
**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, 2014

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 Organization)

46-1214914
(IRS Employer
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

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	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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 May 12, 2014, the Registrant had 19,253,660 shares of common stock outstanding.

[Table of Contents](#)

ARMADA HOFFLER PROPERTIES, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2014

Table of Contents

	<u>Page</u>
<u>Part I. Financial Information</u>	1
Item 1. Financial Statements	1
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	15
Item 3. Quantitative and Qualitative Disclosures about Market Risk	30
Item 4. Controls and Procedures	31
<u>Part II. Other Information</u>	32
Item 1. Legal Proceedings	32
Item 1A. Risk Factors	32
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	32
Item 3. Defaults Upon Senior Securities	33
Item 4. Mine Safety Disclosures	33
Item 5. Other Information	33
Item 6. Exhibits	33
<u>Signatures</u>	34

PART I. Financial Information**Item 1. Financial Statements****ARMADA HOFFLER PROPERTIES, INC.****Condensed Consolidated Balance Sheets**

(In Thousands, except par value and share data)

	<u>MARCH 31,</u> <u>2014</u>	<u>DECEMBER 31,</u> <u>2013</u>
	<u>(UNAUDITED)</u>	
ASSETS		
Real estate investments:		
Income producing property	\$ 434,281	\$ 406,239
Construction in progress	78,536	56,737
	512,817	462,976
Accumulated depreciation	(108,706)	(105,228)
Net real estate investments	404,111	357,748
Cash and cash equivalents	13,444	18,882
Restricted cash	2,754	2,160
Accounts receivable, net	18,884	18,272
Construction receivables, including retentions	12,736	12,633
Construction contract costs and estimated earnings in excess of billings	1,184	1,178
Other assets	25,799	24,409
Total Assets	\$ 478,912	\$ 435,282
LIABILITIES AND EQUITY		
Indebtedness	\$ 317,271	\$ 277,745
Accounts payable and accrued liabilities	7,158	6,463
Construction payables, including retentions	27,047	28,139
Billings in excess of construction contract costs and estimated earnings	1,134	1,541
Other liabilities	16,264	15,873
Total Liabilities	368,874	329,761
Stockholders' equity:		
Common stock, \$0.01 par value, 500,000,000 shares authorized, 19,254,365 and 19,163,413 shares issued and outstanding as of March 31, 2014 and December 31, 2013, respectively	193	192
Additional paid-in capital	1,473	1,247
Distributions in excess of earnings	(49,550)	(47,934)
Total stockholders' deficit	(47,884)	(46,495)
Noncontrolling interests	157,922	152,016
Total Equity	110,038	105,521
Total Liabilities and Equity	\$ 478,912	\$ 435,282

See Notes to Condensed Consolidated and Combined Financial Statements.

[Table of Contents](#)**ARMADA HOFFLER PROPERTIES, INC. AND PREDECESSOR**
Condensed Consolidated and Combined Statements of Income**(In Thousands, except per share data)**
(Unaudited)

	THREE MONTHS ENDED	
	MARCH 31,	
	2014	2013
		PREDECESSOR
Revenues		
Rental revenues	\$15,193	\$ 13,398
General contracting and real estate services revenues	19,234	17,956
Total revenues	<u>34,427</u>	<u>31,354</u>
Expenses		
Rental expenses	3,976	3,229
Real estate taxes	1,343	1,212
General contracting and real estate services expenses	17,985	17,458
Depreciation and amortization	3,969	3,159
General and administrative expenses	2,046	717
Total expenses	<u>29,319</u>	<u>25,775</u>
Operating income	5,108	5,579
Interest expense	(2,565)	(3,915)
Other income	112	267
Income before taxes	2,655	1,931
Income tax provision	(149)	—
Net income	2,506	<u>\$ 1,931</u>
Net income attributable to noncontrolling interests	(1,041)	
Net income attributable to stockholders	<u>\$ 1,465</u>	
Net income per share and unit:		
Basic and diluted	<u>\$ 0.08</u>	
Weighted-average outstanding:		
Common shares	19,193	
Common units	13,632	
Basic and diluted	<u>32,825</u>	
Dividends and distributions declared per common share and unit	<u>\$ 0.16</u>	

See Notes to Condensed Consolidated and Combined Financial Statements.

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

	<u>Shares of common stock</u>	<u>Common stock</u>	<u>Additional paid- in capital</u>	<u>Distributions in excess of earnings</u>	<u>Total stockholders' deficit</u>	<u>Noncontrolling interests</u>	<u>Total Equity</u>
Balance, January 1, 2014	19,163,413	\$ 192	\$ 1,247	\$ (47,934)	\$ (46,495)	\$ 152,016	\$ 105,521
Restricted stock award grants	99,289	1	(1)	—	—	—	—
Vesting of restricted stock awards	—	—	610	—	610	—	610
Minimum tax withholding	(8,337)	—	(82)	—	(82)	—	(82)
Acquisitions	—	—	—	—	—	6,769	6,769
Exchange of owners' equity for common units	—	—	(301)	—	(301)	301	—
Net income	—	—	—	1,465	1,465	1,041	2,506
Dividends and distributions declared	—	—	—	(3,081)	(3,081)	(2,205)	(5,286)
Balance, March 31, 2014	<u>19,254,365</u>	<u>\$ 193</u>	<u>\$ 1,473</u>	<u>\$ (49,550)</u>	<u>\$ (47,884)</u>	<u>\$ 157,922</u>	<u>\$ 110,038</u>

See Notes to Condensed Consolidated and Combined Financial Statements.

[Table of Contents](#)

ARMADA HOFFLER PROPERTIES, INC. AND PREDECESSOR
Condensed Consolidated and Combined Statements of Cash Flows

(In Thousands)
(Unaudited)

	THREE MONTHS ENDED MARCH 31,	
	2014	2013 PREDECESSOR
OPERATING ACTIVITIES		
Net income	\$ 2,506	\$ 1,931
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of buildings and tenant improvements	3,478	2,845
Amortization of deferred leasing costs and in-place lease intangibles	491	314
Accrued straight-line rental revenue	(469)	(300)
Amortization of lease incentives and above or below-market rents	160	196
Accrued straight-line ground rent expense	79	85
Bad debt expense	11	117
Noncash stock compensation	329	—
Noncash interest expense	133	172
Change in the fair value of derivatives	(93)	(110)
Income from real estate joint ventures	—	(93)
Changes in operating assets and liabilities, net of acquisitions:		
Property assets	(1,311)	(692)
Property liabilities	11	1,661
Construction assets	(109)	(3,009)
Construction liabilities	(2,003)	1,170
Net cash provided by operating activities	<u>3,213</u>	<u>4,287</u>
INVESTING ACTIVITIES		
Development of real estate investments	(20,320)	(2,200)
Tenant and building improvements	(2,495)	(746)
Acquisitions of real estate investments, net of cash acquired	(2,895)	—
Increase in restricted cash	(35)	(95)
Return of capital from real estate joint ventures, net	—	49
Deferred leasing costs	(153)	(150)
Leasing incentives	—	(40)
Net cash used for investing activities	<u>(25,898)</u>	<u>(3,182)</u>
FINANCING ACTIVITIES		
Offering costs	(149)	(2,587)
Credit facility and construction loan borrowings	23,269	—
Debt and credit facility payments, including principal amortization	(714)	(1,453)
Debt issuance costs	(4)	—
Predecessor distributions, net	—	(2,364)
Dividends and distributions	(5,155)	—
Net cash provided by (used for) financing activities	<u>17,247</u>	<u>(6,404)</u>
Net decrease in cash and cash equivalents	(5,438)	(5,299)
Cash and cash equivalents, beginning of period	18,882	9,400
Cash and cash equivalents, end of period	<u>\$ 13,444</u>	<u>\$ 4,101</u>
Supplemental cash flow information:		
Cash paid for interest	\$ 2,794	\$ 3,748

See Notes to Condensed Consolidated and Combined Financial Statements.

ARMADA HOFFLER PROPERTIES, INC. AND PREDECESSOR
Notes to Condensed Consolidated and Combined 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, 2014, the Company’s operating property portfolio consisted of the following properties:

<u>Name</u>	<u>Segment</u>	<u>Location</u>
Armada Hoffler Tower	Office	Virginia Beach, Virginia
One Columbus	Office	Virginia Beach, Virginia
Oyster Point	Office	Newport News, Virginia
Richmond Tower	Office	Richmond, Virginia
Sentara Williamsburg	Office	Williamsburg, Virginia
Two Columbus	Office	Virginia Beach, Virginia
Virginia Natural Gas	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
Fountain Plaza Retail	Retail	Virginia Beach, Virginia
Gainsborough Square	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
South Retail	Retail	Virginia Beach, Virginia
Studio 56 Retail	Retail	Virginia Beach, Virginia
Tyre Neck Harris Teeter	Retail	Portsmouth, Virginia
Liberty Apartments	Multifamily	Newport News, Virginia
Smith’s Landing	Multifamily	Blacksburg, Virginia
The Cosmopolitan	Multifamily	Virginia Beach, Virginia

As of March 31, 2014, the Company had the following properties under development (the “Development Pipeline”):

<u>Name</u>	<u>Segment</u>	<u>Location</u>
4525 Main Street	Office	Virginia Beach, Virginia
Brooks Crossing	Office	Newport News, Virginia
Oceaneering	Office	Chesapeake, Virginia
Greentree Shopping Center	Retail	Chesapeake, Virginia
Sandbridge Commons	Retail	Virginia Beach, Virginia
Encore Apartments	Multifamily	Virginia Beach, Virginia
Whetstone Apartments	Multifamily	Durham, North Carolina

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.

Armada Hoffler Properties, Inc. Predecessor (the “Predecessor”) was not a single legal entity, but rather a combination of real estate and construction entities under common ownership by their individual partners, members and stockholders and under common control or significant influence of Daniel A. Hoffler prior to the IPO and the Formation Transactions. The financial position and results of operations of the entities under common control of Mr. Hoffler have been combined in the Predecessor financial statements for the periods prior to the completion of the IPO and the Formation Transactions. The Predecessor accounted for its investments in the entities under significant influence of Mr. Hoffler using the equity method of accounting.

[Table of Contents](#)

Pursuant to the Formation Transactions, the Operating Partnership: (i) acquired 100% of the interests in the entities comprising the Predecessor, (ii) succeeded to the ongoing construction and development businesses of the Predecessor, (iii) assumed asset management of certain of the properties acquired from the Predecessor, (iv) succeeded to the third party asset management business of the Predecessor, (v) succeeded to the projects under development by the Predecessor, (vi) received options to acquire nine parcels of developable land from the Predecessor and (vii) entered into a contribution agreement to acquire Liberty Apartments, a 197-unit multifamily property located in Newport News, Virginia, upon satisfaction of certain conditions and transferability restrictions including completion of the project's construction by the Company. The Operating Partnership completed the acquisition of Liberty Apartments on January 17, 2014.

