

Armada Hoffler Properties, Inc.

Form 10-Q

May 05, 2015

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2015

or

☐ **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: 001-35908

ARMADA HOFFLER PROPERTIES, INC.

(Exact Name of Registrant as Specified in its Charter)

Maryland (State of	46-1214914 (IRS Employer
Organization)	Identification No.)
222 Central Park Avenue, Suite 2100	
Virginia Beach, Virginia (Address of Principal Executive Offices)	23462 (Zip Code)
(757) 366-4000 (Registrant's Telephone Number, Including Area Code)	

Indicate by check mark whether the 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 ☐ No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). ☒ Yes ☐ No

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Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ☐ Accelerated Filer ☒

Non-Accelerated Filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

As of April 30, 2015, the Registrant had 25,499,639 shares of common stock outstanding.

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ARMADA HOFFLER PROPERTIES, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2015

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Table of Contents**PART I. Financial Information****Item 1. Financial Statements****ARMADA HOFFLER PROPERTIES, INC.****Condensed Consolidated Balance Sheets****(In thousands, except par value and share data)**

	MARCH 31, 2015 (UNAUDITED)	DECEMBER 31, 2014
<u>ASSETS</u>		
Real estate investments:		
Income producing property	\$ 552,172	\$ 513,918
Held for development	1,180	
Construction in progress	26,251	81,082
	579,603	595,000
Accumulated depreciation	(120,224)	(116,099)
Net real estate investments	459,379	478,901
Real estate investments held for sale	27,882	8,538
Cash and cash equivalents	31,479	25,883
Restricted cash	4,026	4,224
Accounts receivable, net	20,788	20,548
Construction receivables, including retentions	28,085	19,432
Construction contract costs and estimated earnings in excess of billings	170	272
Other assets	32,192	33,108
Total Assets	\$ 604,001	\$ 590,906
<u>LIABILITIES AND EQUITY</u>		
Indebtedness	\$ 363,730	\$ 359,229
Debt secured by real estate investments held for sale	17,342	
Accounts payable and accrued liabilities	5,649	8,358
Construction payables, including retentions	34,264	42,399
Billings in excess of construction contract costs and estimated earnings	1,206	1,053
Other liabilities	18,942	17,961
Total Liabilities	441,133	429,000
Stockholders' equity:		
Common stock, \$0.01 par value, 500,000,000 shares authorized, 25,084,139 and 25,022,701 shares issued and outstanding as of	251	250

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March 31, 2015 and December 31, 2014, respectively

Additional paid-in capital	51,877	51,472
Distributions in excess of earnings	(53,572)	(54,413)
Accumulated other comprehensive loss	(495)	
Total stockholders' deficit	(1,939)	(2,691)
Noncontrolling interests	164,807	164,597
Total Equity	162,868	161,906
Total Liabilities and Equity	\$ 604,001	\$ 590,906

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**ARMADA HOFFLER PROPERTIES, INC.****Condensed Consolidated Statements of Comprehensive Income****(In thousands, except per share data)****(Unaudited)**

	THREE MONTHS ENDED MARCH 31,	
	2015	2014
Revenues		
Rental revenues	\$ 18,190	\$ 15,193
General contracting and real estate services revenues	29,071	19,234
Total revenues	47,261	34,427
Expenses		
Rental expenses	4,760	3,976
Real estate taxes	1,657	1,343
General contracting and real estate services expenses	28,142	17,985
Depreciation and amortization	4,908	3,969
General and administrative expenses	2,328	2,046
Acquisition, development and other pursuit costs	171	
Total expenses	41,966	29,319
Operating income	5,295	5,108
Interest expense	(3,046)	(2,565)
Loss on extinguishment of debt	(227)	
Gain on real estate dispositions	6,197	
Other (loss) income	(132)	112
Income before taxes	8,087	2,655
Income tax benefit (provision)	31	(149)
Net income	8,118	2,506
Net income attributable to noncontrolling interests	(3,013)	(1,041)
Net income attributable to stockholders	\$ 5,105	\$ 1,465
Net income per share and unit:		
Basic and diluted	\$ 0.20	\$ 0.08
Weighted-average outstanding:		
Common shares	25,042	19,193

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Common units	14,776	13,632
Basic and diluted	39,818	32,825
Dividends and distributions declared per common share and unit	\$ 0.17	\$ 0.16
Comprehensive income:		
Net income	\$ 8,118	\$ 2,506
Unrealized loss on cash flow hedge	(786)	
Comprehensive income	7,332	2,506
Comprehensive income attributable to noncontrolling interests	(2,722)	(1,041)
Comprehensive income attributable to stockholders	\$ 4,610	\$ 1,465

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**ARMADA HOFFLER PROPERTIES, INC.****Condensed Consolidated Statement of Equity****(In thousands, except share data)****(Unaudited)**

	Shares of common stock	Common stock	Additional paid-in capital	Distribution in excess of earnings	Accumulated other comprehensive loss	Total stockholders' deficit	Noncontrolling interests	Total Equity
Balance, January 1, 2015	25,022,701	\$ 250	\$ 51,472	\$ (54,413)	\$	\$ (2,691)	\$ 164,597	\$ 161,906
Restricted stock award grants	61,615	1	(1)					
Vesting of restricted stock awards			406			406		406
Restricted stock award forfeitures	(177)							
Unrealized loss on cash flow hedge					(495)	(495)	(291)	(786)
Net income				5,105		5,105	3,013	8,118
Dividends and distributions declared				(4,264)		(4,264)	(2,512)	(6,776)
Balance, March 31, 2015	25,084,139	\$ 251	\$ 51,877	\$ (53,572)	\$ (495)	\$ (1,939)	\$ 164,807	\$ 162,868

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**ARMADA HOFFLER PROPERTIES, INC.****Condensed Consolidated Statements of Cash Flows****(In thousands)****(Unaudited)**

	THREE MONTHS ENDED MARCH 31,	
	2015	2014
OPERATING ACTIVITIES		
Net income	\$ 8,118	\$ 2,506
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of buildings and tenant improvements	4,200	3,478
Amortization of leasing costs and in-place lease intangibles	708	491
Accrued straight-line rental revenue	(725)	(469)
Amortization of leasing incentives and above or below-market rents	177	160
Accrued straight-line ground rent expense	79	79
Bad debt expense	34	11
Noncash stock compensation	379	329
Noncash interest expense	318	133
Loss on extinguishment of debt	227	
Gain on real estate dispositions	(6,197)	
Change in the fair value of derivatives	147	(93)
Changes in operating assets and liabilities, net of acquisitions:		
Property assets	(1,101)	(1,311)
Property liabilities	381	11
Construction assets	(8,551)	(109)
Construction liabilities	1,402	(2,003)
Net cash (used for) provided by operating activities	(404)	3,213
INVESTING ACTIVITIES		
Development of real estate investments	(20,951)	(20,320)
Tenant and building improvements	(1,203)	(2,495)
Acquisitions of real estate investments, net of cash acquired		(2,895)
Dispositions of real estate investments	15,224	
Decrease (increase) in restricted cash	762	(35)
Leasing costs	(1,337)	(153)
Leasing incentives	(825)	
Net cash used for investing activities	(8,330)	(25,898)
FINANCING ACTIVITIES		
Debt issuances, credit facility and construction loan borrowings	125,467	23,269

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Debt and credit facility payments, including principal amortization	(103,637)	(714)
Debt issuance costs	(1,132)	(4)
Offering costs		(149)
Dividends and distributions	(6,368)	(5,155)
Net cash provided by financing activities	14,330	17,247
Net increase (decrease) in cash and cash equivalents	5,596	(5,438)
Cash and cash equivalents, beginning of period	25,883	18,882
Cash and cash equivalents, end of period	\$ 31,479	\$ 13,444

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**ARMADA HOFFLER PROPERTIES, INC.****Notes to Condensed Consolidated Financial Statements****(Unaudited)*****1. Business and Organization***

Armada Hoffler Properties, Inc. (the Company) is a full service real estate company with extensive experience developing, building, owning and managing high-quality, institutional-grade office, retail and multifamily properties in attractive markets throughout the Mid-Atlantic United States.

