

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 June 30, 2019

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 or other jurisdiction of incorporation or organization)

222 Central Park Avenue , Suite 2100

Virginia Beach , Virginia

(Address of principal executive offices)

46-1214914

(I.R.S. Employer Identification No.)

23462

(Zip Code)

(757) 366-4000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	AHH	New York Stock Exchange
6.75% Series A Cumulative Redeemable Perpetual Preferred Stock, \$0.01 par value per share	AHHPrA	New York Stock Exchange

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (\$232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes No

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

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
		Emerging Growth Company	<input type="checkbox"/>

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

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 July 31, 2019, the registrant had 52,982,147 shares of common stock, \$0.01 par value per share, outstanding and 2,530,000 shares of preferred stock, \$0.01 par value per share, outstanding. In addition, as of July 31, 2019, Armada Hoffler, L.P., the registrant's operating partnership subsidiary, had 21,052,574 units of limited partnership interest ("OP Units") outstanding (other than OP Units held by the registrant).

ARMADA HOFFLER PROPERTIES, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2019

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

	June 30, 2019	December 31, 2018
	(Unaudited)	
<u>ASSETS</u>		
Real estate investments:		
Income producing property	\$ 1,407,224	\$ 1,037,917
Held for development	2,752	2,994
Construction in progress	156,695	135,675
	1,566,671	1,176,586
Accumulated depreciation	(205,650)	(188,775)
Net real estate investments	1,361,021	987,811
Real estate investments held for sale	—	929
Cash and cash equivalents	23,109	21,254
Restricted cash	2,852	2,797
Accounts receivable, net	20,713	19,016
Notes receivable	144,743	138,683
Construction receivables, including retentions	13,696	16,154
Construction contract costs and estimated earnings in excess of billings	461	1,358
Equity method investments	—	22,203
Operating lease right-of-use assets	33,268	—
Finance lease right-of-use assets	24,415	—
Other assets	105,749	55,177
Total Assets	\$ 1,730,027	\$ 1,265,382
<u>LIABILITIES AND EQUITY</u>		
Indebtedness, net	\$ 949,345	\$ 694,239
Accounts payable and accrued liabilities	15,983	15,217
Construction payables, including retentions	37,798	50,796
Billings in excess of construction contract costs and estimated earnings	1,789	3,037
Operating lease liabilities	41,300	—
Finance lease liabilities	17,862	—
Other liabilities	59,508	46,203
Total Liabilities	1,123,585	809,492
Stockholders' equity:		
Preferred stock, \$0.01 par value, 100,000,000 shares authorized; 6.75% Series A Cumulative Redeemable Preferred Stock, 2,530,000 issued and outstanding as of June 30, 2019 and zero shares issued and outstanding as of December 31, 2018	63,250	—
Common stock, \$0.01 par value, 500,000,000 shares authorized; 52,794,357 and 50,013,731 shares issued and outstanding as of June 30, 2019 and December 31, 2018, respectively	528	500
Additional paid-in capital	394,269	357,353
Distributions in excess of earnings	(95,490)	(82,699)
Accumulated other comprehensive loss	(4,502)	(1,283)
Total stockholders' equity	358,055	273,871
Noncontrolling interests in investment entities	4,550	—
Noncontrolling interests in Operating Partnership	243,837	182,019
Total Equity	606,442	455,890
Total Liabilities and Equity	\$ 1,730,027	\$ 1,265,382

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Revenues				
Rental revenues	\$ 36,378	\$ 28,598	\$ 67,287	\$ 57,297
General contracting and real estate services revenues	21,444	20,654	38,480	43,704
Total revenues	57,822	49,252	105,767	101,001
Expenses				
Rental expenses	8,027	6,522	14,752	12,946
Real estate taxes	3,451	2,735	6,579	5,548
General contracting and real estate services expenses	20,123	20,087	36,409	42,501
Depreciation and amortization	13,478	9,179	23,382	18,457
General and administrative expenses	2,951	2,764	6,352	5,725
Acquisition, development and other pursuit costs	57	9	457	93
Impairment charges	—	98	—	98
Total expenses	48,087	41,394	87,931	85,368
Operating income	9,735	7,858	17,836	15,633
Interest income	5,593	2,375	10,912	4,607
Interest expense	(7,603)	(4,497)	(13,489)	(8,870)
Equity in income of unconsolidated real estate entities	—	—	273	—
Change in fair value of interest rate derivatives	(1,933)	(11)	(3,396)	958
Other income	4	54	64	168
Income before taxes	5,796	5,779	12,200	12,496
Income tax benefit	30	166	140	432
Net income	5,826	5,945	12,340	12,928
Net income attributable to noncontrolling interests:				
Investment entities	320	—	320	—
Operating Partnership	(1,580)	(1,626)	(3,210)	(3,569)
Net income attributable to Armada Hoffler Properties, Inc.	4,566	4,319	9,450	9,359
Preferred stock dividends	(154)	—	(154)	—
Net income attributable to common stockholders	\$ 4,412	\$ 4,319	\$ 9,296	\$ 9,359
Net income attributable to common stockholders per share (basic and diluted)	\$ 0.08	\$ 0.09	\$ 0.18	\$ 0.21
Weighted-average common shares outstanding (basic and diluted)	52,451	45,928	51,692	45,532
Comprehensive income:				
Net income	\$ 5,826	\$ 5,945	\$ 12,340	\$ 12,928
Unrealized cash flow hedge losses	(3,459)	—	(4,462)	—
Realized cash flow hedge losses reclassified to net income	35	—	107	—
Comprehensive income	2,402	5,945	7,985	12,928
Comprehensive income attributable to noncontrolling interests:				
Investment entities	320	—	320	—
Operating Partnership	(677)	(1,626)	(2,074)	(3,569)
Comprehensive income attributable to Armada Hoffler Properties, Inc.	\$ 2,045	\$ 4,319	\$ 6,231	\$ 9,359

See Notes to Condensed Consolidated Financial Statements.

ARMADA HOFFLER PROPERTIES, INC.
Condensed Consolidated Statements of Equity
(In thousands, except share data)
(Unaudited)

	Preferred stock	Common stock	Additional paid-in capital	Distributions in excess of earnings	Accumulated other comprehensive loss	Total stockholders' equity	Noncontrolling interests in investment entities	Noncontrolling interests in Operating Partnership	Total equity
Balance, December 31, 2018	\$ —	\$ 500	\$ 357,353	\$ (82,699)	\$ (1,283)	\$ 273,871	\$ —	\$ 182,019	\$ 455,890
Cumulative effect of accounting change ⁽¹⁾	—	—	—	(125)	—	(125)	—	(42)	(167)
Net income	—	—	—	4,884	—	4,884	—	1,630	6,514
Unrealized cash flow hedge losses	—	—	—	—	(752)	(752)	—	(251)	(1,003)
Realized cash flow hedge losses reclassified to net income	—	—	—	—	54	54	—	18	72
Net proceeds from issuance of common stock	—	21	30,185	—	—	30,206	—	—	30,206
Restricted stock awards, net of tax withholding	—	1	754	—	—	755	—	—	755
Restricted stock award forfeitures	—	—	(4)	—	—	(4)	—	—	(4)
Redemption of operating partnership units	—	1	1,259	—	—	1,260	—	(1,260)	—
Dividends and distributions declared (\$0.21 per share and unit)	—	—	—	(11,009)	—	(11,009)	—	(3,568)	(14,577)
Balance, March 31, 2019	\$ —	\$ 523	\$ 389,547	\$ (88,949)	\$ (1,981)	\$ 299,140	\$ —	\$ 178,546	\$ 477,686
Net income (loss)	—	—	—	4,566	—	4,566	(320)	1,580	5,826
Unrealized cash flow hedge losses	—	—	—	—	(2,547)	(2,547)	—	(912)	(3,459)
Realized cash flow hedge losses reclassified to net income	—	—	—	—	26	26	—	9	35
Net proceeds from issuance of cumulative redeemable perpetual preferred stock	63,250	—	(2,249)	—	—	61,001	—	—	61,001
Net proceeds from issuance of common stock	—	4	7,494	—	—	7,498	—	—	7,498
Restricted stock awards, net of tax withholding	—	1	463	—	—	464	—	—	464
Noncontrolling interest in acquired real estate entity	—	—	—	—	—	—	4,870	—	4,870
Issuance of operating partnership units for acquisitions	—	—	(986)	—	—	(986)	—	69,061	68,075
Dividends and distributions declared (\$0.21 per share and unit)	—	—	—	(11,107)	—	(11,107)	—	(4,447)	(15,554)
Balance, June 30, 2019	\$ 63,250	\$ 528	\$ 394,269	\$ (95,490)	\$ (4,502)	\$ 358,055	\$ 4,550	\$ 243,837	\$ 606,442

(1) The Company recorded cumulative effect adjustments related to the new lease standard in the first quarter of 2019. See "Financial Statements — Note 2 — Significant Accounting Policies — Recent Accounting Pronouncements" for additional information.

	Preferred stock	Common stock	Additional paid-in capital	Distributions in excess of earnings	Accumulated other comprehensive loss	Total stockholders' equity	Noncontrolling interests in investment entities	Noncontrolling interests in Operating Partnership	Total equity
Balance, December 31, 2017	\$ —	\$ 449	\$ 287,407	\$ (61,166)	\$ —	\$ 226,690	\$ —	\$ 193,593	\$ 420,283
Net income	—	—	—	5,040	—	5,040	—	1,943	6,983
Restricted stock awards, net of tax withholding	—	1	499	—	—	500	—	—	500
Restricted stock award forfeitures	—	—	(4)	—	—	(4)	—	—	(4)
Issuance of operating partnership units for acquisitions	—	—	—	—	—	—	—	1,696	1,696
Redemption of operating partnership units	—	2	1,797	—	—	1,799	—	(1,804)	(5)
Dividends and distributions declared (\$0.20 per share and unit)	—	—	—	(9,064)	—	(9,064)	—	(3,488)	(12,552)
Balance, March 31, 2018	\$ —	\$ 452	\$ 289,699	\$ (65,190)	\$ —	\$ 224,961	\$ —	\$ 191,940	\$ 416,901
Net income	—	—	—	4,319	—	4,319	—	1,626	5,945
Net proceeds from issuance of common stock	—	35	48,946	—	—	48,981	—	—	48,981
Restricted stock awards, net of tax withholding	—	1	403	—	—	404	—	—	404
Issuance of operating partnership units for acquisitions	—	—	(5)	—	—	(5)	—	505	500
Redemption of operating partnership units	—	—	(466)	—	—	(466)	—	(2,060)	(2,526)
Dividends and distributions declared (\$0.20 per share and unit)	—	—	—	(9,777)	—	(9,777)	—	(3,458)	(13,235)
Balance, June 30, 2018	\$ —	\$ 488	\$ 338,577	\$ (70,648)	\$ —	\$ 268,417	\$ —	\$ 188,553	\$ 456,970

See Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2019	2018
OPERATING ACTIVITIES		
Net income	\$ 12,340	\$ 12,928
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of buildings and tenant improvements	16,875	13,540
Amortization of leasing costs and in-place lease intangibles	6,507	4,917
Accrued straight-line rental revenue	(2,208)	(1,029)
Amortization of leasing incentives and above or below-market rents	(97)	(141)
Accrued straight-line ground rent expense	56	136
Adjustment for uncollectable accounts	9	112
Noncash stock compensation	1,017	820
Impairment charges	—	98
Noncash interest expense	701	557
Annapolis Junction loan discount amortization ⁽¹⁾	(2,356)	—
Change in fair value of interest rate derivatives	3,396	(958)
Equity in income of unconsolidated real estate entities	(273)	—
Changes in operating assets and liabilities:		
Property assets	2,387	(2,505)
Property liabilities	(2,841)	(1,973)
Construction assets	4,142	4,443
Construction liabilities	(4,004)	(15,081)
Interest receivable	(7,539)	(4,604)
Net cash provided by operating activities	28,112	11,260
INVESTING ACTIVITIES		
Development of real estate investments	(75,679)	(57,741)
Tenant and building improvements	(12,519)	(5,599)
Acquisitions of real estate investments, net of cash received	(133,345)	(32,967)
Dispositions of real estate investments, net of selling costs	1,014	4,271
Notes receivable issuances	(25,355)	(5,816)
Notes receivable paydowns	1,692	—
Leasing costs	(1,883)	(2,060)
Leasing incentives	—	(79)
Contributions to equity method investments	(535)	(3,127)
Net cash used for investing activities	(246,610)	(103,118)
FINANCING ACTIVITIES		
Proceeds from issuance of cumulative redeemable perpetual preferred stock, net	61,001	—
Proceeds from issuance of common stock, net	37,704	48,981
Common shares tendered for tax withholding	(344)	(343)
Debt issuances, credit facility and construction loan borrowings	291,392	147,248
Debt and credit facility repayments, including principal amortization	(138,175)	(84,277)
Debt issuance costs	(3,167)	(381)
Redemption of operating partnership units	—	(2,531)
Dividends on common stock and distributions on Operating Partnership units	(28,003)	(24,337)
Net cash provided by financing activities	220,408	84,360
Net increase (decrease) in cash, cash equivalents, and restricted cash	1,910	(7,498)
Cash, cash equivalents, and restricted cash, beginning of period	24,051	22,916
Cash, cash equivalents, and restricted cash, end of period ⁽²⁾	\$ 25,961	\$ 15,418

See Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2019	2018
Supplemental Disclosures (noncash transactions):		
Increase in dividends and distributions payable	\$ 2,128	\$ 1,450
(Decrease) increase in accrued capital improvements and development costs	(9,861)	6,692
Issuance of operating partnership units for acquisitions	69,061	1,702
Operating Partnership units redeemed for common shares	1,260	1,804
Debt assumed at fair value in conjunction with real estate purchases	101,390	—
Note receivable extinguished in conjunction with real estate purchase	31,252	—
Equity method investment redeemed for real estate acquisition	23,011	—
Noncontrolling interest in acquired real estate entity	4,870	—
Recognition of operating lease ROU assets ⁽³⁾	33,525	—
Recognition of operating lease liabilities ⁽³⁾	41,191	—
Recognition of finance lease ROU assets	24,500	—
Recognition of finance lease liabilities	17,871	—

(1) Borrower paid \$5.0 million in exchange for the Company's purchase option. This is being accounted for as a loan modification fee; interest income is being recognized as additional interest income on the note receivable over the one-year remaining term. See Note 7 for additional discussion.

(2) The following table provides a reconciliation of cash, cash equivalents and restricted cash reported in the Condensed Consolidated Statements of Cash Flows (in thousands):

	June 30, 2019	June 30, 2018
Cash and cash equivalents	\$ 23,109	\$ 12,279
Restricted cash ^(a)	2,852	3,139
Cash, cash equivalents, and restricted cash	<u>\$ 25,961</u>	<u>\$ 15,418</u>

(a) Restricted cash represents amounts held by lenders for real estate taxes, insurance, and reserves for capital improvements.

(3) Net of \$0.4 million disposal related to the Company's preexisting lease at the Thames Street Wharf property acquired on June 26, 2019.

See Notes to Condensed Consolidated Financial Statements.

ARMADA HOFFLER PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Business of 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 primarily throughout the Mid-Atlantic and Southeastern United States.

The Company is a real estate investment trust ("REIT"), the sole general partner of Armada Hoffler, L.P. (the "Operating Partnership") and, as of June 30, 2019, owned 71.4% of the economic interest in the Operating Partnership, of which 0.1% is held as general partnership units. The operations of the Company are carried on primarily through the Operating Partnership and the wholly owned subsidiaries of the Operating Partnership.

As of June 30, 2019, the Company's property portfolio consisted of 54 operating properties and 8 properties either under development or not yet stabilized.

Refer to Note 5 for information related to the Company's recent acquisitions and dispositions of operating properties.

2. Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles ("GAAP").

The condensed consolidated financial statements include the financial position and results of operations of the Company and its consolidated subsidiaries, including the Operating Partnership, its wholly-owned subsidiaries, and any interests in variable interest entities ("VIEs") where the Company has been determined to be the primary beneficiary. All significant intercompany transactions and balances have been eliminated in consolidation.

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

The accompanying condensed consolidated financial statements were prepared in accordance with the requirements for interim financial information. Accordingly, these interim financial statements have not been audited and exclude certain disclosures required for annual financial statements. Also, the operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These interim financial statements should be read in conjunction with the audited consolidated financial statements of the Company included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

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 significantly from management's estimates.

Recent Accounting Pronouncements

Leases

On February 25, 2016, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") that requires lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use assets (ASU 2016-02—*Leases* (Topic 842)). The new standard also makes targeted changes to lessor accounting. The Company adopted the new standard on January 1, 2019, using the modified retrospective approach for all leases

existing at, or entered into after, the beginning of the earliest comparative period presented as permitted in Accounting Standards Codification ("ASC") Topic 842.

In addition, the Company elected the package of practical expedients permitted under the transition guidance within the new standard, which allowed the Company to not reassess whether any expired or existing contracts are or contain leases, not reassess the lease classification for any expired or existing leases, and not reassess initial direct costs for existing leases. As of January 1, 2019, Company did not have any leases classified as finance leases. The Company also elected a practical expedient that allowed it to not separate non-lease components from lease components and instead to account for each lease and non-lease component as a single lease component. The adoption of the new standard as of January 1, 2019 did not impact the Company's consolidated results of operations and had no impact on cash flows.

As a lessee, the Company had six ground leases on five properties as of January 1, 2019 with initial terms that range from 20 to 65 years and options to extend up to an additional 70 years in certain cases. The exercise of lease renewal options is at the Company's sole discretion. The depreciable life of assets and leasehold improvements are limited by the expected lease term. The Company recognizes lease expense for operating leases on a straight-line basis over the lease term. The Company's lease agreements do not contain any residual value guarantees or material restrictive covenants.

The long-term ground leases represent a majority of the Company's current operating lease payments. The Company recorded right-of-use assets totaling \$32.2 million and lease liabilities totaling \$41.4 million upon adopting this standard on January 1, 2019. The Company utilized a weighted average discount rate of 5.4% to measure its lease liabilities upon adoption.

As a lessor, the Company leases its properties under operating leases and recognizes base rents on a straight-line basis over the lease term. The Company also recognizes revenue from tenant recoveries, through which tenants reimburse the Company on an accrual basis for certain expenses such as utilities, janitorial services, repairs and maintenance, security and alarms, parking lot and ground maintenance, administrative services, management fees, insurance, and real estate taxes. Rental revenues are reduced by the amount of any leasing incentives amortized on a straight-line basis over the term of the applicable lease. In addition, the Company recognizes contingent rental revenue (e.g., percentage rents based on tenant sales thresholds) when the sales thresholds are met. Many tenant leases include one or more options to renew, with renewal terms that can extend the lease term from one to 15 years or more. The exercise of lease renewal options is at the tenant's sole discretion. The Company includes a renewal period in the lease term only if it appears at lease inception that the renewal is reasonably assured.

The new standard includes new considerations regarding the recognition of rental revenue when collection is not probable. The Company changed its presentation and measurement of charges for uncollectable lease revenue associated with its office, retail, and residential leasing activity, reflecting those amounts as a component of rental income on the accompanying Condensed Consolidated Statement of Comprehensive Income for the three and six months ended June 30, 2019. However, in accordance with its prospective adoption of the standard, the Company did not adjust the prior year period presentation of charges for uncollectable lease revenue associated with its office, retail, and residential leasing activity as a component of operating expenses, excluding property taxes, on the accompanying Condensed Consolidated Statement of Comprehensive Income for the three and six months ended June 30, 2018. Instead, the Company recorded a combined adjustment of \$0.2 million to the opening balances for distributions in excess of earnings and noncontrolling interest relating to receivables where collection of substantially all operating lease payments was not probable as of January 1, 2019.

Lease-related receivables, which include contractual amounts accrued and unpaid from tenants and accrued straight-line rents receivable, are reduced for credit losses. Such amounts are recognized as a reduction to real estate rental revenues. The Company evaluates the collectability of lease receivables using several factors, including a lessee's creditworthiness. The Company recognizes a credit loss on lease-related receivables when, in the opinion of management, collection of substantially all lease payments is not probable. When collectability is determined not probable, any lease income subsequent to recognizing the credit loss is limited to the lesser of the lease income reflected on a straight-line basis or cash collected.

Credit losses

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses - Measurement of Credit Losses on Financial Instruments* (Topic 326). ASU 2016-13 significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The guidance will replace the "incurred loss" approach under existing guidance with an "expected loss" model for instruments measured at

amortized cost, such as our notes receivable. The guidance is effective for fiscal years beginning after December 15, 2019 and is to be adopted through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. While the Company is currently evaluating the impact ASU 2016-13 will have on the consolidated financial statements, the Company expects that the adoption could result in earlier recognition of a provision for loan losses on its notes receivable.

Other Accounting Policies

See the Company's Annual Report on Form 10-K for the year ended December 31, 2018 for a description of other accounting principles upon which basis the accompanying consolidated financial statements were prepared.

3. Segments

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

Net operating income of the Company's reportable segments for the three and six months ended June 30, 2019 and 2018 was as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
(Unaudited)				
<i>Office real estate</i>				
Rental revenues	\$ 7,382	\$ 5,288	\$ 12,938	\$ 10,388
Rental expenses	1,853	1,430	3,339	2,876
Real estate taxes	653	502	1,179	1,004
Segment net operating income	4,876	3,356	8,420	6,508
<i>Retail real estate</i>				
Rental revenues	19,235	16,608	36,492	33,319
Rental expenses	2,893	2,563	5,493	5,220
Real estate taxes	1,893	1,656	3,704	3,339
Segment net operating income	14,449	12,389	27,295	24,760
<i>Multifamily residential real estate</i>				
Rental revenues	9,761	6,702	17,857	13,590
Rental expenses	3,281	2,529	5,920	4,850
Real estate taxes	905	577	1,696	1,205
Segment net operating income	5,575	3,596	10,241	7,535
<i>General contracting and real estate services</i>				
Segment revenues	21,444	20,654	38,480	43,704
Segment expenses	20,123	20,087	36,409	42,501
Segment gross profit	1,321	567	2,071	1,203
Net operating income	\$ 26,221	\$ 19,908	\$ 48,027	\$ 40,006

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

General contracting and real estate services revenues for the three months ended June 30, 2019 and 2018 exclude revenue related to intercompany construction contracts of \$30.0 million and \$34.2 million, respectively. General contracting and

real estate services revenues for the six months ended June 30, 2019 and 2018 exclude revenue related to intercompany construction contracts of \$60.2 million and \$60.1 million, respectively.

General contracting and real estate services expenses for the three months ended June 30, 2019 and 2018 exclude expenses related to intercompany construction contracts of \$29.7 million and \$33.9 million, respectively. General contracting and real estate services expenses for the six months ended June 30, 2019 and 2018 exclude expenses related to intercompany construction contracts of \$59.6 million and \$59.5 million, respectively.

The following table reconciles net operating income to net income, the most directly comparable GAAP measure, for the three and six months ended June 30, 2019 and 2018 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(Unaudited)			
Net operating income	\$ 26,221	\$ 19,908	\$ 48,027	\$ 40,006
Depreciation and amortization	(13,478)	(9,179)	(23,382)	(18,457)
General and administrative expenses	(2,951)	(2,764)	(6,352)	(5,725)
Acquisition, development, and other pursuit costs	(57)	(9)	(457)	(93)
Impairment charges	—	(98)	—	(98)
Interest income	5,593	2,375	10,912	4,607
Interest expense	(7,603)	(4,497)	(13,489)	(8,870)
Equity in income of unconsolidated real estate entities	—	—	273	—
Change in fair value of interest rate derivatives	(1,933)	(11)	(3,396)	958
Other income	4	54	64	168
Income tax benefit	30	166	140	432
Net income	\$ 5,826	\$ 5,945	\$ 12,340	\$ 12,928

General and administrative expenses represent costs not directly associated with the operation and management of the Company's real estate properties and general contracting and real estate services businesses, including corporate office personnel salaries and benefits, bank fees, accounting fees, legal fees, and other corporate office expenses.

4. Leases

Lessee Disclosures

The components of lease cost for the three and six months ended June 30, 2019 were as follows (in thousands):

	Three Months Ended June	Six Months Ended
	30, 2019	June 30, 2019
	(Unaudited)	
Operating lease cost	\$ 707	1,395
Finance lease cost:		
Amortization of right-of-use assets	\$ 77	77
Interest on lease liabilities	\$ 112	112

The table below presents supplemental cash flow information related to leases during the three and six months ended June 30, 2019 (in thousands):

	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
	(Unaudited)	
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 524	\$ 1,024
Operating cash flows from finance leases	111	111
Financing cash flows from finance leases	—	—

Additional information related to leases as of June 30, 2019 were as follows (in thousands):

	June 30, 2019
	(Unaudited)
Weighted Average Remaining Lease Term (years)	
Operating leases	45.9
Finance leases	41.7
Weighted Average Discount Rate	
Operating leases	5.4%
Finance leases	5.2%

Maturities of lease liabilities as of June 30, 2019 were as follows (in thousands):

Year Ending December 31,	Operating Leases	Finance Leases
2019 (excluding six months ended June 30, 2019)	\$ 954	\$ 422
2020	2,080	864
2021	2,137	864
2022	2,361	868
2023	2,400	873
Thereafter	105,961	43,902
Total lease liabilities	115,893	47,793
Less imputed interest	(74,593)	(29,931)
Present value of lease liabilities	\$ 41,300	\$ 17,862

Lessor Disclosures

Rental revenue for the three and six months ended June 30, 2019 comprised the following (in thousands):

	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
	(Unaudited)	
Base rent and tenant charges	\$ 35,066	\$ 64,990
Accrued straight-line rental adjustment	1,187	2,148
Lease incentive amortization	(184)	(367)
Above/below market lease amortization	309	516
Total rental revenue	\$ 36,378	\$ 67,287

The Company's commercial tenant leases provide for minimum rental payments during each of the next five years and thereafter as follows (in thousands):

Year Ending December 31,	Operating Leases
2019 (excluding six months ended June 30, 2019)	\$ 48,504
2020	91,957
2021	84,332
2022	77,113
2023	67,302
Thereafter	314,422
Total	\$ 683,630

5. Real Estate Investment

Property Acquisitions

On February 6, 2019, the Company acquired an additional outparcel phase of Wendover Village in Greensboro, North Carolina for a contract price of \$2.7 million plus capitalized acquisition costs of \$0.1 million. This phase is leased by a single tenant.

On March 14, 2019, the Company acquired the office and retail portions of the One City Center project in exchange for a redemption of its 37% equity ownership in the joint venture with Austin Lawrence Partners, which totaled \$23.0 million as of the acquisition date, and a cash payment of \$23.2 million. The Company also incurred capitalized acquisition costs of \$0.1 million.

On April 24, 2019, the Company exercised its option to purchase 79% of the interests in the partnership that owns 1405 Point in exchange for extinguishing the Company's \$31.3 million note receivable on the project, making a cash payment of \$0.3 million, and assuming a loan payable of \$64.9 million, which was recorded at its fair value of \$65.8 million. The Company also incurred capitalized acquisition costs of \$0.1 million.

On May 23, 2019, the Company acquired Red Mill Commons and Marketplace at Hilltop from Venture Realty Group for consideration comprised of 4.1 million Class A Units (as defined in Note 11), the assumption of \$35.7 million of mortgage debt principal, and \$4.5 million in cash. The negotiated price was \$105.0 million, which contemplated the price of the Company's common stock of \$15.55 per share when the purchase and sale agreement was executed. The aggregate acquisition cost was \$109.3 million, which consisted of 4.1 million Class A Units valued at \$68.1 million (using the price of the Company's common stock of \$16.50 on the date of the acquisition), mortgage debt valued at \$35.6 million, cash consideration of \$4.5 million, and capitalized acquisition costs of \$1.1 million. In connection with the acquisition, the Company and the Operating Partnership entered into a tax protection agreement with the contributors pursuant to which the Company and the Operating Partnership agreed, subject to certain exceptions, to indemnify the contributors for up to 10 years against certain tax liabilities incurred by them, if such liabilities result from a transaction involving a direct or indirect taxable disposition of either or both of these properties or if the Operating Partnership fails to maintain and allocate to the contributors for taxation purposes minimum levels of Operating Partnership liabilities.

On June 26, 2019, the Company acquired Thames Street Wharf, a class A office building located in the Harbor Point development of Baltimore, Maryland, for \$101.0 million in cash and \$0.3 million of capitalized acquisition costs.

The following table summarizes the purchase price allocation (including acquisition costs) based on relative fair value of the assets acquired and intangible liabilities assumed for the six operating properties purchased during the six months ended June 30, 2019 (in thousands):

	Wendover Village additional outparcel	One City Center	1405 Point	Red Mill Commons	Marketplace at Hilltop	Thames Street Wharf
Land	\$ 1,633	\$ 2,678	\$ —	(a) \$ 44,252	\$ 2,023	(b) \$ 15,861
Site improvements	50	163	298	2,558	691	150
Building and improvements	888	28,039	92,866	27,790	19,195	64,539
Furniture and fixtures	—	—	2,302	—	—	—
In-place leases	101	15,140	3,371	9,973	4,565	24,385
Above-market leases	111	—	—	1,463	599	—
Below-market leases	—	—	—	(6,221)	(1,136)	(3,636)
Finance lease liabilities	—	—	(8,671)	—	(9,200)	—
Finance lease right-of- use assets	—	—	11,730	—	12,770	—
Net assets acquired	\$ 2,783	\$ 46,020	\$ 101,896	\$ 79,815	\$ 29,507	\$ 101,299

(a) Land is subject to a ground lease.

(b) Portion of land is subject to a ground lease.

Property Disposition

On April 1, 2019, the Company sold Waynesboro Commons for a sale price of \$1.1 million. There was no gain or loss recognized on the disposition.

Subsequent to June 30, 2019

On July 17, 2019, the Company executed an agreement to sell Lightfoot Marketplace for \$30.3 million and classified the property as held for sale at that time.

6. Equity Method Investment

One City Center

On February 25, 2016, the Company acquired a 37% interest in One City Center, a joint venture with Austin Lawrence Partners, for purposes of developing a 22-story mixed use tower in Durham, North Carolina. During the six months ended June 30, 2019, the Company invested an additional \$0.5 million in One City Center.

For the period from January 1, 2019 to March 13, 2019, One City Center had operating income of \$0.3 million allocated to the Company. For the three and six months ended June 30, 2018, One City Center had no operating activity, and therefore the Company received no allocated income.

On March 14, 2019, the Company acquired the office and retail portions of the One City Center project in exchange for its 37% equity ownership in the joint venture and a cash payment of \$23.2 million. See Note 5 for additional discussion.