Because of the timing of the IPO and the Formation Transactions, the results of operations for the three months ended March 31, 2013 reflect those of the Predecessor. The financial condition as of March 31, 2014 and December 31, 2013 and the results of operations for the three months ended March 31, 2014 reflect those of the Company. References to "Armada Hoffler" in these notes to consolidated and combined financial statements signify the Company for the period after the completion of the IPO and the Formation Transactions on May 13, 2013 and the Predecessor for all prior periods.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

The 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.

The results of operations of the entities comprising the Predecessor have been combined because they were under common ownership by their individual partners, members and stockholders and under common control of Mr. Hoffler. All significant intercompany transactions and balances have been eliminated in combination.

In the opinion of management, the consolidated and combined 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 consolidated and combined 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 and combined financial statements of the Company included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

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 consolidated and combined 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, 2013, among others.

3. Segments

Net operating income (segment revenues minus segment expenses) is the measure used by Armada Hoffler'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

[Table of Contents](#)

income in the same manner. Armada Hoffler 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 Armada Hoffler's real estate and construction businesses.

Net operating income of Armada Hoffler's reportable segments for the three months ended March 31, 2014 and 2013 was as follows (in thousands):

	Three Months Ended	
	March 31,	
	2014	2013
	(Unaudited)	
<i>Office real estate</i>		
Rental revenues	\$ 6,549	\$ 6,486
Property expenses	<u>2,131</u>	<u>1,946</u>
Segment net operating income	<u>4,418</u>	<u>4,540</u>
<i>Retail real estate</i>		
Rental revenues	5,770	5,005
Property expenses	<u>1,825</u>	<u>1,680</u>
Segment net operating income	<u>3,945</u>	<u>3,325</u>
<i>Multifamily residential real estate</i>		
Rental revenues	2,874	1,907
Property expenses	<u>1,363</u>	<u>815</u>
Segment net operating income	<u>1,511</u>	<u>1,092</u>
<i>General contracting and real estate services</i>		
Segment revenues	19,234	17,956
Segment expenses	<u>17,985</u>	<u>17,458</u>
Segment net operating income	<u>1,249</u>	<u>498</u>
Net operating income	<u>\$ 11,123</u>	<u>\$ 9,455</u>

General contracting and real estate services revenues for the three months ended March 31, 2014 and 2013 exclude revenue related to intercompany construction contracts of \$18.7 million and \$2.0 million, respectively. General contracting and real estate services expenses for the three months ended March 31, 2014 and 2013 exclude expenses related to intercompany construction contracts of \$18.5 million and \$2.0 million, respectively. General contracting and real estate services expenses for the three months ended March 31, 2014 includes noncash stock compensation of \$0.1 million.

[Table of Contents](#)

The following table reconciles net operating income to net income for the three months ended March 31, 2014 and 2013 (in thousands):

	Three Months Ended March 31,	
	2014	2013
	(Unaudited)	
Net operating income	\$ 11,123	\$ 9,455
Depreciation and amortization	(3,969)	(3,159)
General and administrative expenses	(2,046)	(717)
Interest expense	(2,565)	(3,915)
Other income	112	267
Income tax provision	(149)	—
Net income	<u>\$ 2,506</u>	<u>\$ 1,931</u>

General and administrative expenses represent costs not directly associated with the operation and management of Armada Hoffler's real estate properties and general contracting business. 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, 2014 include noncash stock compensation of \$0.2 million.

Rental revenues of Armada Hoffler's reportable segments for the three months ended March 31, 2014 and 2013 comprised the following (in thousands):

	Three Months Ended March 31,	
	2014	2013
	(Unaudited)	
Minimum rents		
Office	\$ 6,152	\$ 6,100
Retail	4,774	4,365
Multifamily	2,450	1,627
Percentage rents (1)		
Office	45	104
Retail	91	24
Multifamily	35	42
Other (2)		
Office	352	282
Retail	905	616
Multifamily	389	238
Rental revenues	<u>\$ 15,193</u>	<u>\$ 13,398</u>

(1) Percentage rents are based on tenants' sales.

(2) Other rental revenue includes cost reimbursements for real estate taxes, property insurance and common area maintenance as well as termination fees.

[Table of Contents](#)

Property expenses of Armada Hoffler's reportable segments for the three months ended March 31, 2014 and 2013 comprised the following (in thousands):

	Three Months Ended March 31,	
	2014	2013
	(Unaudited)	
Rental expenses		
Office	\$ 1,587	\$ 1,405
Retail	1,322	1,220
Multifamily	1,067	604
Total	<u>3,976</u>	<u>3,229</u>
Real estate taxes		
Office	544	541
Retail	503	460
Multifamily	296	211
Total	<u>1,343</u>	<u>1,212</u>
Property expenses	<u>\$ 5,319</u>	<u>\$ 4,441</u>

Rental expenses represent costs directly associated with the operation and management of Armada Hoffler's real estate properties. Rental expenses include asset management fees, property management fees, repairs and maintenance, insurance and utilities.

4. Real Estate Investments

The Company's real estate investments comprised the following as of March 31, 2014 and December 31, 2013 (in thousands):

	March 31, 2014	December 31, 2013
	(Unaudited)	
Land	\$ 44,893	\$ 41,313
Land improvements	12,895	12,562
Buildings and improvements	390,069	365,941
Construction in progress	64,960	43,160
	<u>512,817</u>	<u>462,976</u>
Accumulated depreciation	<u>(108,706)</u>	<u>(105,228)</u>
Net real estate investments	<u>\$ 404,111</u>	<u>\$ 357,748</u>

As discussed in Note 1, the Company completed the acquisition of Liberty Apartments on January 17, 2014. The fair value of the total consideration transferred at the acquisition date to acquire Liberty Apartments was \$26.7 million, consisting of 695,652 common units of the Operating Partnership, \$3.0 million in cash to affiliates of the Predecessor and the assumption of \$17.0 million of debt. The fair value adjustment to the assumed debt of Liberty Apartments was a \$1.5 million discount. The outstanding principal balance of the assumed debt of Liberty Apartments at the acquisition date was \$18.5 million. An additional \$2.4 million is available under the Liberty Apartments loan and will be used to fund current and future obligations of the Company.

[Table of Contents](#)

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date (in thousands):

	<u>Liberty Apartments</u> <u>(Unaudited)</u>
Land	\$ 3,580
Site improvements	280
Building and improvements	23,214
In-place leases	340
Indebtedness	(16,966)
Net working capital	(679)
Net assets acquired	<u>\$ 9,769</u>

Liberty Apartments did not have any operations during the three months ended March 31, 2013. Rental revenues and net loss from Liberty Apartments for the period from the acquisition date to March 31, 2014 included in the consolidated statement of income was \$0.1 million and \$(0.5) million, respectively.

Subsequent to March 31, 2014

On April 16, 2014, the Company purchased \$7.4 million of land in Williamsburg, Virginia for the development and construction of Lightfoot Marketplace.

On May 1, 2014, the Company purchased \$0.3 million of land in Chesapeake, Virginia for the development and construction of a new administrative building for the Commonwealth of Virginia.

5. Indebtedness

On January 17, 2014, the Company assumed \$17.0 million of debt at fair value in connection with the acquisition of Liberty Apartments. The fair value adjustment to the assumed debt of Liberty Apartments was a \$1.5 million discount. The outstanding principal balance of the assumed debt of Liberty Apartments at the acquisition date was \$18.5 million. An additional \$2.4 million is available under the Liberty Apartments loan and will be used to fund current and future obligations of the Company. The loan amortizes over 30 years, bears interest at 5.66% and matures on November 1, 2043.

On February 28, 2014, the Company closed on a \$19.5 million loan to fund the development and construction of the Oceaneering International facility. The construction loan bears interest at LIBOR plus 1.75% and matures on February 28, 2018. As of March 31, 2014, the Company did not have any amounts outstanding on the construction loan.

During the three months ended March 31, 2014, the Operating Partnership borrowed an additional \$10.0 million under the credit facility. As of March 31, 2014, the outstanding balance on the credit facility was \$80.0 million.

During the three months ended March 31, 2014, the Company borrowed an additional \$13.3 million under its existing construction loans to fund the construction of 4525 Main Street, Encore Apartments, Whetstone Apartments and Sandbridge Commons.

Subsequent to March 31, 2014

On April 14, 2014, the Operating Partnership borrowed an additional \$8.0 million under the credit facility.

On April 22, 2014, the Operating Partnership amended the maximum leverage ratio covenant requirement in the credit facility to be 65% as of the last day of each fiscal quarter through maturity.

6. Derivative Financial Instruments

On March 14, 2014, the Company executed a LIBOR interest rate cap agreement on a notional amount of \$50.0 million and a strike price of 1.25% for a premium of \$0.4 million. The interest rate cap agreement expires on March 1, 2017.

Table of Contents

The Company's derivatives comprised the following as of March 31, 2014 and December 31, 2013 (in thousands):

	March 31, 2014 (Unaudited)			December 31, 2013		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
		Asset	Liability		Asset	Liability
Pay fixed interest rate swaps	\$ 700	\$ —	\$ (14)	\$ 705	\$—	\$ (16)
Interest rate caps	180,614	589	—	130,672	102	—
Total	\$181,314	\$ 589	\$ (14)	\$131,377	\$102	\$ (16)

The changes in the fair value of Armada Hoffer's derivatives during the three months ended March 31, 2014 and 2013 comprised the following (in thousands):

	Three Months Ended March 31, (Unaudited)	
	2014	2013
	Pay fixed interest rate swaps	\$ 2
Interest rate caps	91	2
Other income	\$ 93	\$ 110

7. Equity

Stockholders' Equity

As of March 31, 2014 and December 31, 2013, the Company's authorized capital was 500 million shares of common stock and 100 million shares of preferred stock. The Company had 19.3 million and 19.2 million shares of common stock issued and outstanding as of March 31, 2014 and December 31, 2013, respectively. No shares of preferred stock were issued and outstanding as of March 31, 2014 or December 31, 2013.

Noncontrolling Interests

As of March 31, 2014 and December 31, 2013, the Company held a 58.2% and 59.5% interest in the Operating Partnership, respectively. 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 the Operating Partnership not held by the Company.

On January 17, 2014, the Operating Partnership issued 695,652 common units as partial consideration for Liberty Apartments.

On March 31, 2014, the Operating Partnership issued 30,000 common units in exchange for all noncontrolling interests in Sandbridge Commons. The Company recognized the difference between the fair value of the common units issued and the adjustment to the carrying amount of the noncontrolling interests in Sandbridge Commons directly in equity as additional paid-in capital.

Common Stock Dividends and Common Unit Distributions

On January 9, 2014, the Company paid cash dividends of \$3.1 million to common stockholders and cash distributions of \$2.1 million to common unitholders.

On February 18, 2014, the Company's Board of Directors declared a cash dividend/distribution of \$0.16 per share/unit payable on April 10, 2014 to common stockholders and common unitholders of record on April 1, 2014.