As of March 31, 2015, the Company's operating property portfolio comprised the following:

Property	Segment	Location
4525 Main Street	Office	Virginia Beach, Virginia
Armada Hoffler Tower	Office	Virginia Beach, Virginia
Commonwealth of Virginia Chesapeake	Office	Chesapeake, Virginia
Commonwealth of Virginia Virginia Beach	Office	Virginia Beach, Virginia
Oceaneering	Office	Chesapeake, Virginia
One Columbus	Office	Virginia Beach, Virginia
Oyster Point	Office	Newport News, Virginia
Richmond Tower	Office	Richmond, Virginia
Two Columbus	Office	Virginia Beach, Virginia
249 Central Park Retail	Retail	Virginia Beach, Virginia
Bermuda Crossroads	Retail	Chester, Virginia
Broad Creek Shopping Center	Retail	Norfolk, Virginia
Commerce Street Retail	Retail	Virginia Beach, Virginia
Courthouse 7-Eleven	Retail	Virginia Beach, Virginia
Dick's at Town Center	Retail	Virginia Beach, Virginia
Dimmock Square	Retail	Colonial Heights, Virginia
Fountain Plaza Retail	Retail	Virginia Beach, Virginia
Gainsborough Square	Retail	Chesapeake, Virginia
Greentree Shopping Center	Retail	Chesapeake, Virginia
Hanbury Village	Retail	Chesapeake, Virginia
Harrisonburg Regal	Retail	Harrisonburg, Virginia
North Point Center	Retail	Durham, North Carolina
Parkway Marketplace	Retail	Virginia Beach, Virginia
Sandbridge Commons	Retail	Virginia Beach, Virginia
South Retail	Retail	Virginia Beach, Virginia
Studio 56 Retail	Retail	Virginia Beach, Virginia
Tyre Neck Harris Teeter	Retail	Portsmouth, Virginia
Encore Apartments	Multifamily	Virginia Beach, Virginia
Liberty Apartments	Multifamily	Newport News, Virginia
Smith's Landing	Multifamily	Blacksburg, Virginia

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The Cosmopolitan	Multifamily	Virginia Beach, Virginia
Whetstone Apartments	Multifamily	Durham, North Carolina

As of March 31, 2015, the following properties were either under development or construction:

Property	Segment	Location
Lightfoot Marketplace	Retail	Williamsburg, Virginia
Johns Hopkins Village	Multifamily	Baltimore, Maryland

The Company is the sole general partner of Armada Hoffler, L.P. (the "Operating Partnership"). The operations of the Company are carried on primarily through the Operating Partnership and the wholly owned subsidiaries of the Operating Partnership. Both the Company and the Operating Partnership were formed on October 12, 2012 and commenced operations upon completion of the underwritten initial public offering of shares of the Company's common stock (the "IPO") and certain related formation transactions (the "Formation Transactions") on May 13, 2013.

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2. *Summary of Significant Accounting Policies*

Basis of Presentation

The accompanying condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States (GAAP).

The condensed consolidated financial statements include the financial position and results of operations of the Company, the Operating Partnership and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

In the opinion of management, the condensed consolidated financial statements reflect all adjustments, consisting of normal recurring accruals, which are necessary for the fair presentation of the financial condition and results of operations for the interim periods presented.

The accompanying condensed consolidated financial statements were prepared in accordance with the requirements for interim financial information. Accordingly, these interim financial statements have not been audited and exclude certain disclosures required for annual financial statements. Also, the operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These interim financial statements should be read in conjunction with the audited consolidated financial statements of the Company included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed. Such estimates are based on management's historical experience and best judgment after considering past, current and expected events and economic conditions. Actual results could differ from management's estimates.

Significant Accounting Policies

The accompanying condensed consolidated financial statements were prepared on the basis of the accounting principles described in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, among others.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued a new standard that provides a single, comprehensive model for recognizing revenue from contracts with customers. While the new standard does not supersede the guidance on accounting for leases, it could change the way the Company recognizes revenue from construction and development contracts with third party customers. The new standard will be effective for the Company beginning on January 1, 2017. Early adoption is not permitted. Management is currently evaluating the potential impact of the new revenue recognition standard on the Company's consolidated financial statements.

Current accounting guidance requires debt issuance costs to be presented in the balance sheet as an asset. On April 7, 2015, the FASB issued new guidance that requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount, rather than as an asset. The new guidance is effective for the Company on January 1, 2016 and will be applied on a retrospective basis. Management does not expect the adoption of the new guidance to have a material effect on the

Company's financial position or results of operations.

3. *Segments*

Net operating income (segment revenues minus segment expenses) is the measure used by the Company's chief operating decision-maker to assess segment performance. Net operating income is not a measure of operating income or cash flows from operating activities as measured by GAAP and is not indicative of cash available to fund cash needs. As a result, net operating income should not be considered an alternative to cash flows as a measure of liquidity. Not all companies calculate net operating income in the same manner. The Company considers net operating income to be an appropriate supplemental measure to net income because it assists both investors and management in understanding the core operations of the Company's real estate and construction businesses.

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Net operating income of the Company's reportable segments for the three months ended March 31, 2015 and 2014 was as follows (in thousands):

	Three Months Ended March 31, 2015 2014 (Unaudited)	
<i>Office real estate</i>		
Rental revenues	\$ 7,703	\$ 6,549
Rental expenses	1,754	1,587
Real estate taxes	691	544
Segment net operating income	5,258	4,418
<i>Retail real estate</i>		
Rental revenues	6,625	5,770
Rental expenses	1,399	1,322
Real estate taxes	566	503
Segment net operating income	4,660	3,945
<i>Multifamily residential real estate</i>		
Rental revenues	3,862	2,874
Rental expenses	1,607	1,067
Real estate taxes	400	296
Segment net operating income	1,855	1,511
<i>General contracting and real estate services</i>		
Segment revenues	29,071	19,234
Segment expenses	28,142	17,985
Segment net operating income	929	1,249
Net operating income	\$ 12,702	\$ 11,123

General contracting and real estate services revenues for the three months ended March 31, 2015 and 2014 exclude revenue related to intercompany construction contracts of \$8.5 million and \$18.7 million, respectively. General contracting and real estate services expenses for the three months ended March 31, 2015 and 2014 exclude expenses related to intercompany construction contracts of \$8.4 million and \$18.5 million, respectively. General contracting and real estate services expenses for both the three months ended March 31, 2015 and 2014 include noncash stock compensation of \$0.1 million.

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The following table reconciles net operating income to net income for the three months ended March 31, 2015 and 2014 (in thousands):

	Three Months Ended March 31, 2015 2014 (Unaudited)	
Net operating income	\$ 12,702	\$ 11,123
Depreciation and amortization	(4,908)	(3,969)
General and administrative expenses	(2,328)	(2,046)
Acquisition, development and other pursuit costs	(171)	
Interest expense	(3,046)	(2,565)
Loss on extinguishment of debt	(227)	
Gain on real estate dispositions	6,197	
Other (loss) income	(132)	112
Income tax benefit (provision)	31	(149)
Net income	\$ 8,118	\$ 2,506

General and administrative expenses represent costs not directly associated with the operation and management of the Company's real estate properties and general contracting and real estate services businesses. General and administrative expenses include office personnel salaries and benefits, bank fees, accounting fees, legal fees and other corporate office expenses. General and administrative expenses for the three months ended March 31, 2015 and 2014 include noncash stock compensation of \$0.3 million and \$0.2 million, respectively.

4. Real Estate Investments

On January 5, 2015, the Company completed the sale of the Sentara Williamsburg office property for \$15.4 million in cash. Net proceeds to the Company after transaction costs were \$15.2 million. The Company recognized a gain on the disposition of the Sentara Williamsburg office property of \$6.2 million.

On January 9, 2015, the Company entered into an agreement to purchase a 57,000 square foot grocery store anchored retail center in Myrtle Beach, South Carolina for \$8.7 million, including the assumption of approximately \$5.1 million of debt. The transaction is subject to customary closing conditions and is expected to close in the second quarter of 2015.

On February 13, 2015, the Company agreed to the future sale of the Oyster Point office property for \$6.5 million in cash. The Company intends to complete the sale on January 15, 2017.

On February 26, 2015, the Company entered into a definitive agreement to sell Whetstone Apartments for \$35.6 million. The transaction is subject to customary closing conditions and is expected to close in the second quarter of 2015. The Company has presented Whetstone Apartments as real estate held for sale in the March 31, 2015 condensed consolidated balance sheet.

On March 31, 2015, the Company purchased land held for development in Virginia Beach, Virginia for \$1.2 million.

Subsequent to March 31, 2015

On April 8, 2015, the Company completed the acquisitions of Stone House Square in Hagerstown, Maryland and Perry Hall Marketplace in Perry Hall, Maryland. The total consideration transferred to acquire both retail properties was \$35.4 million of cash, including the \$15.2 million of net proceeds from the Sentara Williamsburg sale, and 415,500 shares of common stock. The Company is currently evaluating the accounting for these acquisitions and anticipates that the consideration transferred will primarily be allocated to the buildings, land and acquired lease intangibles.

