotle
Kentlands Place	Gaithersburg, MD	40,648	2005	3.4	100%	100%	Elizabeth Arden s Red Door Salon, Bonefish Grill
Lansdowne Town Center	Leesburg, VA	189,414	2006	23.4	99%	N/A	Harris Teeter, CVS Pharmacy, Panera Bread, Not Your Average Joes, Starbucks Coffee
Leesburg Pike	Baileys Crossroads, VA	97,752	1966 (1982/95)	9.4	100%	100%	CVS Pharmacy, Party Depot, FedEx Kinkos s, Radio Shack, Verizon Wireless
Lexington Pads	Lexington, KY	13,646	1974	4.1	100%	100%	Applebees
Lumberton Plaza	Lumberton, NJ	193,044	1975 (1992/96)	23.3	98%	98%	SuperFresh, Rite Aid, Virtua Health Center, Radio Shack, Family Dollar
Olde Forte Village	Ft. Washington, MD	143,062	2003	16.0	95%	93%	Safeway, Radio Shack
Olney	Olney, MD	53,765	1975 (1990)	3.7	100%	97%	Rite Aid
Orchard Park	Dunwoody, GA	87,782	2007	10.5	93%	N/A	Kroger, Starbucks Coffee
Palm Springs Center	Altamonte Springs, FL	126,446	2005	12.0	97%	100%	Albertson s, Office Depot, Mimi s Café, Toojay s Deli
Ravenwood	Baltimore, MD	93,328	1972 (2006)	8.0	100%	100%	Giant Food, Hollywood Video, Starbucks Coffee
Seabreeze Plaza	Palm Harbor, FL	146,673	2005	18.4	90%	100%	Publix, Palm Harbor Health Food, World Gym

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Property	Location	Gross Leasable Area (Square Feet)	Year Developed or Acquired (Renovated)	Land Area (Acres)	Percentage Leased as of December 31, 2007	2006	Anchor/Notable Tenants
Seven Corners	Falls Church, VA	568,831	1973 (1994-7/2007)	31.6	100%	100%	The Home Depot, Shoppers Food & Pharmacy, Michaels Arts & Crafts, Barnes & Noble, Ross Dress For Less, G Street Fabrics, Off-Broadway Shoes, The Room Store, Dress Barn, Starbucks Coffee, Dogfishhead Ale House
Shops at Fairfax	Fairfax, VA	68,743	1975 (1993/99)	6.7	100%	100%	Super H Mart
Shops at Monocacy	Frederick, MD	109,144	2004	13.0	100%	100%	Giant Food, Panera Bread, Starbucks Coffee
Smallwood Village Center	Waldorf, MD	197,861	2006	25.1	73%	84%	Safeway, CVS Pharmacy
Southdale	Glen Burnie, MD	484,115	1972 (1986)	39.6	100%	100%	Giant Food, The Home Depot, Circuit City, Michaels Arts & Crafts, Marshalls, PetSmart, Value City Furniture, Athletic Warehouse, Starbucks Coffee
Southside Plaza	Richmond, VA	373,651	1972	32.8	93%	96%	Farmers Foods, Maxway, Citi Trends, City of Richmond
South Dekalb Plaza	Atlanta, GA	163,418	1976	14.6	83%	95%	Maxway, Consolidated Stores
Thruway	Winston-Salem, NC	355,116	1972 (1997)	30.5	97%	93%	Harris Teeter, Borders Books, Bed Bath & Beyond, Stein Mart, Rite Aid, JoS A. Banks, Bonefish Grill, Chico s, Ann Taylor Loft, Coldwater Creek, FedEx Kinko s, New Balance, Aveda Salon, Christie s Hallmark Rite Aid
Village Center	Centreville, VA	143,109	1990	17.2	99%	97%	Giant Food, Tuesday Morning
West Park	Oklahoma City, OK	76,610	1975	11.2	19%	19%	Family Dollar
White Oak	Silver Spring, MD	480,156	1972 (1993)	28.5	100%	100%	Giant Food, Sears, Rite Aid
Total Shopping Center Properties		6,802,842		649.6	95.3%	96.1%	

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Lease Expirations of Shopping Center Properties

The following table sets forth a schedule of lease expirations for leases in place at the shopping center properties that we owned as of December 31, 2007, for each of the 10 years beginning with 2008, assuming that none of our tenants exercise renewal options and excluding an aggregate 319,734 square feet of unleased space, which represented 4.7% of the gross leasable area of our shopping center properties as of December 31, 2007.