7. Notes Receivable

The Company had the following notes receivable outstanding as of June 30, 2019 and December 31, 2018 (\$ in thousands):

Development Project	Outstanding loan amount		Maximum loan commitment	Interest rate	Interest compounding
	June 30, 2019	December 31, 2018			
1405 Point	\$ —	\$ 30,238	\$ 31,032	8.0%	Monthly
The Residences at Annapolis Junction	37,602	36,361	48,105	10.0%	Monthly
North Decatur Square ^(a)	19,852	18,521	29,673	15.0%	Annually
Delray Plaza	12,098	7,032	15,000	15.0%	Annually
Nexton Square	14,168	14,855	17,000	15.0%	Monthly
Interlock Commercial	38,062	18,269	95,000	15.0%	None
Solis Apartments at Interlock	17,226	13,821	41,100	13.0%	Annually
Total mezzanine	139,008	139,097	\$ 276,910		
Other notes receivable	1,314	1,275			
Notes receivable guarantee premium	6,554	2,800			
Notes receivable discount, net ^(b)	(2,133)	(4,489)			
Total notes receivable	\$ 144,743	\$ 138,683			

(a) This loan was paid in full on July 22, 2019.

(b) Represents the remaining unamortized portion of the \$5.0 million loan modification fee for The Residences at Annapolis Junction paid by the borrower in November 2018.

Interest on the mezzanine loans is accrued and funded utilizing the interest reserves for each loan, which are components of the respective maximum loan commitments, and such accrued interest is added to the loan receivable balances. The Company recognized interest income for the three and six months ended June 30, 2019 and 2018 as follows (in thousands):

Development Project	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
1405 Point	\$ 173	\$ 483	\$ 783	\$ 936
The Residences at Annapolis Junction	2,173 (a)	1,124	4,196 (a)	2,209
North Decatur Square	693	531	1,331	992
Delray Plaza	414	225	724	448
Nexton Square	524	—	1,033	—
Interlock Commercial	1,086	—	1,830	—
Solis Apartments at Interlock	508	—	972	—
Total mezzanine	5,571	2,363	10,869	4,585
Other interest income	22	12	43	22
Total interest income	\$ 5,593	\$ 2,375	\$ 10,912	\$ 4,607

(a) Includes amortization of the \$5.0 million loan modification fee paid by the borrower in November 2018.

As of June 30, 2019 and December 31, 2018, there was no allowance for loan losses. During the three and six months ended June 30, 2019 and 2018, there was no provision for loan losses recorded for any of the Company's notes receivable. The Company's management performs a quarterly analysis of the loan portfolio to determine if an impairment has occurred based on the progress of development activities including leasing activities, projected development costs, and current and projected mezzanine and senior construction loan balances.

Delray Plaza

On January 8, 2019, the Delray Plaza loan was modified to increase the maximum amount of the loan to \$15.0 million and

increase the payment guarantee amount to \$5.2 million.

Nexton Square

On February 8, 2019, the developer of Nexton Square closed on a senior construction loan with a maximum borrowing capacity of \$25.2 million. The developer used proceeds from its original draw in part to repay \$2.1 million of the mezzanine loan. Upon the closing of this senior construction loan, the Company entered into a payment guarantee for \$12.6 million of the senior loan.

1405 Point

On April 24, 2019, the Company exercised its option to purchase 79% of the interests in the partnership that owns 1405 Point in exchange for extinguishing its note receivable on the project and a cash payment of \$0.3 million. The project is subject to a loan payable of \$64.9 million. The Company has also guaranteed payment on a portion of the loan payable. See Note 15 for additional information.

Interlock Commercial

On April 19, 2019, the borrower executed its senior construction loan, and the Company's payment guarantee of up to \$30.7 million became effective. See Note 15 for additional information.

Annapolis Junction

The Annapolis Junction loan was originated inclusive of options for the Company to purchase up to 88% of the related development project from the developer, Annapolis Junction Apartments Owner, LLC ("AJAO"). On November 16, 2018, AJAO refinanced the senior construction loan with a one year senior loan of \$83.0 million. This senior loan may be extended for one additional year if certain minimum debt yields and minimum debt service coverage ratios are met by AJAO. Concurrent with the refinancing of the senior construction loan, the Company agreed to modify the mezzanine loan receivable with AJAO as follows:

- The Company agreed to guarantee \$8.3 million of the new senior loan;
- The Company agreed to extend the maturity of the mezzanine loan, which will mature concurrently with the new senior loan;
- The Company terminated its rights under the purchase options;
- AJAO paid a fee of \$5.0 million; and
- AJAO paid down \$11.1 million of the outstanding mezzanine loan balance, which was comprised of a \$9.9 million payment of accrued interest and a \$1.2 million payment of principal.

The fee of \$5.0 million paid by AJAO is being accounted for as a loan discount that is being recognized as interest income over the remaining term of the loan using the effective interest method.

Subsequent to June 30, 2019

On July 22, 2019, the borrower paid off the North Decatur Square note receivable in full. The Company received the outstanding principal and interest in the amount of \$20.0 million.

8. Construction Contracts

Construction contract costs and estimated earnings in excess of billings represent reimbursable costs and amounts earned under contracts in progress as of the balance sheet date. Such amounts become billable according to contract terms, which usually consider the passage of time, achievement of certain milestones, or completion of the project. The Company expects to bill and collect substantially all construction contract costs and estimated earnings in excess of billings as of June 30, 2019 during the next twelve months.

Billings in excess of construction contract costs and estimated earnings represent billings or collections on contracts made in advance of revenue recognized.

The following table summarizes the changes to the balances in the Company's construction contract costs and estimated earnings in excess of billings account and the billings in excess of construction contract costs and estimated earnings account for the six months ended June 30, 2019 and 2018 (in thousands):

	Six Months Ended June 30, 2019		Six Months Ended June 30, 2018	
	Construction contract costs and estimated earnings in excess of billings	Billings in excess of construction contract costs and estimated earnings	Construction contract costs and estimated earnings in excess of billings	Billings in excess of construction contract costs and estimated earnings
Beginning balance	\$ 1,358	\$ 3,037	\$ 245	\$ 3,591
Revenue recognized that was included in the balance at the beginning of the period	—	(3,037)	—	(3,591)
Increases due to new billings, excluding amounts recognized as revenue during the period	—	2,541	—	1,898
Transferred to receivables	(1,890)	—	(245)	—
Construction contract costs and estimated earnings not billed during the period	461	—	1,287	—
Changes due to cumulative catch-up adjustment arising from changes in the estimate of the stage of completion	532	(752)	—	(187)
Ending balance	<u>\$ 461</u>	<u>\$ 1,789</u>	<u>\$ 1,287</u>	<u>\$ 1,711</u>

The Company defers pre-contract costs when such costs are directly associated with specific anticipated contracts and their recovery is probable. Pre-contract costs of \$0.7 million and \$1.4 million were deferred as of June 30, 2019 and December 31, 2018, respectively. Amortization of pre-contract costs for the six months ended June 30, 2019 and 2018 was \$0.3 million and zero, respectively.

Construction receivables and payables include retentions, amounts that are generally withheld until the completion of the contract or the satisfaction of certain restrictive conditions such as fulfillment guarantees. As of June 30, 2019 and December 31, 2018, construction receivables included retentions of \$3.2 million and \$8.5 million, respectively. The Company expects to collect substantially all construction receivables as of June 30, 2019 during the next twelve months. As of June 30, 2019 and December 31, 2018, construction payables included retentions of \$14.7 million and \$21.6 million, respectively. The Company expects to pay substantially all construction payables as of June 30, 2019 during the next twelve months.

The Company's net position on uncompleted construction contracts comprised the following as of June 30, 2019 and December 31, 2018 (in thousands):

	June 30, 2019	December 31, 2018
Costs incurred on uncompleted construction contracts	\$ 630,425	\$ 594,006
Estimated earnings	22,383	20,375
Billings	(654,136)	(616,060)
Net position	<u>\$ (1,328)</u>	<u>\$ (1,679)</u>
Construction contract costs and estimated earnings in excess of billings	\$ 461	\$ 1,358
Billings in excess of construction contract costs and estimated earnings	(1,789)	(3,037)
Net position	<u>\$ (1,328)</u>	<u>\$ (1,679)</u>

The Company's balances and changes in construction contract price allocated to unsatisfied performance obligations (backlog) as of June 30, 2019 and 2018 were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Beginning backlog	\$ 160,871	\$ 30,733	\$ 165,863	\$ 49,167
New contracts/change orders	39,177	27,807	51,196	32,376
Work performed	(21,416)	(20,619)	(38,427)	(43,622)
Ending backlog	\$ 178,632	\$ 37,921	\$ 178,632	\$ 37,921

The Company expects to complete a majority of the uncompleted contracts as of June 30, 2019 during the next 12 to 18 months.

9. Indebtedness

Credit Facility

The Company has a senior credit facility that was modified on January 31, 2019 using the accordion feature to increase the maximum total commitments to \$355.0 million, comprised of a \$150.0 million senior unsecured revolving credit facility (the "revolving credit facility") and a \$205.0 million senior unsecured term loan facility (the "term loan facility" and, together with the revolving credit facility, the "credit facility"), with a syndicate of banks.

The credit facility includes an accordion feature that allows the total commitments to be further increased to \$450.0 million, subject to certain conditions, including obtaining commitments from any one or more lenders. The revolving credit facility has a scheduled maturity date of October 26, 2021, with two six-month extension options, subject to certain conditions, including payment of a 0.075% extension fee at each extension. The term loan facility has a scheduled maturity date of October 26, 2022.

The revolving credit facility bears interest at LIBOR (the London Inter-Bank Offered Rate) plus a margin ranging from 1.40% to 2.00% and the term loan facility bears interest at LIBOR plus a margin ranging from 1.35% to 1.95%, in each case depending on the Company's total leverage. The Company is also obligated to pay an unused commitment fee of 15 or 25 basis points on the unused portions of the commitments under the revolving credit facility, depending on the amount of borrowings under the credit facility.

As of June 30, 2019 and December 31, 2018, the outstanding balance on the revolving credit facility was \$122.0 million and \$126.0 million, respectively, and the outstanding balance on the term loan facility was \$205.0 million and \$180.0 million, respectively. As of June 30, 2019, the effective interest rates on the revolving credit facility and the term loan facility were 3.95% and 3.90%, respectively. The Company may, at any time, voluntarily prepay any loan under the credit facility in whole or in part without premium or penalty.

The Operating Partnership is the borrower under the credit facility, and its obligations under the credit facility are guaranteed by the Company and certain of its subsidiaries that are not otherwise prohibited from providing such guaranty. The credit agreement contains customary representations and warranties and financial and other affirmative and negative covenants. The Company's ability to borrow under the credit facility is subject to ongoing compliance with a number of financial covenants, affirmative covenants, and other restrictions. The credit agreement includes customary events of default, in certain cases subject to customary cure periods. The occurrence of an event of default, if not cured within the applicable cure period, would permit the lenders to, among other things, declare the unpaid principal, accrued and unpaid interest, and all other amounts payable under the credit facility to be immediately due and payable.

The Company is currently in compliance with all covenants under the credit agreement.

Other 2019 Financing Activity

On January 31, 2019, the Company paid off North Point Center Note 1.

On March 11, 2019, the Company received \$7.4 million of additional funding on the loan secured by Lightfoot Marketplace.

On March 14, 2019, the Company obtained a loan secured by One City Center in the amount of \$25.6 million in conjunction with the acquisition of this property. This loan may be increased to \$27.6 million subject to certain conditions.

The loan bears interest at a rate of LIBOR plus a spread of 1.85% and will mature on April 1, 2024.

On April 24, 2019, the Company exercised its option to purchase 79% of the partnership that owns 1405 Point in exchange for extinguishing its note receivable on the project and a cash payment of \$0.3 million. The project was acquired subject to a loan payable of \$64.9 million, which was recorded at its fair value of \$65.8 million. The loan matures on May 1, 2020 and bears interest at a rate of LIBOR plus a spread of 2.75%; this spread will decrease to 2.50% upon stabilization (as defined in the loan agreement).

On May 23, 2019, the Company assumed notes payable in connection with the acquisition of Red Mill Commons and Marketplace at Hilltop with outstanding principal balances of \$24.9 million and \$10.8 million, respectively. The following table summarizes the note balance at assumption, fair value at assumption, maturity date, and interest rate for each loan (\$ in thousands):

Loan name	Note balance at assumption	Fair value of loan at assumption	Loan maturity date	Loan interest rate
Redmill North	\$ 4,451	\$ 4,520	12/31/2028	4.73%
Redmill South	6,310	6,090	5/1/2025	3.57%
Redmill Central	2,640	2,690	6/17/2024	4.80%
Redmill West	11,548	11,540	6/1/2022	4.23%
Marketplace at Hilltop	10,740	10,790	10/1/2022	4.42%
	<u>\$ 35,689</u>	<u>\$ 35,630</u>		

On June 26, 2019, the Company obtained a loan secured by Thames Street Wharf in the amount of \$70.0 million in conjunction with the acquisition of this property. The loan bears interest at a rate of LIBOR plus a spread of 1.30% and will mature on June 26, 2022.

On June 26, 2019, the Company entered into a \$76.0 million syndicated construction loan facility for the Wills Wharf development project in Baltimore, Maryland. The facility bears interest at a rate of LIBOR plus a spread of 2.25% during construction activities and will mature on June 26, 2023. The facility will have an unused commitment fee of 25 basis points until the Company has borrowed at least \$19.0 million under the facility.

During the six months ended June 30, 2019, the Company borrowed \$50.3 million under its existing construction loans to fund new development and construction.

Subsequent to June 30, 2019

In July 2019, the Company borrowed \$5.4 million on its construction loans to fund development activities.

10. Derivative Financial Instruments

The Company may enter into interest rate derivative contracts to manage exposure to interest rate risks. The Company does not use derivative financial instruments for trading or speculative purposes. Derivative financial instruments are recognized at fair value and presented within other assets and other liabilities in the condensed consolidated balance sheets. Gains and losses resulting from changes in the fair value of derivatives that are neither designated nor qualify as hedging instruments are recognized within the change in fair value of interest rate derivatives in the condensed consolidated statements of comprehensive income. For derivatives that qualify as cash flow hedges, the gain or loss is reported as a component of other comprehensive income (loss) and reclassified into earnings in the periods during which the hedged forecasted transaction affects earnings.

As of June 30, 2019, the Company had the following LIBOR interest rate caps (\$ in thousands), which are not designated as cash flow hedges for accounting purposes:

Origination Date	Expiration Date	Notional Amount	Strike Rate	Premium Paid
6/23/2017	7/1/2019	\$ 50,000	1.50%	\$ 154
9/18/2017	10/1/2019	50,000	1.50%	199
11/28/2017	12/1/2019	50,000	1.50%	359
3/7/2018	4/1/2020	50,000	2.25%	310
7/16/2018	8/1/2020	50,000	2.50%	319
12/11/2018	1/1/2021	50,000	2.75%	210
5/15/2019	6/1/2022	100,000	2.50%	288
Total		<u>\$ 400,000</u>		<u>\$ 1,839</u>

As of June 30, 2019, the Company held the following floating-to-fixed interest rate swaps (\$ in thousands):

Related Debt	Notional Amount	Index	Swap Fixed Rate	Debt effective rate	Effective Date	Expiration Date
Senior unsecured term loan	\$ 50,000	1-month LIBOR	2.00%	3.50%	3/1/2016	2/20/2020
Senior unsecured term loan	50,000	1-month LIBOR	2.78%	4.28%	5/1/2018	5/1/2023
John Hopkins Village	52,256 (a)	1-month LIBOR	2.94%	4.19%	8/7/2018	8/7/2025
Lightfoot Marketplace	10,500 (a)	1-month LIBOR	3.02%	4.77%	10/12/2018	10/12/2023
249 Central Park Retail, South Retail, and Fountain Plaza Retail	34,570 (a)	1-month LIBOR	2.25%	3.85%	4/1/2019	8/10/2023
Senior unsecured term loan	50,000 (a)	1-month LIBOR	2.26%	3.76%	4/1/2019	10/22/2022
Total	<u>\$ 247,326</u>					

(a) Designated as a cash flow hedge.

For those interest rate swaps designated as cash flow hedges, during the three months ended June 30, 2019, unrealized losses of \$3.5 million were recorded to other comprehensive loss, and less than \$0.1 million of realized losses were reclassified out of accumulated other comprehensive loss to interest expense due to payments made to the swap counterparty during the three months ended June 30, 2019. For the interest rate swaps designated as cash flow hedges, during the six months ended June 30, 2019, unrealized losses of \$4.5 million were recorded to other comprehensive loss, and \$0.1 million of realized losses were reclassified out of accumulated other comprehensive loss to interest expense due to payments made to the swap counterparty. During the next 12 months, the Company anticipates reclassifying approximately \$1.1 million of net hedging losses from accumulated other comprehensive loss into earnings to offset the variability of the hedged items during this period.

The Company's derivatives were comprised of the following as of June 30, 2019 and December 31, 2018 (in thousands):

	June 30, 2019			December 31, 2018		
	Notional Amount	(Unaudited)		Notional Amount	Fair Value	
		Fair Value			Asset	Liability
		Asset	Liability			
Derivatives not designated as accounting hedges						
Interest rate swaps	\$ 100,000	\$ —	\$ (2,186)	\$ 100,000	\$ 303	\$ (749)
Interest rate caps	400,000	422	—	350,000	1,790	—
Total derivatives not designated as accounting hedges	500,000	422	(2,186)	450,000	2,093	(749)
Derivatives designated as accounting hedges						
Interest rate swaps	147,326	—	(6,080)	63,208	—	(1,725)
Total derivatives	\$ 647,326	\$ 422	\$ (8,266)	\$ 513,208	\$ 2,093	\$ (2,474)

The changes in the fair value of the Company's derivatives during the three and six months ended June 30, 2019 and 2018 were comprised of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	Interest rate swaps	\$ (4,549)	\$ 5	\$ (6,201)
Interest rate caps	(843)	(16)	(1,657)	605
Total change in fair value of interest rate derivatives	\$ (5,392)	\$ (11)	\$ (7,858)	\$ 958
Comprehensive income statement presentation:				
Change in fair value of interest rate derivatives	\$ (1,933)	\$ (11)	\$ (3,396)	\$ 958
Unrealized cash flow hedge gains losses	(3,459)	—	(4,462)	—
Total change in fair value of interest rate derivatives	\$ (5,392)	\$ (11)	\$ (7,858)	\$ 958

11. Equity

Stockholders' Equity

On February 26, 2018, the Company commenced an at-the-market continuous equity offering program (the "ATM Program") through which the Company may, from time to time, issue and sell shares of its common stock having an aggregate offering price of up to \$125.0 million. During the six months ended June 30, 2019, the Company sold an aggregate of 2,522,186 shares of common stock at a weighted average price of \$15.16 per share under the ATM Program, receiving net proceeds, after offering costs and commissions, of \$37.8 million.

On June 18, 2019, the Company issued 2,530,000 shares of its 6.75% Series A Cumulative Redeemable Perpetual Preferred Stock, \$0.01 par value per share ("Series A Preferred Stock"), with a liquidation preference of \$25.00 per share, which included 330,000 shares issued upon the underwriters' full exercise of their option to purchase additional shares. Net proceeds from the offering, after the underwriting discount but before offering expenses payable by the Company, were approximately \$61.3 million. The Company used the net proceeds to fund a portion of the purchase price of Thames Street Wharf, a 263,426 square foot office building located in the Harbor Point neighborhood of Baltimore, Maryland. The balance of the net proceeds was used to repay a portion of the outstanding borrowings under the Company's unsecured revolving credit facility and for general corporate purposes.

In connection with the issuance of the Series A Preferred Stock, on June 18, 2019, the Operating Partnership issued to the Company 2,530,000 6.75% Series A Cumulative Redeemable Perpetual Preferred Units (the "Series A Preferred Units"), which have economic terms that are identical to the Company's Series A Preferred Stock. The Series A Preferred Units were issued in exchange for the Company's contribution of the net proceeds from the offering of the Series A Preferred Stock to the Operating Partnership.

Dividends on the Series A Preferred Stock will be payable quarterly in arrears on or about the 15th day of each January, April, July and October. The first dividend on the Series A Preferred Stock will be paid on October 15, 2019 and will include \$0.0609 per share that was accumulated and unpaid as of June 30, 2019. The Series A Preferred Stock does not have a stated maturity date and is not subject to any sinking fund or mandatory redemption provisions. Upon liquidation, dissolution or winding up, the Series A Preferred Stock will rank senior to the Company's common stock with respect to the payment of distributions and other amounts. Except in instances relating to preservation of the Company's qualification as a REIT or pursuant to the Company's special optional redemption right, the Series A Preferred Stock is not redeemable prior to June 18, 2024. On and after June 18, 2024, the Company may, at its option, redeem the Series A Preferred Stock, in whole, at any time, or in part, from time to time, for cash at a redemption price of \$25.00 per share, plus any accrued and unpaid dividends (whether or not declared) to, but excluding, the redemption date.

Upon the occurrence of a change of control (as defined in the articles supplementary designating the terms of the Series A Preferred Stock), the Company has a special optional redemption right that enables it to redeem the Series A Preferred Stock, in whole or in part and within 120 days after the first date on which a change of control has occurred resulting in neither the Company nor the surviving entity having a class of common stock listed on the NYSE, NYSE American, or NASDAQ or the acquisition of beneficial ownership of its stock entitling a person to exercise more than 50% of the total voting power of all our stock entitled to vote generally in election of directors. The special optional redemption price is \$25.00 per share, plus any accrued and unpaid dividends (whether or not declared) to, but excluding, the date of redemption.

Upon the occurrence of a change of control, holders will have the right (unless the Company has elected to exercise its special optional redemption right to redeem their Series A Preferred Stock) to convert some or all of such holder's Series A Preferred Stock into a number of shares of the Company's common stock equal to the lesser of:

- the quotient obtained by dividing (i) the sum of the \$25.00 liquidation preference plus the amount of any accrued and unpaid distributions to, but not including, the change of control conversion date (unless the change of control conversion date is after a record date for a Series A Preferred Stock distribution payment and prior to the corresponding Series A Preferred Stock distribution payment date, in which case no additional amount for such accrued and unpaid distribution will be included in this sum) by (ii) the Common Stock Price (as defined in the articles supplementary designating the terms of the Series A Preferred Stock); and
- 2.97796 (i.e., the Share Cap), subject to certain adjustments;

subject, in each case, to certain adjustments and provisions for the receipt of alternative consideration of equivalent value as described in the articles supplementary designating the terms of the Series A Preferred Stock.

Noncontrolling Interests

As of June 30, 2019 and December 31, 2018, the Company held a 71.4% and 74.5% common interest, respectively, in the Operating Partnership. As of June 30, 2019, the Company also held a preferred interest in the Operating Partnership in the form of preferred units with a liquidation preference of \$63.3 million. The Company is the primary beneficiary of the Operating Partnership as it has the power to direct the activities of the Operating Partnership and the rights to absorb 71.4% of the net income of the Operating Partnership. As the primary beneficiary, the Company consolidates the financial position and results of operations of the Operating Partnership. Noncontrolling interests in the Operating Partnership represent units of limited partnership interest in the Operating Partnership not held by the Company. As of June 30, 2019, there were 21,177,692 Class A units of limited partnership interest in the Operating Partnership ("Class A Units") not held by the Company. The Company's financial position and results of operations are the same as those of the Operating Partnership.

Additionally, the Operating Partnership owns a majority interest in certain non-wholly-owned operating and development properties. The noncontrolling interest for investment entities included \$4.6 million related to the minority partner's interest in 1405 Point as of June 30, 2019. The noncontrolling interest for all other consolidated real estate entities was zero as of June 30, 2019 and December 31, 2018.

On January 2, 2019, due to the holders of Class A Units tendering an aggregate of 118,471 Class A Units for redemption by the Operating Partnership, the Company elected to satisfy the redemption requests through the issuance of an equal number of shares of common stock.

On May 23, 2019, the Operating Partnership issued 4,125,759 Class A Units valued at \$68.1 million in connection with the acquisition of Red Mill Commons and Marketplace at Hilltop.

On May 30, 2019, the Operating Partnership issued 60,000 Class A Units valued at \$1.0 million in exchange for the remaining 35% ownership interest in Brooks Crossing Office, which was previously owned by Tidewater Partners.

Common Stock Dividends and Class A Unit Distributions

On January 3, 2019, the Company paid cash dividends of \$10.0 million to common stockholders, and the Operating Partnership paid cash distributions of \$3.4 million to holders of Class A Units.

On April 4, 2019, the Company paid cash dividends of \$11.0 million to common stockholders, and the Operating Partnership paid cash distributions of \$3.6 million to holders of Class A Units.

On May 7, 2019, the Board of Directors declared a cash dividend and distribution of \$0.21 per share and unit payable on July 3, 2019 to stockholders and unitholders of record on June 26, 2019.

Subsequent to June 30, 2019

On July 1, 2019, due to the holders of Class A Units tendering an aggregate of 125,118 Class A Units for redemption by the Operating Partnership, the Company elected to satisfy the redemption requests through the issuance of an equal number of shares of common stock.

On July 3, 2019, the Company paid cash dividends of \$11.1 million to common stockholders, and the Operating Partnership paid cash distributions of \$4.4 million to holders of Class A Units.

In July 2019, the Company sold an aggregate of 62,823 shares of common stock at a weighted average price of \$16.84 per share under the ATM Program, receiving net proceeds, after offering costs and commissions, of \$1.0 million.

12. Stock-Based Compensation

The Company's Amended and Restated 2013 Equity Incentive Plan (the "Equity Plan") permits the grant of restricted stock awards, stock options, stock appreciation rights, performance units, and other equity-based awards up to an aggregate of 1,700,000 shares of common stock. As of June 30, 2019, there were 895,257 shares available for issuance under the Equity Plan.

During the six months ended June 30, 2019, the Company granted an aggregate of 152,292 shares of restricted stock to employees and non-employee directors with a weighted average grant date fair value of \$15.39 per share. Employee restricted stock awards generally vest over a period of two years: one-third immediately on the grant date and the remaining two-thirds in equal amounts on the first two anniversaries following the grant date, subject to continued service to the Company. Non-employee director restricted stock awards vest either immediately upon grant or over a period of one year, subject to continued service to the Company. Unvested restricted stock awards are entitled to receive dividends from their grant date.

During the six months ended June 30, 2019, the Company issued performance-based awards in the form of restricted stock units to certain employees. The performance period for these awards is three years, with a required two-year service period immediately following the expiration of the performance period in order to fully vest. The compensation expense and the effect on the Company's weighted average diluted shares calculation were immaterial. During the six months ended June 30, 2019, 10,755 shares were issued with a grant date fair value of \$15.42 per share due to the partial vesting of performance units awarded to certain employees in 2016.

During the three months ended June 30, 2019 and 2018, the Company recognized \$0.5 million and \$0.4 million, respectively, of stock-based compensation cost. During the six months ended June 30, 2019 and 2018, the Company recognized \$1.5 million and \$1.2 million, respectively, of stock-based compensation cost. As of June 30, 2019, there were 144,426 nonvested restricted shares outstanding; the total unrecognized compensation expense related to nonvested restricted shares was \$1.5 million, which the Company expects to recognize over the next 21 months.

13. 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 — quoted prices in active markets for identical assets or liabilities

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

Level 3 — unobservable inputs

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

Financial assets and liabilities whose fair values are not measured at fair value but for which the fair value is disclosed include the Company's notes receivable and indebtedness. The fair value is estimated by discounting the future cash flows of each instrument at estimated market rates consistent with the maturity, credit characteristics, and other terms of the arrangements, which are Level 3 inputs under the fair value hierarchy.

In certain cases, the inputs used to estimate the 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.

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

The carrying amounts and fair values of the Company's financial instruments as of June 30, 2019 and December 31, 2018 were as follows (in thousands):

	June 30, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(Unaudited)			
Indebtedness	\$ 949,345	\$ 952,641	\$ 694,239	\$ 688,437
Notes receivable	144,743	144,743	138,683	138,683
Interest rate swap liabilities	8,266	8,266	2,474	2,474
Interest rate swap and cap assets	422	422	2,093	2,093

14. Related Party Transactions

The Company provides general contracting and real estate services to certain related party entities that are included in these condensed consolidated financial statements. Revenue from construction contracts with these entities for the three months ended June 30, 2018 was \$0.3 million, and gross profit from such contracts was \$0.1 million. Revenue from construction contracts with related party entities for the six months ended June 30, 2018 was \$1.5 million, and gross profit from such contracts was \$0.3 million. There was no such revenue or gross profit for the three and six months ended June 30, 2019.

Real estate services fees from affiliated entities of the Company were not significant for the three and six months ended June 30, 2019 or 2018. In addition, affiliated entities also reimburse the Company for monthly maintenance and facilities management services provided to the properties. Cost reimbursements earned by the Company from affiliated entities were not significant for the three and six months ended June 30, 2019 and 2018.

The Operating Partnership entered into tax protection agreements that indemnify certain directors and executive officers of the Company from their tax liabilities resulting from the potential future sale of certain of the Company's properties within seven (or, in a limited number of cases, ten) years of the completion of the Company's initial public offering and formation transactions completed on May 13, 2013.

15. Commitments and Contingencies

Legal Proceedings

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

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

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

Guarantees

In connection with the Company's mezzanine lending activities, the Company has made guarantees to pay portions of certain senior loans of third parties associated with the development projects. The following table summarizes the guarantees made by the Company as of June 30, 2019 (in thousands):

Development project	Payment guarantee amount
The Residences at Annapolis Junction	\$ 8,300
Delray Plaza	5,180
Nexton Square	12,600
Interlock Commercial	30,654
Total	<u>\$ 56,734</u>

Commitments

The Company has a bonding line of credit for its general contracting construction business and is contingently liable under performance and payment bonds, bonds for cancellation of mechanics liens and defect bonds. Such bonds collectively totaled \$29.0 million and \$34.8 million as of June 30, 2019 and December 31, 2018, respectively.

The Company 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 June 30, 2019 and December 31, 2018, the Operating Partnership had total outstanding letters of credit of \$0.3 million and \$2.1 million, respectively.

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

References to "we," "our," "us," and "our company" refer to Armada Hoffler Properties, Inc., a Maryland corporation, together with our consolidated subsidiaries, including Armada Hoffler, L.P., a Virginia limited partnership (the "Operating Partnership"), of which we are the sole general partner. The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report.