Subsequent to March 31, 2014

On April 10, 2014, the Company paid cash dividends of \$3.1 million to common stockholders and cash distributions of \$2.2 million to common unitholders.

On May 9, 2014, the Company's Board of Directors declared a cash dividend/distribution of \$0.16 per share/unit payable on July 10, 2014 to common stockholders and common unitholders of record on July 1, 2014.

8. Stock-Based Compensation

On March 3, 2014, the Company granted 99,289 shares of restricted stock to employees with a grant date fair value of \$9.94 per share. Restricted stock awards 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.

During the three months ended March 31, 2014, the Company recognized \$0.6 million of stock-based compensation using the accelerated attribution method. As of March 31, 2014, there were 178,123 nonvested restricted shares outstanding; the total unrecognized compensation related to nonvested restricted shares was \$1.1 million, which the Company expects to recognize over the next 23 months.

9. Fair Value of Financial Instruments

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 Armada Hoffler’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. Armada Hoffler 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 Armada Hoffler’s secured 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 Armada Hoffler’s secured 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 our financial instruments, all of which are based on Level 2 inputs, as of March 31, 2014 and December 31, 2013 were as follows (in thousands):

	March 31, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(Unaudited)			
Secured debt	\$317,271	\$321,709	\$277,745	\$273,310
Interest rate swap liabilities	14	14	16	16
Interest rate cap assets	589	589	102	102

10. Related Party Transactions

Armada Hoffler provides general contracting and real estate services to certain related party entities that are not included in these consolidated and combined financial statements. Revenue from construction contracts with related party entities of Armada Hoffler was \$2.3 million and \$10.9 million for the three months ended March 31, 2014 and 2013, respectively. Operating margin from such contracts was \$0.1 million and \$0.3 million for the three months ended March 31, 2014 and 2013, respectively. Real estate services fees from affiliated entities of Armada Hoffler were not significant for either the three months ended March 31, 2014 or 2013. In addition, affiliated entities also reimburse Armada Hoffler for monthly maintenance and facilities management services provided to the properties. Cost reimbursements earned by Armada Hoffler from affiliated entities were not significant for either the three months ended March 31, 2014 or 2013.

11. Commitments and Contingencies

Legal Proceedings

Armada Hoffler 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.

Armada Hoffler currently is a party to various legal proceedings, none of which management expects will have a material adverse effect on Armada Hoffler's financial position, results of operations or liquidity. Armada Hoffler accrues a liability for litigation if an unfavorable outcome is determined by management to be probable and the amount of loss can be reasonably estimated. If an unfavorable outcome is determined by management to be probable and a range of loss can be reasonably estimated, Armada Hoffler 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. Armada Hoffler 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 Armada Hoffler's leases, tenants are typically obligated to indemnify Armada Hoffler 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

Armada Hoffler 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 \$194.6 million and \$35.8 million as of March 31, 2014 and December 31, 2013, 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 March 31, 2014 and December 31, 2013, the Operating Partnership had total outstanding letters of credit of \$9.9 million and \$3.0 million, respectively.

12. Subsequent Events

As discussed in Note 4, the Company purchased \$7.4 million of land in Williamsburg, Virginia on April 16, 2014 for the development and construction of Lightfoot Marketplace. The Company purchased \$0.3 million of land in Chesapeake, Virginia on May 1, 2014 for the development and construction of a new administrative building for the Commonwealth of Virginia.

As discussed in Note 5, the Operating Partnership borrowed an additional \$8.0 million under the credit facility on April 14, 2014 and amended the maximum leverage ratio covenant requirement in the credit facility on April 22, 2014.

As discussed in Note 7, the Company paid cash dividends of \$3.1 million to common stockholders and \$2.2 million to common unitholders on April 10, 2014. The Company's Board of Directors declared a cash dividend/distribution of \$0.16 per share/unit on May 9, 2014 to common stockholders and common unitholders of record on July 1, 2014.

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. (successor to the entities described in Note 1) as of March 31, 2014, and the related condensed consolidated and combined statements of income and cash flows for the three-month periods ended March 31, 2014 and 2013 and the condensed consolidated statement of equity for the three-month period ended March 31, 2014. 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 and combined 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, 2013, and the related consolidated and combined 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 and combined financial statements in our report dated March 31, 2014. In our opinion, the accompanying condensed consolidated balance sheet as of December 31, 2013, 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 15, 2014

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, of which we are the sole general partner and which we refer to in this Quarterly Report on Form 10-Q as our Operating Partnership.

Forward-Looking Statements

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this report. We make statements in this report that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (set forth in Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). In particular, statements pertaining to our capital resources, portfolio performance and results of operations contain forward-looking statements. Likewise, all of our statements regarding anticipated growth in our funds from operations and estimated general contracting and real estate services are forward-looking statements. You can identify forward-looking statements by the use of forward-looking terminology such as “believes,” “expects,” “may,” “will,” “should,” “seeks,” “approximately,” “intends,” “plans,” “estimates” or “anticipates” or the negative of these words and phrases or similar words or phrases which are predictions of or indicate future events or trends and which do not relate solely to historical matters. You can also identify forward-looking statements by discussions of strategy, plans or intentions.

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 identified 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 or acquisition opportunities;
- our failure to successfully operate developed and acquired properties;
- our failure to generate income in our general contracting and real estate sources 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;
- general economic conditions;
- 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;
- our failure to qualify and 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 qualify and 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.

[Table of Contents](#)

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, 2014, our portfolio comprised seven office properties, 15 retail properties and three multifamily properties located in Virginia and North Carolina. As of March 31, 2014, our office and retail operating property portfolios aggregated over 2.0 million net rentable square feet and our multifamily property portfolio comprised 823 apartment units.

We are a Maryland corporation formed on October 12, 2012 to acquire the entities in which Daniel A. Hoffler and his affiliates, certain of our other officers, directors and their affiliates and other third parties owned a direct or indirect interest (the “Formation Transactions”). We did not have any operating activity until the consummation of our initial public offering of our shares of common stock (the “IPO”) and the Formation Transactions on May 13, 2013. Upon completing our IPO and the Formation Transactions, we conduct our operations through Armada Hoffler, L.P. (our “Operating Partnership”), whose assets, liabilities and results of operations we consolidate.

Our “Predecessor” is not a single legal entity, but rather a combination of real estate and construction entities that were under common control by our Executive Chairman, Daniel A. Hoffler. These entities include: (i) controlling interests in entities that owned 7 office properties, 14 retail properties and 1 multifamily property, (ii) noncontrolling interests in entities that owned one retail and one multifamily property (Bermuda Crossroads and Smith’s Landing, respectively), (iii) the property development and asset management businesses of Armada Hoffler Holding Company, Inc. and (iv) the general commercial construction businesses of Armada Hoffler Construction Company and Armada Hoffler Construction Company of Virginia.

The results of operations of the properties and entities acquired by us in connection with our IPO and the Formation Transactions are included in our results beginning on May 13, 2013. Accordingly, the results of operations for the three months ended March 31, 2013 reflect those of our Predecessor. The results of operations for the three months ended March 31, 2014 reflect those of our company.

First Quarter 2014 Highlights

- Net income of \$2.5 million, or \$0.08 per share, for the three months ended March 31, 2014, compared to \$1.9 million for the corresponding period in 2013.
- Funds from operations (“FFO”) of \$6.5 million, or \$0.20 per share, for the three months ended March 31, 2014, compared to \$5.1 million for the corresponding period in 2013. See “Non-GAAP Financial Measures.”
- Occupancy increased to 94.5% as of March 31, 2014, compared to 94.4% as of December 31, 2013 and 93.8% as of March 31, 2013.
- Completed the acquisition of Liberty Apartments on January 17, 2014.
- Invested \$20.3 million in new real estate development.
- Executed \$165.9 million of new construction contract work, including the Harbor Point project in Baltimore, Maryland.

Table of Contents

Development Pipeline

In addition to the projects in our development pipeline, in November 2012, we were selected by Johns Hopkins University, after an extensive competitive selection process, to join with the university in the redevelopment of a 1.12 acre property adjacent to the university's Homewood campus in Baltimore, Maryland. This mixed-use development will include student housing, retail space, restaurants and parking. The goal of the completed project will be to complement the Homewood campus and nearby Charles Village neighborhood and provide a catalyst for future development in the area. The Johns Hopkins project continues to progress, with the program now defined and strong interest from retailers for the ground floor commercial space.

As of the date of this Quarterly Report on Form 10-Q, we had the following eleven properties under development (\$ in thousands):

Identified Development Pipeline				Schedule							
Office/Retail	Location	Estimated Square Footage (1)	Estimated Cost (1)	Cost Incurred through March 31, 2014	Start	Anchor Tenant Occupancy	Stabilized Operation	AHH Ownership % (1)	Property Type	Anchor Tenants	% Leased
4525 Main Street (2)	Virginia Beach, VA	234,000 (3)	\$50,000	\$ 32,000	1Q13	3Q14	1Q16	100%	Office	Clark Nexsen, Development Authority of Virginia Beach, Anthropologie (3)	46%
Sandbridge Commons	Virginia Beach, VA	70,000	13,000	6,000	4Q13	1Q15	2Q16	100%	Retail	Harris Teeter	66%
Brooks Crossing	Newport News, VA	36,000	8,000	1,200	3Q14	3Q15	3Q15	65%	Office	Huntington Ingalls (4)	0%
Greentree Shopping Center (5)	Chesapeake, VA	18,000	6,000	3,000	4Q13	4Q14	3Q16	100%	Retail	Wawa	40%
		358,000	\$77,000	\$ 42,200							
Next Generation Pipeline				Schedule							
Multifamily	Location	Estimated Apartment Units (1)	Estimated Cost (1)	Cost Incurred through March 31, 2014	Start	Initial Occupancy	Complete (1)	Stabilized Operation	AHH Ownership %		
Encore Apartments (2)	Virginia Beach, VA	286	\$34,000	\$ 17,000	1Q13	3Q14	4Q15	1Q16	100%		
Whetstone Apartments	Durham, NC	203	28,000	13,000	2Q13	3Q14	3Q15	1Q16	100%		
Liberty Apartments (6)	Newport News, VA	197	30,700	30,700	—	—	1Q14	3Q15	100%		
		686	\$92,700	\$ 60,700							
Next Generation Pipeline				Schedule							
Office/Retail	Location	Estimated Square Footage (1)	Estimated Cost (1)	Cost Incurred through March 31, 2014	Start	Anchor Tenant Occupancy	Stabilized Operation	AHH Ownership % (1)	Property Type	Anchor Tenants	% Leased
Oceanearing	Chesapeake, VA	155,000	\$ 26,000	\$ 6,000	4Q13	1Q15	1Q15	100%	Office	Oceanearing	100%
Commonwealth of Virginia – Chesapeake	Chesapeake, VA	36,000	7,000	200	2Q14	1Q15	1Q15	100%	Office	Commonwealth of Virginia	100%
Commonwealth of Virginia – Virginia Beach	Virginia Beach, VA	11,000	3,000	—	2Q14	1Q15	1Q15	100%	Office	Commonwealth of Virginia	100%
Lightfoot Marketplace	Williamsburg, VA	88,000	24,000	500	3Q14	1Q16	2Q17	70% (7)	Retail	Harris Teeter	60%
			\$ 60,000	\$ 6,700							
		Total	\$229,700	\$ 109,600							

(1) Represents estimates that may change as the development process proceeds.