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5. *Indebtedness*

On January 23, 2015, the Operating Partnership borrowed \$5.0 million under the credit facility. The credit facility was scheduled to mature on May 13, 2016; however, the Operating Partnership repaid all amounts due under the credit facility with proceeds from a new credit facility and terminated the existing credit facility on February 20, 2015, as discussed below.

New Credit Facility

On February 20, 2015, the Operating Partnership, as borrower, and the Company as parent guarantor, agreed to a new \$200.0 million senior unsecured credit facility that includes a \$150.0 million senior unsecured revolving credit facility and a \$50.0 million senior unsecured term loan facility. The new credit facility replaced the existing \$155.0 million senior secured revolving credit facility that was scheduled to mature on May 13, 2016. On February 20, 2015, the Operating Partnership borrowed \$54.0 million under the revolving credit facility and \$50.0 million under the term loan facility to repay in full all outstanding amounts due under the prior credit facility and to repay approximately \$39.0 million of other indebtedness secured by the following properties in the Company's portfolio: (i) Broad Creek Shopping Center, (ii) Commerce Street Retail, (iii) Dick's at Town Center, (iv) Hanbury Village, (v) Studio 56 Retail and (vi) Tyre Neck Harris Teeter. The Company recognized a \$0.2 million loss on extinguishment of debt representing the unamortized debt issuance costs associated with the \$39.0 million of other indebtedness repaid on February 20, 2015.

Depending on the Operating Partnership's total leverage, the revolving credit facility bears interest at LIBOR plus 1.40% to 2.00% and the term loan facility bears interest at LIBOR plus 1.35% to 1.95%. As of March 31, 2015, the interest rate on the revolving credit facility and the term loan facility was 1.73% and 1.68%, respectively. The revolving credit facility has a scheduled maturity date of February 20, 2019, with a one-year extension option and the term loan facility has a scheduled maturity date of February 20, 2020. The Operating Partnership may, at any time, voluntarily prepay any loan under the new credit facility in whole or in part without premium or penalty.

On March 31, 2015, the Operating Partnership borrowed \$6.0 million under the revolving credit facility. As of March 31, 2015, the outstanding balance on the revolving credit facility was \$60.0 million.

During the three months ended March 31, 2015, the Company borrowed \$10.5 million under its existing construction loans to fund new development and construction.

Subsequent to March 31, 2015

On April 7, 2015, the Operating Partnership borrowed \$23.0 million under the revolving credit facility.

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The Company may enter into interest rate derivative contracts to manage exposure to interest rate risks. The Company does not use derivative financial instruments for trading or speculative purposes. Derivative financial instruments are recognized at fair value and presented within other assets and liabilities in the condensed consolidated balance sheets. Gains and losses resulting from changes in the fair value of derivatives that are not designated or do not qualify as hedging instruments are recognized within other income (expense) in the condensed consolidated statements of comprehensive income. For derivatives that qualify as cash flow hedges, the effective portion of the gain or loss is reported as a component of other comprehensive income and reclassified into earnings in the periods during which the hedged forecasted transaction affects earnings.

On February 20, 2015, the Operating Partnership entered into a \$50.0 million floating-to-fixed interest rate swap attributable to one-month LIBOR indexed interest payments. The \$50.0 million interest rate swap has a fixed rate of 2.00%, an effective date of March 1, 2016 and a maturity date of February 20, 2020. The Operating Partnership entered into this interest rate swap agreement in connection with the new \$50.0 million senior unsecured term loan facility that bears interest at LIBOR plus 1.35% to 1.95%, depending on the Operating Partnership's total leverage. The Company designated this interest rate swap as a cash flow hedge of variable interest payments based on one-month LIBOR.

The Company's derivatives comprised the following as of March 31, 2015 and December 31, 2014 (in thousands):

	March 31, 2015			December 31, 2014		
	(Unaudited)					
	Notional Amount	Fair Value		Notional Amount	Fair Value	
		Asset	Liability		Asset	Liability
Interest rate swaps	\$ 50,680	\$	\$ (798)	\$ 685	\$	\$ (11)
Interest rate caps	180,373	114		180,434	260	
Total	\$ 231,053	\$ 114	\$ (798)	\$ 181,119	\$ 260	\$ (11)

The changes in the fair value of the Company's derivatives during the three months ended March 31, 2015 and 2014 comprised the following (in thousands):

	Three Months Ended	
	March 31,	
	2015	2014
	(Unaudited)	
Interest rate swaps	\$ (787)	\$ 2
Interest rate caps	(146)	91
Total	\$ (933)	\$ 93
Comprehensive income statement presentation:		
Other (loss) income	\$ (147)	\$ 93

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Unrealized loss on cash flow hedge	(786)		
Total	\$ (933)	\$ 93	

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7. *Equity*

Stockholders' Equity

As of March 31, 2015 and December 31, 2014, the Company's authorized capital was 500 million shares of common stock and 100 million shares of preferred stock. The Company had 25.1 million and 25.0 million shares of common stock issued and outstanding as of March 31, 2015 and December 31, 2014, respectively. No shares of preferred stock were issued and outstanding as of March 31, 2015 or December 31, 2014.

Noncontrolling Interests

As of both March 31, 2015 and December 31, 2014, the Company held a 62.9% interest in the Operating Partnership. As the sole general partner and the majority interest holder, the Company consolidates the financial position and results of operations of the Operating Partnership. Noncontrolling interests in the Company represent common units of limited partnership interest in the Operating Partnership (OP Units) not held by the Company.

Common Stock Dividends and OP Unit Distributions

On January 8, 2015, the Company paid cash dividends of \$4.0 million to common stockholders and the Operating Partnership paid cash distributions of \$2.4 million to holders of OP Units.

On January 28, 2015, the Board of Directors declared a cash dividend of \$0.17 per share to stockholders of record on April 1, 2015.

Subsequent to March 31, 2015

On April 8, 2015, the Company issued 415,500 shares of common stock as partial consideration for the acquisition of Perry Hall Marketplace.

On April 9, 2015, the Company paid cash dividends of \$4.3 million to common stockholders and the Operating Partnership paid cash distributions of \$2.5 million to holders of OP Units.

8. *Stock-Based Compensation*

During the three months ended March 31, 2015, the Company granted 75,800 shares of restricted stock to employees and nonemployee directors with a weighted average grant date fair value of \$10.97 per share. Employee restricted stock awards generally vest over a period of two years: one-third immediately on the grant date and the remaining two-thirds in equal amounts on the first two anniversaries following the grant date, subject to continued service to the Company. Nonemployee director restricted stock awards vest either immediately upon grant or over a period of one year, subject to continued service to the Company.

During both the three months ended March 31, 2015 and 2014, the Company recognized \$0.6 million of stock-based compensation. As of March 31, 2015, there were 159,467 nonvested restricted shares outstanding; the total unrecognized compensation related to nonvested restricted shares was \$0.7 million, most of which the Company expects to recognize over the next 15 months.

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Fair value measurements are based on assumptions that market participants would use in pricing an asset or a liability. The hierarchy for inputs used in measuring fair value is as follows:

Level 1 inputs quoted prices in active markets for identical assets or liabilities

Level 2 inputs observable inputs other than quoted prices in active markets for identical assets and liabilities

Level 3 inputs unobservable inputs

Except as disclosed below, the carrying amounts of the Company's financial instruments approximate their fair value. Financial assets and liabilities whose fair values are measured on a recurring basis using Level 2 inputs consist of interest rate swap and cap agreements. The Company measures the fair values of these assets and liabilities based on prices provided by independent market participants that are based on observable inputs using market-based valuation techniques.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. For disclosure purposes, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

The fair value of the Company's long term debt is sensitive to fluctuations in interest rates. Discounted cash flow analysis based on Level 2 inputs is generally used to estimate the fair value of the Company's long term debt.

Considerable judgment is used to estimate the fair value of financial instruments. The estimates of fair value presented herein are not necessarily indicative of the amounts that could be realized upon disposition of the financial instruments.