Forward-Looking Statements

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

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

- adverse economic or real estate developments, either nationally or in the markets in which our properties are located;
- our failure to develop the properties in our development pipeline successfully, on the anticipated timelines, 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;
- the inability of one or more mezzanine loan borrowers to repay mezzanine loans in accordance with their contractual terms;
- difficulties in identifying or completing development, acquisition, or disposition opportunities;
- our failure to successfully operate developed and acquired properties;
- our failure to generate income in our general contracting and real estate services segment in amounts that we anticipate;
- fluctuations in interest rates and increased operating costs;
- our failure to obtain necessary outside financing on favorable terms or at all;
- our inability to extend the maturity of or refinance existing debt or comply with the financial covenants in the agreements that govern our existing debt;
- financial market fluctuations;
- risks that affect the general retail environment or the market for office properties or multifamily units;
- the competitive environment in which we operate;
- decreased rental rates or increased vacancy rates;

- conflicts of interests with our officers and directors;
- lack or insufficient amounts of insurance;
- environmental uncertainties and risks related to adverse weather conditions and natural disasters;
- other factors affecting the real estate industry generally;
- our failure to maintain our qualification as a real estate investment trust ("REIT") for U.S. federal income tax purposes;
- limitations imposed on our business and our ability to satisfy complex rules in order for us to maintain our qualification as a REIT for U.S. federal income tax purposes;
- 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; and
- potential negative impacts from the recent changes to the U.S. tax laws.

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 primarily throughout the Mid-Atlantic and Southeastern United States. As of June 30, 2019, our stabilized operating property portfolio consisted of the following properties:

Property	Segment	Location	Ownership Interest
4525 Main Street	Office	Virginia Beach, Virginia*	100%
Armada Hoffer Tower	Office	Virginia Beach, Virginia*	100%
One City Center	Office	Durham, North Carolina	100%
One Columbus	Office	Virginia Beach, Virginia*	100%
Thames Street Wharf	Office	Baltimore, Maryland	100%
Two Columbus	Office	Virginia Beach, Virginia*	100%
249 Central Park Retail	Retail	Virginia Beach, Virginia*	100%
Alexander Pointe	Retail	Salisbury, North Carolina	100%
Bermuda Crossroads	Retail	Chester, Virginia	100%
Broad Creek Shopping Center	Retail	Norfolk, Virginia	100%
Broadmoor Plaza	Retail	South Bend, Indiana	100%
Columbus Village	Retail	Virginia Beach, Virginia*	100%
Columbus Village II	Retail	Virginia Beach, Virginia*	100%
Commerce Street Retail	Retail	Virginia Beach, Virginia*	100%
Courthouse 7-Eleven	Retail	Virginia Beach, Virginia	100%
Dick's at Town Center ⁽¹⁾	Retail	Virginia Beach, Virginia*	100%
Dimmock Square	Retail	Colonial Heights, Virginia	100%
Fountain Plaza Retail	Retail	Virginia Beach, Virginia*	100%
Gainsborough Square	Retail	Chesapeake, Virginia	100%
Greentree Shopping Center	Retail	Chesapeake, Virginia	100%

Property	Segment	Location	Ownership Interest
Hanbury Village	Retail	Chesapeake, Virginia	100%
Harper Hill Commons	Retail	Winston-Salem, North Carolina	100%
Harrisonburg Regal	Retail	Harrisonburg, Virginia	100%
Indian Lakes Crossing	Retail	Virginia Beach, Virginia	100%
Lexington Square	Retail	Lexington, South Carolina	100%
Lightfoot Marketplace ⁽²⁾	Retail	Williamsburg, Virginia	70%
Marketplace at Hilltop	Retail	Virginia Beach, Virginia	100%
North Hampton Market	Retail	Taylors, South Carolina	100%
North Point Center	Retail	Durham, North Carolina	100%
Oakland Marketplace	Retail	Oakland, Tennessee	100%
Parkway Centre	Retail	Moultrie, Georgia	100%
Parkway Marketplace	Retail	Virginia Beach, Virginia	100%
Patterson Place	Retail	Durham, North Carolina	100%
Perry Hall Marketplace	Retail	Perry Hall, Maryland	100%
Providence Plaza	Retail	Charlotte, North Carolina	100%
Red Mill Commons	Retail	Virginia Beach, Virginia	100%
Renaissance Square	Retail	Davidson, North Carolina	100%
Sandbridge Commons	Retail	Virginia Beach, Virginia	100%
Socastee Commons	Retail	Myrtle Beach, South Carolina	100%
South Retail	Retail	Virginia Beach, Virginia*	100%
South Square	Retail	Durham, North Carolina	100%
Southgate Square	Retail	Colonial Heights, Virginia	100%
Southshore Shops	Retail	Chesterfield, Virginia	100%
Stone House Square	Retail	Hagerstown, Maryland	100%
Studio 56 Retail	Retail	Virginia Beach, Virginia*	100%
Tyre Neck Harris Teeter	Retail	Portsmouth, Virginia	100%
Wendover Village	Retail	Greensboro, North Carolina	100%
1405 Point	Multifamily	Baltimore, Maryland	79%
Encore Apartments	Multifamily	Virginia Beach, Virginia*	100%
Johns Hopkins Village	Multifamily	Baltimore, Maryland	100%
Liberty Apartments	Multifamily	Newport News, Virginia	100%
Smith's Landing	Multifamily	Blacksburg, Virginia	100%
Premier Apartments (Town Center Phase VI)	Multifamily	Virginia Beach, Virginia*	100%
The Cosmopolitan	Multifamily	Virginia Beach, Virginia*	100%

* Located in the Town Center of Virginia Beach

- (1) Dicks Sporting Goods, one of the anchor tenants at the property currently known as "Dick's at Town Center", has notified the Company that it will not renew its lease beyond January 31, 2020, the end of the current term. The Company is actively evaluating alternate uses and users of the space that the tenant currently occupies.
- (2) We are entitled to a preferred return of 9% on our investment in Lightfoot Marketplace.

As of June 30, 2019, the following properties that we consolidate for financial reporting purposes were either under development or not yet stabilized:

Property	Segment	Location	Ownership Interest
Wills Wharf	Office	Baltimore, Maryland	100%
Brooks Crossing Office	Office	Newport News, Virginia	100%
Brooks Crossing Retail ⁽¹⁾	Retail	Newport News, Virginia	65%
Market at Mill Creek ⁽²⁾	Retail	Mount Pleasant, South Carolina	70%
Premier Retail (Town Center Phase VI)	Retail	Virginia Beach, Virginia*	100%
Greenside (Harding Place) ⁽³⁾	Multifamily	Charlotte, North Carolina	80%
Hoffler Place (King Street)	Multifamily	Charleston, South Carolina	92.5%
Summit Place (Meeting Street)	Multifamily	Charleston, South Carolina	90%

(1) We are entitled to a preferred return of 8% on our investment in Brooks Crossing Retail.

(2) We are entitled to a preferred return of up to 10% on our investment in Market at Mill Creek.

(3) We are entitled to a preferred return of 9% on a portion of our investment in Greenside.

*Located in the Town Center of Virginia Beach

Acquisitions

On February 6, 2019, we acquired an additional outparcel phase of Wendover Village in Greensboro, North Carolina for a contract price of \$2.7 million. This phase is leased by a single tenant.

On March 14, 2019, we acquired the office and retail portions of the One City Center project in exchange for a redemption of our 37% equity ownership in the joint venture with Austin Lawrence Partners, which totaled \$23.0 million as of the acquisition date, and a cash payment of \$23.2 million.

On April 24, 2019, we purchased a 79% controlling interest in the partnership that owns 1405 Point, a 17-story luxury high-rise apartment building located in the emerging Harbor Point area of the Baltimore waterfront in exchange for extinguishing our \$31.3 million note receivable on the project, making a cash payment of \$0.3 million, and assuming a loan payable of \$64.9 million.

On May 23, 2019, we acquired Red Mill Commons and Marketplace at Hilltop from Venture Realty Group for consideration comprised of 4.1 million Class A Units, the assumption of \$35.7 million of mortgage debt, and \$4.5 million in cash. The negotiated price was \$105.0 million, which contemplated the price of our common stock of \$15.55 per share when the purchase and sale agreement was executed. In connection with the acquisition, we and the Operating Partnership entered into a tax protection agreement with the contributors pursuant to which we and the Operating Partnership agreed, subject to certain exceptions, to indemnify the contributors for up to 10 years against certain tax liabilities incurred by them, if such liabilities result from a transaction involving a direct or indirect taxable disposition of either or both of these properties or if the Operating Partnership fails to maintain and allocate to the contributors for taxation purposes minimum levels of Operating Partnership liabilities.

On June 26, 2019, we acquired Thames Street Wharf, a Class A office building located in the Harbor Point development of Baltimore, Maryland, for \$101.0 million in cash.

Dispositions

On April 1, 2019, we sold Waynesboro Commons for a sale price of \$1.1 million. There was no gain or loss recognized on the disposition.

Second Quarter 2019 and Recent Highlights

The following highlights our results of operations and significant transactions for the three months ended June 30, 2019 and other recent developments:

- Net income attributable to common stockholders and OP Unit holders of \$6.0 million, or \$0.08 per diluted share, compared to \$5.9 million, or \$0.09 per diluted share, for the three months ended June 30, 2018.
- Funds from operations attributable to common stockholders and OP Unit holders ("FFO") of \$19.1 million, or \$0.27 per diluted share, compared to \$15.1 million, or \$0.24 per diluted share, for the three months ended June 30, 2018. See "Non-GAAP Financial Measures."
- Normalized funds from operations available to common stockholders and OP Unit holders ("Normalized FFO") of \$21.1 million, or \$0.30 per diluted share, compared to \$15.2 million, or \$0.24 per diluted share, for the three months ended June 30, 2018. See "Non-GAAP Financial Measures."
- Exercised our purchase option to acquire a 79% controlling interest in 1405 Point, the 17-story luxury high-rise apartment building located in the Harbor Point area of the Baltimore waterfront, in exchange for the Company's mezzanine loan investment and the assumption of existing debt.
- Completed the acquisitions of Red Mill Commons and Marketplace at Hilltop in Virginia Beach, Virginia for aggregate consideration of \$105.0 million, including \$63.8 million in OP Units.
- Completed the acquisition of Thames Street Wharf, a certified LEED Gold Class A trophy office building located on the waterfront in the Harbor Point development of Baltimore, Maryland, for \$101.0 million.
- Announced Southern Post, a new 240,000 square foot mixed-use development in historic downtown Roswell, Georgia. We will be the majority partner in a joint venture to develop the project and anticipates commencing construction in the first quarter of 2020. Estimated development and construction costs for the project are expected to total approximately \$80 million.
- Raised \$61.3 million of net proceeds before offering expenses through an underwritten public offering of 2.53 million shares of 6.75% Series A Cumulative Redeemable Perpetual Preferred Stock at a public offering price of \$25.00 per share.
- Raised \$7.6 million of gross proceeds through our at-the-market equity offering program at an average price of \$16.89 per share during the quarter ended June 30, 2019.

Segment Results of Operations

As of June 30, 2019, we operated our business in four segments: (i) office real estate, (ii) retail real estate, (iii) multifamily residential real estate, and (iv) general contracting and real estate services, which are conducted through our taxable REIT subsidiaries ("TRS"). Net operating income (segment revenues minus segment expenses) ("NOI") is the measure used by management to assess segment performance and allocate our resources among our segments. NOI is not a measure of operating income or cash flows from operating activities as measured by accounting principles generally accepted in the United States ("GAAP") and is not indicative of cash available to fund cash needs. As a result, NOI should not be considered an alternative to cash flows as a measure of liquidity. Not all companies calculate NOI in the same manner. We consider NOI to be an appropriate supplemental measure to net income because it assists both investors and management in understanding the core operations of our real estate and construction businesses. See Note 3 to our condensed consolidated financial statements in Item 1 of this Quarterly Report on Form 10-Q for a reconciliation of NOI to net income.

We define same store properties as those properties that we owned and operated and that were stabilized for the entirety of both periods presented. We generally consider a property to be stabilized upon 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. Additionally, any property that is fully or partially taken out of service for the purpose of redevelopment is no longer considered stabilized until the redevelopment activities are complete, the asset is placed back into service, and the occupancy criterion above is again met. A property may also be fully or partially taken out of service as a result of a partial disposition, depending on the significance of the portion of the property disposed. Finally, any property classified as held for sale is taken out of service for the purpose of computing same store operating results.

Office Segment Data

Office rental revenues, property expenses, and NOI for the three and six months ended June 30, 2019 and 2018 were as follows (in thousands):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018	Change	2019	2018	Change
	(Unaudited)					
Rental revenues	\$ 7,382	\$ 5,288	\$ 2,094	\$ 12,938	\$ 10,388	\$ 2,550
Property expenses	2,506	1,932	574	4,518	3,880	638
Segment NOI	\$ 4,876	\$ 3,356	\$ 1,520	\$ 8,420	\$ 6,508	\$ 1,912

Office segment NOI for the three and six months ended June 30, 2019 increased 45.3% and 29.4%, respectively, compared to the corresponding periods in 2018. The increase relates primarily to the acquisition of One City Center in March 2019, the commencement of operations at Brooks Crossing Office in April 2019, and the acquisition of Thames Street Wharf in June 2019, as well as increased occupancy across the rest of the office portfolio.

Office Same Store Results

Office same store results for the three and six months ended June 30, 2019 and 2018 exclude One City Center, Brooks Crossing Office, and Thames Street Wharf.

Office same store rental revenues, property expenses, and NOI for the three and six months ended June 30, 2019 and 2018 were as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018	Change	2019	2018	Change
	(Unaudited)					
Rental revenues	\$ 5,428	\$ 5,287	\$ 141	\$ 10,754	\$ 10,387	\$ 367
Property expenses	1,863	1,839	24	3,721	3,698	23
Same Store NOI	\$ 3,565	\$ 3,448	\$ 117	\$ 7,033	\$ 6,689	\$ 344
Non-Same Store NOI	1,311	(92)	1,403	1,387	(181)	1,568
Segment NOI	\$ 4,876	\$ 3,356	\$ 1,520	\$ 8,420	\$ 6,508	\$ 1,912

Office same store NOI for the three and six months ended June 30, 2019 increased 3.4% and 5.1%, respectively, compared to the corresponding periods in 2018. The increases relate primarily to higher occupancy across the same store office portfolio.

Retail Segment Data

Retail rental revenues, property expenses, and NOI for the three and six months ended June 30, 2019 and 2018 were as follows (in thousands):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018	Change	2019	2018	Change
	(Unaudited)					
Rental revenues	\$ 19,235	\$ 16,608	\$ 2,627	\$ 36,492	\$ 33,319	\$ 3,173
Property expenses	4,786	4,219	567	9,197	8,559	638
Segment NOI	\$ 14,449	\$ 12,389	\$ 2,060	\$ 27,295	\$ 24,760	\$ 2,535

Retail segment NOI for the three and six months ended June 30, 2019 increased 16.6% and 10.2%, respectively, compared to the corresponding periods in 2018. The increase was a result of the acquisition of the additional outparcel phase of Wendover Village in February 2019, the three property acquisitions completed during 2018, the commencement of operations

at Premier Retail (Part of Towncenter Phase IV) during the third quarter of 2018, increased occupancy at Lightfoot Marketplace during 2018, the commencement of operations at Market at Mill Creek, and the acquisition of Redmill Commons and Marketplace at Hilltop in May 2019. These increases were partially offset by the disposition of the leasehold interest in the building previously leased by Home Depot at Broad Creek Shopping Center in December 2018 as well as the disposition of Waynesboro Commons in April 2019.

Dicks Sporting Goods, one of the anchor tenants at the property currently known as “Dick’s at Town Center”, has notified us that it will not renew its lease beyond January 31, 2020, the end of the current term. We are actively evaluating alternate uses and users of the space that the tenant currently occupies.

Retail Same Store Results

Retail same store results for the three and six months ended June 30, 2019 and 2018 exclude Lightfoot Marketplace, Broad Creek Shopping Center, Brooks Crossing Retail, Premier Retail (part of Town Center Phase VI), Lexington Square, the additional outparcel phase of Wendover Village (acquired in February 2019), Market at Mill Creek, and Red Mill Commons and Marketplace at Hilltop (acquired in May 2019). In addition, retail same store results for the six months ended June 30, 2019 and 2018 exclude Parkway Centre and Indian Lakes Crossing (acquired in January 2018).

Retail same store rental revenues, property expenses, and NOI for the three and six months ended June 30, 2019 and 2018 were as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018	Change	2019	2018	Change
	(Unaudited)					
Rental revenues	\$ 15,146	\$ 14,627	\$ 519	\$ 28,820	\$ 28,247	\$ 573
Property expenses	3,368	3,278	90	6,590	6,411	179
Same Store NOI	\$ 11,778	\$ 11,349	\$ 429	\$ 22,230	\$ 21,836	\$ 394
Non-Same Store NOI	2,671	1,040	1,631	5,065	2,924	2,141
Segment NOI	\$ 14,449	\$ 12,389	\$ 2,060	\$ 27,295	\$ 24,760	\$ 2,535

Retail same store NOI for the three and six months ended June 30, 2019 increased 3.8% and 1.8%, respectively, compared to the corresponding periods in 2018. The increase was primarily the result of higher recoveries from tenants for capital expenditures and rental accounts receivable that previously had been charged to bad debt.

Multifamily Segment Data

Multifamily rental revenues, property expenses, and NOI for the three and six months ended June 30, 2019 and 2018 were as follows (in thousands):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018	Change	2019	2018	Change
	(Unaudited)					
Rental revenues	\$ 9,761	\$ 6,702	\$ 3,059	\$ 17,857	\$ 13,590	\$ 4,267
Property expenses	4,186	3,106	1,080	7,616	6,055	1,561
Segment NOI	\$ 5,575	\$ 3,596	\$ 1,979	\$ 10,241	\$ 7,535	\$ 2,706

Multifamily segment NOI for the three and six months ended June 30, 2019 increased 55.0% and 35.9%, respectively, compared to the corresponding periods in 2018. The increase was primarily a result of the commencement of operations at Greenside and Premier Apartments (Part of Town Center Phase IV) during the third quarter of 2018, the acquisition of 1405 Point in April 2019, and increases in rental rates and occupancy across the rest of the multifamily portfolio, particularly at Johns Hopkins Village and Smith’s Landing.

Multifamily Same Store Results

Multifamily same store results for the three and six months ended June 30, 2019 and 2018 exclude Greenside, Premier Apartments (part of Town Center Phase VI), 1405 Point, and The Cosmopolitan (due to redevelopment).

Multifamily same store rental revenues, property expenses and NOI for the three and six months ended June 30, 2019 and 2018 were as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018	Change	2019	2018	Change
	(Unaudited)					
Rental revenues	\$ 5,376	\$ 4,843	\$ 533	\$ 10,825	\$ 9,878	\$ 947
Property expenses	2,044	2,086	(42)	4,129	4,037	92
Same Store NOI	\$ 3,332	\$ 2,757	\$ 575	\$ 6,696	\$ 5,841	\$ 855
Non-Same Store NOI	2,243	839	1,404	3,545	1,694	1,851
Segment NOI	\$ 5,575	\$ 3,596	\$ 1,979	\$ 10,241	\$ 7,535	\$ 2,706

Multifamily same store NOI for the three and six months ended June 30, 2019 increased 20.9% and 14.6%, respectively, compared to the corresponding periods in 2018. The increase is primarily the result of increases in rental rates and occupancy across the same store multifamily portfolio, particularly at Johns Hopkins Village and Smith's Landing.

General Contracting and Real Estate Services Segment Data

General Contracting and real estate services revenues, expenses, and gross profit for the three and six months ended June 30, 2019 and 2018 were as follows (in thousands):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018	Change	2019	2018	Change
	(Unaudited)					
Segment revenues	\$ 21,444	\$ 20,654	\$ 790	\$ 38,480	\$ 43,704	\$ (5,224)
Segment expenses	20,123	20,087	36	36,409	42,501	(6,092)
Segment gross profit	\$ 1,321	\$ 567	\$ 754	\$ 2,071	\$ 1,203	\$ 868
Operating margin	6.2%	2.7%	3.4%	5.4%	2.8%	2.6%

General contracting and real estate services segment profit for the three and six months ended June 30, 2019 increased 133.0% and 72.2%, respectively, compared to the corresponding periods in 2018. The increase is primarily attributable to the timing of commencement of new projects and the completion of other projects.

The changes in third party construction backlog for the three and six months ended June 30, 2019 and 2018 were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(Unaudited)			
Beginning backlog	\$ 160,871	\$ 30,733	\$ 165,863	\$ 49,167
New contracts/change orders	39,177	27,807	51,196	32,376
Work performed	(21,416)	(20,619)	(38,427)	(43,622)
Ending backlog	\$ 178,632	\$ 37,921	\$ 178,632	\$ 37,921

As of June 30, 2019, we had \$67.3 million in backlog on the Interlock Commercial project, \$62.3 million in backlog on the Solis Apartments project, and \$34.7 million in backlog on the Boulder Lake Apartments project.

Consolidated Results of Operations

The following table summarizes the results of operations for the three and six months ended June 30, 2019 and 2018:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018	Change	2019	2018	Change
(unaudited, in thousands)						
Revenues						
Rental revenues	\$ 36,378	\$ 28,598	\$ 7,780	\$ 67,287	\$ 57,297	\$ 9,990
General contracting and real estate services revenues	21,444	20,654	790	38,480	43,704	(5,224)
Total revenues	57,822	49,252	8,570	105,767	101,001	4,766
Expenses						
Rental expenses	8,027	6,522	1,505	14,752	12,946	1,806
Real estate taxes	3,451	2,735	716	6,579	5,548	1,031
General contracting and real estate services expenses	20,123	20,087	36	36,409	42,501	(6,092)
Depreciation and amortization	13,478	9,179	4,299	23,382	18,457	4,925
General and administrative expenses	2,951	2,764	187	6,352	5,725	627
Acquisition, development and other pursuit costs	57	9	48	457	93	364
Impairment charges	—	98	(98)	—	98	(98)
Total expenses	48,087	41,394	6,693	87,931	85,368	2,563
Operating income	9,735	7,858	1,877	17,836	15,633	2,203
Interest income	5,593	2,375	3,218	10,912	4,607	6,305
Interest expense	(7,603)	(4,497)	(3,106)	(13,489)	(8,870)	(4,619)
Equity in income of unconsolidated real estate entities	—	—	—	273	—	273
Change in fair value of interest rate derivatives	(1,933)	(11)	(1,922)	(3,396)	958	(4,354)
Other income	4	54	(50)	64	168	(104)
Income before taxes	5,796	5,779	17	12,200	12,496	(296)
Income tax benefit	30	166	(136)	140	432	(292)
Net income	5,826	5,945	(119)	12,340	12,928	(588)
Net loss attributable to noncontrolling interests in investment entities	320	—	320	320	—	320
Preferred stock dividends	(154)	—	(154)	(154)	—	(154)
Net income attributable to common stockholders and OP Unit holders	\$ 5,992	\$ 5,945	\$ 47	\$ 12,506	\$ 12,928	\$ (422)

Rental revenues for the three and six months ended June 30, 2019 increased \$7.8 million and \$10.0 million compared to the corresponding periods in 2018 as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018	Change	2019	2018	Change
	(unaudited, in thousands)					
Office	\$ 7,382	\$ 5,288	\$ 2,094	\$ 12,938	\$ 10,388	\$ 2,550
Retail	19,235	16,608	2,627	36,492	33,319	3,173
Multifamily	9,761	6,702	3,059	17,857	13,590	4,267
	<u>\$ 36,378</u>	<u>\$ 28,598</u>	<u>\$ 7,780</u>	<u>\$ 67,287</u>	<u>\$ 57,297</u>	<u>\$ 9,990</u>

Office rental revenues for the three and six months ended June 30, 2019 increased 39.6% and 24.5%, respectively, compared to the corresponding periods in 2018, primarily as a result of the acquisition of One City Center in March 2019, the commencement of operations at Brooks Crossing Office in April 2019, and the acquisition of Thames Street Wharf in June 2019, as well as increased occupancy across the rest of the office portfolio

Retail rental revenues for the three and six months ended June 30, 2019 increased 15.8% and 9.5%, respectively, compared to the corresponding periods in 2018, primarily as a result of the acquisition of the additional outparcel phase of Wendover Village in February 2019, the three property acquisitions completed during 2018, the commencement of operations at Premier Retail (Part of Towncenter Phase IV) during the third quarter of 2018, increased occupancy at Lightfoot Marketplace during 2018, the commencement of operations at Market at Mill Creek, and the acquisition of Red Mill Commons and Marketplace at Hilltop in May 2019. These increases were partially offset by the disposition of the leasehold interest in the building previously leased by Home Depot at Broad Creek Shopping Center in December 2018 as well as the disposition of Waynesboro Commons in April 2019.

Multifamily rental revenues for the three and six months ended June 30, 2019 increased 45.6% and 31.4%, respectively, compared to the corresponding periods in 2018, primarily as a result of the commencement of operations at Greenside and Premier Apartments (Part of Town Center Phase IV) during the third quarter of 2018, the acquisition of 1405 Point in April 2019, and increases in rental rates and occupancy across the rest of the multifamily portfolio, particularly at Johns Hopkins Village and Smith's Landing.

General contracting and real estate services revenues for the three and six months ended June 30, 2019 increased 3.8% and decreased 12.0%, respectively, compared to the corresponding periods in 2018 due to the timing of commencement of new projects and the completion of other projects.

Rental expenses for the three and six months ended June 30, 2019 increased \$1.5 million and \$1.8 million compared to the corresponding periods in 2018 as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018	Change	2019	2018	Change
	(unaudited, in thousands)					
Office	\$ 1,853	\$ 1,430	\$ 423	\$ 3,339	\$ 2,876	\$ 463
Retail	2,893	2,563	330	5,493	5,220	273
Multifamily	3,281	2,529	752	5,920	4,850	1,070
	<u>\$ 8,027</u>	<u>\$ 6,522</u>	<u>\$ 1,505</u>	<u>\$ 14,752</u>	<u>\$ 12,946</u>	<u>\$ 1,806</u>

Office rental expenses for the three and six months ended June 30, 2019 increased 29.6% and 16.1%, respectively, compared to the corresponding periods in 2018, primarily as a result of the acquisition of One City Center in March 2019, the commencement of operations at Brooks Crossing Office in April 2019, and the acquisition of Thames Street Wharf in June 2019.

Retail rental expenses for the three and six months ended June 30, 2019 increased 12.9%, and 5.2%, respectively, compared to the corresponding periods in 2018, primarily as a result of the acquisition of Lexington Square in the third quarter of 2018, the commencement of operations at Premier Retail (Part of Town Center Phase IV) during the third quarter of 2018, the commencement of operations at Market at Mill Creek in April 2019, and the acquisition of Red Mill Commons and

Marketplace at Hilltop in May 2019. These increases were partially offset by the disposition of the leasehold interest in the building previously leased by Home Depot at Broad Creek Shopping Center in December 2018 as well as the disposition of Waynesboro Commons in April 2019.

Multifamily rental expenses for the three and six months ended June 30, 2019 increased 29.7% and 22.1%, respectively, compared to the corresponding periods in 2018, primarily as a result of the commencement of operations at Greenside and Premier Apartments (Part of Town Center Phase IV) during the third quarter of 2018 and the acquisition of 1405 Point in April 2019.

Real estate taxes for the three and six months ended June 30, 2019 increased \$0.7 million and \$1.0 million, respectively, compared to the corresponding periods in 2018 as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018	Change	2019	2018	Change
	(unaudited, in thousands)					
Office	\$ 653	\$ 502	\$ 151	\$ 1,179	\$ 1,004	\$ 175
Retail	1,893	1,656	237	3,704	3,339	365
Multifamily	905	577	328	1,696	1,205	491
	<u>\$ 3,451</u>	<u>\$ 2,735</u>	<u>\$ 716</u>	<u>\$ 6,579</u>	<u>\$ 5,548</u>	<u>\$ 1,031</u>

Office real estate taxes for the three and six months ended June 30, 2019 increased 30.1% and 17.4%, respectively, compared to the corresponding periods in 2018 primarily due to the acquisition of One City Center in March 2019, the commencement of operations at Brooks Crossing Office in April 2019, and the acquisition of Thames Street Wharf in June 2019.

Retail real estate taxes for the three and six months ended June 30, 2019 increased 14.3% and 10.9%, respectively, compared to the corresponding periods in 2018 primarily due to the acquisition of Lexington Square in the third quarter of 2018, the commencement of operations at Premier Retail (Part of Town Center Phase IV) during the third quarter of 2018, the commencement of operations at Market at Mill Creek in April 2019, and the acquisition of Red Mill Commons and Marketplace at Hilltop in May 2019. These increases were partially offset by the disposition of the leasehold interest in the building previously leased by Home Depot at Broad Creek Shopping Center in December 2018 as well as the disposition of Waynesboro Commons in April 2019.

Multifamily real estate taxes for the three and six months ended June 30, 2019 increased 56.8% and 40.7%, respectively, compared to the corresponding periods in 2018 as a result of the commencement of operations at Greenside and Premier Apartments (Part of Town Center Phase IV) during the third quarter of 2018 and the acquisition of 1405 Point in April 2019.

General contracting and real estate services expenses for the three and six months ended June 30, 2019 increased 0.2% and decreased 14.3%, respectively, compared to the corresponding periods in 2018 due to the timing of commencement of new projects and the completion of other projects.

Depreciation and amortization for the three and six months ended June 30, 2019 increased 46.8% and 26.7%, respectively, compared to the corresponding periods in 2018 as a result of development properties placed in service and acquisitions of operating properties.

General and administrative expenses for the three and six months ended June 30, 2019 increased 6.8% and 11.0%, respectively, compared to the corresponding periods in 2018 as a result of higher compensation expense and benefit costs from increased employee headcount.

Acquisition, development and other pursuit costs for the six months ended June 30, 2019 increased \$0.4 million compared to the six months ended June 30, 2018 primarily due to the write off of costs relating to a potential development project that was abandoned during the six months ended June 30, 2019. There were no significant write-offs during the three months ended June 30, 2019 and 2018.

Impairment charges of \$0.1 million during the three and six months ended June 30, 2018 relate to tenants that vacated prior to their lease expiration.

Interest income for the three and six months ended June 30, 2019 increased 135.5% and 136.9%, respectively, compared to the corresponding periods in 2018 due to higher notes receivable balances due to the increased loan funding.

Interest expense for the three and six months ended June 30, 2019 increased 69.1% and 52.1%, respectively, compared to the corresponding periods in 2018 primarily due to the increase in net indebtedness through increased borrowings on the corporate credit facility, the increased number of construction loans, and additional borrowings on the property loans.