(2) This property will be located in the Town Center of Virginia Beach.

(3) Approximately 83,000 square feet is leased to Clark Nexsen, an architectural firm, approximately 23,000 square feet is leased to the City of Virginia Beach Development Authority and approximately 9,000 square feet is leased to Anthropologie.

(4) The principal tenant lease has not been signed as of the date of this Quarterly Report on Form 10-Q.

(5) The Company has completed the sale of a pad-ready site adjacent to Greentree Shopping Center to Walmart.

(6) Reflects the purchase price of the acquisition that occurred in 1Q14.

(7) The Company will earn a preferred return on equity prior to any distributions to minority partners.

Our execution on all of the projects identified in the preceding table and the Johns Hopkins project are subject to, among other factors, regulatory approvals, financing availability and suitable market conditions. During the three months ended March 31, 2014, we capitalized approximately \$0.6 million of development-related compensation and overhead.

4525 Main Street is our most recent addition to the Town Center of Virginia Beach and is located across from The Cosmopolitan, One Columbus and Armada Hoffer Tower. This 15-story office tower is the future home of Clark Nexsen, an international architecture and engineering firm, which has agreed to lease approximately 83,000 square feet of office space. Additionally, the City of Virginia Beach Development Authority has agreed to lease approximately 23,000 square feet of office space. 4525 Main Street will also feature approximately 21,000 square feet of ground floor retail space that will be anchored by Anthropologie, which is expected to open in the fourth quarter of 2014.

[Table of Contents](#)

Sandbridge Commons continues our long-standing relationship with Harris Teeter, which has agreed to anchor the shopping center. In addition to a 53,000 square foot Harris Teeter grocery store, Sandbridge Commons will include approximately 22,000 square feet of small shop retail space. The site includes two outparcels that we plan to either lease or sell.

Brooks Crossing is a new multi-phased commercial center designed to revitalize the east end of Newport News, Virginia. We are currently negotiating a lease with Huntington Ingalls Industries to be the principal tenant in the first phase of this project.

Greentree Shopping Center is a retail power center that will feature a Wawa convenience store and gas station adjacent to a new Walmart Neighborhood Market. We have a long-term ground lease with Wawa and have delivered to Walmart their pad-ready site.

Encore Apartments are also located in the Town Center of Virginia Beach and sit adjacent to 4525 Main Street. Encore Apartments will feature free covered parking, a private pool, concierge service, a business center and meeting space.

Whetstone Apartments are conveniently located near Duke University and are scheduled to open in time for the fall 2014 semester.

Liberty Apartments in Newport News, Virginia feature 197 apartment units and approximately 28,000 square feet of retail space. Liberty Apartments are located next to the Newport News Apprentice School of Shipbuilding, another one of our public/private partnership projects. As contemplated in our Formation Transactions, we completed our acquisition of Liberty Apartments on January 17, 2014.

Next Generation Pipeline

The *Oceaneering International* facility will be a 155,000 square foot office and manufacturing building located in Chesapeake, Virginia. We were selected as the developer of this new build-to-suit facility that will serve as Oceaneering International's operational base in Virginia. Oceaneering International has agreed to a 15-year lease with us. We facilitated this public/private transaction among the City of Chesapeake, the Commonwealth of Virginia and Oceaneering International.

Commonwealth of Virginia Projects: In May 2014, we announced that we will develop two new administrative buildings for the Commonwealth of Virginia – one in Chesapeake and one in Virginia Beach – for a total of 47,000 square feet. The properties are 100% pre-leased to the Commonwealth of Virginia, which signed 12-year leases for both locations. We expect both projects to be completed by early 2015.

Lightfoot Marketplace will be a grocery-anchored shopping center in Williamsburg, Virginia. This multi-phased project is a redevelopment of the Williamsburg Outlet Mall. We expect to complete phase one of the project, consisting of approximately 88,000 square feet, in early 2016. Harris Teeter has signed a 20-year lease for approximately 53,000 square feet. Phase one of Lightfoot Marketplace will include an additional 35,000 square feet of shops and restaurants. We expect to begin construction of phase one in the third quarter of 2014. Phase two represents an opportunity for us to develop another 42,000 square feet in the future. As the majority partner in this joint venture, we are entitled to a preferred return on our equity prior to any potential distributions to minority partners.

Segment Results of Operations

As of March 31, 2014, 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 ("TRSs"). 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. See Note 3 to Armada Hoffer Properties, Inc. and Predecessor's condensed consolidated and combined financial statements for additional discussion of our segments.

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,	
	2014	2013
	(\$ in thousands)	
Rental revenues	\$ 6,549	\$ 6,486
NOI	\$ 4,418	\$ 4,540
Properties (1)	7	7
Square feet (1)	950,370	953,075
Occupancy (1)	95.4%	93.9%

(1) As of the end of the periods presented.

Rental revenues for the three months ended March 31, 2014 increased \$0.1 million while NOI for the three months ended March 31, 2014 decreased \$0.1 million compared to the corresponding period in 2013. Increased utility costs due to the harsher winter more than offset increased occupancy and rental revenues at Two Columbus.

Office Same Store Results

Office same store rental revenues, property expenses and NOI for the three months ended March 31, 2014 and 2013 were as follows:

	Three months ended March 31,		Change
	2014	2013	
	(\$ in thousands)		
Rental revenues	\$ 6,549	\$ 6,486	\$ 63
Property expenses	2,131	1,946	185
Same Store NOI	\$ 4,418	\$ 4,540	\$ (122)
Non-Same Store NOI	—	—	—
Segment NOI	\$ 4,418	\$ 4,540	\$ (122)

Same store rental revenues for the three months ended March 31, 2014 increased \$0.1 million while same store NOI for the three months ended March 31, 2014 decreased \$0.1 million compared to the corresponding period in 2013. Increased utility costs due to the harsher winter more than offset increased occupancy and rental revenues at Two Columbus.

Retail Segment Data

	Three Months Ended March 31,	
	2014	2013
	(\$ in thousands)	
Rental revenues	\$ 5,770	\$ 5,005
NOI	\$ 3,945	\$ 3,325
Properties (1)	15	14
Square feet (1)	1,092,311	983,097
Occupancy (1)	93.4%	94.2%

(1) As of the end of the periods presented.

Rental revenues for the three months ended March 31, 2014 increased \$0.8 million compared to the corresponding period in 2013. NOI for the three months ended March 31, 2014 increased \$0.6 million compared to the corresponding period in 2013. The increases in rental revenues and NOI resulted primarily from our consolidation of Bermuda Crossroads upon completion of our IPO and the Formation Transactions on May 13, 2013.

Retail Same Store Results

Retail same store rental revenues, property expenses and NOI for the three months ended March 31, 2014 and 2013 were as follows:

	Three months ended March 31,		Change
	2014	2013	
	(\$ in thousands)		
Rental revenues (1)	\$ 5,228	\$ 5,005	\$ 223
Property expenses (1)	1,687	1,680	7
Same Store NOI (1)	\$ 3,541	\$ 3,325	\$ 216
Non-Same Store NOI	404	—	404
Segment NOI	\$ 3,945	\$ 3,325	\$ 620

(1) Excludes Bermuda Crossroads, which was an unconsolidated property prior to May 13, 2013.

Same store rental revenues for the three months ended March 31, 2014 increased \$0.2 million compared to the corresponding period in 2013. Same store NOI for the three months ended March 31, 2014 increased \$0.2 million compared to the corresponding period in 2013. The increases in same store rental revenues and NOI for the comparison periods resulted primarily from increased percentage rent at 249 Central Park Retail and increased occupancy at North Point Center.

[Table of Contents](#)**Multifamily Segment Data**

	Three Months Ended March 31,	
	2014	2013
	(\$ in thousands)	
Rental revenues	\$ 2,874	\$ 1,907
NOI	\$ 1,511	\$ 1,092
Properties (1)	3	1
Apartment units (1)(2)	626	342
Occupancy (1)(2)	94.2%	87.7%

(1) As of the end of the periods presented.

(2) Excludes the 197 units of Liberty Apartments, which was not stabilized as of March 31, 2014.

Rental revenues for the three months ended March 31, 2014 increased \$1.0 million compared to the corresponding period in 2013. NOI for the three months ended March 31, 2014 increased \$0.4 million compared to the corresponding period in 2013. The increases in rental revenues resulted from our consolidation of Smith's Landing upon completion of our IPO and the Formation Transactions on May 13, 2013 and our acquisition of Liberty Apartments on January 17, 2014. Positive NOI from Smith's Landing was partially offset by negative NOI from Liberty Apartments, which had not reached stabilization as of March 31, 2014.

Multifamily Same Store Results

Multifamily same store rental revenues, property expenses and NOI for the three months ended March 31, 2014 and 2013 were as follows:

	Three months ended March 31,		Change
	2014	2013	
	(\$ in thousands)		
Rental revenues (1)	\$ 1,816	\$ 1,907	\$ (91)
Property expenses (1)	831	815	16
Same Store NOI (1)	\$ 985	\$ 1,092	\$ (107)
Non-Same Store NOI	526	—	526
Segment NOI	\$ 1,511	\$ 1,092	\$ 419

(1) Excludes Smith's Landing, which was an unconsolidated property prior to May 13, 2013, and Liberty Apartments, which we acquired on January 17, 2014.

Same store rental revenues and NOI for the three months ended March 31, 2014 decreased \$0.1 million compared to the corresponding period in 2013. The decreases in same store rental revenues and NOI for the comparison period resulted from higher multifamily concessions at The Cosmopolitan, which more than offset increased retail occupancy.

General Contracting and Real Estate Services Segment Data

	Three Months Ended	
	March 31,	
	2014	2013
	(\$ in thousands)	
Segment revenues	\$19,234	\$17,956
NOI	1,249	498
Operating margin	6.5%	2.8%

Segment revenues for the three months ended March 31, 2014 increased \$1.3 million compared to the corresponding period in 2013. The increase in segment revenues resulted from higher volume and better operating margins on our construction contracts. NOI increased as we experienced better operating margins during 2014.

Backlog as of March 31, 2014 was \$193.3 million compared to \$65.8 million as of March 31, 2013. During the three months ended March 31, 2014, we executed \$165.9 million of new contract or change order work. The changes in backlog for the three months ended March 31, 2014 were as follows:

	Three months ended	
	March 31, 2014	
	(\$ in thousands)	
Beginning backlog	\$	46,385
New contracts/change orders		165,947
Work performed		(19,014)
Ending backlog	\$	193,318

During the three months ended March 31, 2014, we executed a \$164.7 million contract for the construction of Harbor Point, a 900,000 square foot mixed-use tower in Baltimore, Maryland. The building will become headquarters to Exelon's Constellation business unit. Exelon is the nation's leading competitive energy provider. Construction is expected to start in the spring of 2014 with completion expected in the spring of 2016.