The carrying amounts and fair values of the Company's financial instruments, all of which are based on Level 2 inputs, as of March 31, 2015 and December 31, 2014 were as follows (in thousands):

	March 31, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(Unaudited)			
Indebtedness	\$ 363,730	\$ 373,618	\$ 359,229	\$ 366,095
Interest rate swap liabilities	798	798	11	11
Interest rate cap assets	114	114	260	260

10. Related Party Transactions

The Company provides general contracting and real estate services to certain related party entities that are not included in these condensed consolidated financial statements. Revenue from construction contracts with related party entities of the Company was \$1.5 million and \$2.3 million for the three months ended March 31, 2015 and 2014, respectively. Operating margin from such contracts was less than \$0.1 million and \$0.1 million for the three months ended March 31, 2015 and 2014, respectively. Real estate services fees from affiliated entities of the Company were not significant for either the three months ended March 31, 2015 or 2014. In addition, affiliated entities also reimburse

the Company for monthly maintenance and facilities management services provided to the properties. Cost reimbursements earned by the Company from affiliated entities were not significant for either the three months ended March 31, 2015 or 2014.

On March 31, 2015, the Company acquired the option to purchase land in Virginia Beach, Virginia for future development from certain of its executives, officers and directors. As consideration for the land option, the Company reimbursed such executives, officers and directors \$0.2 million for the real estate taxes and insurance costs they incurred with respect to this land. On March 31, 2015, the Company exercised the option on the land, which is presented as real estate held for development in the condensed consolidated balance sheet.

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11. Commitments and Contingencies

Legal Proceedings

The Company is from time to time involved in various disputes, lawsuits, warranty claims, environmental and other matters arising in the ordinary course of its business. Management makes assumptions and estimates concerning the likelihood and amount of any potential loss relating to these matters.

The Company currently is a party to various legal proceedings, none of which management expects will have a material adverse effect on the Company's financial position, results of operations or liquidity. Management accrues a liability for litigation if an unfavorable outcome is determined to be probable and the amount of loss can be reasonably estimated. If an unfavorable outcome is determined to be probable and a range of loss can be reasonably estimated, management accrues the best estimate within the range; however, if no amount within the range is a better estimate than any other, the minimum amount within the range is accrued. Legal fees related to litigation are expensed as incurred. Management does not believe that the ultimate outcome of these matters, either individually or in the aggregate, could have a material adverse effect on its financial position or results of operations; however, litigation is subject to inherent uncertainties.

Under the Company's leases, tenants are typically obligated to indemnify the Company from and against all liabilities, costs and expenses imposed upon or asserted against it as owner of the properties due to certain matters relating to the operation of the properties by the tenant.

Commitments

The Company has a bonding line of credit for its general contracting construction business and is contingently liable under performance and payment bonds, bonds for cancellation of mechanics liens and defect bonds. Such bonds collectively totaled \$199.4 million and \$192.2 million as of March 31, 2015 and December 31, 2014, respectively.

The Operating Partnership has entered into standby letters of credit using the available capacity under the credit facility. The letters of credit relate to the guarantee of future performance on certain of the Company's construction contracts. Letters of credit generally are available for draw down in the event the Company does not perform. As of both March 31, 2015 and December 31, 2014, the Operating Partnership had total outstanding letters of credit of \$8.5 million.

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Review Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders of

Armada Hoffler Properties, Inc.

We have reviewed the condensed consolidated balance sheet of Armada Hoffler Properties, Inc. as of March 31, 2015, and the related condensed consolidated statements of comprehensive income and cash flows for the three-month periods ended March 31, 2015 and 2014 and the condensed consolidated statement of equity for the three-month period ended March 31, 2015. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Armada Hoffler Properties, Inc. as of December 31, 2014, and the related consolidated statements of income, equity, and cash flows for the year then ended (not presented herein) and we expressed an unqualified audit opinion on those consolidated financial statements in our report dated March 16, 2015. In our opinion, the accompanying condensed consolidated balance sheet as of December 31, 2014, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Richmond, Virginia

May 5, 2015

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

References to we, our, us, and our company refer to Armada Hoffler Properties, Inc., a Maryland corporation, together with our consolidated subsidiaries, including Armada Hoffler, L.P., a Virginia limited partnership (the Operating Partnership), of which we are the sole general partner.

Forward-Looking Statements

The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. This report contains forward-looking statements within the meaning of the federal securities laws. We caution investors that any forward-looking statements presented in this report, or which management may make orally or in writing from time to time, are based on management's beliefs and assumptions made by, and information currently available to, management. When used, the words anticipate, believe, expect, intend, may, plan, estimate, project, should, will, result and similar expressions, which do not relate solely to historical matters, are intended to identify forward-looking statements. Such statements are subject to risks, uncertainties and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. We caution you that while forward-looking statements reflect our good faith beliefs when we make them, they are not guarantees of future performance and are impacted by actual events when they occur after we make such statements. We expressly disclaim any responsibility to update forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. Accordingly, investors should use caution in relying on past forward-looking statements, which are based on results and trends at the time they are made, to anticipate future results or trends.

Forward-looking statements involve numerous risks and uncertainties and you should not rely on them as predictions of future events. Forward-looking statements depend on assumptions, data or methods which may be incorrect or imprecise and we may not be able to realize them. We do not guarantee that the transactions and events described will happen as described (or that they will happen at all). The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

adverse economic or real estate developments, either nationally or in the markets in which our properties are located;

our failure to develop the properties in our development pipeline successfully, on the anticipated timeline or at the anticipated costs;

our failure to generate sufficient cash flows to service our outstanding indebtedness;

defaults on, early terminations of or non-renewal of leases by tenants, including significant tenants;

bankruptcy or insolvency of a significant tenant or a substantial number of smaller tenants;

difficulties in identifying or completing development, acquisition or disposition opportunities;

our failure to successfully operate developed and acquired properties;

our failure to generate income in our general contracting and real estate services segment in amounts that we anticipate;

fluctuations in interest rates and increased operating costs;

our failure to obtain necessary outside financing on favorable terms or at all;

our inability to extend the maturity of or refinance existing debt or comply with the financial covenants in the agreements that govern our existing debt;

financial market fluctuations;

risks that affect the general retail environment or the market for office properties or multifamily units;

the competitive environment in which we operate;

decreased rental rates or increased vacancy rates;

conflicts of interests with our officers and directors;

lack or insufficient amounts of insurance;

environmental uncertainties and risks related to adverse weather conditions and natural disasters;

other factors affecting the real estate industry generally;

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our failure to maintain our qualification as a real estate investment trust (REIT) for U.S. federal income tax purposes;

limitations imposed on our business and our ability to satisfy complex rules in order for us to maintain our qualification as a REIT for U.S. federal income tax purposes; and

changes in governmental regulations or interpretations thereof, such as real estate and zoning laws and increases in real property tax rates and taxation of REITs.

While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. We disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, of new information, data or methods, future events or other changes after the date of this Quarterly Report on Form 10-Q, except as required by applicable law. We caution investors not to place undue reliance on these forward-looking statements and urge investors to carefully review the disclosures we make concerning risks and uncertainties in the sections entitled Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations in our most recent Annual Report on Form 10-K, as well as risks, uncertainties and other factors discussed in this Quarterly Report on Form 10-Q and identified in other documents that we file from time to time with the Securities and Exchange Commission (the SEC).

Business Description

We are a full-service real estate company with extensive experience developing, building, owning and managing high-quality, institutional-grade office, retail and multifamily properties in attractive markets throughout the Mid-Atlantic United States. As of March 31, 2015, our operating property portfolio comprised the following:

Property	Segment	Location
4525 Main Street	Office	Virginia Beach, Virginia
Armada Hoffler Tower	Office	Virginia Beach, Virginia
Commonwealth of Virginia	Office	Chesapeake, Virginia
Commonwealth of Virginia	Office	Virginia Beach, Virginia
Oceaneering	Office	Chesapeake, Virginia
One Columbus	Office	Virginia Beach, Virginia
Oyster Point	Office	Newport News, Virginia
Richmond Tower	Office	Richmond, Virginia
Two Columbus	Office	Virginia Beach, Virginia
249 Central Park Retail	Retail	Virginia Beach, Virginia
Bermuda Crossroads	Retail	Chester, Virginia
Broad Creek Shopping Center	Retail	Norfolk, Virginia
Commerce Street Retail	Retail	Virginia Beach, Virginia
Courthouse 7-Eleven	Retail	Virginia Beach, Virginia
Dick s at Town Center	Retail	Virginia Beach, Virginia
Dimmock Square	Retail	Colonial Heights, Virginia
Fountain Plaza Retail	Retail	Virginia Beach, Virginia
Gainsborough Square	Retail	Chesapeake, Virginia
Greentree Shopping Center	Retail	Chesapeake, Virginia

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Hanbury Village	Retail	Chesapeake, Virginia
Harrisonburg Regal	Retail	Harrisonburg, Virginia
North Point Center	Retail	Durham, North Carolina
Parkway Marketplace	Retail	Virginia Beach, Virginia
Sandbridge Commons	Retail	Virginia Beach, Virginia
South Retail	Retail	Virginia Beach, Virginia
Studio 56 Retail	Retail	Virginia Beach, Virginia
Tyre Neck Harris Teeter	Retail	Portsmouth, Virginia
Encore Apartments	Multifamily	Virginia Beach, Virginia
Liberty Apartments	Multifamily	Newport News, Virginia
Smith s Landing	Multifamily	Blacksburg, Virginia
The Cosmopolitan	Multifamily	Virginia Beach, Virginia
Whetstone Apartments	Multifamily	Durham, North Carolina

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As of March 31, 2015, the following properties were either under development or construction:

Property	Segment	Location
Lightfoot Marketplace	Retail	Williamsburg, Virginia
Johns Hopkins Village	Multifamily	Baltimore, Maryland

First Quarter 2015 Highlights

The following highlights our results of operations and significant transactions for the three months ended March 31, 2015:

Net income of \$8.1 million or \$0.20 per diluted share compared to \$2.5 million or \$0.08 per diluted share for the three months ended March 31, 2014.