The change in fair value of interest rate derivatives for the three and six months ended June 30, 2019 experienced significant decreases compared to the corresponding periods in 2018 due to significant changes in forward LIBOR (the London Inter-Bank Offered Rate).

Other income did not change significantly from period to period.

Income tax benefit that we recognized during the three and six months ended June 30, 2019 and 2018, respectively, were attributable to the taxable profits and losses of our development and construction businesses that we operate through our TRS.

Liquidity and Capital Resources

Overview

We believe our primary short-term liquidity requirements consist of general contractor expenses, operating expenses and other expenditures associated with our properties, including tenant improvements, leasing commissions and leasing incentives, dividend payments to our stockholders required to maintain our REIT qualification, debt service, capital expenditures, new real estate development projects, mezzanine loan funding requirements, 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, borrowings available under our credit facility, and net proceeds from the sale of common stock through our at-the-market continuous equity offering program (the "ATM Program"), which is discussed below.

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, capital improvements, and mezzanine loan funding requirements. We expect to meet our long-term liquidity requirements with net cash from operations, long-term secured and unsecured indebtedness, and the issuance of equity and debt securities. We also may fund property development and acquisitions and capital improvements using our credit facility pending long-term financing.

As of June 30, 2019, we had unrestricted cash and cash equivalents of \$23.1 million available for both current liquidity needs as well as development activities. We also had restricted cash in escrow of \$2.9 million, some of which is available for capital expenditures at our operating properties. As of June 30, 2019, we had \$27.7 million available under our credit facility to meet our short-term liquidity requirements and \$104.3 million available under our construction loans to fund development activities.

We have no loans scheduled to mature during the remainder of 2019.

ATM Program

On February 26, 2018, we commenced our ATM Program through which we are able to, from time to time, issue and sell shares of our common stock having an aggregate offering price of up to \$125.0 million. During the six months ended June 30, 2019, we issued and sold an aggregate of 2,522,186 shares of common stock at an average price of \$15.16 per share under the ATM Program, receiving net proceeds, after offering costs and commissions, of \$37.8 million. As of July 31, 2019, we had \$19.3 million in remaining availability under the 2018 ATM Program.

Series A Preferred Stock Offering

On June 18, 2019, the Company issued 2,530,000 shares of its 6.75% Series A Preferred Stock with a liquidation preference of \$25.00 per share, which included 330,000 shares issued upon the underwriters' full exercise of their option to purchase additional shares. Net proceeds from the offering, after the underwriting discount but before offering expenses payable by the Company, were approximately \$61.3 million. The Company used the net proceeds to fund a portion of the purchase price of Thames Street Wharf, a 263,426 square foot office building located in the Harbor Point neighborhood of

Baltimore, Maryland. The balance of the net proceeds was used to repay a portion of the outstanding borrowings under the Company's unsecured revolving credit facility and for general corporate purposes.

Credit Facility

We have a senior credit facility that was modified on January 31, 2019 to increase the maximum total commitments to \$355.0 million, comprised of a \$150.0 million senior unsecured revolving credit facility (the "revolving credit facility") and a \$205.0 million senior unsecured term loan facility (the "term loan facility" and, together with the revolving credit facility, the "credit facility"), with a syndicate of banks. We intend to use future borrowings under the credit facility for general corporate purposes, including funding acquisitions, mezzanine lending, and development and redevelopment of properties in our portfolio, and for working capital.

The credit facility includes an accordion feature that allows the total commitments to be further increased to \$450.0 million, subject to certain conditions, including obtaining commitments from any one or more lenders. The revolving credit facility has a scheduled maturity date of October 26, 2021, with two six-month extension options, subject to certain conditions, including payment of a 0.075% extension fee at each extension. The term loan facility has a scheduled maturity date of October 26, 2022.

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

The Operating Partnership is the borrower under the credit facility, and its obligations under the credit facility are guaranteed by us and certain of its subsidiaries that are not otherwise prohibited from providing such guaranty.

The credit agreement contains customary representations and warranties and financial and other affirmative and negative covenants. Our ability to borrow under the credit facility is subject to our ongoing compliance with a number of financial covenants, affirmative covenants and other restrictions, including the following:

- Total leverage ratio of not more than 60% (or 65% for the two consecutive quarters following any acquisition that is equal to or greater than 10% of our total asset value (as defined in the credit agreement), but only up to two times during the term of the credit facility);
- Ratio of adjusted EBITDA (as defined in the credit agreement) to fixed charges of not less than 1.50 to 1.0;
- Tangible net worth of not less than the sum of 75% of tangible net worth (as defined in the credit agreement) as of September 30, 2017 and 75% of the net equity proceeds received after June 30, 2017;
- Ratio of secured indebtedness to total asset value of not more than 40%;
- Ratio of secured recourse debt to total asset value of not more than 20%;
- Total unsecured leverage ratio of not more than 60% (or 65% for the two consecutive quarters following any acquisition that is equal to or greater than 10% of our total asset value, but only up to two times during the term of the credit facility);
- Unencumbered interest coverage ratio (as defined in the credit agreement) of not less than 1.75 to 1.0;
- Ratio of unencumbered NOI (as defined in the credit agreement) to all unsecured debt of not less than 12%;
- Maintenance of a minimum of at least 15 unencumbered properties (as defined in the credit agreement) with an unencumbered asset value (as defined in the credit agreement) of not less than \$300.0 million at any time; and
- Minimum occupancy rate (as defined in the credit agreement) for all unencumbered properties of not less than 80% at any time.

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

We may, at any time, voluntarily prepay any loan under the credit facility in whole or in part without premium or penalty, except for those portions subject to an interest rate swap agreement.

The credit agreement includes customary events of default, in certain cases subject to customary periods to cure. The occurrence of an event of default, following the applicable cure period, would permit the lenders to, among other things, declare the unpaid principal, accrued and unpaid interest and all other amounts payable under the credit facility to be immediately due and payable.

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

Consolidated Indebtedness

The following table sets forth our consolidated indebtedness as of June 30, 2019 (\$ in thousands):

	Amount Outstanding	Interest Rate (a)	Effective Rate for Variable Debt	Maturity Date	Balance at Maturity
Secured Debt					
Greenside (Harding Place)	\$ 28,154	LIBOR + 2.95%	5.35%	February 24, 2020	\$ 28,154
1405 Point	64,902	LIBOR + 2.75%	5.15%	May 1, 2020	64,902
Premier (Town Center Phase VI)	21,830	LIBOR + 2.75%	5.15%	June 29, 2020	21,830
Hoffler Place (King Street)	22,818	LIBOR + 3.24%	5.64%	January 1, 2021	22,818
Summit Place (Meeting Street)	24,035	LIBOR + 3.24%	5.64%	January 1, 2021	24,035
Southgate Square	21,002	LIBOR + 1.60%	4.00%	April 29, 2021	19,462
4525 Main Street (b)	32,034	3.25%	N/A	September 10, 2021	30,774
Encore Apartments (b)	24,966	3.25%	N/A	September 10, 2021	24,006
Red Mill West	11,512	4.23%	N/A	June 1, 2022	10,186
Thames Street Wharf	70,000	LIBOR + 1.30%	3.70%	June 26, 2022	70,000
Hanbury Village	18,768	3.78%	N/A	August 15, 2022	17,121
Marketplace at Hilltop	10,709	4.42%	N/A	October 1, 2022	9,383
Socastee Commons	4,619	4.57%	N/A	January 6, 2023	4,223
Sandbridge Commons	8,139	LIBOR + 1.75%	4.15%	January 17, 2023	7,247
Wills Wharf	—	LIBOR + 2.25%	4.90%	June 26, 2023	—
249 Central Park Retail (c)	16,939	LIBOR + 1.60%	3.85% (d)	August 10, 2023	15,935
South Retail (c)	7,437	LIBOR + 1.60%	3.85% (d)	August 10, 2023	6,996
Fountain Plaza Retail (c)	10,194	LIBOR + 1.60%	3.85% (d)	August 10, 2023	9,590
Lightfoot Marketplace	17,900	LIBOR + 1.75%	4.77% (e)	October 12, 2023	17,900
One City Center	25,540	LIBOR + 1.85%	4.25%	April 1, 2024	22,559
Red Mill Central	2,625	4.80%	N/A	June 17, 2024	1,764
Red Mill South	6,285	3.57%	N/A	May 1, 2025	4,383
Brooks Crossing Office	13,602	LIBOR + 1.60%	4.00%	July 1, 2025	11,773
Market at Mill Creek	14,278	LIBOR + 1.55%	3.95%	July 12, 2025	12,098
Johns Hopkins Village	52,256	LIBOR + 1.25%	4.19% (f)	August 7, 2025	45,967
North Point Center Note 2	2,287	7.25%	N/A	September 15, 2025	1,344
Lexington Square	14,820	4.50%	N/A	September 1, 2028	12,044
Red Mill North	4,443	4.73%	N/A	December 31, 2028	3,295
Smith's Landing	18,583	4.05%	N/A	June 1, 2035	—
Liberty Apartments	14,303	5.66%	N/A	November 1, 2043	—
The Cosmopolitan	44,088	3.35%	N/A	July 1, 2051	—
Total secured debt	\$ 629,068				\$ 519,789
Unsecured Debt					
Senior unsecured revolving credit facility	122,000	LIBOR+1.40%-2.00%	3.95%	October 26, 2021	122,000
Senior unsecured term loan	55,000	LIBOR+1.35%-1.95%	3.90%	October 26, 2022	55,000
Senior unsecured term loan	150,000	LIBOR+1.35%-1.95%	3.50%-4.28% (d)(f)	October 26, 2022	150,000
Total unsecured debt	\$ 327,000				\$ 327,000
Total principal balances	\$ 956,068				\$ 846,789
Unamortized GAAP adjustments	(6,723)				—
Indebtedness, net	\$ 949,345				\$ 846,789

(a) LIBOR rate is determined by individual lenders.

(b) Cross collateralized.

(c) Cross collateralized.

(d) Includes debt subject to interest rate swap locks, established April 4, 2019.

(e) Includes \$10.5 million of debt subject to interest rate swap locks.

(f) Includes debt subject to interest rate swap locks.

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

As of June 30, 2019, our principal payments during the following years are as follows (\$ in thousands):

Year ⁽¹⁾	Amount Due	Percentage of Total
2019 (excluding six months ended June 30, 2019)	\$ 4,037	1%
2020	123,994	13%
2021	251,724	26%
2022	319,027	33%
2023	68,010	7%
Thereafter	189,276	20%
	<u>\$ 956,068</u>	<u>100%</u>

(1) Does not reflect the effect of any maturity extension options.

Interest Rate Derivatives

As of June 30, 2019, the Company held the following interest rate swap agreements (\$ in thousands):

Related Debt	Notional Amount	Index	Swap Fixed Rate	Debt effective rate	Effective Date	Expiration Date
Senior unsecured term loan	\$ 50,000	1-month LIBOR	2.00%	3.50%	3/1/2016	2/20/2020
Senior unsecured term loan	50,000	1-month LIBOR	2.78%	4.28%	5/1/2018	5/1/2023
John Hopkins Village	52,256	1-month LIBOR	2.94%	4.19%	8/7/2018	8/7/2025
Lightfoot Marketplace	10,500	1-month LIBOR	3.02%	4.77%	10/12/2018	10/12/2023
249 Central Park Retail, South Retail, and Fountain Plaza Retail	34,570	1-month LIBOR	2.25%	3.85%	4/1/2019	8/10/2023
Senior unsecured term loan	50,000	1-month LIBOR	2.26%	3.76%	4/1/2019	10/22/2022
Total	<u>\$ 247,326</u>					

As of June 30, 2019, we were party to the following LIBOR interest rate cap agreements (\$ in thousands):

Effective Date	Maturity Date	Strike Rate	Notional Amount
June 23, 2017	July 1, 2019	1.50%	\$ 50,000
September 18, 2017	October 1, 2019	1.50%	50,000
November 28, 2017	December 1, 2019	1.50%	50,000
March 7, 2018	April 1, 2020	2.25%	50,000
July 16, 2018	August 1, 2020	2.50%	50,000
December 11, 2018	January 1, 2021	2.75%	50,000
May 15, 2019	June 1, 2022	2.50%	100,000
Total			<u>\$ 400,000</u>

Off-Balance Sheet Arrangements

In connection with the our mezzanine lending activities, we have guaranteed payment of portions of certain senior loans of third parties associated with the development projects. The following table summarizes the guarantees we made as of June 30, 2019 (in thousands):

Development project	Payment guarantee amount
The Residences at Annapolis Junction	\$ 8,300
Delray Plaza	5,180
Nexton Square	12,600
Interlock Commercial	30,654
Total	\$ 56,734

Cash Flows

	Six Months Ended June 30,		Change
	2019	2018	
	(in thousands)		
Operating Activities	\$ 28,112	\$ 11,260	\$ 16,852
Investing Activities	(246,610)	(103,118)	(143,492)
Financing Activities	220,408	84,360	136,048
Net Increase (decrease)	\$ 1,910	\$ (7,498)	\$ 9,408
Cash, Cash Equivalents, and Restricted Cash, Beginning of Period	\$ 24,051	\$ 22,916	
Cash, Cash Equivalents, and Restricted Cash, End of Period	\$ 25,961	\$ 15,418	

Net cash provided by operating activities during the six months ended June 30, 2019 increased \$16.9 million compared to the six months ended June 30, 2018 primarily as a result of timing differences in operating assets and liabilities as well as increased net operating income from the property portfolio.

During the six months ended June 30, 2019, we invested \$143.5 million more in cash compared to the six months ended June 30, 2018 due to increased acquisition activity.

Net cash provided by financing activities during the six months ended June 30, 2019 increased \$136.0 million compared to six months ended June 30, 2018, primarily as a result of the issuance of the Series A Preferred Stock and the loan obtained for Thames Street Wharf.

Non-GAAP Financial Measures

We calculate FFO in accordance with the standards established by the National Association of Real Estate Investment Trusts ("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), impairment of real estate assets, and after adjustments for unconsolidated partnerships and joint ventures.

FFO is a supplemental non-GAAP financial measure. Management uses FFO as a supplemental performance measure because we believe that FFO is beneficial to investors as a starting point in measuring our operational performance. Specifically, in excluding real estate related depreciation and amortization and gains and losses from property dispositions, which do not relate to or are not indicative of operating performance, FFO provides a performance measure that, when compared 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 calculation of FFO may not be comparable to such other REITs' calculation of FFO. Accordingly, FFO should be considered only as a supplement to net income as a measure of our performance. FFO should not be used as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to pay dividends or service indebtedness. Also, FFO should not be used as a supplement to or substitute for cash flow from operating activities computed in accordance with GAAP.

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

The following table sets forth a reconciliation of FFO and Normalized FFO for the three and six months ended June 30, 2019 and 2018 to net income, the most directly comparable GAAP measure:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(in thousands, except per share and unit amounts)			
Net income attributable to common stockholders and OP Unit holders	\$ 5,992	\$ 5,945	\$ 12,506	\$ 12,928
Depreciation and amortization ⁽¹⁾	13,118	9,179	23,247	18,457
FFO attributable to common stockholders and OP Unit holders	\$ 19,110	\$ 15,124	\$ 35,753	\$ 31,385
Acquisition, development and other pursuit costs	57	9	457	93
Impairment of intangible assets and liabilities	—	98	—	98
Change in fair value of interest rate derivatives	1,933	11	3,396	(958)
Normalized FFO available to common stockholders and OP Unit holders	\$ 21,100	\$ 15,242	\$ 39,606	\$ 30,618
Net income attributable to common stockholders and OP Unit holders per diluted share and unit	\$ 0.08	\$ 0.09	\$ 0.18	\$ 0.21
FFO per diluted share and unit attributable to common stockholders and OP Unit holders	\$ 0.27	\$ 0.24	\$ 0.51	\$ 0.50
Normalized FFO per diluted share and unit attributable to common stockholders and OP Unit holders	\$ 0.30	\$ 0.24	\$ 0.57	\$ 0.49
Weighted average common shares and units - diluted	71,232	63,214	69,584	62,878

(1) The adjustment for depreciation and amortization for the six months ended June 30, 2019 includes \$0.2 million of depreciation attributable to the Company's investment in One City Center from January 1, 2019 to March 14, 2019, which was an unconsolidated real estate investment during this period. Additionally, the adjustment for depreciation and amortization for both the three and six month periods ended June 30, 2019 excludes \$0.4 million of depreciation attributable to the Company's joint venture partner at 1405 Point.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements that have been prepared in accordance with GAAP. The preparation of these financial statements requires us to exercise our best judgment in making estimates that affect the reported amounts of assets, liabilities, revenues, and expenses. We base our estimates on historical experience and other assumptions that we believe to be reasonable under the circumstances. We evaluate our estimates on an ongoing basis, based upon then-currently 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, 2018.

On February 25, 2016, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") that requires lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-

use assets (ASU 2016-02—*Leases* (Topic 842)). The new standard also makes targeted changes to lessor accounting. We adopted the new standard on January 1, 2019, using the modified retrospective approach for all leases existing at, or entered into after, the beginning of the earliest comparative period presented as permitted in Accounting Standards Codification ("ASC") Topic 842.

In addition, we elected the package of practical expedients permitted under the transition guidance within the new standard, which allowed us to not reassess whether any expired or existing contracts are or contain leases, not reassess the lease classification for any expired or existing leases, and not reassess initial direct costs for existing leases. As of January 1, 2019, we did not have any leases classified as finance leases. We also elected a practical expedient that allowed us to not separate non-lease components from lease components and instead to account for each lease and non-lease component as a single lease component. The adoption of the new standard as of January 1, 2019 did not impact our consolidated results of operations and had no impact on cash flows.

As a lessee we had six ground leases on five properties as of January 1, 2019 with initial terms that range from 20 to 65 years and options to extend up to an additional 70 years in certain cases. The exercise of lease renewal options is at our sole discretion. The depreciable life of assets and leasehold improvements are limited by the expected lease term. We recognize lease expense on a straight-line basis over the lease term. Our lease agreements do not contain any residual value guarantees or material restrictive covenants.

The long-term ground leases, represent a majority of our current operating lease payments. We recorded right-of-use assets totaling \$32.2 million and lease liabilities totaling \$41.4 million upon adopting this standard on January 1, 2019. We utilized a weighted average discount rate of 5.4% to measure our lease liabilities upon adoption.

As a lessor we lease our properties under operating leases and recognize base rents on a straight-line basis over the lease term. We also recognize revenue from tenant recoveries, through which tenants reimburse us on an accrual basis for certain expenses such as utilities, janitorial services, repairs and maintenance, security and alarms, parking lot and ground maintenance, administrative services, management fees, insurance, and real estate taxes. Rental revenues are reduced by the amount of any leasing incentives amortized on a straight-line basis over the term of the applicable lease. In addition, we recognize contingent rental revenue (e.g., percentage rents based on tenant sales thresholds) when the sales thresholds are met. Many tenant leases include one or more options to renew, with renewal terms that can extend the lease term from one to 15 years or more. The exercise of lease renewal options is at the tenant's sole discretion. We include a renewal period in the lease term only if it appears at lease inception that the renewal is reasonably assured.

The new standard includes new considerations regarding the recognition of rental revenue when collection is not probable. We changed our presentation and measurement of charges for uncollectable lease revenue associated with office, retail, and residential leasing activity, reflecting those amounts as a component of rental income on the Condensed Consolidated Statement of Comprehensive Income for the three and six months ended June 30, 2019. However, in accordance with our prospective adoption of the standard, we did not adjust the prior year period presentation of charges for uncollectable lease revenue associated with its office, retail, and residential leasing activity as a component of operating expenses, excluding property taxes, on the Condensed Consolidated Statement of Comprehensive Income for the three and six months ended June 30, 2018. Instead, we recorded a combined adjustment of \$0.2 million to the opening balances for distributions in excess of earnings and noncontrolling interest relating to receivables where collection of substantially all operating lease payments was not probable as of January 1, 2019.

Lease-related receivables, which include contractual amounts accrued and unpaid from tenants and accrued straight-line rents receivable, are reduced for credit losses. Such amounts are recognized as a reduction to real estate rental revenues. We evaluate the collectability of lease receivables using several factors, including a lessee's creditworthiness. We recognize a credit loss on lease-related receivables when, in the opinion of management, collection of substantially all lease payments is not probable. When collectability is determined not probable, any lease income subsequent to recognizing the credit loss is limited to the lesser of the lease income reflected on a straight-line basis or cash collected.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

At June 30, 2019 and excluding unamortized GAAP adjustments, approximately \$457.4 million, or 47.8%, of our debt had fixed interest rates and approximately \$498.7 million, or 52.2%, had variable interest rates. At June 30, 2019, LIBOR was approximately 240 basis points. Assuming no increase in the level of our variable rate debt, if LIBOR increased by 100 basis points, our cash flow would decrease by \$1.3 million per year as a result of the interest rate caps. Assuming no increase in the level of our variable rate debt, if LIBOR decreased by 100 basis points, our cash flow would increase by \$3.6 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 Securities Exchange Act of 1934, as amended (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 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 June 30, 2019, 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 June 30, 2019, 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.

There have been no changes to our internal control over financial reporting during the quarter ended June 30, 2019 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 ongoing 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

Except as set forth below, 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, 2018.

Risks Related to Our Series A Preferred Stock

Our Series A Preferred Stock is subordinate to our existing and future debt, and the interests of holders of our Series A Preferred Stock could be diluted by the issuance of additional shares of preferred stock and by other transactions.

Our Series A Preferred Stock ranks junior to all of our existing and future indebtedness, any classes and series of our capital stock expressly designated as ranking senior to our Series A Preferred Stock as to distribution rights and rights upon our liquidation, dissolution or winding up, and other non-equity claims on us and our assets available to satisfy claims against us, including claims in bankruptcy, liquidation or similar proceedings. Our existing debt includes restrictions on our ability to pay dividends to preferred stockholders, and our other existing or future debt may include similar restrictions. Subject to limitations prescribed by Maryland law and our charter, our Board of Directors is authorized to issue, from our authorized but unissued shares of capital stock, preferred stock in such classes or series as our Board of Directors may determine and to establish from time to time the number of shares of preferred stock to be included in any such class or series. The issuance of additional shares of Series A Preferred Stock or additional shares of capital stock ranking on parity with our Series A Preferred Stock would dilute the interests of the holders of our Series A Preferred Stock, and the issuance of shares of any class or series of our capital stock expressly designated as ranking senior to our Series A Preferred Stock as to distribution rights and rights upon our liquidation, dissolution or winding up or the incurrence of additional indebtedness could adversely affect our ability to pay dividends on, redeem or pay the liquidation preference on our Series A Preferred Stock. Other than the conversion right afforded to holders of our Series A Preferred Stock that may become exercisable in connection with a change of control (as defined in the articles supplementary designating the terms of our Series A Preferred Stock), none of the provisions relating to our Series A Preferred Stock contain any terms relating to or limiting our indebtedness or affording the holders of our Series A Preferred Stock protection in the event of a highly leveraged or other transaction, including a merger or the sale, lease or conveyance of all or substantially all our assets, that might adversely affect the holders of our Series A Preferred Stock, so long as the rights of the holders of our Series A Preferred Stock are not materially and adversely affected.

Our Series A Preferred Stock has not been rated.

We have not sought to obtain a rating for our Series A Preferred Stock. No assurance can be given, however, that one or more rating agencies might not independently determine to issue such a rating or that such a rating, if issued, would not adversely affect the market price of our Series A Preferred Stock. In addition, we may elect in the future to obtain a rating of our Series A Preferred Stock, which could adversely impact the market price of our Series A Preferred Stock. Ratings only reflect the views of the rating agency or agencies issuing the ratings and such ratings could be revised downward or withdrawn entirely at the discretion of the issuing rating agency if in its judgment circumstances so warrant. Any such downward revision or withdrawal of a rating could have a material adverse effect on the market price of our Series A Preferred Stock.

Holders of our Series A Preferred Stock have extremely limited voting rights.

Our common stock is the only class of our securities that carry full voting rights. Voting rights for holders of our Series A Preferred Stock exist primarily with respect to the ability to elect, together with holders of our capital stock ranking on parity with our Series A Preferred Stock and having similar voting rights, two additional directors to our Board of Directors in the event that six quarterly dividends (whether or not consecutive) payable on our Series A Preferred Stock are in arrears, and with respect to voting on amendments to our charter or articles supplementary relating to our Series A Preferred Stock that materially and adversely affect the rights of the holders of our Series A Preferred Stock or create additional classes or series of

our capital stock expressly designated as ranking senior to our Series A Preferred Stock as to distribution rights and rights upon our liquidation, dissolution or winding up. Other than as described above and as set forth in more detail in the articles supplementary designating the terms of our Series A Preferred Stock, holders of our Series A Preferred Stock will not have any voting rights.

Our cash available for dividends may not be sufficient to pay dividends on our Series A Preferred Stock at expected levels, and we cannot assure you of our ability to pay dividends in the future. We may use borrowed funds or funds from other sources to pay dividends, which may materially and adversely impact our operations.

We intend to pay regular quarterly dividends to holders of our Series A Preferred Stock. Dividends declared by us will be authorized by our Board of Directors in its sole discretion out of assets legally available for distribution and will depend upon a number of factors, including our earnings, our financial condition, the requirements for qualification as a REIT, restrictions under applicable law, our need to comply with the terms of our existing financing arrangements, the capital requirements of our company and other factors as our Board of Directors may deem relevant from time to time. We may be required to fund dividends from working capital, borrowings under our revolving credit facility, proceeds from offerings of securities or a sale of assets to the extent distributions exceed earnings or cash flows from operations. Funding dividends from working capital would restrict our operations. If we borrow from our revolving credit facility in order to pay dividends, we would be more limited in our ability to execute our strategy of using that revolving credit facility to fund acquisitions or capital improvements. If we are required to sell assets to fund dividends, such asset sales may occur at a time or in a manner that is not consistent with our disposition strategy. If we borrow to fund dividends, our leverage ratios and future interest costs would increase, thereby reducing our earnings and cash available for distribution from what they otherwise would have been. We may not be able to pay dividends in the future. In addition, some of our distributions may be considered a return of capital for income tax purposes. If we decide to make distributions in excess of our current and accumulated earnings and profits, such distributions would generally be considered a return of capital for federal income tax purposes to the extent of the holder's adjusted tax basis in their shares. A return of capital is not taxable, but it has the effect of reducing the holder's adjusted tax basis in its investment. If distributions exceed the adjusted tax basis of a holder's shares, they will be treated as gain from the sale or exchange of such stock.

Holders of our Series A Preferred Stock may not be permitted to exercise conversion rights upon a change of control. If exercisable, the change of control conversion feature of our Series A Preferred Stock may not adequately compensate preferred stockholders, and the change of control conversion and redemption features of our Series A Preferred Stock may make it more difficult for a party to take over our company or discourage a party from taking over our company

Upon the occurrence of a change of control (as defined in the articles supplementary designating the terms of our Series A Preferred Stock), holders of our Series A Preferred Stock will have the right to convert some or all of their Series A Preferred Stock into shares of our common stock (or equivalent value of alternative consideration). Notwithstanding that we generally may not redeem our Series A Preferred Stock prior to June 18, 2024, we have a special optional redemption right to redeem our Series A Preferred Stock in the event of a change of control, and holders of our Series A Preferred Stock will not have the right to convert any shares of our Series A Preferred Stock that we have elected to redeem prior to the change of control conversion date. Upon such a conversion, the holders will be limited to a maximum number of shares of our common stock equal to the 2.97796 (i.e. the "Share Cap"), subject to certain adjustments, multiplied by the number of our Series A Preferred Stock converted. If the Common Stock Price (as defined in the articles supplementary designating the terms of our Series A Preferred Stock) is less than \$8.395 (which is approximately 50% of the per-share closing sale price of our common stock on June 10, 2019), subject to adjustment, each holder will receive a maximum of 2.97796 shares of our common stock per share of our Series A Preferred Stock, which may result in a holder receiving value that is less than the liquidation preference of our Series A Preferred Stock. In addition, those features of our Series A Preferred Stock may have the effect of inhibiting a third party from making an acquisition proposal for our company or of delaying, deferring or preventing a change of control of our company under circumstances that otherwise could provide the holders of our common stock and Series A Preferred Stock with the opportunity to realize a premium over the then-current market price or that stockholders may otherwise believe is in their best interests.

Listing on the NYSE does not guarantee that a market for our Series A Preferred Stock will be maintained.

There is no guarantee our Series A Preferred Stock will remain listed on the NYSE or any other nationally recognized exchange. If our Series A Preferred Stock is delisted from the NYSE or another nationally recognized exchange, we could face significant material adverse consequences, including:

- a limited availability of market quotations for our Series A Preferred Stock;
- reduced liquidity with respect to our Series A Preferred Stock;

- a determination that our Series A Preferred Stock is “penny stock,” which will require brokers trading in our Series A Preferred Stock to adhere to more stringent rules, possibly resulting in a reduced level of trading activity in the secondary trading market for our Series A Preferred Stock; and
- a decreased ability to issue additional securities or obtain additional financing in the future.

Moreover, an active trading market on the NYSE for our Series A Preferred Stock may not develop or, if it does develop, may not be sustained, in which case the market price of our Series A Preferred Stock could be materially and adversely affected.

The market price and trading volume of our Series A Preferred Stock may fluctuate significantly and be volatile due to numerous circumstances beyond our control.

If an active trading market does develop for our Series A Preferred Stock on the NYSE, our Series A Preferred Stock may trade at prices lower than the price of which holders of our Series A Preferred Stock purchased such shares, and the market price of our Series A Preferred Stock would depend on many factors, including, but not limited to:

- prevailing interest rates;
- the market for similar securities;
- general economic and financial market conditions;
- our issuance, as well as the issuance by our subsidiaries, of additional preferred equity or debt securities; and
- our financial condition, cash flows, liquidity, results of operations, funds from operations and prospects.

The trading prices of common and preferred equity securities issued by REITs and other real estate companies historically have been affected by changes in market interest rates. One of the factors that may influence the market price of our Series A Preferred Stock is the annual yield from distributions on our Series A Preferred Stock as compared to yields on other financial instruments. An increase in market interest rates may lead holders of our Series A Preferred Stock to demand a higher annual yield and to sell shares of our Series A Preferred Stock, which could reduce the market price of our Series A Preferred Stock.

Future offerings of debt securities or shares of our capital stock expressly designated as ranking senior to our Series A Preferred Stock as to distribution rights and rights upon our liquidation, dissolution or winding up may adversely affect the market price of our Series A Preferred Stock.