Year of Lease Expiration	Gross Leasable Area Represented by Expiring Leases (Square Feet)	Percentage of Gross Leasable Area Represented by Expiring Leases	Annual Base Rent Under Expiring Leases (1)	Percentage of Total Annual Base Rent Represented by Expiring Leases
2008	562,335	8.3%	$ 8,045,189	8.9%
2009	739,867	10.9	11,076,388	12.3
2010	746,841	11.0	10,160,716	11.3
2011	994,038	14.6	12,506,958	13.9
2012	739,374	10.9	12,706,734	14.1
2013	375,276	5.5	5,415,856	6.0
2014	145,547	2.1	2,914,016	3.2
2015	167,496	2.4	3,462,982	3.9
2016	514,248	7.6	3,603,213	4.0
2017 and thereafter	1,498,086	22.0	20,168,995	22.4
Total:	6,483,108	95.3%	$ 90,061,047	100.0%

(1) Calculated based on annualized contractual base rent payable as of December 31, 2007 for the lease for gross leasable area expiring, and excluding expenses payable by or reimbursable from tenants.

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Office Properties

Four of our five office properties are located in the Washington, DC metropolitan area and contain an aggregate gross leasable area of approximately 1,000,000 square feet, comprised of 922,000 and 87,000 square feet of office and retail space, respectively. Our fifth office property is located in Tulsa, Oklahoma and contains gross leasable area of approximately 197,000 square feet. Our office properties represent three distinct styles of facilities, are located in differing commercial environments with distinctive demographic characteristics and are geographically removed from one another.

The following table sets forth certain information about our office properties as of December 31, 2007.

Property	Location	Gross Leasable Area (Square Feet)	Year Developed or Acquired (Renovated)	Land Area (Acres)	Percentage Leased as of December 31, 2007	2006	Anchor/Notable Tenants
Avenel Business Park	Gaithersburg, MD	390,579	1981-2000	37.1	93%	99%	General Services Administration, VIRxSYS, Broadsoft, Quanta Systems, SeraCare Life Sciences, Panacos Pharmaceutical
Crosstown Business Center	Tulsa, OK	197,135	1975 (2000)	22.4	88%	88%	Compass Group, Roxtec, Keystone Automotive, Gofit, Freedom Express
601 Pennsylvania Ave	Washington, DC	226,604	1973 (1986)	1.0	100%	100%	National Gallery of Art, America s Health Insurance Plans, Credit Union National Assn., Southern Company, HQ Global, Freedom Forum, Pharmaceutical Care Management Assn., Capital Grille
Van Ness Square	Washington, DC	156,493	1973 (1990)	1.2	97%	97%	Asgard Entertainment Group, Inc., Office Depot, Pier 1
Washington Square	Alexandria, VA	235,042	1975 (2000)	2.0	99%	100%	Vanderweil Engineering, Agentrics, EarthTech, Thales, Cooper Carry, Bank of America, Trader Joe s, FedEx Kinko s, Talbot s
Total Office Properties:		1,205,853		63.7	95.2%	97.3%	

Lease Expirations of Office Properties

The following table sets forth a schedule of lease expirations for leases in place at the office properties that we owned as of December 31, 2007, for each of the 10 years beginning with 2008, assuming that none of our tenants exercise renewal options and excluding an aggregate 57,605 square feet of unleased space, which represented 4.8% of the gross leasable area of our office properties as of December 31, 2007.