Funds from operations (FFO) of \$6.8 million or \$0.17 per diluted share compared to \$6.5 million or \$0.20 per diluted share for the three months ended March 31, 2014. See Non-GAAP Financial Measures.

Normalized FFO of \$7.4 million or \$0.19 per diluted share compared to \$6.4 million or \$0.19 per diluted share for the three months ended March 31, 2014. See Non-GAAP Financial Measures.

Net operating income (NOI) of \$12.7 million compared to \$11.1 million for the three months ended March 31, 2014:

Office NOI of \$5.3 million compared to \$4.4 million

Retail NOI of \$4.7 million compared to \$3.9 million

Multifamily NOI of \$1.9 million compared to \$1.5 million

General contracting and real estate services NOI of \$0.9 million compared to \$1.2 million

Same store NOI of \$10.0 million compared to \$9.6 million for the three months ended March 31, 2014:

Office same store NOI of \$4.1 million compared to \$4.0 million

Retail same store NOI of \$4.1 million compared to \$3.9 million

Multifamily same store NOI of \$1.7 million compared to \$1.6 million

Delivered three new office properties the two Commonwealth of Virginia office buildings and the Oceaneering International facility in addition to one new retail property Sandbridge Commons in Hampton Roads, Virginia.

Completed the disposition of the Sentara Williamsburg office building.

Closed on a new \$200.0 million senior unsecured credit facility that includes a \$150.0 million revolving credit facility and a \$50.0 million term loan.

Third party construction backlog of \$138.4 million as of March 31, 2015.

Declared cash dividends of \$0.17 per share.

Table of Contents***Segment Results of Operations***

As of March 31, 2015, we operated our business in four segments: (i) office real estate, (ii) retail real estate, (iii) multifamily residential real estate and (iv) general contracting and real estate services, which are conducted through our taxable REIT subsidiaries (TRS). Net operating income (segment revenues minus segment expenses) or

NOI is the measure used by management to assess segment performance and allocate our resources among our segments. NOI is not a measure of operating income or cash flows from operating activities as measured by GAAP and is not indicative of cash available to fund cash needs. As a result, NOI should not be considered an alternative to cash flows as a measure of liquidity. Not all companies calculate NOI in the same manner. We consider NOI to be an appropriate supplemental measure to net income because it assists both investors and management in understanding the core operations of our real estate and construction businesses. See Note 3 to our condensed consolidated financial statements in Item 1 of this Quarterly Report on Form 10-Q for a reconciliation of NOI to net income.

We define same store properties as those properties that we owned and operated and that were stabilized for the entirety of both periods presented. Same store properties exclude those that were in lease-up during either of the periods presented. We generally consider a property to be in lease-up until the earlier of: (i) the quarter after the property reaches 80% occupancy or (ii) the thirteenth quarter after the property receives its certificate of occupancy.

Office Segment Data

	Three Months Ended March 31,		
	2015	2014	Change
	(\$ in thousands)		
Rental revenues	\$ 7,703	\$ 6,549	\$ 1,154
Property expenses	2,445	2,131	314
Segment NOI	\$ 5,258	\$ 4,418	\$ 840

Office segment NOI for the three months ended March 31, 2015 increased \$0.8 million compared to the three months ended March 31, 2014. During the first quarter of 2015, we realized \$1.1 million of NOI from new real estate development, which more than offset \$0.4 million of lost NOI from property dispositions. Same store NOI growth accounted for the balance of the change. During the second half of 2014, we opened the new 4525 Main Street office tower in the Town Center of Virginia Beach and during the first quarter of 2015, we delivered three new build-to-suit office buildings in Hampton Roads, Virginia. We completed the sales of the Virginia Natural Gas and Sentara Williamsburg office buildings in the fourth quarter of 2014 and the first quarter of 2015, respectively.

Office Same Store Results

Office same store results exclude new real estate development 4525 Main Street, the two administrative buildings for the Commonwealth of Virginia in Chesapeake and Virginia Beach and the Oceaneering International facility as well as the Virginia Natural Gas and Sentara Williamsburg office buildings, which we sold in the fourth quarter of 2014 and the first quarter of 2015, respectively.

Office same store rental revenues, property expenses and NOI for the three months ended March 31, 2015 and 2014 were as follows:

	Three months ended		
	March 31,		
	2015	2014	Change
	(\$ in thousands)		
Rental revenues	\$ 6,249	\$ 6,125	\$ 124
Property expenses	2,106	2,095	11
Same Store NOI	\$ 4,143	\$ 4,030	\$ 113
Non-Same Store NOI	1,115	388	727
Segment NOI	\$ 5,258	\$ 4,418	\$ 840

Office same store NOI for the three months ended March 31, 2015 increased 2.8% compared to the three months ended March 31, 2014 because of better leasing at the office properties in the Town Center of Virginia Beach One Columbus, Two Columbus and Armada Hoffler Tower.

Table of Contents***Retail Segment Data***

	Three Months Ended March 31,		
	2015	2014	Change
	(\$ in thousands)		
Rental revenues	\$ 6,625	\$ 5,770	\$ 855
Property expenses	1,965	1,825	140
Segment NOI	\$ 4,660	\$ 3,945	\$ 715

Retail segment NOI for the three months ended March 31, 2015 increased \$0.7 million compared to the three months ended March 31, 2014. Acquisitions and new real estate development added \$0.5 million of NOI during the first quarter of 2015; same store NOI growth accounted for the balance of the change. During the second half of 2014, we acquired Dimmock Square in Colonial Heights, Virginia and delivered Greentree Shopping Center in Chesapeake, Virginia. At the end of the first quarter of 2015, we delivered Sandbridge Commons in Virginia Beach, Virginia.

Retail Same Store Results

Retail same store results exclude new real estate development Greentree Shopping Center and Sandbridge Commons as well as Dimmock Square, which we acquired in the third quarter of 2014.

Retail same store rental revenues, property expenses and NOI for the three months ended March 31, 2015 and 2014 were as follows:

	Three months ended March 31,		
	2015	2014	Change
	(\$ in thousands)		
Rental revenues	\$ 5,987	\$ 5,770	\$ 217
Property expenses	1,850	1,825	25
Same Store NOI	\$ 4,137	\$ 3,945	\$ 192
Non-Same Store NOI	523		523
Segment NOI	\$ 4,660	\$ 3,945	\$ 715

Retail same store NOI for the three months ended March 31, 2015 increased 4.9% compared to the three months ended March 31, 2014 because of better leasing at retail properties in the Town Center of Virginia Beach, particularly South Retail and the redeveloped ground floor space at Dick's at Town Center.

Table of Contents***Multifamily Segment Data***

	Three Months Ended March 31,		
	2015	2014	Change
	(\$ in thousands)		
Rental revenues	\$ 3,862	\$ 2,874	\$ 988
Property expenses	2,007	1,363	644
Segment NOI	\$ 1,855	\$ 1,511	\$ 344

Multifamily segment NOI for the three months ended March 31, 2015 increased \$0.3 million compared to the three months ended March 31, 2014 because of better leasing at Liberty Apartments and The Cosmopolitan. NOI from Smith's Landing increased 2.9% year-over-year and NOI from new real estate development was not significant for the first quarter of 2015.

Multifamily Same Store Results

Multifamily same store results exclude new real estate development – Encore Apartments and Whetstone Apartments as well as Liberty Apartments, which was acquired during the first quarter of 2014.