If we decide to issue debt securities or shares of our capital stock expressly designated as ranking senior to our Series A Preferred Stock as to distribution rights and rights upon our liquidation, dissolution or winding up in the future, it is possible that these securities will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Additionally, any convertible or exchangeable debt securities that we issue in the future may have rights, preferences and privileges more favorable than those of our Series A Preferred Stock and may result in dilution to owners of our Series A Preferred Stock. We and, indirectly, our stockholders, will bear the cost of issuing and servicing such securities. Because our decision to issue debt securities or shares of our capital stock expressly designated as ranking senior to our Series A Preferred Stock as to distribution rights and rights upon our liquidation, dissolution or winding up in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Accordingly, holders of our Series A Preferred Stock will bear the risk of our future offerings reducing the market price of our Series A Preferred Stock and diluting the value of their share holdings in us.

The phase-out of LIBOR and transition to SOFR as a benchmark interest rate could have adverse effects.

The interest rate on our variable rate debt is based on LIBOR. In 2018, the Alternative Reference Rate Committee identified the Secured Overnight Financing Rate (“SOFR”) as the alternative to LIBOR. SOFR is a broad measure of the cost of borrowing cash overnight collateralized by U.S. Treasury securities, published by the Federal Reserve Bank of New York. By the end of 2021, it is expected that no new contracts will reference LIBOR and will instead use SOFR. Due to the broad use of LIBOR as a reference rate, all financial market participants, including us, are impacted by the risks associated with this transition and, therefore, it could adversely affect our operations and cash flows.

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

Unregistered Sales of Equity Securities

None.

Issuer Purchases of Equity Securities

None.

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 applicable) as part of this Quarterly Report on Form 10-Q.

Exhibit No.	Description
3.1	Articles of Amendment and Restatement of Armada Hoffler Properties, Inc. (Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3, filed on June 2, 2014).
3.2	Amended and Restated Bylaws of Armada Hoffler Properties, Inc. (Incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed on February 23, 2018).
3.3	Articles Supplementary Designating the Rights and Preferences of the 6.75% Series A Cumulative Redeemable Perpetual Preferred Stock (Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed on June 17, 2019).
10.1	Amendment No. 3 to the First Amended and Restated Agreement of Limited Partnership of the Operating Partnership. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on June 17, 2019).
10.2*	Purchase and Sale Agreement and Escrow Instructions dated June 7, 2019, by and between EOSII AT Thames Street Wharf, LLC and 1300 Thames Street Office, LLC.
10.3*	First Amended Purchase and Sale Agreement and Escrow Instructions dated June 7, 2019, by and between EOSII AT Thames Street Wharf, LLC and 1300 Thames Street Office, LLC.
10.4*	Second Amended Purchase and Sale Agreement and Escrow Instructions dated June 10, 2019, by and between EOSII AT Thames Street Wharf, LLC and 1300 Thames Street Office, LLC.
10.5*	Third Amended Purchase and Sale Agreement and Escrow Instructions dated June 29, 2019, by and between EOSII AT Thames Street Wharf, LLC and 1300 Thames Street Office, LLC.
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*	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019, were formatted in Inline XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheet, (ii) Condensed Consolidated Statements of Comprehensive Income, (iii) Condensed Consolidated Statements of Equity, (iv) Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements. The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
104*	Cover page formatted in Inline XBRL
*	Filed herewith
**	Furnished herewith

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: August 5, 2019

/s/ Louis S. Haddad

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

Date: August 5, 2019

/s/ Michael P. O'Hara

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

**PURCHASE AND SALE AGREEMENT
AND ESCROW INSTRUCTIONS**

BY AND BETWEEN

EOSII AT THAMES STREET WHARF, LLC,
a Delaware limited liability company

(“Seller”)

AND

1300 THAMES STREET OFFICE, LLC
a Virginia limited liability company

(“Buyer”)

[1300 Thames Street, Baltimore, Maryland]

**PURCHASE AND SALE AGREEMENT
AND ESCROW INSTRUCTIONS**

THIS PURCHASE AND SALE AGREEMENT AND ESCROW INSTRUCTIONS (this “**Agreement**”) is made and entered into as of June 7, 2019, between EOSII AT THAMES STREET WHARF, LLC, a Delaware limited liability company (“**Seller**”), and 1300 THAMES STREET OFFICE, LLC, a Virginia limited liability company (“**Buyer**”), with reference to the following:

A. Seller is the owner of the improved real property (the “**Real Property**”) described on Exhibit A attached hereto together with certain personal property located upon or used in connection with such improved real property and certain other assets relating thereto, all as more particularly described in Section 2 hereof.

B. Seller desires to sell to Buyer, and Buyer desires to purchase from Seller, the Real Property, together with certain personal property and related assets on the terms and subject to the conditions contained in this Agreement.

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

1. BASIC TERMS AND DEFINITIONS; REFERENCES

1.1 Basic Terms and Definitions.

(A) **Effective Date.** The effective date of this Agreement shall be the date set forth above (“**Effective Date**”).

(B) **Closing Date.** The last day that Close of Escrow (as defined in Section 8.1 hereof) may occur shall be June 21, 2019, at 1:00 p.m. (California time) (the “**Closing Date**”). Buyer may extend the Closing Date by up to thirty (30) days upon giving Seller written notice no less than two (2) business days before the originally scheduled Closing Date and depositing with the Escrow Holder \$1,000,000.00 (the “**Closing Extension Deposit**”); the Closing Extension Deposit, if made, will be treated as part of the Deposit. In addition, in the event the condition set forth in Sections 4.4 and 7.1(E) below is not satisfied by the date which is four (4) business days prior to the Closing Date, then either Seller or Buyer shall have the right to extend the Closing Date one time to the date which is earlier of (i) thirty (30) days after the then-existing Closing Date, and (ii) three (3) business days after the date the condition set forth in Sections 4.4 and 7.1(E) below is satisfied, provided the party exercising such extension right delivers to the other party prior written notice of the same no less than three (3) business days prior to the Closing Date. Furthermore, in the event the Title Company (as such term is hereinafter defined) is unable to issue the Title Policy (as such term is hereinafter defined) to Buyer due to the recent shutdown of the City of Baltimore’s computer systems, then either Seller or Buyer may extend the Closing Date one or more times by five (5) business days so long as the party exercising such extension delivers to the other party prior written notice of the same on or before the then-existing Closing Date, provided, however, in no event shall the number of business days the Closing Date be extended in accordance with this sentence exceed fifteen (15) business days in the aggregate.

(C) **Title Review Period.** The “Title Review Period” shall end on June 7, 2019, at 5:00 p.m. (California time).

(D) **Due Diligence Period.** The “Due Diligence Period” shall end on June 7, 2019, at 5:00 p.m. (California time).

(E) **Escrow Holder.** The escrow holder shall be Commonwealth Land Title Insurance Company (“**Escrow Holder**”), whose address is 4100 Newport Place Drive, Suite 120, Newport Beach, California 92660, Escrow Officer: Joy Eaton; Telephone: (949) 724-3145; Email: joyeaton@cltic.com.

(F) **Title Company.** The title company shall be Commonwealth Land Title Insurance Company (“**Title Company**”), whose address is 888 S. Figueroa Street, Suite 2100, Los Angeles, California 90017, Title Coordinator: Amy Musselman; Telephone: (213) 330-3041; Email: asmusselman@cltic.com, with a copy to Anthony A. Behrstock; Telephone: (213) 330-2333; Email: tbehrstock@cltic.com.

1.2 References. All references to Exhibits refer to Exhibits attached to this Agreement and all such Exhibits are incorporated herein by reference. The words “herein,” “hereof,” “hereinafter” and words of similar import refer to this Agreement as a whole and not to any particular Section hereof.

2. PURCHASE AND SALE

Subject to the terms and conditions of this Agreement, Seller agrees to sell, assign and transfer to Buyer and Buyer agrees to purchase from Seller, for the purchase price set forth in Section 3 hereof, all of Seller’s right, title and interest in and to the following (collectively, the “**Property**”):

2.1 The Real Property, together with the buildings located thereon, and all associated parking areas, and all other improvements located thereon (the buildings and such other improvements are referred to herein collectively as the “**Improvements**”); all references hereinafter made to the Real Property shall be deemed to include all rights, privileges, easements and appurtenances benefiting the Real Property and/or the Improvements situated thereon, including, without limitation, all mineral and water rights and all easements, rights-of-way and other appurtenances used or connected with the beneficial use or enjoyment of the Real Property;

2.2 All personal property, equipment, supplies and fixtures (collectively, the “**Personal Property**”) listed on Exhibit B attached hereto or otherwise left on the Real Property at the Close of Escrow to the extent owned by Seller;

2.3 All of Seller’s interest in any intangible property (expressly excluding the names “Koll”, “Bren”, “K/B”, “KBS”, “Schreiber” or any derivative thereof, or any name that includes the word “Koll”, the word “Bren”, the word “K/B”, the word “KBS”, the word “Schreiber” or any derivative thereof) used or useful in connection with the foregoing, certificates of occupancy which benefit the Real Property and/or the Personal Property (the “**Intangibles**”);

2.4 All of Seller's interest in all leases affecting the Real Property that are described in the Schedule of Leases attached hereto as Exhibit C-2 and all lease and lease amendments hereafter entered into after the Effective Date in accordance with the terms and provisions of this Agreement (collectively referred to as the "**Leases**" and each, individually, as a "**Lease**"; and the tenants under the Leases are herein, collectively, referred to as the "**Tenants**" and each, individually, as a "**Tenant**");

2.5 All of Seller's interest in the contracts listed on Exhibit C-1 attached hereto and all contracts hereafter entered into by Seller to the extent permitted by the provisions of this Agreement (the "**Contracts**");

2.6 All transferable warranties and guaranties, if any, relating to the Property, including any roof and elevators warranties, (collectively, the "**Warranties**");

2.7 All transferable consents, authorizations, variances or waivers, licenses, permits and approvals from any governmental or quasi-governmental agency, department, board, commission, bureau or other entity or instrumentality (collectively, "**Governmental Authority**") relating to the Property (collectively, the "**Approvals**"); and

2.8 All transferable operating and reciprocal easement agreements affecting the Property (the "**REAs**"), including without limitation any rights (to the extent transferable) as a declarant, operator, approving party or like authority thereunder.

Notwithstanding anything to the contrary contained herein, the term "Property" shall expressly exclude any Rents (as such term is defined in Section 10.1 hereof) or any other amounts payable by tenants under the Leases for periods prior to the Close of Escrow, any Rent or other amounts payable by any former tenants of the Property, and any judgments, stipulations, orders, or settlements with any tenants under the Leases or former tenants of the Property (hereinafter collectively referred to as the "**Excluded Property**").

3. PURCHASE PRICE AND DEPOSIT

3.1 Purchase Price. The purchase price for the Property shall be One Hundred One Million and No/100 Dollars (\$101,000,000.00) (the "**Purchase Price**").

3.2 Payment of Purchase Price. The Purchase Price shall be payable as follows:

3.2.1 Concurrently with the execution of this Agreement by Buyer and Seller, Buyer shall deposit in escrow with Escrow Holder, in cash or current funds, the sum of One Million and No/100 Dollars (\$1,000,000.00) (the "**Deposit**"). Immediately upon Escrow Holder's receipt of the Initial Deposit (the "**Opening of Escrow**"), Escrow Holder shall invest the same in a federally insured interest-bearing account acceptable to Buyer, with all interest accruing thereon credited to the Purchase Price. For purposes of this Agreement, any interest accruing on the Initial Deposit from time to time shall be deemed part of the Initial Deposit. Upon expiration of the Due Diligence Period, if Buyer has not previously terminated this Agreement by its terms, then the Deposit shall become nonrefundable subject to the terms and conditions of this Agreement.

3.2.2 Provided all the conditions in Section 7.1 hereof have been satisfied or waived by Buyer, Buyer shall deposit in cash or current funds with Escrow Holder no later than 1:00 p.m. (California time) one (1) business day prior to the Closing Date (as defined in Section 1.1(b) hereof) an amount equal to the Purchase Price less the Deposit and all interest accrued thereon plus or minus applicable prorations pursuant to Section 10 hereof.

3.3 Disposition of Deposit Upon Failure to Close. If the Close of Escrow fails to occur due to Buyer's default under this Agreement (all of the conditions to Buyer's obligation to close having been satisfied or waived), then the disposition of the Deposit and all interest accrued thereon shall be governed by Section 13.1 hereof; if the Close of Escrow fails to occur due to Seller's default under this Agreement (all of the conditions to Seller's obligation to close having been satisfied or waived), then the Deposit and all interest accrued thereon shall promptly be refunded to Buyer and governed by Section 13.2; and if the Close of Escrow fails to occur due to the failure of any of the conditions set forth in Sections 7.1 or 7.2 hereof other than as a result of Buyer's or Seller's default under this Agreement, then the disposition of the Deposit and all interest accrued thereon shall be governed by Section 9.3 hereof.

3.4 Independent Contract Consideration. Additionally, at the same time as the deposit of the Deposit with the Escrow Holder, Buyer shall deliver to Seller in cash the sum of One Hundred and No/100 Dollars (\$100.00) (the "**Independent Contract Consideration**") which amount has been bargained for and agreed to as consideration for Buyer's exclusive option to purchase the Real Property and the right to inspect the Real Property as provided herein, and for Seller's execution and delivery of this Agreement. The Independent Contract Consideration is in addition to and independent of all other consideration provided in this Agreement, and is nonrefundable in all events.

4. PROPERTY INFORMATION; TITLE REVIEW; INSPECTIONS AND DUE DILIGENCE; TENANT ESTOPPEL CERTIFICATES; CONFIDENTIALITY

4.1 Property Information. Seller shall make available to Buyer within two (2) business days after the date of this Agreement, to the extent in Seller's possession, copies of the following, all of which shall be made available for review and copying (at Buyer's cost and expense) at the Real Property or at Seller's local property manager's offices (collectively, the "**Property Information**"):

(A) the Leases;

(B) a current rent roll for the Real Property, indicating rents collected, scheduled rents and concessions, delinquencies, and security deposits held (collectively, the "**Rent Rolls**");

(C) Operating statements for 2016, 2017, 2018 and year to date for 2019 for the Property, (collectively, the "**Operating Statements**");

(D) the Contracts;

(E) existing land title surveys, if any, for the Real Property (collectively, the "**Surveys**");

(F) any environmental, soils and/or engineering reports prepared for Seller or Seller's predecessors;

(G) General ledgers, trial balances, CAM reconciliations, and historical operating statements for 2016, 2017, 2018, and year-to-date 2019;

(K) All correspondence with respect to tenant notices of delinquency or default within the prior two (2) years;

(L) All certificates of occupancy;

(M) Warranties;

(N) Contracts;

(O) Tenant sales data for Thames Street Café whose rent is based on sales;

(P) Real estate tax information and bills for 2016, 2017, 2018 and year-to-date for 2019, if any; and

(Q) Any pending insurance claims and litigation.

Under no circumstances shall Buyer be entitled to review any appraisals relating to the Property or any internal financial audits relating to the Property.

4.2 Title and Survey Review; Title Policy.

4.2.1 **Title Commitment and Survey.** Seller shall promptly request the Title Company to deliver to Buyer a title commitment covering the Real Property (the "**Title Commitment**"), together with copies of all documents (collectively, the "**Title Documents**") referenced in the Title Commitment. Buyer, at its option and expense, may (a) obtain a new survey for the Real Property or (b) cause one or more of the Existing Surveys to be updated or recertified. Buyer understands and acknowledges that if Buyer elects to obtain a new survey or an updated or recertified survey for the Real Property, the completion and/or delivery of the surveys or updated or recertified surveys shall not be a condition precedent to the Close of Escrow. Notwithstanding the foregoing, Buyer further acknowledges that Seller makes no representations and warranties, and Seller shall have no responsibility, with respect to the completeness of the Title Documents made available to Buyer by the Title Company.

4.2.2 **Title Review and Cure.** Commencing from the date of this Agreement and continuing through and including the Title Review Period, Buyer shall have the right to approve or disapprove the condition of title to the Real Property. On or before the expiration of the Title Review Period, Buyer shall deliver to Seller and Escrow Holder written notice ("**Buyer's Title Notice**") of Buyer's approval or disapproval of the matters reflected in the Title Commitment and any Existing Survey; Buyer's Title Notice delivered by Buyer to Seller must state that it is a "Buyer's Title Notice being delivered in accordance with the provisions of Section 4.2.2 of the Purchase Agreement." The failure of Buyer to deliver to Seller Buyer's Title Notice on or before the expiration of the Title Review Period shall be deemed to constitute Buyer's approval of the condition of title to the Real Property. If Buyer disapproves any matter

of title shown in the Title Commitment or Existing Survey for the Real Property, then Seller may, but shall have no obligation to, within one (1) business day after its receipt of the Buyer's Title Notice for the Real Property ("**Seller's Election Period**"), elect to eliminate to Buyer's reasonable satisfaction the disapproved title matters by giving Buyer written notice ("**Seller's Title Notice**") of those disapproved title matters, if any, which Seller agrees to so eliminate by the Closing Date. If Seller does not elect to, or is unable to, eliminate any disapproved title matters, Buyer reasonably disapproves Seller's Title Notice, or Seller fails to timely deliver Seller's Title Notice, then Buyer shall have the right, upon delivery to Seller and Escrow Holder (on or before one (1) business day following the expiration of Seller's Election Period) of a written notice, to either: (a) waive its prior disapproval, in which event said disapproved matters shall be deemed approved; or (b) terminate this Agreement and the Escrow (as such term is defined in Section 9.1 hereof). Failure to take either one of the actions described in (a) and (b) above shall be deemed to be Buyer's election to take the action described in clause (a) above. If Buyer elects to terminate this Agreement as provided in clause (b) above, this Agreement shall automatically terminate, the parties shall be released from all further obligations under this Agreement (except pursuant to any provisions which by their terms survive a termination of this Agreement), the Deposit shall be immediately returned to Buyer and Buyer shall immediately return all Property Information to Seller. Buyer shall have been deemed to have approved any title exception that Seller is not obligated to remove and to which either Buyer did not object as provided above, or to which Buyer did object, but with respect to which Buyer did not terminate this Agreement.

In no event shall Buyer be deemed to have agreed to accept title subject to (i) monetary liens (except to the extent that the same are Permitted Exceptions in Section 4.2.3(e) below) or security interests against the Real Property, or past-due taxes and assessments that are liens on the Real Property, or (ii) encumbrances that have been voluntarily placed against the Property by Seller after the Effective Date without Buyer's prior written consent and that will not otherwise be satisfied on or before the Closing. Seller covenants and agrees to remove (or cause to be removed) from the Property (which obligation shall be deemed satisfied if the same is insured over and the amount secured by any of the instruments referenced below have been paid and the holders of the same are obligated to cause the same to be released from the Property) concurrently with the Close of Escrow all deeds of trust, mortgages and/or other debt instruments to the extent executed by Seller or expressly assumed by Seller in writing.

4.2.3 Delivery of Title Policy at Closing. As a condition precedent to the Close of Escrow, the Title Company shall have issued and delivered to Buyer, or shall have committed to issue and deliver to Buyer, with respect to the Real Property a Standard Coverage Owner's Policy of Title Insurance (2006) Form (the "**Title Policy**") issued by the Title Company as of the date and time of the recording of the Deed (as such term is defined in Section 6.1 hereof) for the Real Property, in the amount of the Purchase Price insuring Buyer as owner of good, marketable and indefeasible fee simple title to the Real Property, subject only to the Permitted Exceptions (as hereinafter defined). For purposes of this Agreement, "**Permitted Exceptions**" shall mean and include (a) any lien to secure payment of real estate taxes, including special assessments, not delinquent, (b) all matters which could be revealed or disclosed by a physical inspection or a survey of the Real Property and matters affecting the Real Property which are created by or with the written consent of Buyer or which do not materially and

deleteriously affect Buyer's contemplated use of the Real Property, (c) the rights of the tenants under the Leases affecting the Real Property, (d) all exceptions disclosed by the Title Commitment relating to the Real Property and which are approved or deemed approved by Buyer in accordance with Section 4.2.2 hereof, (e) any exception for liens (and/or potential liens) for services, labor or materials heretofore or hereafter furnished to the Property for which Buyer is entitled to a credit at Closing pursuant to this Agreement, for which Buyer is expressly responsible for payment under the terms of this Agreement, and/or which arises from any services, labor or materials contracted for by any tenant at the Property and with respect to which any such tenant is responsible for payment under the terms of its Lease, and (f) all applicable laws, ordinances, rules and governmental regulations (including, without limitation, those relating to building, zoning and land use) affecting the development, use, occupancy or enjoyment of the Real Property.

4.3 Inspections; Due Diligence Period.

4.3.1 **Inspections in General.** Commencing from the Effective Date and continuing through and the Closing, Buyer, its agents, and employees shall have a limited license (the "**License**") to enter upon the Real Property for the purpose of making non-invasive inspections at Buyer's sole risk, cost and expense. Before any such entry, Buyer shall provide Seller with a certificate of insurance naming Seller as an additional insured and with an insurer and insurance limits and coverage reasonably satisfactory to Seller. All of such entries upon the Real Property shall be at reasonable times during normal business hours and after at least twenty-four (24) hours prior notice to Seller or Seller's agent, and Seller or Seller's agent shall have the right to accompany Buyer during any activities performed by Buyer on the Real Property. Notwithstanding anything stated to the contrary herein, Buyer shall have no right to inspect any of the occupied space in the Real Property, and Buyer shall not contact or speak to any of the tenants under the Leases, unless Buyer provides Seller with no less than twenty-four (24) hours prior written notice of such intention and Seller or Seller's representative is present during such inspections and/or discussions with tenants; any discussions with tenants shall immediately cease at the tenant's request and any discussions with tenants must be limited to their existing tenancy and premises and may not involve any lease renegotiations. Seller agrees to make itself or its representatives reasonably available to be present during Buyer's inspections and/or discussions with tenants. Inspections by Buyer shall not interfere with the rights of tenants. If any inspection or test disturbs the Real Property, Buyer will restore the Real Property to the same condition as existed before the inspection or test. Buyer shall defend, indemnify Seller and hold Seller, Seller's trustees, officers, tenants, agents, contractors and employees and the Real Property harmless from and against any and all losses, costs, damages, claims, or liabilities, including but not limited to, mechanics' and materialmen's liens and Seller's attorneys' fees, arising out of or in connection with Buyer's, or its agents', contractors', employees', or invitees' entry upon or inspection of the Real Property. The License shall be deemed revoked upon termination of this Agreement. The provisions of this Section 4.3.1 shall survive the Close of Escrow or the earlier termination of this Agreement.

4.3.2 **Environmental Inspections.** The inspections under Section 4.3.1 may include non-invasive Phase I environmental inspections of the Real Property, but no Phase II environmental inspections or other invasive inspections or sampling of soil or materials,

including without limitation construction materials, either as part of the Phase I inspections or any other inspections, shall be performed without the prior written consent of Seller, which may be withheld in its sole and absolute discretion, and if consented to by Seller, the proposed scope of work and the party who will perform the work shall be subject to Seller's review and approval. At Seller's request, Buyer shall deliver to Seller (at no cost to Seller) copies of any Phase II or other environmental reports to which Seller consents as provided above.

4.3.3 Termination During Due Diligence Period. If Buyer determines, in its sole discretion, before the expiration of the Due Diligence Period, that the Property is unacceptable for Buyer's purposes, Buyer shall have the right to terminate this Agreement by giving to Seller notice of termination ("**Termination Notice**") before the expiration of the Due Diligence Period, in which event the Deposit shall be immediately refunded to Buyer, Buyer shall immediately return all Property Information to Seller and, except for those provisions of this Agreement which expressly survive the termination of this Agreement, the parties hereto shall have no further obligations hereunder. If Buyer fails to deliver a Termination Notice to Seller and Escrow Holder on or before the expiration of the Due Diligence Period, then Buyer shall be deemed to be satisfied with all aspects of all the Property, including, without limitation, the condition and suitability of all the Property for Buyer's intended use, and Buyer shall be obligated to acquire the Real Property in accordance with the provisions of this Agreement but subject to the conditions and provisions of this Agreement. Buyer's delivery of a Termination Notice to Seller with respect to the Property shall constitute Buyer's election to terminate this Agreement with respect to the Property as provided above in this Section 4.3.3.

4.4 Tenant Estoppel Certificates. Seller shall endeavor to secure and deliver to Buyer by the Closing Date estoppel certificates for all Leases consistent with the information in the Rent Rolls and substantially in the form attached hereto as Exhibit D or such form as may be required under the applicable Leases. Buyer may terminate this Agreement upon two (2) business days written notice to Seller if, no less than three (3) business days prior to the Closing Date, Seller fails to deliver to Buyer estoppel certificates substantially in the form attached hereto as Exhibit D or such form as may be required under any particular Lease ("**Required Tenant Estoppel Certificates**"), executed by the following Tenants: Morgan Stanley Services Group, Inc. and Johns Hopkins Medicine International, L.L.C. and meeting the foregoing requirements. Seller will provide Buyer with the executed estoppel certificates promptly upon receipt thereof by Seller. Buyer shall be deemed to have approved an executed estoppel certificate unless it notifies Seller in writing of its disapproval of the same within two (2) business days following its receipt of the same.

4.5 Contracts. Buyer shall assume the obligations arising from and after the Closing Date under the Contracts.

4.6 Confidentiality. Prior to the Close of Escrow or in the event the Close of Escrow never occurs, the Property Information and all other information, other than matters of public record or matters generally known to the public, furnished to, or obtained through inspection of the Real Property by, Buyer, its affiliates, lenders, employees, attorneys, accountants and other professionals or agents relating to the Real Property, will be treated by Buyer, its affiliates, lenders, employees and agents as confidential, and will not be disclosed to anyone (except as

reasonably required in connection with Buyer's evaluation of the Real Property) except to Buyer's consultants who agree to maintain the confidentiality of such information, and will be returned to Seller by Buyer if the Close of Escrow does not occur. The terms of this Agreement will not be disclosed to anyone prior to or after the Close of Escrow except to Buyer's and Seller's consultants who agree to maintain the confidentiality of such information and Seller and Buyer agree not to make any public announcements or public disclosures or communicate with any media with respect to the subject matter hereof without the prior written consent of the other party (in their sole and absolute discretion). The confidentiality provisions of this Section 4.6 shall not apply to any disclosures made by Buyer or Seller as required by law, by court order, or in connection with any subpoena served upon Buyer or Seller; provided Buyer and Seller shall provide each other with written notice before making any such disclosure.

5. OPERATIONS AND RISK OF LOSS

5.1 Ongoing Operations. During the pendency of this Agreement, but subject to the limitations set forth below, Seller shall carry on its businesses and activities relating to the Real Property substantially in the same manner as it did before the date of this Agreement. The new and pending lease transactions (the "**New and Pending Lease Transactions**") reflected on Schedule 1-1 and Schedule 1-2 attached hereto shall be deemed approved by Buyer for purposes of this Agreement.

5.2 New Contracts. After the Effective Date, Seller will not enter into any contract that will be an obligation affecting the Property subsequent to the Close of Escrow (except contracts entered into in the ordinary course of business that are terminable without cause on 30-days' notice and without any penalty or termination fee), without the prior consent of the Buyer, which shall not be unreasonably withheld or delayed.

5.3 Leasing Arrangements. Seller shall obtain Buyer's consent, which Buyer shall not unreasonably withhold or delay, before entering into any new lease of space in the Property and before entering into a Lease amendment, expansion, or renewal. Buyer shall be deemed to have consented to any new lease or any Lease amendment, expansion, or renewal if it has not notified Seller specifying with particularity the matters to which Buyer reasonably objects, within five (5) days after its receipt of Seller's written request for consent, together with a copy of the Lease amendment, expansion, or renewal or the new lease. At the Close of Escrow, (a) Buyer shall reimburse Seller for commissions, legal fees, the cost of tenant improvements, and all other leasing costs and expenses paid by Seller with respect to all New and Pending Lease Transactions entered into and listed on Schedule 1-1 attached hereto and with respect to all other Lease amendments, expansions or renewals or new leases that were entered into pursuant to this Section 5.3 between the Effective Date and the Close of Escrow, (b) Buyer shall be entitled to a credit towards the Purchase Price equal to the leasing commissions, tenant improvement allowances and free rent credits referred to in Schedule 1-2 attached hereto to the extent such transaction has been entered into and the amounts set forth on Schedule 1-2 attached hereto remain unpaid and due and owing as of the Close of Escrow, and (c) Buyer shall assume in writing (pursuant to the Assignment of Leases and Contracts and Bill of Sale) Seller's obligations (whether arising before or after the Closing Date) under the Leases referred to in Schedule 1-1 and Schedule 1-2 attached hereto (to the extent they have been entered into), and

all new leases and Lease amendments, expansions or renewals entered into in accordance with the terms of this Agreement.

5.4 Damage or Condemnation. Risk of loss resulting from any condemnation or eminent domain proceeding which is commenced or has been threatened against the Real Property before the Close of Escrow, and risk of loss to the Real Property due to fire, flood or any other cause before the Close of Escrow, shall remain with Seller. If before the Close of Escrow the Real Property or any portion thereof shall be materially damaged, or if the Real Property or any material portion thereof shall be subjected to a bona fide threat of condemnation or shall become the subject of any proceedings, judicial, administrative or otherwise, with respect to the taking by eminent domain or condemnation, then Buyer may elect not to acquire the Real Property by delivering written notice of such election to Seller within five (5) business days after Buyer learns of the damage or taking, in which event Buyer shall no longer be obligated to purchase, and Seller shall no longer be obligated to sell, the Real Property. If the Closing Date is within the aforesaid 5 business day period, then the Close of Escrow shall be extended to the next business day following the end of said 5 business day period. If no such election is made, and in any event if the damage is not material, this Agreement shall remain in full force and effect, the purchase contemplated herein, less any interest taken by eminent domain or condemnation, shall be effected with no further adjustment, and upon the Close of Escrow, Seller shall assign, transfer and set over to Buyer all of the right, title and interest of Seller in and to any awards that have been or that may thereafter be made for such taking, and Seller shall assign, transfer and set over to Buyer any insurance proceeds that may thereafter be made for such damage or destruction giving Buyer a credit at the Close of Escrow for any deductible under such policies. For purposes of this Section 5.4, the phrase(s) (i) “**Material damage**” or “**Materially damaged**” means damage reasonably exceeding five percent (5%) of the Purchase Price of the Real Property and any of the following Tenants is entitled to terminate its Lease as a result of such “Material damage” or “Materially damaged”: Morgan Stanley Services Group, Inc. and Johns Hopkins Medicine International, L.L.C., and (ii) “**material portion**” means any portion of the Real Property that has a “fair market value” exceeding five percent (5%) of the Purchase Price of the Real Property and any of the following Tenants is entitled to terminate its Lease as a result of such “material portion” or “Materially damaged”: Morgan Stanley Services Group, Inc. and Johns Hopkins Medicine International, L.L.C.