Year of Lease Expiration	Gross Leasable Area Represented by Expiring Leases (Square Feet)	Percentage of Gross Leasable Area Represented by Expiring Leases	Annual Base Rent Under Expiring Leases (1)	Percentage of Total Annual Base Rent Represented by Expiring Leases
2008	131,579	10.9%	$ 2,222,848	7.4%
2009	179,818	14.9	4,120,914	13.6
2010	130,570	10.8	2,949,056	9.8
2011	230,035	19.1	6,037,378	20.0
2012	98,539	8.2	3,136,376	10.4
2013	101,223	8.4	3,788,897	12.5
2014	145,794	12.1	4,983,631	16.5
2015	79,322	6.6	1,834,010	6.1
2016	15,064	1.2	446,685	1.5
2017 and thereafter	36,304	3.0	662,548	2.2

Total:	1,148,248	95.2%	$ 30,182,343	100.0%

(1) Calculated based on annualized contractual base rent payable as of December 31, 2007 for the lease for gross leasable area expiring, and excluding expenses payable by or reimbursable from tenants.

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Tenant Diversification for Shopping Center and Office Properties

Only two retail tenants, Giant Food (4.5%) and Safeway (3.0%), and one office tenant, the United States Government (2.7%), individually accounted for more than 2.5% of the Company s total revenue for the year ended December 31, 2007.

The following table sets forth certain information about our top 20 retail and office tenants based on total revenues for the year ended December 31, 2007.

Tenant Name	Total 2007 Revenues	Percentage of Total 2007 Revenues	Tenant Gross Leasable Area (Square Feet)	Percentage of Total Gross Leasable Area	Number of Locations
Giant Food	$ 6,809,528	4.5%	512,346	6.4%	9
Safeway	4,479,750	3.0	359,134	4.5	7
U.S. Government	4,115,765	2.7	106,127	1.3	6
Chevy Chase Bank, F.S.B.	2,946,361	2.0	58,041	0.7	18
America s Health Insurance Plans	2,766,409	1.8	55,543	0.7	1
Publix	2,652,246	1.8	243,223	3.0	5
Lowe s Home Center	2,493,669	1.7	257,150	3.2	2
CVS	2,371,955	1.6	113,955	1.4	6
Home Depot	2,095,423	1.4	244,424	3.1	2
Super Fresh	1,689,956	1.1	98,949	1.2	2
Office Depot	1,571,096	1.0	93,341	1.2	4
CUNA-Credit Union Nation	1,550,403	1.0	29,069	0.4	1
Blockbuster Video	1,529,197	1.0	52,777	0.7	11
Harris Teeter	1,449,353	1.0	89,395	1.1	2
Asgard Entertainment Group, Inc.	1,380,441	0.9	54,933	0.7	1
Southern Company Service	1,263,011	0.8	21,877	0.3	1
Shoppers Club	1,255,231	0.8	72,390	0.9	1
Bank of America	1,191,811	0.8	57,988	0.7	6
Argentrics, LLC	1,162,693	0.8	30,541	0.4	1
R.G. Vanderweil Engineering	1,155,912	0.8	32,726	0.4	1
Total:	$ 45,930,210	30.5%	2,583,929	32.3%	87

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DEBT STRUCTURE

General

Our capital strategy is to maintain a ratio of total debt to total asset value of 50% or less and to actively manage our leverage and debt expense on an ongoing basis in order to maintain prudent coverage of fixed charges. Asset value is the aggregate fair market value of our portfolio as reasonably determined by management by reference to the portfolio s aggregate cash flow. At December 31, 2007, our management believed this ratio was 30.4%.