As of March 31, 2014, we had \$18.5 million of backlog on the Hyatt Place Baltimore/Inner Harbor Hotel. We expect to complete construction in the fall of 2014.

[Table of Contents](#)

Consolidated and Combined Results of Operations

Because of the timing of our IPO, the results of operations for the three months ended March 31, 2014 reflect those of the Company and the results of operations for the three months ended March 31, 2013 reflect those of our Predecessor.

The following table summarizes the results of operations for the three months ended March 31, 2014 and 2013:

	Three months ended March 31,		Change
	2014	2013	
	(\$ in thousands)		
Revenues			
Rental revenues	\$15,193	\$13,398	\$1,795
General contracting and real estate services revenues	19,234	17,956	1,278
Total revenues	34,427	31,354	3,073
Expenses			
Rental expenses	3,976	3,229	747
Real estate taxes	1,343	1,212	131
General contracting and real estate services expenses	17,985	17,458	527
Depreciation and amortization	3,969	3,159	810
General and administrative expenses	2,046	717	1,329
Total expenses	29,319	25,775	3,544
Operating income	5,108	5,579	(471)
Interest expense	(2,565)	(3,915)	1,350
Other income	112	267	(155)
Income before taxes	2,655	1,931	724
Income tax provision	(149)	—	(149)
Net income	\$ 2,506	\$ 1,931	\$ 575

Rental Revenues. Rental revenues for the three months ended March 31, 2014 increased \$1.8 million compared to the corresponding period in 2013, as follows:

	Three months ended March 31,		Change
	2014	2013	
	(\$ in thousands)		
Office	\$ 6,549	\$ 6,486	\$ 63
Retail	5,770	5,005	765
Multifamily	2,874	1,907	967
	\$15,193	\$13,398	\$1,795

Office rental revenues increased due to higher occupancy at Two Columbus. Retail rental revenues increased because of our consolidation of Bermuda Crossroads upon completion of our IPO and the Formation Transactions on May 13, 2013. Multifamily rental revenues increased because of our consolidation of Smith's Landing upon completion of our IPO and the Formation Transactions on May 13, 2013 and our acquisition of Liberty Apartments on January 17, 2014.

General Contracting and Real Estate Services Revenues. General contracting and real estate services revenues for the three months ended March 31, 2014 increased \$1.3 million compared to the corresponding period in 2013 because of higher construction volume and better operating margins on our construction contracts.

Table of Contents

Rental Expenses. Rental expenses for the three months ended March 31, 2014 increased \$0.7 million compared to the corresponding period in 2013, as follows:

	Three months ended March 31,		Change
	2014	2013	
	(\$ in thousands)		
Office	\$ 1,587	\$ 1,405	\$ 182
Retail	1,322	1,220	102
Multifamily	1,067	604	463
	<u>\$ 3,976</u>	<u>\$ 3,229</u>	<u>\$ 747</u>

Office rental expenses increased because of higher utility costs due to the harsher winter. Retail rental expenses increased because of our consolidation of Bermuda Crossroads upon completion of our IPO and the Formation Transactions on May 13, 2013. Multifamily rental expenses increased because of our consolidation of Smith's Landing upon completion of our IPO and the Formation Transactions on May 13, 2013 and our acquisition of Liberty Apartments on January 17, 2014.

Real Estate Taxes. Real estate taxes for the three months ended March 31, 2014 increased \$0.1 million compared to the corresponding period in 2013, as follows:

	Three months ended March 31,		Change
	2014	2013	
	(\$ in thousands)		
Office	\$ 544	\$ 541	\$ 3
Retail	503	460	43
Multifamily	296	211	85
	<u>\$ 1,343</u>	<u>\$ 1,212</u>	<u>\$ 131</u>

Office real estate taxes were relatively unchanged during the comparison period. Retail real estate taxes increased because of our consolidation of Bermuda Crossroads upon completion of our IPO and the Formation Transactions on May 13, 2013. Multifamily real estate taxes increased because of our consolidation of Smith's Landing upon completion of our IPO and the Formation Transactions on May 13, 2013 and our acquisition of Liberty Apartments on January 17, 2014.

General Contracting and Real Estate Services Expenses. General contracting and real estate services expenses for the three months ended March 31, 2014 increased \$0.5 million compared to the corresponding period in 2013 because of higher volume on our construction contracts.

Depreciation and Amortization. Depreciation and amortization for the three months ended March 31, 2014 increased \$0.8 million compared to the corresponding period in 2013. The increase was primarily attributable to depreciation and amortization associated with Bermuda Crossroads, Smith's Landing and Liberty Apartments.

General and Administrative Expenses. General and administrative expenses for the three months ended March 31, 2014 increased \$1.3 million compared to the corresponding period in 2013. The increase resulted from regulatory and compliance costs incurred to operate as a public company.

Interest Expense. Interest expense for the three months ended March 31, 2014 decreased \$1.4 million compared to the corresponding period in 2013 because we decreased the overall leverage on our stabilized portfolio. Total indebtedness on our stabilized portfolio as of March 31, 2014 and December 31, 2013 was \$188.7 million and \$189.4 million, respectively, compared to \$331.4 million and \$332.9 million as of March 31, 2013 and December 31, 2012, respectively.

Other Income. Other income for the three months ended March 31, 2014 decreased \$0.2 million compared to the corresponding period in 2013. The decrease in other income for the comparison period resulted from our consolidation of Bermuda Crossroads and Smith's Landing beginning on May 13, 2013. We previously accounted for our noncontrolling interests in both Bermuda Crossroads and Smith's Landing under the equity method and presented our earnings from each within other income.

Income Taxes. Prior to the completion of our IPO on May 13, 2013, we made no provision for U.S. federal, state or local income taxes because the profits and losses of our Predecessor flowed through to its respective partners, members and shareholders who were individually responsible for reporting such amounts. Subsequent to the completion of our IPO, our TRSs through which we conduct our development and construction business are subject to federal, state and local corporate income taxes. The income tax provision recognized during the three months ended March 31, 2014 is attributable to the profits of our TRSs.

Liquidity and Capital Resources

Overview

We believe our primary short-term liquidity requirements consist of general contracting 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 may also fund property development, acquisitions and capital improvements using our credit facility pending long-term financing.

As of March 31, 2014, we had unrestricted cash and cash equivalents of \$13.4 million and restricted cash in escrow of \$2.8 million available for both current liquidity needs as well as development activities. As of March 31, 2014, we had \$65.1 million available under our credit facility to meet our short-term liquidity requirements.

Credit Facility

On May 13, 2013, we closed on a \$100.0 million senior secured credit facility that includes an accordion feature that allows us to increase the borrowing capacity under the facility up to \$250.0 million, subject to certain conditions. On October 10, 2013, we increased the borrowing capacity under the credit facility to \$155.0 million pursuant to the accordion feature by adding six properties to the borrowing base collateral. As of March 31, 2014, the following ten properties collectively served as the borrowing base collateral for the credit facility: (i) Armada Hoffer Tower, (ii) Richmond Tower, (iii) One Columbus, (iv) Two Columbus, (v) Virginia Natural Gas, (vi) Sentara Williamsburg, (vii) a portion of North Point Center, (viii) Gainsborough Square, (ix) Parkway Marketplace and (x) Courthouse 7-Eleven.

The credit facility matures on May 13, 2016 and includes an optional one-year extension (assuming our compliance with applicable covenants and conditions) for a fee equal to 0.25% of the then applicable maximum amount of the credit facility.

The credit facility bears interest at LIBOR plus 1.60% to 2.20%, depending on our total leverage ratio. As of March 31, 2014, the interest rate on the credit facility was LIBOR plus 1.75%. In addition to interest owed under the credit facility, we are obligated to pay an annual fee based on the average unused portion of the credit facility. This fee is payable quarterly in arrears and is 0.25% of the amount of the unused portion of the credit facility if amounts borrowed are greater than 50% of the credit facility and 0.30% of the unused portion of the credit facility if amounts borrowed are less than 50% of the credit facility.

As of March 31, 2014, we had \$80.0 million borrowed under the credit facility and had standby letters of credit issued under the credit facility totaling \$9.9 million. As of March 31, 2014, we had \$65.1 million of aggregate capacity available under the credit facility.

The credit facility requires us to comply with various financial covenants, including:

- Maximum leverage ratio (as amended on April 22, 2014) of 65% as of the last day of each fiscal quarter through maturity;
- Minimum fixed charge coverage ratio of 1.75x;
- Minimum tangible net worth equal to at least the sum of 80% of tangible net worth on the closing date of the credit facility plus 75% of the net proceeds of any additional equity issuances;
- Maximum amount of variable rate indebtedness not exceeding 30% of our total asset value; and
- Maximum amount of secured recourse indebtedness of 35% of our total asset value.

The credit facility permits investments in the following types of assets: (i) unimproved land holdings in an aggregate amount not exceeding 5% of our total asset value, (ii) construction in progress in an aggregate amount not exceeding 25% of our total asset value

[Table of Contents](#)

and (iii) unconsolidated affiliates in aggregate amount not exceeding 5% of our total asset value. Investments in these types of assets cannot exceed 30% of our total asset value. In addition to these financial covenants, the credit facility requires us to comply with various customary affirmative and negative covenants that restrict our ability to, among other things, incur debt and liens, make investments, dispose of properties and make distributions.

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

Consolidated Indebtedness

During the three months ended March 31, 2014, we:

- Assumed \$17.0 million of debt at fair value in connection with the acquisition of Liberty Apartments. The fair value adjustment to the assumed debt of Liberty Apartments was a \$1.5 million discount. The outstanding principal balance of the assumed debt of Liberty Apartments at the acquisition date was \$18.5 million. However, an additional \$2.4 million is available and is expected to be used to fund current and future obligations. The loan amortizes over 30 years, bears interest at 5.66% and matures on November 1, 2043.
- Closed on a \$19.5 million loan to fund the development and construction of the Oceaneering International facility. The construction loan bears interest at LIBOR plus 1.75% and matures on February 28, 2018. As of March 31, 2014, we did not have any amounts outstanding on the construction loan.
- Borrowed \$10.0 million under our credit facility.
- Borrowed \$13.3 million under our construction loans to fund our construction of 4525 Main Street, Encore Apartments, Whetstone Apartments and Sandbridge Commons.

On April 14, 2014, we borrowed an additional \$8.0 million under our credit facility.