Multifamily same store rental revenues, property expenses and NOI for the three months ended March 31, 2015 and 2014 were as follows:

	Three months ended March 31,		
	2015	2014	Change
	(\$ in thousands)		
Rental revenues	\$ 2,937	\$ 2,791	\$ 146
Property expenses	1,250	1,208	42
Same Store NOI	\$ 1,687	\$ 1,583	\$ 104
Non-Same Store NOI	168	(72)	240
Segment NOI	\$ 1,855	\$ 1,511	\$ 344

Multifamily same store NOI for the three months ended March 31, 2015 increased 6.6% compared to the three months ended March 31, 2014 because of better leasing at The Cosmopolitan in the Town Center of Virginia Beach. NOI from Smith's Landing also increased 2.9% year-over-year.

Table of Contents***General Contracting and Real Estate Services Segment Data***

	Three Months Ended March 31,		
	2015	2014	Change
	(\$ in thousands)		
Segment revenues	\$ 29,071	\$ 19,234	\$ 9,837
Segment expenses	28,142	17,985	10,157
Segment NOI	\$ 929	\$ 1,249	\$ (320)
Operating margin	3.2%	6.5%	(3.3)%

Segment NOI for the three months ended March 31, 2015 decreased \$0.3 million compared to the three months ended March 31, 2014. While our overall construction volume was up over 51% year-over-year, we experienced lower operating margins during the first quarter of 2015.

The changes in third party construction backlog for the three months ended March 31, 2015 and 2014 were as follows:

	Three Months Ended March 31,	
	2015	2014
	(\$ in thousands)	
Beginning backlog	\$ 159,139	\$ 46,385
New contracts/change orders	8,329	165,947
Work performed	(29,020)	(19,014)
Ending backlog	\$ 138,448	\$ 193,318

As of March 31, 2015, we had \$109.3 million of backlog on the Exelon construction project at the Inner Harbor of Baltimore, which we expect to substantially complete in 2016.

Table of Contents***Consolidated Results of Operations***

The following table summarizes the results of operations for the three months ended March 31, 2015 and 2014:

	Three months ended March 31,		Change
	2015	2014	
	(\$ in thousands)		
Rental revenues	\$ 18,190	\$ 15,193	\$ 2,997
General contracting and real estate services revenues	29,071	19,234	9,837
Total revenues	47,261	34,427	12,834
Rental expenses	4,760	3,976	784
Real estate taxes	1,657	1,343	314
General contracting and real estate services expenses	28,142	17,985	10,157
Depreciation and amortization	4,908	3,969	939
General and administrative expenses	2,328	2,046	282
Acquisition, development and other pursuit costs	171		171
Total expenses	41,966	29,319	12,647
Operating income	5,295	5,108	187
Interest expense	(3,046)	(2,565)	(481)
Loss on extinguishment of debt	(227)		(227)
Gain on real estate dispositions	6,197		6,197
Other (loss) income	(132)	112	(244)
Income before taxes	8,087	2,655	5,432
Income tax benefit (provision)	31	(149)	180
Net income	\$ 8,118	\$ 2,506	\$ 5,612

Rental revenues for the three months ended March 31, 2015 increased \$3.0 million compared to the three months ended March 31, 2014, as follows:

	Three months ended March 31,		Change
	2015	2014	
	(\$ in thousands)		
Office	\$ 7,703	\$ 6,549	\$ 1,154
Retail	6,625	5,770	855
Multifamily	3,862	2,874	988

\$ 18,190 \$ 15,193 \$ 2,997

Office rental revenues increased 17.6% because of rents from new real estate development, which more than offset lost rents from property dispositions. Aggregate first quarter 2015 rental revenues from 4525 Main Street and the three build-to-suit office buildings we delivered during the first quarter was \$1.4 million. Same store rental revenues also grew 2.0% during the first quarter of 2015, driven primarily by better leasing at our office buildings located in the Town Center of Virginia Beach. Retail rental revenues increased 14.8% as a result of our acquisition of Dimmock Square, our delivery of Greentree Shopping Center as well as organic growth in the same store property portfolio. Multifamily rental revenues increased 34.4% because of improved leasing at Liberty Apartments and The Cosmopolitan as well as our delivery of Encore Apartments.

General contracting and real estate services revenues for the three months ended March 31, 2015 increased \$9.8 million compared to the three months ended March 31, 2014 as a result of higher construction volume, primarily on the Exelon construction project.

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Rental expenses for the three months ended March 31, 2015 increased \$0.8 million compared to the three months ended March 31, 2014, as follows:

	Three months ended March 31,		
	2014	2014	Change
	(\$ in thousands)		
Office	\$ 1,754	\$ 1,587	\$ 167
Retail	1,399	1,322	77
Multifamily	1,607	1,067	540
	\$ 4,760	\$ 3,976	\$ 784

Office, retail and multifamily rental expenses all increased as a result of new real estate coming out of development and into operation. Retail rental expenses also increased as a result of our acquisition of Dimmock Square.

Real estate taxes for the three months ended March 31, 2015 increased \$0.3 million compared to the three months ended March 31, 2014, as follows:

	Three months ended March 31,		
	2014	2014	Change
	(\$ in thousands)		
Office	\$ 691	\$ 544	\$ 147
Retail	566	503	63
Multifamily	400	296	104
	\$ 1,657	\$ 1,343	\$ 314

Office, retail and multifamily real estate taxes all increased as a result of new real estate coming out of development and into operation. Retail real estate taxes also increased as a result of our acquisition of Dimmock Square.

General contracting and real estate services expenses for the three months ended March 31, 2015 increased \$10.2 million compared to the three months ended March 31, 2014 because of higher volume and tighter margins on our construction contracts.

Depreciation and amortization for the three months ended March 31, 2015 increased \$0.9 million compared to the three months ended March 31, 2014 because of new real estate coming out of development and into operation and our acquisition of Dimmock Square.

General and administrative expenses for the three months ended March 31, 2015 increased \$0.3 million compared to the three months ended March 31, 2014 because of higher regulatory and compliance costs.

Acquisition, development and other pursuit costs for the three months ended March 31, 2015 increased \$0.2 million compared to the three months ended March 31, 2014. We closed on the acquisitions of Perry Hall Marketplace and Stone House Square shortly after the first quarter. We did not have any comparable acquisition activity during the first quarter of last year.

Interest expense for the three months ended March 31, 2015 increased \$0.5 million compared to the three months ended March 31, 2014 primarily because of the interest expense associated with new real estate coming out of development and into operation.

During the three months ended March 31, 2015, we recognized a \$0.2 million loss on extinguishment of debt representing the unamortized debt issuance costs associated with the mortgage loans we repaid in connection with the closing of our new credit facility.

During the three months ended March 31, 2015, we recognized a \$6.2 million gain on our sale of the Sentara Williamsburg office building.

Other (loss) income for the three months ended March 31, 2015 decreased \$0.2 million compared to the three months ended March 31, 2014 because of negative mark-to-market adjustments on our interest rate derivatives.

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During the three months ended March 31, 2015, we recognized a slight income tax benefit compared to a \$0.1 million income tax provision during the three months ended March 31, 2014. The income tax benefit (provision) that we recognize is attributable to the taxable profits and losses of our development and construction businesses that we operate through our TRS.

Liquidity and Capital Resources

Overview

We believe our primary short-term liquidity requirements consist of general contractor expenses, operating expenses and other expenditures associated with our properties, including tenant improvements, leasing commissions and leasing incentives, dividend payments to our stockholders required to maintain our REIT qualification, debt service, capital expenditures, new real estate development projects and strategic acquisitions. We expect to meet our short-term liquidity requirements through net cash provided by operations, reserves established from existing cash, borrowings under construction loans to fund new real estate development and construction and borrowings available under our credit facility.

Our long-term liquidity needs consist primarily of funds necessary for the repayment of debt at or prior to maturity, general contracting expenses, property development and acquisitions, tenant improvements and capital improvements. We expect to meet our long-term liquidity requirements with net cash from operations, long-term secured and unsecured indebtedness and the issuance of equity and debt securities. We also may fund property development and acquisitions and capital improvements using our credit facility pending long-term financing.

As of March 31, 2015, we had unrestricted cash and cash equivalents of \$31.5 million and restricted cash of \$4.0 million available for both current liquidity needs as well as development activities. As of March 31, 2015, we had \$81.5 million available under our new credit facility to meet our short-term liquidity requirements.