Notes payable totaled $532,726,000 at December 31, 2007, of which $524,726,000, or 98.5%, was fixed rate debt, and $8,000,000, or 1.5%, was floating rate debt. None of our debt is to members of The Saul Organization. Outstanding borrowings on our $150,000,000 unsecured revolving line of credit were $8,000,000 at December 31, 2007. In general, loan availability under the line of credit is determined by operating income from our existing unencumbered properties. As of December 31, 2007, the unencumbered properties supported availability of $99,000,000. An additional $51,000,000 is available based on our consolidated operating income after debt service. Notes payable at December 31, 2007 totaling $157,381,000 are guaranteed by members of The Saul Organization.

Our revolving line of credit requires us to maintain financial covenants. The material covenants require us to:

- limit the amount of debt so as to maintain a gross asset value, as defined in the loan agreement, in excess of liabilities of at least $600 million plus 90% of our future net equity proceeds (including the net proceeds of this offering);
- 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 2.5 to 1 on a trailing 12-full calendar month basis;
- limit the amount of debt so that interest, scheduled principal amortization and preferred dividend coverage exceeds 1.6 to 1; and
- limit the amount of variable rate debt and debt with initial loan terms of less than five years to no more than 40% of total debt.

As of December 31, 2007, we were in compliance with all these financial covenants.

Fixed Rate Debt Maturity

At December 31, 2007, the scheduled maturities of all of our fixed rate debt for the next 10 years ending December 31, was as follows:

(In thousands)	Balloon Payments	Scheduled Principal Amortization	Total
2008	$	$ 16,162	$ 16,162
2009		17,393	17,393
2010		18,688	18,688
2011	63,153	19,162	82,315
2012	97,403	13,128	110,531
2013	39,862	7,977	47,839
2014	10,531	8,071	18,602
2015	7,630	7,935	15,565
2016		8,118	8,118

2017 and thereafter	164,587	24,926	189,513
Total	$ 383,166	$ 141,560	$ 524,726

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USE OF PROCEEDS

The net proceeds from the sale of the depositary shares in this offering, after deducting the underwriting discount and other estimated expenses of this offering payable by us, are estimated to be approximately $72.1 million (approximately $83.0 million if the underwriters over-allotment option is exercised in full). We intend to contribute the net proceeds from this offering to the Partnership in exchange for a preferred interest in the Partnership. The terms of the preferred interest in the Partnership will be substantially equivalent to the terms of the Series B preferred stock.

The Partnership intends to use $26.3 million of the amounts received from us to purchase the properties described under Recent Developments Proposed Acquisitions above. We intend to use $22.0 million to reduce amounts outstanding under our unsecured revolving credit facility. Our revolving credit facility has a final maturity date of December 2010. As of March 14, 2008, the outstanding borrowings under our revolving credit facility were $22.0 million. These borrowings bear interest at LIBOR plus a spread of 1.475% or 4.60%. We intend to use the remaining net proceeds to fund the development of the properties described under Summary Recent Developments Recent Land Parcel Acquisitions and Summary Recent Developments Proposed Development above.

Pending application of the net proceeds as described above, we may temporarily use the net proceeds to invest in short-term, income-producing investments. In the event that we do not acquire the properties or complete the developments described above, we intend to use the net proceeds to repay amounts outstanding under our revolving credit facility, to fund other property acquisitions or redevelopments and for general corporate purposes.

DESCRIPTION OF SERIES B PREFERRED STOCK AND DEPOSITARY SHARES

The following is a summary of the material terms and provisions of the Series B preferred stock and depositary shares. The statements below describing our Series B preferred stock are in all respects subject to and qualified in their entirety by reference to the applicable provisions of our articles of incorporation, including the articles supplementary establishing the Series B preferred stock, and our bylaws, each of which is available from us as described in the Where You Can Find More Information section beginning on page S-30 of this prospectus supplement and is incorporated by reference in this prospectus supplement. This description of the particular terms of the Series B preferred stock supplements the description of the general terms and provisions of our preferred stock set forth in the accompanying prospectus beginning on page 3 under Description of Preferred Stock.