Table of Contents

The following table sets forth our consolidated indebtedness as of March 31, 2014 (\$ in thousands):

	Amount Outstanding	Interest Rate (1)	Effective Rate for Variable-Rate Debt as of March 31, 2014	Maturity Date	Balance at Maturity
Oyster Point	\$ 6,418	5.41%		December 1, 2015	\$ 6,089
Broad Creek Shopping Center					
Note 1	4,490	LIBOR+2.25	2.41%	October 31, 2018	4,223
Note 2	8,244	LIBOR+2.25	2.41%	October 31, 2018	7,752
Note 3	3,451	LIBOR+2.25	2.41%	October 31, 2018	3,246
Hanbury Village					
Note 1	21,388	6.67		October 11, 2017	20,499
Note 2	4,142	LIBOR+2.25	2.41%	October 31, 2018	3,777
Harrisonburg Regal	3,797	6.06		June 8, 2017	3,165
North Point Center					
Note 1	10,277	6.45		February 5, 2019	9,333
Note 2	2,817	7.25		September 15, 2025	1,344
Note 4	1,024	5.59		December 1, 2014	1,007
Note 5	700	LIBOR+2.00	3.57% (2)	February 1, 2017	641
Tyre Neck Harris Teeter	2,471	LIBOR+2.25	2.41%	October 31, 2018	2,235
249 Central Park Retail	15,765	5.99		September 8, 2016	15,084
South Retail	6,955	5.99		September 8, 2016	6,655
Studio 56 Retail	2,672	3.75		May 7, 2015	2,592
Commerce Street Retail	5,597	LIBOR+2.25	2.41%	October 31, 2018	5,264
Fountain Plaza Retail	7,883	5.99		September 8, 2016	7,542
Dick's at Town Center	8,292	LIBOR+2.75	2.91%	October 31, 2017	7,889
The Cosmopolitan	47,577	3.75		July 1, 2051	—
Smith's Landing	24,714	LIBOR+2.15	2.31%	January 31, 2017	23,793
Stabilized Portfolio	\$ 188,674				\$ 132,130
Credit Facility	80,000	LIBOR+1.60-2.20	1.90%	May 13, 2016	80,000
4525 Main Street	17,483	LIBOR+1.95	2.11%	January 30, 2017	17,483
Encore Apartments	9,279	LIBOR+1.95	2.11%	January 30, 2017	9,279
Whetstone Apartments	1,425	LIBOR+1.90	2.06%	October 8, 2016	1,425
Sandbridge Commons	3,437	LIBOR+1.85	2.01%	January 17, 2018	3,437
Oceaneering	—	LIBOR+1.75	1.91%	February 28, 2018	—
Liberty Apartments	18,456 (3)	5.66		November 1, 2043	—
Total	\$ 318,754				\$ 243,754
Unamortized fair value adjustments	(1,483)				
Indebtedness	\$ 317,271				

- (1) LIBOR rate is determined by individual lenders.
- (2) Subject to an interest rate swap lock.
- (3) Principal balance excluding fair value adjustments.

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

[Table of Contents](#)

As of March 31, 2014, our outstanding indebtedness matures during the following years:

<u>Year</u>	<u>Amount Due</u> (\$ in thousands)	<u>Percentage of Total</u>
2014	\$ 1,007	<1%
2015	8,681	4
2016	110,706	45
2017	82,749	34
2018 and thereafter	40,611	17
	<u>\$ 243,754</u>	<u>100%</u>

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 lock, we fixed our interest payments under North Point Center Note 5 at 3.57% through maturity on February 1, 2017.

As of March 31, 2014, we were party to the following LIBOR interest rate cap agreements (\$ in thousands):

<u>Effective Date</u>	<u>Maturity Date</u>	<u>Strike Rate</u>	<u>Notional Amount</u>
May 31, 2012	May 29, 2015	1.09%	\$ 9,068
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			\$ 180,614

As of March 31, 2014, the notional amounts of our LIBOR interest rate cap agreements with strike rates below and above 1.50% were as follows (\$ in thousands):

<u>Strike Rate</u>	<u>Notional Amount</u>
£1.50%	\$ 117,568
>1.50%	63,046
Total	\$ 180,614

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, 2014, we had aggregate outstanding letters of credit totaling \$9.9 million all of which expire during 2014. However, all of our standby letters of credit are expected to renew for additional periods until completion of the underlying contractual obligation.

Cash Flows

	Three Months Ended March 31,		Change
	2014	2013	
	(\$ in thousands)		
Operating activities	\$ 3,213	\$ 4,287	\$ (1,074)
Investing activities	(25,898)	(3,182)	(22,716)
Financing activities	17,247	(6,404)	23,651
Net increase (decrease)	\$ (5,438)	\$ (5,299)	\$ (139)
Cash and cash equivalents, beginning of period	\$ 18,882	\$ 9,400	
Cash and cash equivalents, end of period	\$ 13,444	\$ 4,101	

Net cash from operating activities decreased \$1.1 million during the three months ended March 31, 2014 compared to the three months ended March 31, 2013. The decrease resulted primarily from cash outflows for property and construction liabilities. These decreases were partially offset by net income adjusted for noncash items, which increased \$1.5 million during the three months ended March 31, 2014.

Net cash used in investing activities increased \$22.7 million during the three months ended March 31, 2014 compared to the three months ended March 31, 2013. During the three months ended March 31, 2014, we invested \$20.3 million on new real estate development compared to \$2.2 million during the three months ended March 31, 2013. During the three months ended March 31, 2014, we invested \$2.5 million in tenant and building improvements compared to \$0.7 million during the three months ended March 31, 2013. On January 17, 2014, we paid \$2.9 million of net cash in connection with the acquisition of Liberty Apartments.

Net cash from financing activities increased \$23.7 million during the three months ended March 31, 2014 compared to the three months ended March 31, 2013. The increase resulted primarily from \$23.3 million of borrowings under our credit facility and construction loans to fund our new real estate development.

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 it believes 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 year over year, 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 FFO may not be comparable to such other REITs' 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.

[Table of Contents](#)

The following table sets forth a reconciliation of FFO for the three months ended March 31, 2014 and 2013 to net income, the most directly comparable GAAP equivalent:

	Three Months Ended	
	March 31,	
	2014	2013
	(\$ in thousands)	
Net income	\$ 2,506	\$ 1,931
Depreciation and amortization	3,969	3,159
Real estate joint ventures, net	—	(7)
Funds from operations	\$ 6,475	\$ 5,083

Net income for the three months ended March 31, 2014 includes noncash stock compensation of \$0.3 million. FFO for the three months ended March 31, 2014 includes \$(0.3) million of FFO from non-stabilized development projects.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated and combined 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, 2013.

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 daily 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. We have not designated any of our derivatives as hedges for accounting purposes.

At March 31, 2014, approximately \$143.5 million, or 45%, of our debt had fixed interest rates and approximately \$173.7 million, or 55%, 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 \$1.7 million per year. At March 31, 2014, LIBOR was approximately 16 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 \$0.3 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, 2014, 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, 2014, 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.

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, 2013.

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

Unregistered Sales of Equity Securities

On January 17, 2014, we issued 695,652 common units of limited partnership interest in our Operating Partnership in connection with our acquisition of Liberty Apartments. On March 31, 2014, we issued 30,000 common units of limited partnership interest in our Operating Partnership in exchange for all noncontrolling interests in Sandbridge Commons. The issuance of common units in connection with our acquisition of Liberty Apartments and Sandbridge Commons was effected in reliance upon exemptions from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended, and Regulation D thereunder.

Issuer Purchases of Equity Securities

During the three months ended March 31, 2014, 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, 2014.

<u>Period</u>	<u>Total Number of Shares Purchased (1)</u>	<u>Average Price Paid for Shares</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs</u>
January 1, 2014 through January 31, 2014	—	—	N/A	N/A
February 1, 2014 through February 28, 2014	—	—	N/A	N/A
March 1, 2014 through March 31, 2014	8,337	\$ 9.94	N/A	N/A
Total	<u>8,337</u>			

(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 grant date fair value of the restricted stock awards.

[Table of Contents](#)

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.

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 15, 2014

/s/ LOUIS S. HADDAD

Louis S. Haddad
President and Chief Executive Officer
(Principal Executive Officer)

Date: May 15, 2014

/s/ MICHAEL P. O'HARA

Michael P. O'Hara
Chief Financial Officer and Treasurer
(Principal Accounting and Financial Officer)

Exhibit Index

<u>Exhibit No.</u>	<u>Description</u>
10.1 *	Amendment No. 1, dated as of March 19, 2014, to the First Amended and Restated Agreement of Limited Partnership of Armada Hoffler, L.P., dated as of May 13, 2013
10.2 *	First Amendment, dated as of April 22, 2014, to the Credit Agreement, dated as of May 13, 2013, among Armada Hoffler, L.P., as Borrower, Armada Hoffler Properties, Inc., as Parent, Bank of America, N.A., as Administrative Agent, Regions Bank, as Syndicate Agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Sole Lead Arranger and Sole Bookrunner, and various other lenders
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

* Filed herewith

** Furnished herewith

*** Furnished herewith. Pursuant to Rule 406T of Regulation S-T, the interactive data files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

**AMENDMENT NO. 1 TO
FIRST AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP OF
ARMADA HOFFLER, L.P.**

This Amendment No. 1 (this "**Amendment**") to the First Amended and Restated Agreement of Limited Partnership of Armada Hoffler, L.P. is made as of March 19, 2014 by Armada Hoffler Properties, Inc., a Maryland corporation, as the sole general partner (the "**General Partner**") of Armada Hoffler, L.P., a Virginia limited partnership (the "**Partnership**"), pursuant to the authority granted to the General Partner in the First Amended and Restated Agreement of Limited Partnership of the Partnership, dated as of May 13, 2013 (the "**Partnership Agreement**"). Capitalized terms used and not defined herein shall have the meanings set forth in the Partnership Agreement.

WHEREAS, the General Partner has determined in good faith that it is in the best interests of the Partnership to amend the Partnership Agreement to, among other things, (i) clarify the requirements to admit additional Limited Partners to the Partnership and (ii) clarify that the General Partner is permitted to include on the books and records of the Partnership any information otherwise required to be set forth on Exhibit A to the Partnership Agreement.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which hereby are acknowledged, the Partnership Agreement hereby is amended as follows:

1. Article I of the Partnership Agreement hereby is amended as follows:

(a) to add the following definition:

"**Additional Limited Partner**" means a Person, other than a Substitute Limited Partner, that is admitted to the Partnership as a Limited Partner pursuant to Section 9.03 hereof.

(b) to replace in its entirety the existing definition of "Limited Partner" with the following:

"**Limited Partner**" means any Person named as a Limited Partner on Exhibit A attached hereto, as it may be amended or restated from time to time, and any Person who becomes an Additional Limited Partner or a Substitute Limited Partner, in such Person's capacity as a Limited Partner in the Partnership.

(c) to replace in its entirety the existing definition of "Substitute Limited Partnership" with the following:

"**Substitute Limited Partner**" means any Person admitted to the Partnership as a Limited Partner pursuant to Section 9.03 hereof as a result of the assignment of the Partnership Units of a Limited Partner (which shall be understood to include any purchase, transfer, gift or other disposition of such Partnership Units).