5.5 Declaration of Assignment of Environmental Indemnity. In connection with that certain Declaration of Easements, Covenants and Restrictions recorded in the Land Records of Baltimore City at Liber 8834, Page 715 (as amended, the “**Declaration**”), Seller hereby agrees to submit for execution a Declaration of Assignment of Environmental Indemnity (the “**Assignment**”) to Honeywell (as such term is defined in the Declaration) and to endeavor to obtain an executed Assignment from Honeywell, so long as Buyer prepares the form of Assignment to be executed, and under no circumstances shall Buyer’s receipt of an executed Assignment under this Section 5.5 be a condition precedent to Buyer’s obligations to consummate the transaction contemplated under this Agreement.

6. SELLER’S AND BUYER’S DELIVERIES

6.1 Seller's Deliveries into Escrow. No less than one (1) business day prior to the Closing Date, Seller shall deliver into Escrow (as such term is defined in Section 9 hereof) to the Escrow Holder the following:

(A) **Deed.** A deed (the "Deed") in the form attached hereto as Exhibit E, executed and acknowledged by Seller, conveying to Buyer Seller's title to the Real Property.

(B) **Assignment of Leases and Contracts and Bill of Sale.** An Assignment of Leases and Contracts and Bill of Sale ("Assignment of Leases and Contracts and Bill of Sale") in the form of Exhibit F attached hereto, executed by Seller.

(C) **State Law Disclosures.** Such disclosures and reports as are required by applicable state and local law in connection with the conveyance of the Real Property.

(D) **FIRPTA.** A Foreign Investment in Real Property Tax Act affidavit executed by Seller substantially in the form of Exhibit G attached hereto.

(E) **Maryland Certification of Exemption from Withholding.** A Certification of Exemption from Withholding upon Disposition of Maryland Real Estate Affidavit of Residence or Principal Residence executed by Seller.

(F) **Tenant Notices.** A notice to all Tenants advising them of the transfer of title to the Property in the form of Exhibit H attached hereto and made a part hereof, or such other form as may be required by applicable state law, executed by Seller.

(G) **Seller's Reaffirmation.** A certificate of Seller confirming whether the representations and warranties made by Seller in Section 11.1 hereof continue to be true and correct in all material respects.

(H) **Owner's Affidavit.** An Owner's Affidavit in the form of Exhibit I attached hereto, executed by Seller, except that Buyer shall have no right to receive a copy of such Owner's Affidavit.

(I) **Additional Documents.** Any additional documents that Escrow Holder or the Title Company may reasonably require for the proper consummation of the transaction contemplated by this Agreement (including authorization documentation to the extent required by the Title Company).

6.2 Buyer's Deliveries into Escrow. No less than one (1) business day prior to the Closing Date, Buyer shall deliver into Escrow to the Escrow Holder the following:

(A) **Purchase Price.** The Purchase Price, less the Deposit that is applied to the Purchase Price, plus or minus applicable prorations, deposited by Buyer with the Escrow Holder in immediate, same day federal funds wired for credit into the Escrow Holder's escrow account and deposited in Escrow Holder's escrow account no later than 1:00 p.m. (California time) one (1) business day prior to the Closing Date.

(B) **Assignment of Leases and Contracts and Bill of Sale.** An Assignment of Leases and Contracts and Bill of Sale executed by Buyer.

(C) **State Law Disclosures.** Such disclosures and reports as are required by applicable state and local law in connection with the conveyance of the Real Property.

(D) **Additional Documents.** Any additional documents that Escrow Holder or the Title Company may reasonably require for the proper consummation of the transaction contemplated by this Agreement (including authorization documentation to the extent required by the Title Company).

6.3 Closing Statements. Concurrently with the Close of Escrow, Seller and Buyer shall deposit with the Escrow Holder executed closing statements consistent with this Agreement in the form required by the Escrow Holder.

6.4 Post-Closing Deliveries. Immediately after the Close of Escrow, to the extent in Seller's possession, Seller shall deliver to the offices of Buyer's property manager: (a) the original Leases; (b) copies or originals of all contracts; (c) receipts for deposits; (d) all keys, if any, used in the operation of the Real Property; (e) any "as-built" plans and specifications or architectural and engineering plans of the Improvements or relating to the Property; (f) all Warranties; (g) records and files relating to the current operation and maintenance of the Property, including, without limitation, current tax bills, current water, sewer, utility and fuel bills, payroll records, billing records for Tenants, repair and maintenance records, and the like which affect or relate to the Property; and (h) all documents necessary to conduct 2018 Tenant reconciliations as described in Section 10 hereof, including, without limitation, a CAM reconciliation for the period from January 1, 2019 to the Closing Date.

7. CONDITIONS TO BUYER'S AND SELLER'S OBLIGATIONS

7.1 Conditions to Buyer's Obligations. The Close of Escrow and Buyer's obligation to consummate the transaction contemplated by this Agreement are subject to the satisfaction of the following conditions for Buyer's benefit (or Buyer's waiver thereof, it being agreed that Buyer may waive any or all of such conditions) on or prior to the Closing Date or on the dates designated below for the satisfaction of such conditions:

(A) All of Seller's representations and warranties contained herein shall be true and correct in all material respects as of the date of this Agreement and as of the Closing Date, subject to any qualifications hereafter made to any of Seller's representations as provided for in Section 11.1 hereof;

(B) As of the Closing Date, Seller shall have performed its respective obligations hereunder and all deliveries (including, but not limited to, those listed in Section 6.1) to be made at Close of Escrow by Seller shall have been tendered;

(C) There shall exist no actions, suits, arbitrations, claims, attachments, proceedings, assignments for the benefit of creditors, insolvency, bankruptcy, reorganization or other proceedings, pending or threatened against Seller that would materially and adversely affect Seller's ability to perform its respective obligations under this Agreement;

(D) There shall exist no pending or threatened action, suit or proceeding with respect to Seller before or by any court or administrative agency which seeks to restrain or prohibit, or to obtain damages or a discovery order with respect to, this Agreement or the consummation of the transaction contemplated hereby; and

(E) Subject to Section 4.4 above, no less than three (3) business days prior to the Closing Date, Seller shall have delivered or caused to be delivered to Buyer, Required Tenant Estoppel Certificates complying with the provisions of Section 4.4 above, which Required Tenant Estoppel Certificates shall be consistent with the information set forth in the Rent Rolls.

If, notwithstanding the nonsatisfaction of any such condition, the Close of Escrow occurs, there shall be no liability on the part of Seller for breaches of representations and warranties of which Buyer had knowledge as of the Close of Escrow.

7.2 Conditions to Seller's Obligations. The Close of Escrow and Seller's obligations to consummate the transaction contemplated by this Agreement are subject to the satisfaction of the following conditions for Seller's benefit (or Seller's waiver thereof, it being agreed that Seller may waive any or all of such conditions) on or prior to the Closing Date or the dates designated below for the satisfaction of such conditions:

(A) All of Buyer's representations and warranties contained herein shall be true and correct in all material respects as of the date of this Agreement and as of the Closing Date;

(B) As of the Closing Date, Buyer has performed its obligations hereunder and all deliveries (including, but not limited to, those listed in Section 6.2) to be made at Close of Escrow by Buyer shall have been tendered including, without limitation, the deposit with Escrow Holder of the amounts set forth in Section 6.2(a) hereof;

(C) There shall exist no actions, suits, arbitrations, claims, attachments, proceedings, assignments for the benefit of creditors, insolvency, bankruptcy, reorganization or other proceedings, pending or threatened against Buyer that would materially and adversely affect Buyer's ability to perform its obligations under this Agreement;

(D) There shall exist no pending or threatened action, suit or proceeding with respect to Buyer before or by any court or administrative agency which seeks to restrain or prohibit, or to obtain damages or a discovery order with respect to, this Agreement or the consummation of the transaction contemplated hereby; and

(E) Seller shall have received all consents and assignments and approvals from all parties from whom such consents to assignments or approvals are needed under all contracts, covenants and other agreements relating to the Property.

8. CLOSE OF ESCROW; POSSESSION

8.1 "Close of Escrow" shall mean and refer to Seller's receipt of the Purchase Price and the other amounts due Seller in accordance with the provisions of Section 9.1(b) below. The

Escrow and Buyer's right to purchase the Real Property will terminate automatically if the Close of Escrow does not occur on or before 1:00 p.m. (California time) on the Closing Date.

8.2 Sole exclusive possession of the Real Property, subject only to the Permitted Exceptions, shall be delivered to Buyer on the Closing Date.

9. ESCROW

9.1 Closing. The escrow (the "**Escrow**") for the consummation of this transaction shall be established with Escrow Holder at the address indicated in Section 15.1 hereof by the deposit of an original signed copy of this Agreement with Escrow Holder contemporaneously with the execution hereof. This Agreement shall constitute both an agreement among Buyer and Seller and escrow instructions for Escrow Holder. If Escrow Holder requires separate or additional escrow instructions which it deems necessary for its protection, Seller and Buyer hereby agree promptly upon request by Escrow Holder to execute and deliver to Escrow Holder such separate or additional escrow instructions (the "**Additional Instructions**"). In the event of any conflict or inconsistency between this Agreement and the Additional Instructions, this Agreement shall prevail and govern, and the Additional Instructions shall so provide. The Additional Instructions shall not modify or amend the provisions of this Agreement unless otherwise agreed to in writing by Seller and Buyer.

On the Closing Date, provided that the conditions set forth in Sections 7.1 and 7.2 hereof have been satisfied or waived, Escrow Holder shall take the following actions in the order indicated below:

(A) With respect to all closing documents delivered to Escrow Holder hereunder, and to the extent necessary, Escrow Holder is authorized to insert into all blanks requiring the insertion of dates the date of the recordation of the Deed or such other date as Escrow Holder may be instructed in writing by Seller and Buyer;

(B) Deliver to Seller, in cash or current funds, the Purchase Price, plus or minus, as the case may be, the amounts determined in accordance with the provisions of Section 10 hereof, Buyer's signed counterparts of the Assignment of Leases and Contracts and Bill of Sale and conformed copies of the recorded Deed;

(C) Record the Deed in the official records of the County in which the Real Property is located;

(D) Deliver to Buyer those items referred to in Section 6.1 hereof and a conformed copy of the recorded Deed;

(E) Cause the Title Company to issue the Title Policy for the Real Property in accordance with the provisions of Section 4.2.3 hereof; and

(F) Deliver to Seller and Buyer a final closing statement which has been certified by Escrow Holder to be true and correct.

9.2 Escrow and Title Charges.

(A) Upon the Close of Escrow, escrow, title charges and other closing costs shall be allocated between Seller and Buyer as follows:

(i) Seller shall pay: (1) one-half (1/2) of any escrow fees or similar charges of Escrow Holder, and (2) Seller shall be solely responsible for, and shall pay in full, all state and local recordation and transfer taxes due upon the conveyance of the Property and the recording of the Deed, including without limitation, all yield taxes assessed by Baltimore City in connection therewith. So that there is no misunderstanding, based on the Purchase Price some of the costs are estimated to be as follows:

(A) 1.50% of Purchase Price (estimated \$1,515,000.00) for transfer tax in the City of Baltimore;

(B) 0.5% of Purchase Price (estimated \$505,000.00) for Maryland State transfer tax;

(C) \$5.00 for every \$500.00 (i.e. 1.0%) of Purchase Price (estimated 1,010,000.00) for Maryland State recordation;

(D) Effective January 11, 2019, increase in Baltimore City Recordation Tax of 0.15% (yield tax) of Purchase Price (estimated to be \$151,000.00); and

(E) Effective January 11, 2019, increase in Baltimore City Transfer Tax of 0.6% (yield tax) of Purchase Price (estimated to be \$606,000.00).

(ii) Buyer shall pay: (1) the premiums for the Title Policy, (2) one-half (1/2) of any escrow fees or similar charges of Escrow Holder, and (3) and all sales, gross receipts, compensating, stamp, excise, documentary, transfer, deed or similar taxes or fees (City, County and State) payable in connection with the consummation of the transactions contemplated by this Agreement that are not required to be paid by Seller pursuant to Section 9.2(A)(i) above. If Buyer desires ALTA extended coverage for the Title Policy, Buyer shall pay the premiums and any additional costs (including any survey costs) for such coverage (additional to the premiums for standard coverage) and the cost of any endorsements to the Title Policy, if required by Buyer.

(iii) Buyer shall pay all costs incurred in connection with Buyer's due diligence related to the Real Property.

(iv) Except to the extent otherwise specifically provided herein, all other expenses incurred by Seller and Buyer with respect to the negotiation, documentation and closing of this transaction, including, without limitation, Buyer's and Seller's attorneys' fees, shall be borne and paid by the party incurring same.

(B) If the Close of Escrow does not occur by reason of Buyer's or Seller's default under this Agreement, then all escrow and title charges (including cancellation fees) shall be borne by the party in default.

9.3 Procedures Upon Failure of Condition. Except as otherwise expressly provided herein, if any condition set forth in Sections 7.1 or 7.2 hereof is not timely satisfied or waived for a reason other than the default of Buyer or Seller in the performance of its respective obligations under this Agreement:

(A) This Agreement, the Escrow and the respective rights and obligations of Seller and Buyer hereunder shall terminate (other than the indemnity and insurance obligations of Buyer set forth in Section 4.3.1 and Seller and Buyer under Section 14 hereof and the confidentiality provisions of Section 4.6 hereof which shall survive such termination) at the written election of the party for whose benefit such condition was imposed, which written election must be made (i) within two (2) business days after the date such condition was to be satisfied, or (ii) on the date the Close of Escrow occurs, whichever occurs first;

(B) Escrow Holder shall promptly return to Buyer all funds of Buyer in its possession, including the Deposit and all interest accrued thereon, and to Seller and Buyer all documents deposited by them respectively, which are then held by Escrow Holder;

(C) Buyer shall return to Seller the Property Information; and

(D) Any escrow cancellation and title charges shall be borne equally by Seller and Buyer.

10. PRORATIONS

If the Purchase Price is received by Seller's depository bank in time to credit to Seller's account on the Closing Date, the day the Close of Escrow occurs shall belong to Buyer and all prorations hereinafter provided to be made as of the Close of Escrow shall each be made as of the end of the day before the Closing Date. If the cash portion of the Purchase Price is not so received by Seller's depository bank on the Closing Date, then the day the Close of Escrow occurs shall belong to Seller and such proration shall be made as of the end of the day that is the Closing Date. In each such proration set forth below, the portion thereof applicable to periods beginning as of Close of Escrow shall be credited to Buyer or charged to Buyer as applicable and the portion thereof applicable to periods ending as of Close of Escrow shall be credited to Seller or charged to Seller as applicable.

10.1 Collected Rent. All rent (including, without limitation, all base rents, additional rents and retroactive rents, and expressly excluding tenant reimbursements for Operating Costs, as hereinafter defined) and all other income (and any applicable state or local tax on rent) (hereinafter collectively referred to as "**Rents**") collected under Leases in effect on the Closing Date shall be prorated as of the Close of Escrow. Uncollected Rents shall not be prorated and, to the extent payable for the period prior to the Close of Escrow, shall remain the property of Seller. Buyer shall apply Rents from tenants that are collected after the Close of Escrow (s) first, to

Rents owing for the calendar month in which the Close of Escrow occurred, (b) second, to Rents which are due to Buyer after the Close of Escrow, and (c) third, to Rents which were due to Seller on or before the Close of Escrow. Any prepaid Rents for the period following the Closing Date shall be paid over by Seller to Buyer. Buyer will make reasonable efforts, without suit, to collect any Rents applicable to the period before the Close of Escrow including, without limitation, sending to tenants bills for the payment of past due Rents during the first six (6) month period following the Closing Date. Seller may pursue collection of any Rents that were past due as of the Closing Date, provided that Seller shall have no right to terminate any Lease or any tenant's occupancy under any Lease in connection therewith.

10.2 Operating Costs and Additional Rent Reconciliation. Seller, as landlord under the Leases, is currently collecting from tenants under the Leases additional rent to cover taxes, insurance, utilities (to the extent not paid directly by tenants), common area maintenance and other operating costs and expenses (collectively, "**Operating Costs**") in connection with the ownership, operation, maintenance and management of the Property. To the extent that any additional rent (including, without limitation, estimated payments for Operating Costs) is paid by tenants to Seller under the Leases based on an estimated payment basis (monthly, quarterly, or otherwise) for which a future reconciliation of actual Operating Costs to estimated payments is required to be performed at the end of a reconciliation period, Buyer and Seller shall make an adjustment at the Close of Escrow for the applicable reconciliation period (or periods, if the Leases do not have a common reconciliation period) based on a comparison of the actual Operating Costs to the estimated payments at the Close of Escrow. If, as of the Close of Escrow, Seller has received additional rent payments in excess of the amount that tenants will be required to pay, based on the actual Operating Costs as of the Close of Escrow, Buyer shall receive a credit in the amount of such excess. If, as of the Close of Escrow, Seller has received additional rent payments that are less than the amount that tenants would be required to pay based on the actual Operating Costs as of the Close of Escrow, Seller shall receive a credit in the amount of such deficiency; provided, however, Seller shall not be entitled to the portion, if any, of such deficiency for which Seller received a credit at the Close of Escrow under clause (b) of Section 10.3 hereof. Operating Costs that are not payable by tenants either directly or reimbursable under the Leases shall be prorated between Seller and Buyer and shall be reasonably estimated by the parties if final bills are not available. The provisions of this section shall pertain to Operating Costs incurred for the current calendar year in which the Closing occurs as well as the calendar year immediately preceding the calendar year in which the Closing occurs.

10.3 Taxes and Assessments. Real estate taxes and assessments imposed by any governmental authority and City of Baltimore water, city and supplemental taxes ("**Taxes**") with respect to the Property for the relevant tax year in which the Property is being sold and that are not yet due and payable or that have not yet been paid and that are not (and will not be) reimbursable by tenants under the Leases (or under leases entered into after the Close of Escrow for vacant space existing at the Close of Escrow) as Operating Costs shall be prorated as of the Close of Escrow based upon the most recent ascertainable assessed values and tax rates and based upon the number of days Buyer and Seller will have owned the Property during such relevant tax year. Seller shall receive a credit for any Taxes paid by Seller and applicable to

(a) any period after the Close of Escrow, and (b) any period before the Close of Escrow to the extent reimbursable as Operating Costs by (i) existing tenants under the Leases and not yet received from such tenants, or (ii) future tenants that may execute leases covering space in the Property that is vacant as of the Close of Escrow. Seller is not protesting and, prior to the Closing Date, Seller will not protest any Taxes for the Property.

10.4 Leasing Commissions, Tenant Improvements and Contracts. At Close of Escrow, Buyer shall assume (pursuant to the Assignment of Leases and Contracts and Bill of Sale) the obligation to pay all (a) leasing costs that are due or become due prior to the Closing Date to the extent that the same (i) arise from a new lease or any Lease amendment, extension or expansion hereafter entered into by Seller in accordance with the terms and conditions of this Agreement, or (ii) arise out of any New and Pending Lease Transactions (including, without limitation, the commissions and/or tenant improvements referenced in Section 5.3 hereof), and (b) leasing costs that are due after the Closing Date to the extent disclosed in the Leases, disclosed in any of the Property Information, disclosed in the Tenant Estoppel Certificates, or otherwise disclosed to Buyer in writing prior to the expiration of the Due Diligence Period.. Buyer will assume the obligations arising from and after the Closing Date under the Contracts. Buyer and Seller shall each be entitled to the credits, if any, provided for in Section 5.3 herein.

10.5 Tenant Deposits. All tenant security deposits actually received by Seller (and interest thereon if required by law or contract to be earned thereon) and not theretofore applied to tenant obligations under the Leases shall be transferred or credited to Buyer at the Close of Escrow or placed in escrow if required by law. As of the Close of Escrow, Buyer shall assume Seller's obligations related to tenant security deposits. Buyer will indemnify, defend, and hold Seller harmless from and against all demands and claims made by tenants arising out of the transfer or disposition of any security deposits which claims arose or accrued after the Close of Escrow and will reimburse Seller for all attorneys' fees incurred or that may be incurred as a result of any such claims or demands as well as for all loss, expenses, verdicts, judgments, settlements, interest, costs and other expenses incurred or that may be incurred by Seller as a result of any such claims or demands by tenants.

10.6 Utilities and Utility Deposits. Utilities for the Property (excluding utilities for which payment is made directly by tenants), including water, sewer, electric, and gas, based upon the last reading of meters prior to the Close of Escrow, shall be prorated. Seller shall be entitled to a credit for all security deposits held by any of the utility companies providing service to the Property if such deposits are transferred to Buyer. Seller shall endeavor to obtain meter readings on the day before the Closing Date, and if such readings are obtained, there shall be no proration of such items and Seller shall pay at Close of Escrow the bills therefor for the period to the day preceding the Close of Escrow, and Buyer shall pay the bills therefor for the period subsequent thereto. If the utility company will not issue separate bills, Buyer will receive a credit against the Purchase Price for Seller's portion and will pay the entire bill prior to delinquency after Close of Escrow. If Seller has paid utilities no more than thirty (30) days in advance in the ordinary course of business, then Buyer shall be charged its portion of such payment at Close of Escrow. Buyer shall be responsible for making any security deposits required by utility companies providing service to the Property.

10.7 Owner Deposits. Seller shall receive a credit at the Close of Escrow for the bonds, deposits, letters of credit, set aside letters or other similar items set forth on Schedule 3 attached hereto that are outstanding with respect to the Property that have been provided by Seller or any of its affiliates to any governmental agency, public utility, or similar entity (collectively, “**Owner Deposits**”) to the extent assignable to Buyer. To the extent any Owner Deposits are not assignable to Buyer, Buyer shall replace such Owner Deposits and obtain the release of Seller (or its affiliates) from any obligations under such Owner Deposits. To the extent that any funds are released as a result of the termination of any Owner Deposits for which Seller did not get a credit, such funds shall be delivered to Seller immediately upon their receipt.

10.8 Percentage Rents. Percentage rents (“**Percentage Rents**”) actually collected for the month in which the Close of Escrow occurs shall be prorated as of the Closing Date. Percentage Rents due after the Close of Escrow shall not be prorated; provided, however, after Buyer has completed any reconciliation of actual Percentage Rents payable and estimated Percentage Rents paid by the subject tenants, and all reconciled amounts have been paid, a reconciliation shall be made between Seller and Buyer with regard to such Percentage Rents. Pursuant to such reconciliation, Seller and Buyer shall be entitled to their proportionate share of all Percentage Rents paid for the subject calendar year used to calculate each tenant’s Percentage Rents (less any out-of-pocket costs incurred in collecting said amounts, which shall belong to Buyer) based on the number of days of such calendar year Seller and Buyer owned the Property (and adjusted for any amount of Percentage Rent prorated at Closing or received by Seller or Buyer). As used in this paragraph, the term “Percentage Rents” shall not include and shall have deducted from such Percentage Rent amount any “base” or “minimum” rent component which is payable each month (regardless of actual sales), which “base” or “minimum” rent component shall be prorated or otherwise handled in the manner provided in this Agreement. Buyer will make reasonable efforts, without suit, to collect all Percentage Rents payable after the Close of Escrow and relating to the period prior to the Close of Escrow, and all Percentage Rents which are delinquent as of the Close of Escrow, including, without limitation, sending to tenants bills for the payment of the same. Seller may pursue collection of all Percentage Rents payable after the Close of Escrow and relating to the period prior to the Close of Escrow and all Percentage Rents which are delinquent as of the Close of Escrow, provided that Seller shall have no right to terminate any Lease or any tenant’s occupancy under any Lease in connection therewith.

10.9 Final Adjustment After Closing. If final prorations cannot be made at the Close of Escrow for any item being prorated under this Section 10, then, provided Buyer and Seller both identify any such proration (“**Post Closing Proration**”) in writing before the Close of Escrow, Buyer and Seller agree to allocate such items on a fair and equitable basis as soon as invoices or bills are available and applicable reconciliation with tenants have been completed, with final adjustment to be made as soon as reasonably possible after the Close of Escrow (but in no event later than ninety (90) days after the Close of Escrow, except that adjustments arising from Percentage Rents under Section 10.8 hereof shall not be subject to such 90-day limitation, but shall be made as soon as reasonably possible), to the effect that income and expenses are received and paid by the parties on an accrual basis with respect to their period of ownership. Payments in connection with the final adjustment shall be due no later than ninety (90) days after the Close of Escrow, except that adjustments arising from or relating to Percentage Rents under

Section 10.8 hereof shall not be subject to such 90-day limitation, but shall be made as soon as reasonably possible. Seller shall have reasonable access to, and the right to inspect and audit, Buyer's books to confirm the final prorations for a period of one (1) year after the Close of Escrow. Notwithstanding anything to the contrary stated in this Section 10, except for any reconciliation arising out of Percentage Rents under Section 10.8 hereof, and except for any Post Closing Prorations (which must be determined and paid within ninety (90) days after the Close of Escrow), all prorations made under this Section 10 shall be final as of the Close of Escrow and shall not be subject to further adjustment (whether due to an error or for any other reason) after the Close of Escrow.

11. SELLER'S REPRESENTATIONS AND WARRANTIES; AS-IS

11.1 Seller's Representations and Warranties. In consideration of Buyer's entering into this Agreement and as an inducement to Buyer to purchase the Property from Seller, Seller makes the following representations and warranties to Buyer which shall be true as of the Effective Date:

(A) Seller is a limited liability company organized and in good standing under the laws of the State of Delaware and is qualified to conduct business in the State of Maryland.

(B) Seller has the legal right, power and authority to enter into this Agreement and to consummate the transactions contemplated hereby, and the execution, delivery and performance of this Agreement have been duly authorized and no other action by Seller is requisite to the valid and binding execution, delivery and performance of this Agreement, except as otherwise expressly set forth herein.

(C) There is no agreement to which Seller is a party or to Seller's Actual Knowledge binding on Seller which would prevent Seller from consummating the transaction contemplated by this Agreement.

(D) To Seller's Actual Knowledge, except as disclosed on Schedule 2 attached hereto, Seller has received no written notice from any governmental agency in the last 12 months that the Property or the current use and operation thereof violate any applicable federal, state or municipal law, statute, code, ordinance, rule or regulation (including those relating to environmental matters), except with respect to such violations as have been fully cured prior to the date hereof.

(E) To Seller's Actual Knowledge, except as disclosed on Schedule 2 attached hereto, Seller has not received written notice from any governmental agency of any currently pending condemnation proceedings relating to the Property.

(F) To Seller's Actual Knowledge, except as disclosed on Schedule 2 attached hereto, except with respect to slip and fall and similar claims or matters covered by Seller's commercial liability insurance policy, Seller has not received service of process with respect to any litigation that has been filed and is continuing against Seller that arises out of the ownership

of the Property and would materially affect the Property or the use thereof, or Seller's ability to perform hereunder.

(G) Seller is not a foreign person (as defined in Section 1445 of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder).

(H) To the best of Seller's Actual Knowledge, neither Seller nor any of its respective affiliates or constituents, nor any of their respective brokers or other agents acting in any capacity in connection with the transactions contemplated by this Agreement is or will be (a) conducting any business or engaging in any transaction or dealing with any person appearing on the U.S. Treasury Department's Office of Foreign Assets Control ("**OFAC**") list of restrictions and prohibited persons ("**Prohibited Person**") (which lists can be accessed at the following web address: <http://www.ustreas.gov/offices/enforcement/ofac/>), including the making or receiving of any contribution of funds, goods or services to or for the benefit of any Prohibited Person; (b) dealing in, or otherwise engaging in any transaction relating to, any property or interests in property blocked pursuant to Executive Order No. 13224 dated September 24, 2001, relating to "Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism"; or (c) engaging in or conspiring to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempting to violate, any of the prohibitions set forth in any U.S. anti-money laundering law.

For purposes of this Section 11.1, the phrase "**To Seller's Actual Knowledge**" shall mean the actual (and not implied, imputed, or constructive) knowledge of Stephen Close (whom the Seller represents is the asset manager for the Property), without any inquiry or investigation of any other parties, including, without limitation, the Tenants and the property manager of the Property.

The representations and warranties made by Seller in this Agreement shall survive the recordation of the Deed for a period of seven (7) months and any action for a breach of Seller's representations or warranties must be made and filed within seven (7) months of the recordation of the Deed. If, after the Effective Date, but before the Close of Escrow, Seller becomes aware of any facts or changes in circumstances that would cause any of its representations and warranties in this Agreement to be untrue at Close of Escrow, Seller may notify Buyer in writing of such fact or changes in circumstances. In such case, or in the event Buyer obtains information which would cause any of Seller's representations and warranties to be untrue at Close of Escrow, Buyer, as its sole and exclusive remedy, shall have the right to either (i) terminate this Agreement to the extent that the failure of any such representation or warranty to be true would have a material adverse impact on the Property, in which case the Deposit shall be immediately returned to Buyer and neither party shall have any rights or obligations under this Agreement (except for Sections 4.3.1 and 15.5 which survive termination of this Agreement and any other Section which is expressly provided to survive the termination of this Agreement); or (ii) to the extent Buyer is not permitted to terminate this Agreement pursuant to clause (i) above, accept a qualification to Seller's representations and warranties as of the Close of Escrow and complete the purchase and sale of the Property without any rights to recovery for breach of the unqualified representation and warranty. "Material adverse impact on the Property" means causes damages in excess of \$100,000.00 and for which Buyer will not receive, at Seller's election, a credit at Closing in the amount of such damages. Other than as set forth in the immediately preceding

sentence, if Buyer proceeds with the Close of Escrow, Buyer shall be deemed to have expressly waived any and all remedies for the breach of any representation or warranty discovered by Buyer prior to the Close of Escrow.