General

Under our articles of incorporation, we are authorized to issue up to 30,000,000 shares of common stock, par value $.01 per share, and 1,000,000 shares of preferred stock, par value $.01 per share. As of December 31, 2007, we had 17,747,529 shares of common stock outstanding and 40,000 shares of Series A preferred stock outstanding.

Shares of preferred stock may be offered and sold from time to time, in one or more series, as authorized by the Board of Directors. The Board of Directors is authorized under Maryland law and our articles of incorporation to set for each series of preferred stock the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions, qualifications and terms or conditions of redemption. The Series B preferred stock is being issued pursuant to an articles supplementary to our articles of incorporation that sets forth the terms of a series of preferred stock consisting of up to 34,500 shares, designated 9% Series B Cumulative Redeemable Preferred Stock.

The registrar, transfer agent and distributions disbursing agent for the Series B preferred stock is Continental Stock Transfer & Trust Company.

Each depositary share represents a $1/100^{th}$ fractional interest in a share of Series B preferred stock. The Series B preferred stock underlying the depositary shares will be deposited with Continental Stock Transfer & Trust Company, as depositary, under a deposit agreement among us, the depositary and the holders from time to time of the depositary receipts issued by the depositary under the deposit agreement. The depositary shares will be evidenced by depositary receipts issued pursuant to the deposit agreement. Subject to the terms of the deposit agreement, each record holder of depositary receipts evidencing depositary shares will be entitled, proportionately, to all the rights and preferences of, and subject to all of the limitations of, the interest in the Series B preferred stock underlying the depositary shares (including dividend, voting, redemption and liquidation rights and preferences). See Description of Depositary Shares beginning on page 8 of the accompanying prospectus.

Ranking

The Series B preferred stock represented by the depositary shares will, as to dividend rights and rights upon our liquidation, dissolution or winding-up, rank:

- senior to all classes or series of our common stock and to all other equity securities ranking junior to the Series B preferred stock with respect to dividend rights or rights upon our liquidation, dissolution or winding up;

- on a parity with the Series A preferred stock and any equity securities authorized or designated by us in the future, the terms of which specifically provide that such equity securities rank on a parity with the Series B preferred stock with respect to dividend rights or rights upon our liquidation, dissolution or winding up; and

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- junior to any class or series of equity securities authorized or designated by us in the future which specifically provides that such class or series ranks senior to the Series B preferred stock with respect to dividend rights or rights upon our liquidation, dissolution or winding up.

The term equity securities does not include convertible debt securities, which will rank senior to the Series B preferred stock prior to conversion.

Dividends

Holders of the Series B preferred stock are entitled to receive, when and as authorized by our board of directors, out of funds legally available for the payment of dividends, cumulative cash dividends at the rate of 9% of the $2,500.00 liquidation preference ($25.00 per depositary share) per year (equivalent to $225.00 per year or $2.25 per year per depositary share). Dividends on the Series B preferred stock will accrue and be cumulative from the date of original issue by us of the Series B preferred stock. Dividends will be payable quarterly in arrears on the fifteenth day of January, April, July and October of each year or, if not a business day, the next succeeding business day. We refer to each such date as a Dividend Payment Date. The first dividend we will pay on July 15, 2008 will be for more than a full quarter and will cover the period from the first date we issue and sell depositary shares through June 30, 2008.

Any dividend, including any dividend payable on the Series B preferred stock for any partial dividend period, will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends are payable to holders of record of depositary shares as they appear in the depositary s records at the close of business on the applicable record date, which will be the date that our board of directors designates for the payment of a dividend that is not more than 30 nor less than 10 days prior to the Dividend Payment Date, which we refer to as a Dividend Payment Record Date.