2. Section 9.03 of the Partnership Agreement hereby is amended and restated as follows:

9.03 Admission of Additional or Substitute Limited Partner.

(a) Subject to the other provisions of this Article IX, no Person shall be admitted as an Additional Limited Partner or a Substitute Limited Partner, as applicable, of the Partnership without the consent of the General Partner, which consent may be given or withheld by the General Partner in its sole and absolute discretion, and upon the completion of the following in a manner and form satisfactory to the General Partner:

(i) The Person shall have executed evidence of the Person's acceptance and agreement to be bound by the terms and provisions of this Agreement, including, without limitation, the power of attorney granted in Section 8.02 hereof, and such other documents or instruments as the General Partner may require in order to effect the admission of such Person as a Limited Partner.

(ii) To the extent required, an amended Certificate evidencing the admission of such Person as a Limited Partner shall have been signed, acknowledged and filed in accordance with the Act.

(iii) The Person shall have delivered a letter containing the representation set forth in Section 9.01(a) hereof and the agreement set forth in Section 9.01(b) hereof.

(iv) If the Person is a corporation, partnership, limited liability company or trust, the Person shall have provided the General Partner with evidence satisfactory to counsel for the Partnership of the Person's authority to become a Limited Partner under the terms and provisions of this Agreement.

(v) Unless waived by the General Partner, the Person shall have paid all legal fees and other expenses of the Partnership and the General Partner and filing and publication costs in connection with its admission as a Limited Partner.

(vi) The Person shall have obtained the prior written consent of the General Partner to its admission as a Limited Partner, which consent may be given or denied in the exercise of the General Partner's sole and absolute discretion.

(b) For the purpose of allocating Profits and Losses and distributing cash received by the Partnership, an Additional Limited Partner or a Substitute Limited Partner, as applicable, shall be treated as having become, and appearing in the records of the Partnership as, a Partner upon the filing of the Certificate described in Section 9.03(a) (ii) hereof or, if no such filing is required, the date upon which the name of such Person is recorded on the books and records of the Partnership, following the consent of the General Partner to such admission.

(c) The General Partner and the Additional Limited Partner or the Substitute Limited Partner, as applicable, shall cooperate with each other by preparing the documentation required by this Section 9.03 and making all required filings and publications. The Partnership shall take all such action as promptly as practicable after the satisfaction of the conditions in this Article IX to the admission of such Person as a Limited Partner of the Partnership.

3. Section 10.01 of the Partnership Agreement hereby is amended to add the following sentence immediately following the last sentence of Section 10.01:

Notwithstanding anything herein to the contrary, the General Partner shall be permitted to include on the books and records of the Partnership any information otherwise required to be set forth on Exhibit A to the Partnership Agreement.

4. Except as modified herein, all terms and conditions of the Partnership Agreement shall remain in full force and effect, which terms and conditions the General Partner hereby ratifies and confirms.

5. This Amendment shall be construed and enforced in accordance with and governed by the laws of the Commonwealth of Virginia.

6. If any provision of this Amendment is or becomes invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not be affected thereby

[Signature Page Follows]

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the date first set forth above.

GENERAL PARTNER:

ARMADA HOFFLER PROPERTIES, INC.

By: /s/ ERIC L. SMITH

Name: Eric L. Smith

Title: Vice President of Operations

[Signature Page to Amendment No. 1 to
the First Amended and Restated Agreement of Limited Partnership of Armada Hoffler, L.P.]

FIRST AMENDMENT TO CREDIT AGREEMENT

THIS FIRST AMENDMENT TO CREDIT AGREEMENT (this "**Amendment**") is entered into as of April 22, 2014 (the "**Effective Date**"), among ARMADA HOFFLER, L.P., a Virginia limited partnership ("**Borrower**"), ARMADA HOFFLER PROPERTIES, INC., a Maryland corporation ("**Parent**"), each Lender that is a party hereto, and BANK OF AMERICA, N.A., as Administrative Agent (in such capacity, "**Administrative Agent**") and L/C Issuer.

RECITALS

A. Reference is hereby made to that certain Credit Agreement dated as of May 13, 2013 (as modified, amended, renewed, extended, or restated from time to time, the "**Credit Agreement**"), executed by Borrower, Parent, the Lenders party thereto, and Bank of America, N.A., as Administrative Agent and L/C Issuer (Administrative Agent, L/C Issuer, and Lenders are individually referred to herein as a "**Credit Party**" and collectively referred to herein as the "**Credit Parties**").

B. Borrower, Parent, Administrative Agent and the Lenders desire to amend the Maximum Leverage Ratio covenant and otherwise modify certain provisions contained in the Credit Agreement, in each case subject to the terms and conditions set forth herein.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Terms and References. Unless otherwise stated in this Amendment (a) terms defined in the Credit Agreement have the same meanings when used in this Amendment, and (b) references to "**Sections**" are to the Credit Agreement's sections.

2. Amendments to the Credit Agreement. *Section 9.15(a)* is hereby deleted in its entirety and replaced with the following:

(a) **Maximum Leverage Ratio.** Permit the Total Leverage Ratio, as of the last day of any fiscal quarter of Parent set forth below to exceed an amount equal to the amount set forth below opposite such period:

<u>Fiscal Quarter Ending</u>	<u>Maximum Leverage Ratio</u>
Closing Date through March 31, 2016	65%
June 30, 2016 and each fiscal quarter thereafter	60%

3. Amendments to other Loan Documents.

(a) All references in the Loan Documents to the Credit Agreement shall henceforth include references to the Credit Agreement, as modified and amended hereby, and as may, from time to time, be further amended, modified, extended, renewed, and/or increased.

Armada Hoffler, L.P.
First Amendment

(b) Any and all of the terms and provisions of the Loan Documents are hereby amended and modified wherever necessary, even though not specifically addressed herein, so as to conform to the amendments and modifications set forth herein.

4. Conditions Precedent. This Amendment shall not be effective unless and until:

(a) Administrative Agent receives fully executed counterparts of this Amendment signed by Borrower, Parent, Guarantors and the Credit Parties;

(b) the representations and warranties in the Credit Agreement, as amended by this Amendment, and each other Loan Document are true and correct on and as of the date of this Amendment as though made as of the date of this Amendment, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct as of such earlier date, and except that the representations and warranties contained in **subsections (a) and (b) of Section 7.05** shall be deemed to refer to the most recent statements furnished pursuant to **clauses (a) and (b)**, respectively, of **Section 8.01**;

(c) after giving effect to this Amendment, no Default exists; and

(d) Borrower pays (i) all applicable fees owed to Arranger or Administrative Agent for the benefit of the Lenders, and (ii) the reasonable fees and expenses of Administrative Agent's counsel.

5. Ratifications. Each of Borrower and Parent (a) ratifies and confirms all provisions of the Loan Documents as amended by this Amendment, (b) ratifies and confirms that all guaranties, assurances, and liens granted, conveyed, or assigned to Administrative Agent and Lenders under the Loan Documents are not released, reduced, or otherwise adversely affected by this Amendment and continue to guarantee, assure, and secure full payment and performance of all present and future Obligations, and (c) agrees to perform such acts and duly authorize, execute, acknowledge, deliver, file, and record such additional documents, and certificates as Administrative Agent may request in order to create, perfect, preserve, and protect those guaranties, assurances, and liens.

6. Representations. Each of Borrower and Parent represents and warrants to Administrative Agent and Lenders that as of the date of this Amendment: (i) this Amendment has been duly authorized, executed, and delivered by each of Borrower, Parent and Guarantors; (ii) no action of, or filing with, any Governmental Authority is required to authorize, or is otherwise required in connection with, the execution, delivery, and performance by Borrower, Parent or Guarantors of this Amendment; (iii) the Loan Documents, as amended by this Amendment, are valid and binding upon Borrower, Parent and Guarantors and are enforceable against each of Borrower, Parent and Guarantors in accordance with their respective terms, except as limited by Debtor Relief Laws; (iv) the execution, delivery, and performance by each of Borrower, Parent and Guarantors of this Amendment do not require the consent of any other Person and do not and will not constitute a violation of any Laws, agreements, or understandings to which Borrower, Parent or any Guarantor is a party or by which Borrower, Parent or any Guarantor is bound; (v) all representations and warranties in the Loan Documents are true and correct, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct as of such earlier date, and except that the representations and warranties contained in **subsections (a) and (b) of Section 7.05** shall be deemed to refer to the most recent statements furnished pursuant to **clauses (a) and (b)**, respectively, of **Section 8.01**; (vi) no Default exists; and (vii) no amendments have been made to the Organization Documents of Borrower, Parent and Guarantors, as applicable, since October 10, 2013.

7. Continued Effect. Except to the extent amended hereby, all terms, provisions and conditions of the Credit Agreement and the other Loan Documents, and all documents executed in connection therewith, shall continue in full force and effect and shall remain enforceable and binding in accordance with their respective terms.

8. Miscellaneous. Unless stated otherwise (a) the singular number includes the plural and *vice versa* and words of any gender include each other gender, in each case, as appropriate, (b) headings and captions may not be construed in interpreting provisions, (c) this Amendment must be construed — and its performance enforced — under New York law, (d) if any part of this Amendment is for any reason found to be unenforceable, all other portions of it nevertheless remain enforceable, (e) this Amendment may be executed in any number of counterparts with the same effect as if all signatories had signed the same document, and all of those counterparts must be construed together to constitute the same document, and (f) delivery of an executed counterpart of a signature page to this Amendment by telecopier, electronic mail or other electronic delivery shall be effective as delivery of a manually executed counterpart of this Amendment.

9. Parties. This Amendment binds and inures to Borrower, Parent and the Credit Parties and their respective successors and permitted assigns.

10. Release. EACH LOAN PARTY HEREBY ACKNOWLEDGES THAT THE OBLIGATIONS HEREUNDER AND UNDER THE OTHER LOAN DOCUMENTS ARE ABSOLUTE AND UNCONDITIONAL WITHOUT ANY RIGHT OF RECISSION, SETOFF, COUNTERCLAIM, DEFENSE, OFFSET, CROSS-COMPLAINT, CLAIM OR DEMAND OF ANY KIND OR NATURE WHATSOEVER THAT CAN BE ASSERTED TO REDUCE OR ELIMINATE ALL OR ANY PART OF ITS LIABILITY TO REPAY SUCH OBLIGATIONS OR TO SEEK AFFIRMATIVE RELIEF OR DAMAGES OF ANY KIND OR NATURE FROM LENDER. EACH LOAN PARTY HEREBY VOLUNTARILY AND KNOWINGLY RELEASES AND FOREVER DISCHARGES EACH CREDIT PARTY, AND EACH CREDIT PARTY'S PREDECESSORS, AGENTS, EMPLOYEES, SUCCESSORS, AND ASSIGNS (COLLECTIVELY, THE "**RELEASED PARTIES**"), FROM ALL POSSIBLE CLAIMS, DEMANDS, ACTIONS, CAUSES OF ACTION, DAMAGES, COSTS, EXPENSES, AND LIABILITIES WHATSOEVER ARISING FROM OR UNDER THE LOAN DOCUMENTS, AND THE TRANSACTION EVIDENCED THEREBY, WHETHER KNOWN OR UNKNOWN, ANTICIPATED OR UNANTICIPATED, SUSPECTED OR UNSUSPECTED, FIXED, CONTINGENT, OR CONDITIONAL, AT LAW OR IN EQUITY, ORIGINATING IN WHOLE OR IN PART ON OR BEFORE THE DATE HEREOF WHICH ANY LOAN PARTY MAY NOW OR HEREAFTER HAVE AGAINST THE RELEASED PARTIES, IF ANY, AND IRRESPECTIVE OF WHETHER ANY SUCH CLAIMS ARISE OUT OF CONTRACT, TORT, VIOLATION OF LAW OR REGULATIONS, OR OTHERWISE, INCLUDING, WITHOUT LIMITATION, ANY CONTRACTING FOR, CHARGING, TAKING, RESERVING, COLLECTING, OR RECEIVING INTEREST IN EXCESS OF THE HIGHEST LAWFUL RATE APPLICABLE.