11.2 As-Is. As of the expiration of the Due Diligence Period, Buyer will have:

(A) examined and inspected the Property and will know and be satisfied with the physical condition, quality, quantity and state of repair of the Property in all respects (including, without limitation, the compliance of the Real Property with the Americans With Disabilities Act of 1990 Pub.L. 101-336, 104 Stat. 327 (1990), and any comparable local or state laws (collectively, the “**ADA**”)) and by proceeding with this transaction following the expiration of the Due Diligence Period shall be deemed to have determined that the same is satisfactory to Buyer;

(B) reviewed the Property Information and all instruments, records and documents which Buyer deems appropriate or advisable to review in connection with this transaction, including, but not by way of limitation, any and all architectural drawings, plans, specifications, surveys, building and occupancy permits, and any licenses, leases, contracts, warranties and guarantees relating to the Real Property or the business conducted thereon, and Buyer, by proceeding with this transaction following the expiration of the Due Diligence Period, shall be deemed to have determined that the same and the information and data contained therein and evidenced thereby are satisfactory to Buyer;

(C) reviewed all applicable laws, ordinances, rules and governmental regulations (including, but not limited to, those relating to building, zoning and land use) affecting the development, use, occupancy or enjoyment of the Real Property, and Buyer, by proceeding with this transaction following the expiration of the Due Diligence Period, shall be deemed to have determined that the same are satisfactory to Buyer; and

(D) at its own cost and expense, made its own independent investigation respecting the Property and all other aspects of this transaction, and shall have relied thereon and on the advice of its consultants in entering into this Agreement, and Buyer, by proceeding with this transaction following the expiration of the Due Diligence Period, shall be deemed to have determined that the same are satisfactory to Buyer.

TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, AND EXCEPT FOR SELLER’S REPRESENTATIONS AND WARRANTIES CONTAINED IN THIS AGREEMENT, INCLUDING, BUT NOT LIMITED TO, IN SECTION 11.1 OF THIS AGREEMENT AND ANY WARRANTIES OF TITLE CONTAINED IN THE DEED DELIVERED AT THE CLOSE OF ESCROW OR IN ANY OTHER DOCUMENTS DELIVERED BY SELLER AT THE CLOSE OF ESCROW (“**SELLER’S WARRANTIES**”), THIS SALE IS MADE AND WILL BE MADE WITHOUT REPRESENTATION, COVENANT, OR WARRANTY OF ANY KIND (WHETHER EXPRESS, IMPLIED, OR, TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, STATUTORY) BY SELLER. AS A MATERIAL PART OF THE CONSIDERATION FOR THIS AGREEMENT, BUYER AGREES TO ACCEPT THE PROPERTY ON AN “AS IS” AND “WHERE IS” BASIS, WITH

ALL FAULTS, AND WITHOUT ANY REPRESENTATION OR WARRANTY, ALL OF WHICH SELLER HEREBY DISCLAIMS, EXCEPT FOR SELLER'S WARRANTIES. EXCEPT FOR SELLER'S WARRANTIES, NO WARRANTY OR REPRESENTATION IS MADE BY SELLER AS TO FITNESS FOR ANY PARTICULAR PURPOSE, MERCHANTABILITY, DESIGN, QUALITY, CONDITION, OPERATION OR INCOME, COMPLIANCE WITH DRAWINGS OR SPECIFICATIONS, ABSENCE OF DEFECTS, ABSENCE OF HAZARDOUS OR TOXIC SUBSTANCES, ABSENCE OF FAULTS, FLOODING, OR COMPLIANCE WITH LAWS AND REGULATIONS INCLUDING, WITHOUT LIMITATION, THOSE RELATING TO HEALTH, SAFETY, AND THE ENVIRONMENT (INCLUDING, WITHOUT LIMITATION, THE ADA). BUYER ACKNOWLEDGES THAT BUYER HAS ENTERED INTO THIS AGREEMENT WITH THE INTENTION OF MAKING AND RELYING UPON THE SELLER'S WARRANTIES AND ITS OWN INVESTIGATION OF THE PHYSICAL, ENVIRONMENTAL, ECONOMIC USE, COMPLIANCE, AND LEGAL CONDITION OF THE PROPERTY AND THAT BUYER IS NOT NOW RELYING, AND WILL NOT LATER RELY, UPON ANY REPRESENTATIONS AND WARRANTIES (EXCEPT FOR SELLER'S WARRANTIES) MADE BY SELLER OR ANYONE ACTING OR CLAIMING TO ACT, BY, THROUGH OR UNDER OR ON SELLER'S BEHALF CONCERNING THE PROPERTY. ADDITIONALLY, BUYER AND SELLER HEREBY AGREE THAT (A) EXCEPT FOR SELLER'S WARRANTIES, BUYER IS TAKING THE PROPERTY "AS IS" WITH ALL LATENT AND PATENT DEFECTS AND THAT EXCEPT FOR SELLER'S WARRANTIES, THERE IS NO WARRANTY BY SELLER THAT THE PROPERTY IS FIT FOR A PARTICULAR PURPOSE, (B) EXCEPT FOR SELLER'S WARRANTIES, BUYER IS SOLELY RELYING UPON ITS EXAMINATION OF THE PROPERTY, AND (C) BUYER TAKES THE PROPERTY UNDER THIS AGREEMENT UNDER THE EXPRESS UNDERSTANDING THAT THERE ARE NO EXPRESS OR IMPLIED WARRANTIES (EXCEPT FOR THE LIMITED WARRANTIES OF TITLE SET FORTH IN THE DEED AND SELLER'S WARRANTIES OR IN ANY OTHER DOCUMENTS DELIVERED BY SELLER AT THE CLOSE OF ESCROW).

WITH RESPECT TO THE FOLLOWING, BUYER FURTHER ACKNOWLEDGES AND AGREES THAT SELLER SHALL NOT HAVE ANY LIABILITY, OBLIGATION OR RESPONSIBILITY OF ANY KIND AND THAT SELLER HAS MADE NO REPRESENTATIONS OR WARRANTIES OF ANY KIND:

1. THE CONTENT OR ACCURACY OF ANY REPORT, STUDY, OPINION OR CONCLUSION OF ANY SOILS, TOXIC, ENVIRONMENTAL OR OTHER ENGINEER OR OTHER PERSON OR ENTITY WHO HAS EXAMINED THE PROPERTY OR ANY ASPECT THEREOF;
2. THE CONTENT OR ACCURACY OF ANY OF THE ITEMS (INCLUDING, WITHOUT LIMITATION, THE PROPERTY INFORMATION DELIVERED TO BUYER PURSUANT TO BUYER'S REVIEW OF THE CONDITION OF THE PROPERTY; OR

3. THE CONTENT OR ACCURACY OF ANY PROJECTION, FINANCIAL OR MARKETING ANALYSIS OR OTHER INFORMATION GIVEN TO BUYER BY SELLER OR REVIEWED BY BUYER WITH RESPECT TO THE PROPERTY.

BUYER ALSO ACKNOWLEDGES THAT THE REAL PROPERTY MAY OR MAY NOT CONTAIN ASBESTOS AND, IF THE REAL PROPERTY CONTAINS ASBESTOS, THAT BUYER MAY OR MAY NOT BE REQUIRED TO REMEDIATE ANY ASBESTOS CONDITION IN ACCORDANCE WITH APPLICABLE LAW.

BUYER IS A SOPHISTICATED REAL ESTATE INVESTOR AND IS, OR WILL BE AS OF THE CLOSE OF ESCROW, FAMILIAR WITH THE REAL PROPERTY AND ITS SUITABILITY FOR BUYER'S INTENDED USE. THE PROVISIONS OF THIS SECTION 11.2 SHALL SURVIVE INDEFINITELY ANY CLOSING OR TERMINATION OF THIS AGREEMENT AND SHALL NOT BE MERGED INTO THE DOCUMENTS EXECUTED AT CLOSE OF ESCROW.

M.P.O.

BUYER'S INITIALS

12. BUYER'S COVENANTS, REPRESENTATIONS AND WARRANTIES; RELEASE; ERISA

In consideration of Seller entering into this Agreement and as an inducement to Seller to sell the Property to Buyer, Buyer makes the following covenants, representations and warranties:

12.1 Buyer's Representations and Warranties.

(A) **Authority.** Buyer is a limited liability company and in good standing under the laws of the Commonwealth of Virginia and on the Close of Escrow will be qualified to conduct business in the State of Maryland. Buyer has the legal right, power and authority to enter into this Agreement and to consummate the transactions contemplated hereby, and the execution, delivery and performance of this Agreement have been duly authorized and no other action by Buyer is requisite to the valid and binding execution, delivery and performance of this Agreement, except as otherwise expressly set forth herein. There is no agreement to which Buyer is a party or to Buyer's knowledge binding on Buyer which is in conflict with this Agreement.

(B) **Executive Order 13224.** To the best of Buyer's knowledge, neither Buyer nor any of its respective affiliates or constituents, nor any of their respective brokers or other agents acting in any capacity in connection with the transactions contemplated by this Agreement is or will be (a) conducting any business or engaging in any transaction or dealing with any person appearing on the U.S. Treasury Department's OFAC list of restrictions and Prohibited Persons (which lists can be accessed at the following web address: <http://www.ustreas.gov/offices/enforcement/ofac/>), including the making or receiving of any contribution of funds, goods or services to or for the benefit of any Prohibited Person; (b) dealing in, or otherwise engaging in any transaction relating to, any property or interests in property

blocked pursuant to Executive Order No. 13224 dated September 24, 2001, relating to “Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism”; or (c) engaging in or conspiring to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempting to violate, any of the prohibitions set forth in any U.S. anti-money laundering law.

12.2 Release. By proceeding with this transaction following the expiration of the Due Diligence Period, Buyer shall be deemed to have made its own independent investigation of the Property, the Property Information and the presence of Hazardous Materials on the Real Property as Buyer deems appropriate. Accordingly, subject to the representations and warranties of Seller expressly set forth in this Agreement, including, but not limited to, Section 11.1 hereof, Buyer, on behalf of itself and all of its officers, directors, shareholders, employees, representatives and affiliated entities (collectively, the “**Releasers**”) hereby expressly waives and relinquishes any and all rights and remedies Releasers may now or hereafter have against Seller, its successors and assigns, partners, shareholders, officers and/or directors (the “**Seller Parties**”), whether known or unknown, which may arise from or be related to (a) the physical condition, quality, quantity and state of repair of the Real Property and the prior management and operation of the Real Property, (b) the Property Information or any other information relating to the Property provided to Buyer by Seller or Seller’s agents, (c) the Real Property’s compliance or lack of compliance with any federal, state or local laws or regulations, and (d) any past, present or future presence or existence of Hazardous Materials on, under or about the Real Property or with respect to any past, present or future violation of any rules, regulations or laws, now or hereafter enacted, regulating or governing the use, handling, storage or disposal of Hazardous Materials, including, without limitation, (i) any and all rights and remedies Releasers may now or hereafter have under the Comprehensive Environmental Response Compensation and Liability Act of 1980 (“**CERCLA**”), the Superfund Amendments and Reauthorization Act of 1986, the Resource Conservation and Recovery Act, and the Toxic Substance Control Act, all as amended, and any similar state, local or federal environmental law, rule or regulation, and (ii) any and all claims, whether known or unknown, now or hereafter existing, with respect to the Real Property under Section 107 of CERCLA (42 U.S.C.A. §9607). As used herein, the term “**Hazardous Material(s)**” includes, without limitation, any hazardous or toxic materials, substances or wastes, such as (1) any materials, substances or wastes which are toxic, ignitable, corrosive or reactive and which are regulated by any local governmental authority, or any agency of the United States government, (2) any other material, substance, or waste which is defined or regulated as a hazardous material, extremely hazardous material, hazardous waste or toxic substance pursuant to any laws, rules, regulations or orders of the United States government, or any local governmental body, (3) asbestos, (4) petroleum and petroleum based products, (5) formaldehyde, (6) polychlorinated biphenyls (PCBs), and (7) freon and other chlorofluorocarbons.

M.P.O.

BUYER’S INITIALS

WITHOUT LIMITING THE GENERALITY OF THE FOREGOING BUT EXCEPT AS OTHERWISE HEREIN PROVIDED, BUYER, ON BEHALF OF ITSELF AND THE OTHER RELEASORS, HEREBY ASSUMES ALL RISK AND LIABILITY RESULTING OR ARISING FROM, OR RELATING TO THE OWNERSHIP, USE, CONDITION, LOCATION, MAINTENANCE, REPAIR, OR OPERATION OF, THE PROPERTY.

THE FOREGOING WAIVERS, RELEASES AND AGREEMENTS BY BUYER, ON BEHALF OF ITSELF AND THE RELEASORS, SHALL SURVIVE THE CLOSE OF ESCROW AND THE RECORDATION OF THE DEED AND SHALL NOT BE DEEMED MERGED INTO THE DEED UPON ITS RECORDATION.

12.3 ERISA. Buyer is not purchasing any of the Property with “plan assets” of an Employee Benefit Plan subject to Title I of the Employee Retirement Income Security Act of 1974 (as amended from time to time, the “Act,” and together with any regulation, rule or judicial or administrative case, order, or pronouncement arising under or connected with the Act, “ERISA”) or of a plan subject to Section 4975 of the Internal Revenue Code of 1986, as amended (the “Code”).

13. DEFAULT AND DAMAGES

13.1 DEFAULT BY BUYER. BUYER AND SELLER HEREBY ACKNOWLEDGE AND AGREE THAT, IN THE EVENT THE CLOSE OF ESCROW FAILS TO OCCUR DUE TO A BUYER DEFAULT (ALL OF THE CONDITIONS TO BUYER’S OBLIGATIONS TO CLOSE HAVING BEEN SATISFIED OR WAIVED), SELLER WILL SUFFER DAMAGES IN AN AMOUNT WHICH WILL, DUE TO THE SPECIAL NATURE OF THE TRANSACTION CONTEMPLATED BY THIS AGREEMENT AND THE SPECIAL NATURE OF THE NEGOTIATIONS WHICH PRECEDED THIS AGREEMENT, BE IMPRACTICAL OR EXTREMELY DIFFICULT TO ASCERTAIN. IN ADDITION, BUYER WISHES TO HAVE A LIMITATION PLACED UPON THE POTENTIAL LIABILITY OF BUYER TO SELLER IN THE EVENT THE CLOSE OF ESCROW FAILS TO OCCUR DUE TO A BUYER DEFAULT, AND WISHES TO INDUCE SELLER TO WAIVE OTHER REMEDIES WHICH SELLER MAY HAVE IN THE EVENT OF A BUYER DEFAULT. BUYER AND SELLER, AFTER DUE NEGOTIATION, HEREBY ACKNOWLEDGE AND AGREE THAT THE AMOUNT OF THE DEPOSIT REPRESENTS A REASONABLE ESTIMATE OF THE DAMAGES WHICH SELLER WILL SUSTAIN IN THE EVENT OF SUCH BUYER DEFAULT. BUYER AND SELLER HEREBY AGREE THAT SELLER MAY, IN THE EVENT THE CLOSE OF ESCROW FAILS TO OCCUR DUE TO A BUYER DEFAULT, TERMINATE THIS AGREEMENT BY WRITTEN NOTICE TO BUYER AND ESCROW HOLDER, CANCEL THE ESCROW AND RECEIVE THE DEPOSIT AS LIQUIDATED DAMAGES. SUCH RETENTION OF THE DEPOSIT BY SELLER IS INTENDED TO CONSTITUTE LIQUIDATED DAMAGES TO SELLER AND SHALL NOT BE DEEMED TO CONSTITUTE A FORFEITURE OR PENALTY.

NOTHING IN THIS SECTION 13.1 SHALL (A) PREVENT OR PRECLUDE ANY RECOVERY OF ATTORNEYS' FEES OR OTHER COSTS INCURRED BY SELLER PURSUANT TO SECTION 15.5 OR (B) IMPAIR OR LIMIT THE EFFECTIVENESS OR ENFORCEABILITY OF THE INDEMNIFICATION OBLIGATIONS OF BUYER CONTAINED IN SECTION 4.3.1 AND SECTION 12.4 HEREOF. SELLER AND BUYER ACKNOWLEDGE THAT THEY HAVE READ AND UNDERSTAND THE PROVISIONS OF THIS SECTION 13.1 AND BY THEIR INITIALS IMMEDIATELY BELOW AGREE TO BE BOUND BY ITS TERMS.

Seller's Initials: C.J.S.

Buyer's Initials: _____

NOTHING IN THIS SECTION 13.1 SHALL (A) PREVENT OR PRECLUDE ANY RECOVERY OF ATTORNEYS' FEES OR OTHER COSTS INCURRED BY SELLER PURSUANT TO SECTION 15.5 OR (B) IMPAIR OR LIMIT THE EFFECTIVENESS OR ENFORCEABILITY OF THE INDEMNIFICATION OBLIGATIONS OF BUYER CONTAINED IN SECTION 4.3.1 AND SECTION 12.4 HEREOF. SELLER AND BUYER ACKNOWLEDGE THAT THEY HAVE READ AND UNDERSTAND THE PROVISIONS OF THIS SECTION 13.1 AND BY THEIR INITIALS IMMEDIATELY BELOW AGREE TO BE BOUND BY ITS TERMS.

Seller's Initials: _____
Buyer's Initials: M.P.O. _____

13.2 Default by Seller. If Seller defaults in its obligations to sell and convey the Property to Buyer pursuant to this Agreement, Buyer's sole and exclusive remedy shall be to elect one of the following: (a) to terminate this Agreement, in which event Buyer shall be entitled to the return by the Escrow Holder to Buyer of the Deposit and Seller shall reimburse Buyer for Buyer's out-of-pocket costs and expenses (including reasonable attorneys' fees and expenses), as supported by reasonable documentation satisfactory to Seller, incurred in connection with Buyer's due diligence investigations and negotiation and execution of this Agreement, not to exceed One Hundred Thousand Dollars (\$100,000.00) in the aggregate,, or (b) to bring a suit for specific performance provided that any suit for specific performance must be brought as to the Property within forty-five (45) days of Seller's default, Buyer's waiving the right to bring suit at any later date to the extent permitted by law. This Agreement confers no present right, title or interest in the Property to Buyer and Buyer agrees not to file a lis pendens or other similar notice against the Real Property except in connection with, and after, the proper filing of a suit for specific performance.

14. BROKER'S COMMISSIONS

Except for CBRE, Seller's broker (whose commission shall be paid by Seller pursuant to a separate agreement between Seller and Seller's broker), neither party hereto has had any contact or dealing regarding the Real Property, or any communication in connection with the subject matter of this transaction, through any licensed real estate broker or other person who can claim a right to a commission or finder's fee as a procuring cause of the sale contemplated herein. In the event that any other broker or finder perfects a claim for a commission or finder's fee, the party responsible for the contact or communication on which the broker or finder perfected such claim shall indemnify, save harmless and defend the other party from said claim and all costs and expenses (including reasonable attorneys' fees) incurred by the other party in defending against the same.

15. MISCELLANEOUS PROVISIONS

15.1 Notices. All written notices or demands of any kind which either party hereto may be required or may desire to serve on the other in connection with this Agreement shall be served by personal service, by registered or certified mail, recognized overnight courier service or email pdf. Any such notice or demand so to be served by registered or certified mail, recognized overnight courier service or facsimile transmission shall be delivered with all applicable delivery charges thereon fully prepaid and, if the party so to be served be Buyer, addressed to Buyer as follows:

1300 Thames Street Office, LLC
222 Central Park Avenue, Suite 2100
Virginia Beach, Virginia 23462
Attention: Michael P. O'Hara
Telephone No: (757) 366-6684
Email Address: mohara@armadahoffler.com

with a copy thereof to:

Faggert & Frieden, P.C.
222 Central Park Avenue, Suite 1300
Virginia Beach, Virginia 23462
Attention: David Y. Faggert, Esq.
Telephone No: (757) 333-4052
Email Address: dfaggert@fflaw.com

and, if the party so to be served be Seller, addressed to Seller as follows:

c/o KBS Realty Advisors, LLC
3003 Washington Boulevard
Suite 950
Arlington, Virginia 22201
Attention: Marc Deluca
Telephone No: (202) 552-7559
Email Address: mdeluca@kbs.com

with copies thereof to:

James Chiboucas, Esq.
800 Newport Center Drive, Suite 700
Newport Beach, California 92660
Telephone No.: (949) 417-6555
Email Address: jchiboucas@kbs.com

and

Greenberg Traurig
3161 Michelson Drive, Suite 1000
Irvine, California 92612
Attention: L. Bruce Fischer, Esq.
Telephone No.: (949) 732-6670
Email Address: fischerb@gtlaw.com

and, if the party to be served be Escrow Holder, addressed to:

Commonwealth Land Title Insurance Company
4100 Newport Place Drive, Suite 120
Newport Beach, California 92660
Attention: Joy Eaton
Telephone No.: (949) 724-3145
Email Address: joyeaton@cltic.com

Service of any such notice or demand so made by personal delivery, registered or certified mail, recognized overnight courier or email pdf transmission shall be deemed complete on the date of actual delivery as shown by the addressee's registry or certification receipt or, as to email pdf transmissions, a computer generated "sent" notice (provided that a copy of such notice or demand is delivered by any of the other methods provided above within one (1) business day following the sending of the email pdf transmission), as applicable, or at the expiration of the third (3rd) business day after the date of dispatch, whichever is earlier in time. Either party hereto may from time to time, by notice in writing served upon the other as aforesaid, designate a different mailing address to which or a different person to whose attention all such notices or demands are thereafter to be addressed. Counsel for a party may give notice or demand on behalf of such party, and such notice or demand shall be treated as being sent by such party.

15.2 Assignment; Binding on Successors and Assigns. Buyer shall not assign, transfer or convey its rights or obligations under this Agreement or with respect to the Property without the prior written consent of Seller, which consent Seller may withhold in its sole, absolute and subjective discretion. Any attempted assignment without the prior written consent of Seller shall be void and Buyer shall be deemed in default hereunder. Any permitted assignments shall not relieve the assigning party from its liability under this Agreement, unless and until the assignee closes on the purchase of the Property. Subject to the foregoing, and except as provided to the contrary herein, the terms, covenants, conditions and warranties contained herein and the powers granted hereby shall inure to the benefit of and bind all parties hereto and their respective heirs, executors, administrators, successors and assigns, and all subsequent owners of the Property.

15.3 Work Product. Effective upon and in the event of a termination of this Agreement for any reason, Buyer shall assign and deliver to Seller (without any representation or warranty as to such documents and at no cost to Seller), and does hereby assign without the need for any further act or instrument (without any representation or warranty as to such documents and at no cost to Seller), all reports, plans, studies, documents, written information and the like relating to the physical condition of the Property which have been generated by Buyer's third

party consultants, whether prior to the Opening of Escrow or during the period of Escrow in connection with Buyer's proposed acquisition, development, use or sale of the Real Property (collectively, the "**Work Product**"). In such event, Buyer shall deliver the Work Product which has been assigned to Seller not later than five (5) days after the date of the termination of this Agreement. The Work Product shall be fully paid for and shall not be subject to any lien, encumbrance or claim of any kind. Buyer shall also return all materials and information (including, without limitation, the Property Information) given to it by Seller or its consultants during Escrow, in the same condition as delivered to Buyer.

15.4 Further Assurances. In addition to the acts and deeds recited herein and contemplated to be performed, executed or delivered by Seller or Buyer, Seller and Buyer hereby agree to perform, execute and deliver, or cause to be performed, executed and delivered, on the Closing Date or thereafter any and all such further acts, deeds and assurances as Buyer or Seller, as the case may be, may reasonably require in order to consummate fully the transactions contemplated hereunder.

15.5 Attorneys' Fees. If any legal action or any arbitration or other proceeding is brought or if an attorney is retained for the enforcement of this Agreement or any portion thereof, or because of any alleged dispute, breach, default or misrepresentation in connection with any of the provisions of this Agreement, the prevailing party shall be entitled to recover from the other party reimbursement for the reasonable fees of attorneys and other costs (including court costs and witness fees) incurred by it, in addition to any other relief to which it may be entitled. The term "prevailing party" means the party obtaining substantially the relief sought, as determined by the trier of fact.

15.6 Survival of Representations, Warranties, Covenants, Obligations and Agreements.

(A) Except as otherwise expressly provided below in this Section 15.6, none of the representations, warranties, covenants, obligations or agreements contained in this Agreement shall survive the Close of Escrow or the earlier termination of this Agreement.

(B) Notwithstanding the provisions of Section 15.6(A), the indemnification provisions of Buyer under Sections 4.3.1 hereof and the provisions of Sections 4.6, 11.2, 13.2, 15.3, 15.5, 15.17, 15.19 and 15.20 hereof (collectively, the "**Surviving Termination Obligations**") shall survive the termination of this Agreement without limitation, and any claim based upon any breach of a representation or warranty, or a breach of a covenant, obligation or agreement included in any of the Surviving Termination Obligations shall be actionable and enforceable at any time after the date of the termination of this Agreement.

(C) Notwithstanding the provisions of Section 15.6(A), the indemnification provisions of Buyer under Sections 4.3.1 and 10.5 hereof, the provisions of Sections 4.6, 10.1, 10.3, 10.4, 10.8, 11.2, 12.1, 12.2 and 12.3 that relate to Buyer and the provisions of Sections 15.5, 15.17, 15.19 and 15.20 hereof (collectively, the "**Surviving Closing Obligations**") shall survive the Close of Escrow without limitation, and shall not be merged with the recording of the Deed, and any claim based upon any breach of a representation or warranty,

or a breach of a covenant, obligation or agreement included in any of the Surviving Closing Obligations shall be actionable and enforceable at any time after the Closing.

(D) Notwithstanding the provisions of Section 15.6(A), the indemnification provisions of Seller under Section 14 hereof and the provisions of Section 11.1 hereof (collectively, the “**Limited Surviving Closing Obligations**”) shall survive the Close of Escrow and the execution and delivery of the Deed only for a period of seven (7) months immediately following the Closing, and any claim based upon any breach of a representation or warranty, or a breach of a covenant, obligation or agreement included in any of the Limited Surviving Closing Obligations shall be actionable and enforceable if and only if notice of such claim is given to the party which allegedly breached such representation or warranty, or breached such covenant, obligation or agreement, within seven (7) months after the Closing. Notwithstanding anything stated to the contrary in this Agreement, in no event shall Seller’s liability, if any, with respect to any Limited Surviving Closing Obligations and/or any Surviving Closing Obligations exceed One Million Ten Thousand Dollars (1,010,000.00) in the aggregate.

15.7 Entire Agreement. This Agreement contains the entire agreement and understanding of the parties in respect to the subject matter hereof, and the parties intend for the literal words of this Agreement to govern and for all prior negotiations, drafts, and other extrinsic communications, whether oral or written, to have no significance or evidentiary effect. The parties further intend that neither this Agreement nor any of its provisions may be changed, amended, discharged, waived or otherwise modified orally except only by an instrument in writing duly executed by the party to be bound thereby. The parties hereto fully understand and acknowledge the importance of the foregoing sentence and are aware that the law may permit subsequent oral modification of a contract notwithstanding contract language which requires that any such modification be in writing, but Buyer and Seller fully and expressly intend that the foregoing requirements as to a writing be strictly adhered to and strictly interpreted and enforced by any court which may be asked to decide the question. Each party hereto acknowledges that this Agreement accurately reflects the agreements and understandings of the parties hereto with respect to the subject matter hereof and hereby waive any claim against the other party which such party may now have or may hereafter acquire to the effect that the actual agreements and understandings of the parties hereto with respect to the subject matter hereof may not be accurately set forth in this Agreement.

15.8 Governing Law. This Agreement shall be governed by the laws of the State of Maryland.

15.9 Counterparts. This Agreement may be executed simultaneously in one or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument. Each party may rely upon the pdf email signature of the other party as if it were an original signature.

15.10 Headings; Construction. The various headings of this Agreement are included for convenience only and shall not affect the meaning or interpretation of this Agreement or any provision hereof. When the context and construction so require, all words used in the singular herein shall be deemed to have been used in the plural and the masculine shall include the

feminine and the neuter and vice versa. The use in this Agreement of the term “including” and related terms such as “include” shall in all cases mean “without limitation.” All references to “days” in this Agreement shall be construed to mean calendar days unless otherwise expressly provided and all references to “business days” shall be construed to mean days on which national banks are open for business.

15.11 Time of Essence. Seller and Buyer hereby acknowledge and agree that time is strictly of the essence with respect to each and every term, condition, obligation and provision hereof and failure to perform timely any of the terms, conditions, obligations or provisions hereof by either party shall constitute a material breach of, and non-curable (but waivable) default under this Agreement by the parties so failing to perform.

15.12 Partial Validity; Severability. If any term or provision of this Agreement or the application thereof to any person or circumstance shall, to any extent, be held invalid or unenforceable, the remainder of this Agreement, or the application of such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each such term and provision of this Agreement shall be valid and be enforced to the fullest extent permitted by law.

15.13 No Third Party Beneficiaries. This Agreement is for the sole and exclusive benefit of the parties hereto and their respective permitted successors and assigns, and no third party is intended to, or shall have, any rights hereunder.

15.14 Intentionally Omitted.

15.15 Joint Product of Parties. This Agreement is the result of arms-length negotiations between Seller and Buyer and their respective attorneys. Accordingly, neither party shall be deemed to be the author of this Agreement and this Agreement shall not be construed against either party.

15.16 Calculation of Time Periods. Unless otherwise specified, in computing any period of time described herein, the day of the act or event after which the designated period of time begins to run is not to be included and the last day of the period so computed is to be included at, unless such last day is a Saturday, Sunday or legal holiday for national banks in California, Virginia or Maryland, in which event the period shall run until the end of the next day which is neither a Saturday, Sunday, or legal holiday. Unless otherwise expressly provided herein, the last day of any period of time described herein shall be deemed to end at 5:00 p.m. (California time).

15.17 Procedure for Indemnity. The following provisions govern actions for indemnity under this Agreement. Promptly after receipt by an indemnitee of notice of any claim, such indemnitee will, if a claim in respect thereof is to be made against the indemnitor, deliver to the indemnitor written notice thereof and the indemnitor shall have the right to participate in and, if the indemnitor agrees in writing that it will be responsible for any costs, expenses, judgments, damages, and losses incurred by the indemnitee with respect to such claim, to assume the defense thereof, with counsel mutually satisfactory to the parties; provided, however, that an

indemnitee shall have the right to retain its own counsel, with the fees and expenses to be paid by the indemnitor, if the indemnitee reasonably believes that representation of such indemnitee by the counsel retained by the indemnitor would be inappropriate due to actual or potential differing interests between such indemnitee and any other party represented by such counsel in such proceeding. The failure of indemnitee to deliver written notice to the indemnitor within a reasonable time after indemnitee receives notice of any such claim shall relieve such indemnitor of any liability to the indemnitee under this indemnity only if and to the extent that such failure is prejudicial to its ability to defend such action, and the omission so to deliver written notice to the indemnitor will not relieve it of any liability that it may have to any indemnitee other than under this indemnity. If an indemnitee settles a claim without the prior written consent of the indemnitor, then the indemnitor shall be released from liability with respect to such claim unless the indemnitor has unreasonably withheld such consent.