During any period of time that both (i) the depositary shares (or the Series B preferred stock if no longer held in depositary form) are not listed on the NYSE, the AMEX or NASDAQ, and (ii) we are not subject to the reporting requirements of the Exchange Act, but any shares of Series B preferred stock are outstanding, we will (i) increase the cumulative cash distributions payable on the Series B preferred stock underlying the depositary shares to a fixed rate of $2.50 per depositary share per year, which is equivalent to 10% of the $25.00 liquidation preference, per depositary share and (ii) have the option to redeem the Series B preferred stock (and, therefore, the depositary shares), in whole but not in part, within 90 days of the date upon which the depositary shares (or shares of the Series B preferred stock) cease to be listed and we cease to be subject to such reporting requirements, for a redemption price of $2,500.00 per share (or $25.00 per depositary share), plus accrued and unpaid distributions, if any, to the redemption date.

Our board of directors will not authorize, pay or set apart for payment by us any dividend on the Series B preferred stock at any time that:

- the terms and provisions of any of our agreements, including any agreement relating to our indebtedness, prohibits such authorization, payment or setting apart for payment;
- the terms and provisions of any of our agreements, including any agreement relating to our indebtedness, provides that such authorization, payment or setting apart for payment would constitute a breach of, or a default under, such agreement; or
- the law restricts or prohibits the authorization or payment.

Notwithstanding the foregoing, dividends on the Series B preferred stock will accrue whether or not:

- the terms and provisions of any of our agreements relating to our indebtedness prohibits such authorization, payment or setting apart for payment;
- we have earnings;

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there are funds legally available for the payment of the dividends; and

the dividends are authorized.

Accrued but unpaid dividends on the Series B preferred stock will not bear interest.

We intend to contribute or otherwise transfer the net proceeds of the sale of any depositary shares sold on or after the date of this prospectus supplement to the Partnership in exchange for 9% Series B preferred partnership interests in the Partnership, the economic terms of which will be substantially identical to those of the Series B preferred stock. As of the date of this prospectus supplement, there are no outstanding Series B preferred partnership interests. The Partnership will be required to make all required distributions on the Series B preferred partnership interests (which will mirror the payments of dividends, including accrued and unpaid dividends upon redemption, and of the liquidation preference amount on the Series B preferred stock) prior to any distribution of cash or assets to the holders of any other interests in the Partnership, except for any series of preferred partnership interests ranking on a parity with the Series B preferred partnership interests as to distributions or liquidation rights, and except for distributions required to enable us to maintain our qualification as a REIT.

Any dividend payment made on the Series B preferred stock will first be credited against the earliest accrued but unpaid dividend due with respect to such shares which remains payable.

If, for any taxable year, we elect to designate as capital gain dividends (as defined in Section 857 of the Internal Revenue Code of 1986, as amended, which we refer to as the Code) a portion, which we refer to as the Capital Gains Amount, of the dividends not in excess of our earning and profits that are paid or made available for the year to the holders of all classes of shares, or the Total Dividends, then the portion of the Capital Gains Amount that will be allocable to the holders of depositary shares will be the Capital Gains Amount multiplied by a fraction, the numerator of which will be the total dividends (within the meaning of the Code) paid or made available to the holders of depositary shares for the year and the denominator of which will be the Total Dividends.

Liquidation Preference

Upon any voluntary or involuntary liquidation, dissolution or winding up of our affairs, the holders of shares of Series B preferred stock are entitled to be paid out of our assets legally available for distribution to our stockholders a liquidation preference of $2,500.00 per share (or $25.00 per depositary share), plus an amount equal to any accrued and unpaid dividends to the date of payment (whether or not declared), before any distribution or payment may be made to holders of shares of common stock or any other class or series of our equity stock ranking, as to liquidation rights, junior to the Series B preferred stock. If, upon our voluntary or involuntary liquidation, dissolution or winding up, our available assets are insufficient to pay the full amount of the liquidating distributions on all outstanding shares of Series B preferred stock and the corresponding amounts payable on all shares of each other class or series of capital stock ranking, as to liquidation rights, on a parity with the Series B preferred stock, then the holders of the Series B preferred stock and each such other class or series of capital stock ranking, as to liquidation rights, on a parity with the Series B preferred stock will share ratably in any distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled. Holders of Series B preferred stock will be entitled to written notice of any liquidation. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of Series B preferred stock and depositary shares will have no right or claim to any of our remaining assets.