Credit Facility

On May 13, 2013, we agreed to a \$100.0 million senior secured credit facility that included an accordion feature that allowed us to increase the borrowing capacity under the facility up to \$250.0 million, subject to certain conditions. As of December 31, 2014, we had \$59.0 million borrowed under the credit facility and had standby letters of credit issued under the credit facility totaling \$8.5 million. As of December 31, 2014, we had \$87.5 million of aggregate capacity available under the credit facility. On January 23, 2015, we borrowed an additional \$5.0 million under the credit facility. The credit facility was scheduled to mature on May 13, 2016; however, we repaid all amounts due under the credit facility with proceeds from our new credit facility and terminated the existing credit facility on February 20, 2015, as discussed below.

New Credit Facility

On February 20, 2015, we agreed to a new \$200.0 million senior unsecured credit facility that includes a \$150.0 million senior unsecured revolving credit facility and a \$50.0 million senior unsecured term loan facility. The new credit facility replaced the existing \$155.0 million senior secured revolving credit facility that was scheduled to mature on May 13, 2016. On February 20, 2015, we borrowed \$54.0 million under the revolving credit facility and \$50.0 million under the term loan facility to repay in full all outstanding amounts due under the prior credit facility and to repay approximately \$39.0 million of other indebtedness secured by properties in our portfolio for the purpose of unencumbering those properties. We intend to use future borrowings under the new credit facility for general corporate purposes, including funding acquisitions, development and redevelopment of properties in our portfolio and

for working capital.

The new credit facility includes an accordion feature that allows the total commitments to be increased to \$350.0 million, subject to certain conditions. The amount permitted to be borrowed under the new credit facility, together with all of our other unsecured indebtedness is generally limited to the lesser of: (i) 60% of the value of our unencumbered borrowing base properties, (ii) the maximum amount of principal that would result in a debt service coverage ratio of 1.50 to 1.0, and (iii) the maximum aggregate loan commitment, which currently is \$200.0 million.

The new revolving credit facility has a scheduled maturity date of February 20, 2019, with a one-year extension option. The term loan facility has a scheduled maturity date of February 20, 2020. We may, at any time, voluntarily prepay any loan under the new credit facility in whole or in part without premium or penalty.

The new revolving credit facility bears interest at LIBOR plus 1.40% to 2.00%, depending on our total leverage. The term loan facility bears interest at LIBOR plus 1.35% to 1.95%, depending on our total leverage. We are also obligated to pay an unused commitment fee of 15 or 25 basis points on the unused portions of the commitments under the new credit facility, depending on the amount of borrowings under the new credit facility. If we attain investment grade credit ratings from S&P and Moody's, we may elect to have borrowings become subject to interest rates based on our credit ratings.

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The new credit facility requires us to comply with various financial covenants, affirmative covenants and other restrictions, including the following:

Total leverage ratio of the Company of not more than 60%;

Ratio of adjusted EBITDA to fixed charges of the Company of not less than 1.50 to 1.0;

Tangible net worth of not less than the sum of \$220.0 million and 75% of the net equity proceeds received after December 31, 2014;

Ratio of variable rate indebtedness to total asset value of not more than 30%;

Ratio of secured indebtedness to total asset value of not more than 45%; and

Ratio of secured recourse debt to total asset value of not more than 25%.

The new credit facility limits our ability to pay cash dividends. However, so long as no default or event of default exists, the credit agreements allow us to pay cash dividends with respect to any 12-month period in an amount not to exceed the greater of: (i) 95% of adjusted funds from operations (as defined in the credit agreement) or (ii) the amount required for us (a) to maintain our status as a REIT and (b) to avoid income or excise tax under the Code. If certain defaults or events of default exist, we may pay cash dividends with respect to any 12-month period to the extent necessary to maintain our status as a REIT. The new credit facility also restricts the amount of capital that we can invest in specific categories of assets, such as unimproved land holdings, development properties, notes receivable, mortgages, mezzanine loans and unconsolidated affiliates.

We are currently in compliance with all covenants under the new credit facility.

Table of Contents*Consolidated Indebtedness*

The following table sets forth our consolidated indebtedness as of March 31, 2015 (\$ in thousands):

Secured Debt	Amount Outstanding	Interest Rate (1)	Effective Rate for Variable-Rate Debt as of March 31, 2015	Maturity Date	Balance at Maturity
Oyster Point	\$ 6,223		5.41%	December 1, 2015	\$ 6,089
249 Central Park					
Retail	15,494	5.99		September 8, 2016	15,084
South Retail	6,835	5.99		September 8, 2016	6,655
Fountain Plaza Retail	7,747	5.99		September 8, 2016	7,542
Harrisonburg Regal	3,610	6.06		June 8, 2017	3,165
Smith's Landing	24,389	LIBOR+2.15	2.33%	January 31, 2017	23,793
North Point Note 5	680	LIBOR+2.00	3.57%(2)	February 1, 2017	641
Hanbury Village	21,152	6.67		October 11, 2017	20,499
4525 Main Street	31,151	LIBOR+1.95	2.13%	January 30, 2017	31,151
Encore Apartments	23,479	LIBOR+1.95	2.13%	January 30, 2017	23,479
Commonwealth of Virginia Chesapeake	4,612	LIBOR+1.90	2.08%	August 28, 2017	4,612
Lightfoot Marketplace	4,525	LIBOR+1.90	2.08%	November 14, 2017	4,525
Sandbridge Commons	7,493	LIBOR+1.85	2.03%	January 17, 2018	7,008
Oceaneeing	17,420	LIBOR+1.75	1.93%	February 28, 2018	16,700
North Point Note 1	10,105	6.45		February 5, 2019	9,333
North Point Note 2	2,731	7.25		September 15, 2025	1,344
Liberty Apartments	20,532 (3)	5.66		November 1, 2043	
The Cosmopolitan	46,981	3.75		July 1, 2051	
Unamortized fair value adjustments	(1,429)				
Total secured debt	\$ 253,730				\$ 181,620
Unsecured Debt					
Revolving credit facility	60,000	LIBOR+1.40 to 2.00	1.73%	February 20, 2019	60,000
Term loan	50,000	LIBOR+1.35 to 1.95	1.68%(2)	February 20, 2020	50,000
Total unsecured debt	\$ 110,000				\$ 110,000
Indebtedness	\$ 363,730				\$ 291,620
Whetstone Apartments	17,342 (4)	LIBOR+1.90	2.08%	October 8, 2016	17,342

Total debt	\$ 381,072	\$ 308,962
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- (1) LIBOR rate is determined by individual lenders.
- (2) Subject to an interest rate swap agreement.
- (3) Principal balance excluding fair value adjustments.
- (4) Secured by real estate held for sale.

We currently are in compliance with all covenants on our outstanding indebtedness.

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As of March 31, 2015, our outstanding indebtedness matures during the following years:

Year	Amount Due (\$ in thousands)	Percentage of Total
2015	\$ 6,089	2%
2016	46,623	15
2017	111,865	36
2018	23,708	8
2019	69,333	22
Thereafter	51,344	17
	\$ 308,962	100%

Interest Rate Derivatives

We may use interest rate derivatives from time to time to manage our exposure to interest rate risks. Using an interest rate swap, we fixed our interest payments under North Point Center Note 5 at 3.57% through maturity on February 1, 2017. On February 20, 2015, we entered into a \$50.0 million floating-to-fixed interest rate swap attributable to one-month LIBOR indexed interest payments. The \$50.0 million interest rate swap has a fixed rate of 2.00%, an effective date of March 1, 2016 and a maturity date of February 20, 2020. We entered into this interest rate swap agreement in connection with the new \$50.0 million senior unsecured term loan facility that bears interest at LIBOR plus 1.35% to 1.95%, depending on our total leverage. We designated this interest rate swap as a cash flow hedge of variable interest payments based on one-month LIBOR.

As of March 31, 2015, we were party to the following LIBOR interest rate cap agreements (\$ in thousands):

Effective Date	Maturity Date	Strike Rate	Notional Amount
May 31, 2012	May 29, 2015	1.09%	\$ 8,827
September 1, 2013	March 1, 2016	3.50%	25,198
September 1, 2013	March 1, 2016	3.50%	37,848
September 1, 2013	March 1, 2016	1.50%	40,000
October 4, 2013	April 1, 2016	1.50%	18,500
March 14, 2014	March 1, 2017	1.25%	50,000
Total			\$ 180,373

As of March 31, 2015, the notional amounts of our LIBOR interest rate cap agreements with strike rates below and above 1.50% were as follows (\$ in thousands):

Strike Rate	Notional Amount
£ 1.50%	\$ 117,327

> 1.50%

63,046

Total	\$	180,373
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Off-Balance Sheet Arrangements

We have entered into standby letters of credit relating to the guarantee of future performance on certain of our construction contracts. Letters of credit generally are available for draw down in the event we do not perform. As of March 31, 2015, we had aggregate outstanding letters of credit totaling \$8.5 million all of which expire during 2015. However, all of our standby letters of credit are expected to renew for additional periods until completion of the underlying contractual obligation.