11. ENTIRETIES. THE CREDIT AGREEMENT AS AMENDED BY THIS AMENDMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES ABOUT THE SUBJECT MATTER OF THE CREDIT AGREEMENT AS AMENDED BY THIS AMENDMENT AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

[Remainder of Page Intentionally Left Blank; Signature Pages Follow]

Armada Hoffler, L.P.
First Amendment
Page 4

EXECUTED as of the date first stated above.

BORROWER:

ARMADA HOFFLER, L.P., a Virginia limited partnership

By: **ARMADA HOFFLER PROPERTIES, INC.**, a Maryland corporation, its general partner

By: /s/ Louis S. Haddad

Name: Louis S. Haddad

Title: President & CEO

PARENT:

ARMADA HOFFLER PROPERTIES, INC.,
a Maryland corporation

By: /s/ Louis S. Haddad

Name: Louis S. Haddad

Title: President & CEO

*Signature Page to Armada Hoffer, L.P.
First Amendment to Credit Agreement*

ADMINISTRATIVE AGENT:

BANK OF AMERICA, N.A., as Administrative Agent and L/C
Issuer

By: /s/ Patricia H. Gardenhire

Name: Patricia H. Gardenhire

Title: Vice President

*Signature Page to Armada Hoffer, L.P.
First Amendment to Credit Agreement*

LENDERS:

BANK OF AMERICA, N.A., as a Lender

By: /s/ Patricia H. Gardenhire

Name: Patricia H. Gardenhire

Title: Vice President

*Signature Page to Armada Hoffler, L.P.
First Amendment to Credit Agreement*

REGIONS BANK, as a Lender

By: /s/ Ghi S. Gavin

Name: Ghi S. Gavin

Title: Senior Vice President

*Signature Page to Armada Hoffer, L.P.
First Amendment to Credit Agreement*

PNC BANK, NATIONAL ASSOCIATION,
as a Lender

By: /s/ Kinnery Clinebell

Name: Kinnery Clinebell

Title: Assistant Vice President

*Signature Page to Armada Hoffer, L.P.
First Amendment to Credit Agreement*

To induce the Credit Parties to enter into this Amendment, the undersigned hereby (a) consent and agree to its execution and delivery and the terms and conditions thereof, (b) agree that this document in no way releases, diminishes, impairs, reduces, or otherwise adversely affects any guaranties, assurances, or other obligations or undertakings of any of the undersigned under any Loan Documents, (c) waive notice of acceptance of this Amendment, which Amendment binds each of the undersigned and their respective successors and permitted assigns and inures to the benefit of Administrative Agent and Lenders and their respective successors and permitted assigns, and (d) expressly acknowledge and agree to the terms and conditions of **Section 10** of this Amendment.

ARMADA HOFFLER MANAGER, LLC,
a Virginia limited liability company

By: /s/ Louis S. Haddad
Louis S. Haddad
Manager

NEW ARMADA HOFFLER PROPERTIES I, LLC,
a Virginia limited liability company

By: ARMADA HOFFLER, L.P.,
a Virginia limited partnership,
its sole member

By: ARMADA HOFFLER PROPERTIES, INC.,
a Maryland corporation, its general partner

By: /s/ Louis S. Haddad
Louis S. Haddad
President and CEO

NEW ARMADA HOFFLER PROPERTIES II, LLC,
a Virginia limited liability company

By: ARMADA HOFFLER, L.P.,
a Virginia limited partnership,
its sole member

By: ARMADA HOFFLER PROPERTIES, INC.,
a Maryland corporation, its general partner

By: /s/ Louis S. Haddad
Louis S. Haddad
President and CEO

*Signature Page to Armada Hoffer, L.P.
First Amendment to Credit Agreement*

TOWER MANAGER, LLC,
a Virginia limited liability company

By: /s/ Louis S. Haddad
Louis S. Haddad
Manager

AHP HOLDING, INC.,
a Virginia corporation

By: /s/ Louis S. Haddad
Louis S. Haddad
President and CEO

LAKE VIEW AH-VNG, LLC,
a Virginia limited liability company

By: ARMADA HOFFLER MANAGER, LLC,
a Virginia limited liability company,
its manager

By: /s/ Louis S. Haddad
Louis S. Haddad
Manager

WILLIAMSBURG MEDICAL BUILDING, LLC, a Virginia
limited liability company

By: ARMADA HOFFLER MANAGER, LLC,
a Virginia limited liability company,
its manager

By: /s/ Louis S. Haddad
Louis S. Haddad
Manager

*Signature Page to Armada Hoffer, L.P.
First Amendment to Credit Agreement*

ARMADA HOFFLER TOWER 4, L.L.C.,
a Virginia limited liability company

By: TOWER MANAGER, LLC,
a Virginia limited liability company,
its manager

By: /s/ Louis S. Haddad

Louis S. Haddad
Manager

AH RICHMOND TOWER I, LLC,
a Virginia limited liability company

By: ARMADA HOFFLER MANAGER, LLC,
a Virginia limited liability company,
its manager

By: /s/ Louis S. Haddad

Louis S. Haddad
Manager

AH COLUMBUS II, L.L.C.,
a Virginia limited liability company

By: ARMADA HOFFLER MANAGER, LLC,
a Virginia limited liability company,
its manager

By: /s/ Louis S. Haddad

Louis S. Haddad
Manager

COLUMBUS TOWER, L.L.C.,
a Virginia limited liability company

By: ARMADA HOFFLER MANAGER, LLC,
a Virginia limited liability company,
its manager

By: /s/ Louis S. Haddad

Louis S. Haddad
Manager

*Signature Page to Armada Hoffler, L.P.
First Amendment to Credit Agreement*

FERRELL PARKWAY ASSOCIATES, L.L.C.,
a Virginia limited liability company

By: ARMADA HOFFLER MANAGER, LLC,
a Virginia limited liability company,
its manager

By: /s/ Louis S. Haddad

Louis S. Haddad
Manager

COURTHOUSE MARKETPLACE OUTPARCELS, L.L.C.,
a Virginia limited liability company

By: ARMADA HOFFLER MANAGER, LLC,
a Virginia limited liability company,
its manager

By: /s/ Louis S. Haddad

Louis S. Haddad
Manager

ARMADA/HOFFLER CHARLESTON ASSOCIATES, L.P.,
a Virginia limited partnership

By: GATEWAY CENTRE, L.L.C.,
a Virginia limited liability company,
its general partner

By: ARMADA HOFFLER MANAGER, LLC,
a Virginia limited liability company,
its manager

By: /s/ Louis S. Haddad

Louis S. Haddad
Manager

*Signature Page to Armada Hoffler, L.P.
First Amendment to Credit Agreement*

GATEWAY CENTRE, L.L.C.,
a Virginia limited liability company

By: ARMADA HOFFLER MANAGER, LLC,
a Virginia limited liability company,
its manager

By: /s/ Louis S. Haddad
Louis S. Haddad
Manager

NORTH POINTE DEVELOPMENT ASSOCIATES, L.P.,
a Virginia limited partnership

By: NORTH POINTE DEVELOPMENT ASSOCIATES, L.L.C.,
a Virginia limited liability company,
its general partner

By: ARMADA HOFFLER MANAGER, LLC,
a Virginia limited liability company,
its manager

By: /s/ Louis S. Haddad
Louis S. Haddad
Manager

NORTH POINTE DEVELOPMENT ASSOCIATES, L.L.C.
a Virginia limited liability company

By: ARMADA HOFFLER MANAGER, LLC,
a Virginia limited liability company,
its manager

By: /s/ Louis S. Haddad
Louis S. Haddad
Manager

*Signature Page to Armada Hoffer, L.P.
First Amendment to Credit Agreement*

**Acknowledgment of Ernst & Young LLP,
Independent Registered Public Accounting Firm**

Stockholders and Board of Directors of
Armada Hoffler Properties, Inc.

We are aware of the incorporation by reference in the Registration Statement (Form S-8 No. 333-188545) of Armada Hoffler Properties, Inc. for the registration of 700,000 shares of its common stock of our report dated May 15, 2014 relating to the unaudited condensed interim consolidated and combined financial statements of Armada Hoffler Properties, Inc. and Predecessor that are included in its Form 10-Q for the quarter ended March 31, 2014.

/s/ Ernst & Young LLP

Richmond, Virginia
May 15, 2014

**CERTIFICATION PURSUANT
TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Louis S. Haddad, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Armada Hoffler Properties, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) [Language omitted in accordance with SEC Release Nos. 34-47986 and 34-54942] for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. [Language omitted in accordance with SEC Release Nos. 34-47986 and 34-54942];
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2014

/s/ LOUIS S. HADDAD

Louis S. Haddad

President and Chief Executive Officer

**CERTIFICATION PURSUANT
TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael P. O'Hara, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Armada Hoffler Properties, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) [Language omitted in accordance with SEC Release Nos. 34-47986 and 34-54942] for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. [Language omitted in accordance with SEC Release Nos. 34-47986 and 34-54942];
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2014

/s/ MICHAEL P. O'HARA

Michael P. O'Hara

Chief Financial Officer and Treasurer

CERTIFICATION

The undersigned, Louis S. Haddad, the President and Chief Executive Officer of Armada Hoffer Properties, Inc. (the "Company"), pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certifies that, to the best of his knowledge:

1. the Quarterly Report for the period ended March 31, 2014 of the Company (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2014

/s/ LOUIS S. HADDAD

Louis S. Haddad
President and Chief Executive Officer

CERTIFICATION

The undersigned, Michael P. O'Hara, the Chief Financial Officer and Treasurer of Armada Hoffler Properties, Inc. (the "Company"), pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certifies that, to the best of his knowledge:

1. the Quarterly Report for the period ended March 31, 2014 of the Company (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2014

/s/ MICHAEL P. O'HARA

Michael P. O'Hara
Chief Financial Officer and Treasurer