Our consolidation or merger with or into any other entity or the sale, lease, transfer or conveyance of all or substantially all of our property or business will not be deemed to constitute our liquidation, dissolution or winding up. The Series B preferred stock will rank senior to the common stock as to priority for receiving liquidating distributions and on parity with any future equity securities which, by their terms, rank on a parity with the Series B preferred stock.

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Redemption

The Series B preferred stock is not redeemable prior to March 15, 2013, except under the circumstances described below. On and after March 15, 2013, the Series B preferred stock may be redeemed at our option, in whole or in part, from time to time, at a redemption price of $2,500.00 per share ($25.00 per depositary share), plus all dividends accrued and unpaid (whether or not declared) on the Series B preferred stock up to the date of such redemption, upon the giving of notice, as provided below. Whenever we redeem shares of our Series B preferred stock held by the depositary, the depositary will redeem as of the same redemption date a number of depositary shares representing the shares so redeemed and the depositary receipts evidencing such depositary shares.

If fewer than all of the outstanding shares of Series B preferred stock are to be redeemed, the shares to be redeemed will be determined pro rata, by lot or in such other manner as prescribed by our board of directors. In the event that the redemption is to be by lot, and if as a result of the redemption any holder of Series B preferred stock would own, or be deemed by virtue of certain attribution provisions of the Code to own, in excess of 2.5% in value of our issued and outstanding equity securities (which includes the depositary shares), with the exception of members of The Saul Organization, who are currently restricted to 39.9% in value of our issued and outstanding equity securities, then, except in certain instances, we will redeem the requisite number of shares of Series B preferred stock of that stockholder such that the stockholder will not own or be deemed by virtue of certain attribution provisions of the Code to own, subsequent to the redemption, in excess of 2.5% in value of our issued and outstanding equity securities (which includes the depositary shares), with the exception of members of The Saul Organization, who are currently restricted to 39.9% in value of our issued and outstanding equity securities.

During any period of time that both (i) the depositary shares (or the Series B preferred stock if no longer held in depositary form) are not listed on the NYSE, the AMEX or NASDAQ, and (ii) we are not subject to the reporting requirements of the Exchange Act, but any shares of Series B preferred stock are outstanding, we will have the option to redeem the Series B preferred stock (and, therefore, the depositary shares), in whole but not in part, within 90 days of the date upon which the depositary shares (or shares of the Series B preferred stock) cease to be listed and we cease to be subject to such reporting requirements, for a redemption price of $2,500.00 per share (or $25.00 per depositary share), plus accrued and unpaid distributions, if any, to the redemption date.

We shall give the depositary not less than 30 nor more than 60 days prior written notice of redemption of the deposited Series B preferred stock. A similar notice of redemption will be mailed by the depositary not less than 30 nor more than 60 days prior to the date fixed for redemption to each holder of record of depositary shares that is to be redeemed. The notice will notify the holder of the election to redeem the shares and will state at least the following:

- the date fixed for redemption thereof, which we refer to as the Redemption Date;
- the redemption price;
- the number of shares of Series B preferred stock and depositary shares to be redeemed (and, if fewer than all the shares are to be redeemed, the number of shares to be redeemed from such holder);
- the place(s) where the depositary receipts evidencing the depositary shares are to be surrendered for payment; and
- that dividends on the depositary shares will cease to accrue on the Redemption Date.

On or after the Redemption Date, each holder of depositary shares to be redeemed must present and surrender the depositary receipts evidencing the depositary shares to the depositary at the place designated in the notice of redemption. The redemption price of the shares will then be paid to or on the order of the person whose name appears on such depositary receipts as the owner thereof. Each surrendered depositary receipt will be

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canceled. In the event that fewer than all the depositary receipts are to be redeemed, a new depositary receipt will be issued representing the unredeemed depositary shares.