Table of Contents***Cash Flows***

	Three Months Ended March 31,		
	2015	2014	Change
	(\$ in thousands)		
Operating activities	\$ (404)	\$ 3,213	\$ (3,617)
Investing activities	(8,330)	(25,898)	17,568
Financing activities	14,330	17,247	(2,917)
Net increase (decrease)	\$ 5,596	\$ (5,438)	\$ 11,034
Cash and cash equivalents, beginning of period	\$ 25,883	\$ 18,882	
Cash and cash equivalents, end of period	\$ 31,479	\$ 13,444	

Net cash from operating activities decreased \$3.6 million during the three months ended March 31, 2015 compared to the three months ended March 31, 2014 because of higher net cash used in our construction business.

Net cash from investing activities increased \$17.6 million during the three months ended March 31, 2015 compared to the three months ended March 31, 2014 because of the proceeds from our sale of the Sentara Williamsburg office building.

Net cash from financing activities decreased \$2.9 million during the three months ended March 31, 2015 compared to the three months ended March 31, 2014 because of lower net borrowings and higher dividends and distributions.

Non-GAAP Financial Measures

We calculate FFO in accordance with the standards established by NAREIT. NAREIT defines FFO as net income (loss) (calculated in accordance with GAAP), excluding gains (or losses) from sales of depreciable operating property, real estate related depreciation and amortization (excluding amortization of deferred financing costs) and after adjustments for unconsolidated partnerships and joint ventures.

FFO is a supplemental non-GAAP financial measure. Management uses FFO as a supplemental performance measure because we believe that FFO is beneficial to investors as a starting point in measuring our operational performance. Specifically, in excluding real estate related depreciation and amortization and gains and losses from property dispositions, which do not relate to or are not indicative of operating performance, FFO provides a performance measure that, when compared period-over-period, captures trends in occupancy rates, rental rates and operating costs. We also believe that, as a widely recognized measure of the performance of REITs, FFO will be used by investors as a basis to compare our operating performance with that of other REITs.

However, because FFO excludes depreciation and amortization and captures neither the changes in the value of our properties that result from use or market conditions nor the level of capital expenditures and leasing commissions necessary to maintain the operating performance of our properties, all of which have real economic effects and could materially impact our results from operations, the utility of FFO as a measure of our performance is limited. In addition, other equity REITs may not calculate FFO in accordance with the NAREIT definition as we do, and, accordingly, our calculation of FFO may not be comparable to such other REITs' calculation of FFO. Accordingly, FFO should be considered only as a supplement to net income as a measure of our performance. FFO should not be used as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability

to pay dividends or service indebtedness. FFO also should not be used as a supplement to or substitute for cash flow from operating activities computed in accordance with GAAP.

We also believe that the computation of FFO in accordance with NAREIT's definition includes certain items that are not indicative of the results provided by the Company's operating property portfolio and affect the comparability of the Company's period-over-period performance. Accordingly, management believes that Normalized FFO is a more useful performance measure that excludes certain items, including but not limited to, debt extinguishment losses and prepayment penalties, property acquisition, development and other pursuit costs, mark-to-market adjustments for interest rate derivatives and other non-comparable items.

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The following table sets forth a reconciliation of FFO and Normalized FFO for the three months ended March 31, 2015 and 2014 to net income, the most directly comparable GAAP equivalent:

	Three Months Ended March 31,	
	2015	2014
	(\$ in thousands)	
Net income	\$ 8,118	\$ 2,506
Depreciation and amortization	4,908	3,969
Gain on real estate dispositions	(6,197)	
FFO	\$ 6,829	\$ 6,475
Acquisition, development and other pursuit costs	171	
Loss on extinguishment of debt	227	
Derivative losses (income)	147	(93)
Normalized FFO	\$ 7,374	\$ 6,382

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements that have been prepared in accordance with GAAP. The preparation of these financial statements requires us to exercise our best judgment in making estimates that affect the reported amounts of assets, liabilities, revenues and expenses. We base our estimates on historical experience and other assumptions that we believe to be reasonable under the circumstances. We evaluate our estimates on an ongoing basis, based upon current available information. Actual results could differ from these estimates. We discuss the accounting policies and estimates that are most critical to understanding our reported financial results in our Annual Report on Form 10-K for the year ended December 31, 2014.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

The primary market risk to which we are exposed is interest rate risk. Our primary interest rate exposure is LIBOR. We primarily use fixed interest rate financing to manage our exposure to fluctuations in interest rates. On a limited basis, we also use derivative financial instruments to manage interest rate risk. We do not use these derivatives for trading or other speculative purposes.

At March 31, 2015, approximately \$140.7 million, or 37%, of our debt had fixed interest rates and approximately \$240.4 million, or 63%, had variable interest rates. Assuming no increase in the level of our variable rate debt, if interest rates increased by 1.0%, our cash flow would decrease by approximately \$2.4 million per year. At March 31, 2015, LIBOR was approximately 18 basis points. Assuming no increase in the level of our variable rate debt, if LIBOR was reduced to 0 basis points, our cash flow would increase by approximately \$0.4 million per year.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the rules and regulations of the U.S. Securities and Exchange Commission (SEC) and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We have carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, regarding the effectiveness of our disclosure controls and procedures as of March 31, 2015, the end of the period covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer have concluded, as of March 31, 2015, that our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in reports filed or submitted under the Exchange Act: (i) is processed, recorded, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

No changes to our internal control over financial reporting were identified in connection with the evaluation referenced above that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**Part II. Other Information****Item 1. Legal Proceedings**

We are not currently a party, as plaintiff or defendant, to any legal proceedings that we believe to be material or which, individually or in the aggregate, would be expected to have a material effect on our business, financial condition or results of operations if determined adversely to us. We may be subject to on-going litigation relating to our portfolio and the properties comprising our portfolio, and we expect to otherwise be party from time to time to various lawsuits, claims and other legal proceedings that arise in the ordinary course of our business.

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2014.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds***Unregistered Sales of Equity Securities***

On April 8, 2015, Armada Hoffler Properties, Inc. (the Company) issued 415,500 shares of the Company's common stock, \$0.01 par value per share (Common Stock), as partial consideration in connection with the Company's acquisition of the property known as Perry Hall Marketplace. The issuance of the shares of Common Stock to the seller of Perry Hall Marketplace was effected in reliance upon an exemption from registration provided by Section 4(a)(2) under the Securities Act of 1933, as amended.

Issuer Purchases of Equity Securities

During the three months ended March 31, 2015, certain of our directors and employees surrendered shares of common stock owned by them to satisfy their minimum statutory federal and state tax obligations associated with the vesting of restricted shares of common stock issued under our 2013 Equity Incentive Plan (the 2013 Plan). The following table summarizes all of these repurchases during the three months ended March 31, 2015.

Period	Total Number of Shares Purchased (1)	Average Price Paid for Shares	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
January 1, 2015 through January 31, 2015		\$	N/A	N/A
February 1, 2015 through February 28, 2015			N/A	N/A
March 1, 2015 through March 31, 2015	14,185	10.98	N/A	N/A

Total	14,185
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- (1) The number of shares purchased represents shares of common stock surrendered by certain of our employees to satisfy their statutory minimum federal and state tax obligations associated with the vesting of restricted shares of common stock issued under the 2013 Plan. With respect to these shares, the price paid per share is based on the fair value at the time of surrender.

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Item 3. Defaults on Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The exhibits listed in the accompanying Exhibit Index are filed, furnished or incorporated by reference (as stated therein) as part of this Quarterly Report on Form 10-Q.

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ARMADA HOFFLER PROPERTIES, INC.

Date: May 5, 2015

/s/ LOUIS S. HADDAD
Louis S. Haddad
President and Chief Executive Officer

(Principal Executive Officer)

Date: May 5, 2015

/s/ MICHAEL P. O HARA
Michael P. O Hara
Chief Financial Officer and Treasurer

(Principal Accounting and Financial Officer)

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Exhibit Index

Exhibit No.	Description
15.1	Acknowledgment of Ernst & Young LLP, Independent Registered Public Accounting Firm
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Definition Linkbase