From and after the Redemption Date (unless we default in payment of the redemption price):

- all dividends on the shares designated for redemption in the notice will cease to accrue;
- all rights of the holders of the shares, except the right to receive the redemption price thereof (including all accrued and unpaid dividends up to the Redemption Date), will cease and terminate;
- the shares will not thereafter be transferred (except with our consent) on the depositary s books; and
- the shares will not be deemed to be outstanding for any purpose whatsoever.

Notwithstanding the foregoing, unless full cumulative dividends on all outstanding shares of Series B preferred stock have been paid or declared and a sum sufficient for the payment of the dividends has been set apart for payment for all past dividend periods and the then-current dividend period, no Series B preferred stock will be redeemed unless all outstanding shares of Series B preferred stock are simultaneously redeemed. This requirement will not prevent the purchase or acquisition of Series B preferred stock pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding shares of Series B preferred stock. Unless full cumulative dividends on all outstanding shares of Series B preferred stock have been paid or declared and a sum sufficient for the payment of the dividends has been set apart for payment for all past dividend periods and the then-current dividend period, we will not purchase or otherwise acquire directly or indirectly any shares of Series B preferred stock (except by exchange for our equity securities ranking junior to the Series B preferred stock as to dividend rights and liquidation preference).

Notwithstanding any other provision relating to redemption of the Series B preferred stock, we may redeem any or all shares of Series B preferred stock at any time, whether or not prior to March 15, 2013, if our board of directors determines that the redemption is necessary or advisable to preserve our status as a REIT.

Voting Rights

Except as described below, holders of depositary shares will generally have no voting rights. In any matter in which the Series B preferred stock may vote (as expressly provided herein, or as may be required by law), each share of Series B preferred stock shall be entitled to one vote. As a result, each depositary share will be entitled to 1/100th of a vote.

If dividends on the Series B preferred stock are in arrears, whether or not declared, for six or more quarterly periods, whether or not these quarterly periods are consecutive, holders of Series B preferred stock (voting separately as a class with all other series of preferred stock upon which like voting rights have been conferred and are exercisable, including the Series A preferred stock) will be entitled to vote, at a special meeting called by the holders of record of at least 10% of any series of preferred stock as to which dividends are so in arrears or at the next annual meeting of stockholders, for the election of two additional directors to serve on our board of directors until all dividend arrearages have been paid.

Any amendment, alteration, repeal or other change to any provision of our articles of incorporation, including the articles supplementary establishing the Series B preferred stock, whether by merger, consolidation or otherwise, in any manner that would materially and adversely affect the rights, preferences, powers or privileges of the Series B preferred stock cannot be made without the affirmative vote of holders of at least 66^{2}/3% of the outstanding shares of Series B preferred stock, voting separately as a class. In addition, the creation, issuance or increase in the authorized number of shares of any class or series of stock having a preference as to dividends or distributions, whether upon liquidation, dissolution, or otherwise, that is senior to the shares of Series B preferred stock requires the affirmative vote of holders of at least 66^{2}/3% of the outstanding shares of Series B preferred stock, voting separately as a class.

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The following actions are not deemed to materially and adversely affect the rights, preferences, powers or privileges of the Series B preferred stock:

- any increase in the amount of our authorized common stock or preferred stock or the creation or issuance of equity securities of any class or series ranking, as to dividends or liquidation preference, on a parity with, or junior to, the Series B preferred stock; or

- the amendment, alteration or repeal or change of any provision of our articles of incorporation, including the articles supplementary establishing the Series B preferred stock, as a result of a merger, consolidation, reorganization or other business combination, if the Series B preferred stock (or shares into which the Series B preferred stock have been converted in any successor entity to us) remain outstanding with the terms thereof materially unchanged.

Maturity

The Series B preferred stock has no stated maturity date and will not be subject to any sinking fund or mandatory redemption provisions.

Information Rights

During any period of time that both (i) the depositary shares