15.18 Waiver of Jury Trial. To the extent permitted by applicable law, the parties hereby waive any right to trial by jury in any legal proceeding arising out of or relating to this Agreement or the transactions contemplated hereby.

15.19 No Personal Liability. Notwithstanding anything stated to the contrary herein, Seller's liability under this Agreement shall be limited to Seller's interest in the Property and neither Seller, Seller's constituent partners and/or members, Seller's asset manager, nor Seller's directors, employees or agents shall have any personal liability hereunder.

15.20 Joint and Several Liability. If Buyer is composed of more than one individual or entity, all obligations and liabilities of Buyer under this Agreement shall be joint and several as to each of the individuals or entities who compose Buyer.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement the day and year first above written.

[Signatures on following pages]

“BUYER”

1300 THAMES STREET OFFICE, LLC,
a Virginia limited liability company

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

By: /s/ Michael P. O'Hara

Michael P. O'Hara, Manager

“SELLER”

EOSII AT THAMES STREET WHARF, LLC,
a Delaware limited liability company

By: EOS PROPERTIES II, LLC,
a Delaware limited liability company,
its sole member and manager

By: EOS INVESTMENT FUND II, L.P.,
a Delaware limited partnership,
its sole member

By: POLIS REALTY ADVISORS II, LTD.,
a British Virgin Islands company,
its general partner

By: /s/ Charles J. Schreiber, Jr.

Charles J. Schreiber, Jr.,
Chief Executive Officer

AGREED TO THIS 7th
DAY OF JUNE, 2019,
AS TO PROVISIONS RELATING TO ESCROW HOLDER:
/s/ J. Eaton
By J. Eaton
Its Vice President

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LIST OF EXHIBITS AND SCHEDULES

<u>EXHIBIT A</u>	<u>Description of Real Property</u>
<u>EXHIBIT B</u>	<u>Description of Personal Property</u>
<u>EXHIBIT C-1</u>	<u>List of Contracts</u>
<u>EXHIBIT C-2</u>	<u>List of Leases</u>
<u>EXHIBIT D</u>	<u>Form of Tenant Estoppel Certificate</u>
<u>EXHIBIT E</u>	<u>Form of Deed</u>
<u>EXHIBIT F</u>	<u>Form of Assignment of Leases, Contracts and Bill of Sale</u>
<u>EXHIBIT G</u>	<u>Form of FIRPTA Affidavit</u>
<u>EXHIBIT H</u>	<u>Form of Tenant Notice</u>
<u>EXHIBIT I</u>	<u>Form of Owner's Affidavit</u>
<u>SCHEDULE 1-1</u>	<u>New and Pending Lease Transactions (Buyer's Responsibility)</u>
<u>SCHEDULE 1-2</u>	<u>New and Pending Lease Transactions (Seller's Responsibility)</u>
<u>SCHEDULE 2</u>	<u>Disclosures</u>
<u>SCHEDULE 3</u>	<u>Owner Deposits</u>

EXHIBIT A

Description of Real Property

All that certain lot or parcel of land together with all improvements thereon located and being in the City of Baltimore, Maryland and being more particularly described as follows:

BEING KNOWN AND DESIGNATED as Land Unit 1 of Harbor Point Phase 1 Land Condominium as established pursuant to a Declaration of Condominium for Harbor Point Phase I Land Condominium made by Harbor Point Phase I Development LLC, dated December 26, 2008 and recorded on April 7, 2009 among the Land Records of Baltimore City in Liber FMC No. 11535, folio 190 et seq., and any amendments thereto, specifically that Amended and Restated First Amendment to Declaration for Harbor Point Phase I Land Condominium dated March 12, 2013 and recorded among the aforesaid Land Records in Liber 15314, folio 170 and Second Amendment to Declaration of Harbor Point Phase I Land Condominium dated April 25, 2014 and recorded among the Land Records of Baltimore City in Liber 16186, folio 278, together with an undivided interest in the Common Elements of the said Condominium, and subject to the By-Laws recorded therewith as Exhibit B to the Declaration, and pursuant to the Condominium Plat entitled, "Harbor Point Phase I Land Condominium", Sheet 1, which Condominium Plat is duly recorded at Condominium Plat Book FMC No. 738, Page 1 & 2, and any amendments thereto, specifically that Amended Condominium Plat Harbor Point Phase I Land Condominium" which Plat is duly recorded at Condominium Plat Book FMC No. 755.

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EXHIBIT B

Description of Personal Property

Description	Qty.	Date Purchased	Location
Ariens 24" Snow Thrower (serial #214407)	1	2016	Fuel Oil Tank Room
Grey Broadcast Salt Spreaders	2	2013	Fuel Oil Tank Room
Snow Shovels	2	2013	Fuel Oil Tank Room
Ice Chippers	2	2013	Fuel Oil Tank Room
Toilet Plungers	5	Unknown	Janitors Closets, Floors Ground, 2, 3, 5, 7
Toilet Cart	1	Unknown	Fuel Oil Tank Room
18" Bolt Cutters	1	2013	Black Tool Box - Fuel Oil Tank Room
8" Torpedo Magnet Level	1	2016	Black Tool Box - Fuel Oil Tank Room
Putty Knives	1	2016	Black Tool Box - Fuel Oil Tank Room
8 Way Screw Driver	1	2016	Red Maintenance Cart
Fuse Pullers	1	2013	Black Tool Box - Fuel Oil Tank Room
1 Socket Set 18 Piece	1	2013	Black Tool Box - Fuel Oil Tank Room
Scissors 8 1/2" L Stainless Steel	1	2016	Red Maintenance Cart
1 Needle Nose	1	2013	Red Maintenance Cart
Fractional Digital Caliper HSS 0 to 6"	1	2016	Black Tool Box - Fuel Oil Tank Room
1 Grease Gun	1	2013	Maintenance Room
Extension Cord Yellow 25'	1	2013	Fuel Oil Tank Room
Utility Knife	1	2013	Red Maintenance Cart
3 Crescent Wrenches (8", 10", 12")	1 set	2016	Black Tool Box - Fuel Oil Tank Room
Wire Strippers Blue/Black	1	2013	Red Maintenance Cart
Sand Shovel Plastic	1	2013	Fuel Oil Tank Room
T-Handle 6" Dia. Suction Cup Lifter	2	2016	Black Tool Box
Socket 1/2" Dr 13/16 in Triple Square	1	2016	Black Tool Box
Ball End Hex Key Set Pieces 9 M7	1	2016	Black Tool Box
Milwaukee Tape Measure 1" x 25' Black/Red	1	2016	Red Maintenance Cart
Socket Adapter 1/2" Female Square 3/8" Square	1	2016	Red Maintenance Cart
Tongue and Groove Pilers 9 1/2"	1	2016	Red Maintenance Cart
Tongue and Groove Pilers 10"	1	2016	Red Maintenance Cart
Demo Screwdriver Set, Slit/Phillips/ECX TM 8 PC	1	2016	Red Maintenance Cart
Furniture Dollie	1	2013	Fire Command Room
Blue (5000lb) Pallet Jack	1	2016	Fuel Oil Tank Room
Magliner Aluminum Handtruck	1	2013	Fuel Oil Tank Room
Blue Giant Flat Bed Cart (30" x 48")	1	2013	Fuel Oil Tank Room
6' Ladders	9	2016	Mechanical Rooms (Floors 1, 2, 3, 4, 5, 6, 7)
8' Ladders	3	2013	Ground Floor Fuel Oil Tank Room / Penthouse
Little Giant Ladder	1	2016	Fuel Oil Tank Room
Little Giant Extendable Plank	1	2016	Fuel Oil Tank Room
18v DeWalt Reciprocating Saw (serial #839990)	1	2010	Engineering / Maintenance Room - Ground Floor

Description	Qty.	Date Purchased	Location
18v DeWalt Circular Saw (serial #831256)	1	2010	Engineering / Maintenance Room - Ground Floor
Popcorn Machine	2	1-Unknown 1-2018	Fuel Oil Tank Room
Kenmore Refrigerator	1	Unknown	Engineering Office
Panasonic Microwave	1	2016	Engineering Office
HP laptop with Dell monitor/keyboard/mouse	1	Unknown	Engineering Office
Dell PC/Monitor for BAS	1	Unknown	Engineering Office
Dell PC for EMON/DMON meters	1	Unknown	Engineering Office
Datawatch Door Access System with computer	1	Unknown	Security Desk
Hikvision Camera System with HP computer/monitor	1	2018	Security Room/Desk
Lobby Couch	2	Unknown	Lobby
Lobby Chairs	6	Unknown	Lobby
Lobby Benches	2	Unknown	Lobby
Lobby Tables	3	Unknown	Lobby
Lobby Rugs	4	Unknown	Lobby
Artwork	1	Unknown	Lobby
Magazine Rack	1	Unknown	Lobby
Lobby Mats	8	2-Unknown 6-2017	Lobby & 3 at Eagle Matt for rotation
Mat Cart	1	2019	Lobby
Bike Racks	28	Unknown	Perimeter of Building
Exterior Tash Cans	3	Unknown	Perimeter of Building
Exterior Benches	6	Unknown	5-Perimeter of Building, 1-ATS3
Ash Urns	2	Unknown	Perimeter of Building
Exterior Planters	5	Unknown	Perimeter of Building

EXHIBIT C-1

List of Contracts

Vendor Name	Services Provided
Allsafe Elevator	Third Party Elevator Inspection
Assured Protection	Security Services
BFPE	Fire/Sprinkler/Backflow Inspections & Fire Extinguisher Service
Bopat Electric	Electric T&M (1st vendor)
CH Marks Commercial Contracting	GC T&M (2nd vendor)
Calvert Mechanical	Plumbing T&M (2nd vendor)
Capitol Concierge	Concierge Service
Caton Communications	Camera Equipment
Chem-Aqua	Water Treatment
Classic Lawn & Landscaping	Snow Removal Service
Constellation Energy	Electricity Supplier
Constantine Commercial Construction	GC T&M (1st vendor)
Datawatch Systems	Fire/Access Control Monitoring & Equipment Repair T&M
Eagle Mats	Bi-weekly cleaning of lobby mats
Easter's Lock & Access	Locksmith/Door Repair
EMS	Read electric meters/bill tenants & Equipment Repair T&M
Fidelity Power Systems	Generator PM & T&M
Flynn Architectural Finishes	Stone, Metal, Wood Maintenance
Image Asphalt	Curb Restriping
Jan Ferguson	Interior Plant Maintenance
LJ Brossoit	Plumbing T&M (1st vendor)
Mona Electric	Electric T&M (2nd vendor)
Orkin Pest Control	Pest Control
PBI Restorations	Emergency Restoration Services (2nd vendor)
Pro-Air	HVAC PM & T&M Service
Red Coats	Janitorial/Day Porter/Supplies
Rolling Greens	Holiday Décor
Siemens (BAS)	Building Automated System Service
Single Source	WiFi/Phone Service
Tolin Mechanical	BAS Support Services
Unlimited Restoration, Inc. (URI)	Emergency Restoration Services (1st vendor)
Valcourt	Flag Installation
Valcourt	Window Cleaning

EXHIBIT C-2

List of Leases

Tenant	Lease Document	Date
AHP Construction, LLC	Lease	6/20/2014
	Confirmation Notice	10/22/2014
Avery Dennison Retail Information Services, LLC	Lease	2/28/2014
	Rent Commencement Letter	10/1/2014
	Consent To Sublease	2/11/2019
Beatty Development Group, LLC	Lease	7/1/2013
	First Amendment	10/10/2013
	Second Amendment	2/5/2014
Horsetail Technologies, LLC	Lease	7/28/2015
	Initial Certificate	12/30/2015
Johns Hopkins Medicine International, LLC	Lease	11/30/2011
	First Amendment	8/5/2015
	Initial Certificate - Expansion	3/27/2017
Morgan Stanley Services Group, Inc.	Lease	11/12/2007
	First Amendment	12/21/2009
	Second Amendment	2/21/2012
	Third Amendment	8/7/2013
	Fourth Amendment	7/11/2016
	Fifth Amendment	6/18/2018
Sixth Amendment	12/18/2018	
Thames Street Café, LLC	Lease	11/11/2013
	First Amendment	4/16/2014
	Second Amendment	7/28/2014
	Third Amendment	9/1/2017

EXHIBIT D

Form of Tenant Estoppel Certificate

TENANT ESTOPPEL CERTIFICATE

The undersigned ("**Tenant**") hereby certifies to _____, a _____ ("**Landlord**"), and _____, a _____, and its successors and assigns (collectively, "**Buyer**"), as of the date of this estoppel certificate ("**Estoppel Certificate**"):

- A. Tenant is the Lessee under that certain Lease dated _____ relating to Suite #, containing approximately _____ rentable square feet (the "**Premises**"), together with any amendments thereto (collectively, the "**Lease**").
- B. The dates of all amendments to the Lease are as follows:
- C. There are no other agreements, oral or in writing, between Landlord and Tenant with respect to the Premises excepted as identified above.
- D. The Lease is in full force and effect.
- E. To Tenant's actual knowledge, no default exists under the Lease by Landlord.
- F. To Tenant's actual knowledge, Tenant has no claim or demand against the Landlord.
- G. Monthly base rent is equal to \$_____ and has been paid through _____, 20__.
- H. Monthly additional rent is equal to \$_____ and has been paid through _____, 20__.
- I. Tenant does not have any rent abatements remaining except : _____.
- J. All leasing commissions and tenant improvement allowances have been paid except:

- K. Tenant's security deposit held by Landlord is \$_____.
- L. Tenant has no right or option to purchase any portion of the real property upon which the Premises are situated.

Tenant acknowledges that this Estoppel Certificate is being given in order to induce Buyer to purchase the property of which the Premises are a part, and to take on the obligations of Landlord. Buyer is entitled to rely upon this Estoppel Certificate.

D-1

ADMIN 35315890v4

Dated: _____, 20 ____

"TENANT"

By: _____

(Print Name)

(Title)

D-2

EXHIBIT E

Form of Deed

AFTER RECORDING,
PLEASE RETURN TO:

Tax Parcel No.: _____

SPECIAL WARRANTY DEED

This SPECIAL WARRANTY DEED (this "Deed") is made as of the _____ day of _____, 20__, by and between _____, a _____, whose address is _____ ("Grantor") and _____, a _____, whose address is _____ ("Grantee").

WITNESSETH:

For [_____] Dollars (\$[_____]) and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Grantor does hereby GRANT, BARGAIN, SELL and CONVEY unto Grantee, with Special Warranty, in fee simple the land described on Exhibit A attached hereto and incorporated herein by reference (the "Property").

TOGETHER with all buildings, fixtures or other improvements located in or on such parcel of land; and

TOGETHER with all easements, rights-of-way, appurtenances, hereditaments, licenses and privileges belonging or appurtenant to the land conveyed hereby; and

TOGETHER with all mineral, gas, oil and water rights, sewer rights, other utility rights, and development rights now or hereafter allocated or allocable to the Property; and

TOGETHER with all right, title and interest of Grantor in and to any land lying in the bed of any public and private streets, roads, highways, avenues, waterways and creeks, adjacent to or abutting the Property; and

TOGETHER with all right, title and interest of Grantor in and to any gaps, strips or gores on, around or within the Property.

TO HAVE AND TO HOLD the Property unto the use and benefit of Grantee, its successors and assigns, in fee simple forever, subject to all liens, encumbrances, easements and restrictions of record.

IN WITNESS WHEREOF, this Deed has been executed as of the date first above written.

GRANTOR:

a _____

_____(Seal)

Name: _____

Title: _____

ACKNOWLEDGEMENT

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California)
)
County of Orange)

On _____ before me, _____, Notary Public personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature __ **(Seal)**

EXHIBIT "A"
LEGAL DESCRIPTION

ADMIN 35315890v4

ATTORNEY CERTIFICATION

This is to certify that the within instrument was prepared under the supervision of the undersigned, an attorney duly admitted to practice before the Court of Appeals in Maryland.

Richard J. Melnick

EXHIBIT F

Form of Assignment of Leases and
Contracts and
Bill of Sale

ASSIGNMENT OF LEASES AND CONTRACTS AND BILL OF SALE

This Assignment of Leases and Contracts and Bill of Sale (this "**Assignment**") is executed and delivered as of the ____ day of _____, 20__ (the "**Closing Date**") pursuant to that certain Purchase and Sale Agreement and Escrow Instructions ("**Agreement**") dated _____, 20__, by and between _____, a _____ ("**Seller**"), and _____, a _____ ("**Buyer**"), covering the real property described in Exhibit A attached hereto ("**Property**").

1. **Sale of Personalty**. For good and valuable consideration, Seller hereby sells, transfers, sets over and conveys to Buyer the following (the "**Personal Property**"):

(a) **Tangible Personalty**. All of Seller's right, title and interest, if any, in and to all the furniture, fixtures, equipment, and other tangible personal property listed on **Exhibit B** attached hereto or otherwise located in or on the Property to the extent owned by Seller; and

(b) **Intangible Personalty**. All the right, title and interest of Seller, if any, in and to assignable licenses and permits relating to the operation of the Property, assignable guaranties and warranties from any contractor, manufacturer or other person in connection with the construction or operation of the Property, the Warranties, Approvals and Intangibles, each as defined in the Agreement, and the right to use the name of the Property (if any), but specifically excluding any right, title or interest of Seller in any trademarks, service marks and trade names of Seller (including, without limitation, the names "Koll", "Bren", "K/B", "KBS", "Schreiber", or any derivative thereof, or any name that includes the word "Koll", the word "Bren", the word "K/B", the word "KBS", the word "Schreiber" or any derivative thereof) and with reservation by Seller to use such name in connection with other property owned by Seller in the vicinity of the Property.

2. **Assignment of Leases and Contracts**. For good and valuable consideration, Seller hereby assigns, transfers, sets over and conveys to Buyer, and Buyer hereby accepts the following:

(a) **Leases**. All of the Seller's right, title and interest in and to all tenant leases relating to the Property, including, without limitation, the tenant leases listed on **Exhibit C-1** and **C-2** attached hereto ("**Leases**");

(b) **Contracts and Agreements**. Seller's right, title and interest in and to the contracts and agreements described on **Exhibit D-1** and **Exhibit D-2** attached hereto (the "**Contracts**").

3. Assumption. Buyer hereby assumes the obligations of Seller under (a) the Leases listed on Exhibit C-1 attached hereto arising from and after the Closing Date, (b) the Leases listed on Exhibit C-2 attached hereto whether arising before or after the Closing Date, (c) the Contracts listed on Exhibit D-1 attached hereto arising from and after the Closing Date, and (d) the Contracts listed on Exhibit D-2 attached hereto arising before or after the Closing Date, and shall defend, indemnify and hold harmless Seller from and against any liability, damages, causes of action, expenses, and attorneys' fees incurred by Seller by reason of the failure of Buyer to fulfill, perform, discharge, and observe its obligations with respect to the Leases or the Contracts to the extent Buyer received a credit at closing with respect to any of such obligations under the Leases and/or Contracts.
4. Agreement Applies. Except as may otherwise be provided in the Agreement, the Contracts and Leases are being assigned and transferred, and the Personal Property is being transferred, to Buyer on an "as is," and "where is" basis, with all faults, and without any representation or warranty, all of which Seller hereby disclaims, all as more particularly set forth in Section 11.1 of the Agreement, which Section shall be, and hereby is, incorporated herein by reference.
5. Counterparts. This Assignment may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument, with the same effect as if all parties had signed the same signature page.
6. Attorneys' Fees. In any action between the parties to enforce any of the terms or provisions of this Assignment, the prevailing party in the action shall be entitled to recover from the non-prevailing party, in addition to damages, injunctive relief or other relief, and its reasonable costs and expenses, including, without limitation, costs and reasonable attorneys' fees (including on appeal).
7. Merger. This Assignment and the Agreement contain the entire understanding between the parties relating to their subject matter. All prior and contemporaneous agreements and understandings, whether oral or written, are superseded by this Assignment and the Agreement. This Assignment may only be modified in writing executed by both Buyer and Seller. Nothing contained in this Assignment is intended to terminate or affect the validity of any of the representations or warranties contained in the Agreement.
8. Joint and Several Liability. All obligations and liabilities of Buyer under this Assignment shall be joint and several as to each of the individuals or entities who compose Buyer.
9. Miscellaneous. This Assignment shall be binding upon and shall inure to the benefit of the parties hereto, their heirs, executors, administrators, successor-in-interest and assigns. If any term or provision of this Assignment shall be held invalid or unenforceable, the remainder of this Assignment shall not be affected. This Assignment shall be construed in accordance with and governed by the laws of the State of Maryland. Nothing in this Assignment shall impair, limit or lessen any of the rights of the parties with respect to the provisions of the Agreement which were intended to survive the Closing Date. Nothing in this Assignment, express or implied, is

intended to confer upon any person or entity, other than the parties hereto and their respective successors and assigns, any rights or remedies.

IN WITNESS WHEREOF, the undersigned have caused this instrument to be executed as of the date written above.

[Signature Pages to Follow]

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SELLER:

a _____

BUYER:

a _____

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EXHIBIT A
DESCRIPTION OF PROPERTY
[ATTACHED]

F-6

EXHIBIT B
DESCRIPTION OF TANGIBLE PROPERTY
[ATTACHED]

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EXHIBIT C-1

LIST OF LEASES UNDER WHICH BUYER ASSUMES
OBLIGATIONS AFTER THE CLOSING DATE

[This schedule will include a list of all Leases which exist on the date of the Agreement, but specifically excluding the Leases listed on Schedule 1 attached to the Agreement.]

[ATTACHED]

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EXHIBIT C-2

LIST OF LEASES UNDER WHICH BUYER ASSUMES
OBLIGATIONS BEFORE AND AFTER THE CLOSING DATE

[This schedule will include a list of (a) all Leases set forth on Schedule 1 to the Agreement, if any, (b) all Leases entered into after the date of the Agreement in accordance with the terms of the Agreement, and (c) all Lease amendments, expansions and renewals entered into by Seller in accordance with the terms of the Agreement.]

[ATTACHED]

F-9

EXHIBIT D-1

LIST OF CONTRACTS UNDER WHICH BUYER ASSUMES
OBLIGATIONS AFTER THE CLOSING DATE

[This schedule will include all contracts set forth on Exhibit C-1 attached to the Agreement and any new service contracts entered into by Seller in accordance with the terms of the Agreement.]

[ATTACHED]

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EXHIBIT D-2

LIST OF CONTRACTS UNDER WHICH BUYER ASSUMES
OBLIGATIONS BEFORE AND AFTER THE CLOSING DATE

[This schedule will include any new construction contracts entered into by Seller in connection with the completion of tenant improvement work for tenants under (a) the Leases set forth on Schedule 1 to the Agreement, if any, (b) all Leases entered into after the date of the Agreement in accordance with the terms of the Agreement, and (c) all Lease amendments, expansions and renewals entered into by Seller in accordance with the terms of the Agreement.]

[ATTACHED]

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EXHIBIT G

Form of FIRPTA Affidavit

FIRPTA CERTIFICATE

_____ (“**Member**”) is the sole owner of _____ (“**Seller**”). Seller, a disregarded entity for U.S. tax purposes, is the transferor of certain real property more particularly described on Exhibit A attached hereto (the “**Property**”).

Section 1445 of the Internal Revenue Code of 1986, as amended (the “**Code**”) provides that a transferee of a U.S. real property interest must withhold tax if the transferor is a foreign person. For U.S. tax purposes (including Section 1445 of the Code), the owner of a disregarded entity (which has legal title to a U.S. real property interest under local law) will be the transferor of the property and not the disregarded entity. To inform the transferee that withholding of tax will not be required in connection with the disposition of the Property pursuant to that certain Purchase and Sale Agreement and Escrow Instructions dated as of _____, 20__, by and between _____, a _____ (“**Buyer**”) and Seller, the undersigned certifies the following on behalf of Member:

1. Member is not a foreign corporation, foreign Company, foreign trust or foreign estate, as those terms are defined in the Code and the regulations promulgated thereunder;
2. Member is not a disregarded entity as defined in Treasury Regulations §1.1445-2(b)(2)(iii),
3. Member’s U.S. employer identification number is _____, and
4. Member’s address is: 800 Newport Center Drive, Suite 700, Newport Beach, California 92660.

It is understood that this certificate may be disclosed to the Internal Revenue Service and that any false statement contained herein could be punished by fine, imprisonment, or both.

Under penalties of perjury I declare that I have examined the foregoing certification and, to the best of my knowledge and belief, it is true, correct and complete, and I further declare that I have authority to sign this document on behalf of Member.

Date: _____, 20__

Exhibit A
Legal Description
(Attached)]

G-2

EXHIBIT H

Form of Tenant Notice

NOTICE TO TENANTS

[Date]

[Property Name]

[Address]

[City/State/ZIP]

Dear Tenant:

Notice is hereby given to the tenants of _____ (the "**Property**") that _____, a _____ ("**Seller**"), the current owner of the Property, has sold the Property to _____, a _____ ("**Buyer**") effective [**date of takeover**]. Buyer has assumed all of the obligations of landlord under your lease, including any obligations with respect to your security deposit, if any, which has been transferred to Buyer.

Sincerely,

"SELLER"

a _____

"BUYER"

a _____

H-1

EXHIBIT I

Form of Owner's Affidavit

PROPERTY:
COUNTY:
STATE:

_____, a _____ ("Seller"), as seller, and _____, a _____ ("Buyer"), as buyer, are parties to that certain Purchase and Sale Agreement and Escrow Instructions (the "Purchase Agreement") dated _____, 20__, as the same has been amended and modified, relating to the improved real property (the "Real Property") referred to in Exhibit "A" attached hereto and made a part hereof.

In connection with the consummation of the transactions contemplated by the Purchase Agreement, Seller hereby represents and warrants to _____ Title Insurance Company the following:

1. Seller is a _____ organized and existing under the laws of the State of _____.
2. To Seller's actual knowledge, (i) Seller's _____ agreement is in full force and effect, and (ii) no proceedings are pending for the dissolution of the Seller.
3. To Seller's actual knowledge, the leases described on Exhibit "B" attached hereto constitute all of the written leases affecting the Real Property with the current tenants of the Real Property.
4. To Seller's actual knowledge, except as disclosed in Exhibit "C" attached hereto and made a part hereof, (a) there is no capital improvement work currently being constructed (or that was constructed during the last 6 months) on the Real Property that is the subject of a written contract with Seller which could give rise to a mechanic's or materialman's lien on the Real Property, and (b) Seller has not entered into any contracts for the furnishing of labor, materials, or services for construction purposes with respect to the Real Property to be furnished subsequent to the date of this affidavit.
5. Seller shall not hereafter cause any encumbrances or other instruments to be recorded against the Property (other than the recording of a deed (the "Deed") transferring fee title to the Real Property to _____) through the date the Deed is recorded in _____ County, _____.

For purposes hereof, the "actual knowledge" of Seller shall be limited to the actual knowledge (and not implied, imputed, or constructive) of _____, with no duty of inquiry. Notwithstanding anything contained herein to the contrary, the representations and warranties set forth in this Owner's Affidavit shall only survive the closing of the transactions contemplated by the Purchase Agreement until _____, 20__, after which date this Owner's Affidavit shall be of no further force or effect and _____ Title Insurance Company shall have no further rights hereunder (notwithstanding that one or more of the representations and/or warranties set forth herein may prove to be incorrect). This Owner's Affidavit is being executed for the sole and exclusive benefit of _____ Title Insurance Company and no other party or person shall have any rights hereunder.

Executed as of _____, 20__

[SIGNATURES ON NEXT PAGE]

SELLER:

—

EXHIBIT A
LEGAL DESCRIPTION
ATTACHED

ADMIN 35315890v4

EXHIBIT B

LIST OF LEASES

ATTACHED

ADMIN 35315890v4

EXHIBIT C
IMPROVEMENT WORK
ATTACHED

ADMIN 35315890v4

SCHEDULE 1-1

Description of New and Pending Lease Transactions (Buyer's Responsibility)

NONE.

SCHEDULE 1-2

Description of New and Pending Lease Transactions (Seller's Responsibility)

NONE.

SCHEDULE 2

Disclosures

- An employee of Morgan Stanley was standing on a perimeter floor vent and the vent flipped up and hit him in the head. This matter is covered by Seller's commercial liability insurance policy.
- A slip and fall case involving a vendor of Morgan Stanley due to a misstep by such vendor. This matter is covered by Seller's commercial liability insurance policy.

SCHEDULE 3

Owner Deposits

NONE.

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**FIRST AMENDMENT TO PURCHASE AND SALE AGREEMENT
AND ESCROW INSTRUCTIONS**

THIS FIRST AMENDMENT TO PURCHASE AND SALE AGREEMENT AND ESCROW

INSTRUCTIONS (this “**First Amendment**”) is made as of the 7th day of June, 2019, by and between EOSII AT THAMES STREET WHARF, LLC, Delaware limited liability company (“**Seller**”), and 1300 THAMES STREET OFFICE, LLC, a Virginia limited liability company (“**Buyer**”). In consideration of the mutual promises and covenants contained herein, the parties hereto agree as follows:

RECITALS

A. Seller and Buyer are parties to that certain Purchase and Sale Agreement and Escrow Instructions dated of even date herewith (the “**Purchase Agreement**”). All initially-capitalized terms not otherwise defined herein shall have the meanings set forth in the Purchase Agreement unless the context clearly indicates otherwise.

B. Seller and Buyer have agreed to modify the terms of the Purchase Agreement as set forth in this First Amendment.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intended to be legally bound, Seller and Buyer agree as follows:

1. **Recitals.** The Recitals set forth above are hereby incorporated herein by reference as if the same were fully set forth herein.
2. **Title Review and Cure.** As of the date of this First Amendment, Buyer acknowledges and agrees that Buyer has not delivered, and will not be delivering, to Seller the Buyer’s Title Notice as provided in Section 4.2.2 of the Purchase Agreement. Notwithstanding anything stated to the contrary in the Purchase Agreement, the execution and delivery of this First Amendment shall constitute Buyer’s waiver of its right to deliver Buyer’s Title Notice, and Buyer shall be (subject to the terms and provisions of Section 4.2.2 of the Purchase Agreement) deemed to have approved of the condition of title to the Real Property, all matters of which (subject to the terms and provisions of Section 4.2.2 of the Purchase Agreement) shall be Permitted Exceptions, and Buyer shall have no right to terminate the Purchase Agreement arising out of the provisions of Section 4.2.2 of the Purchase Agreement.
3. **Expiration of Due Diligence Period.** Buyer acknowledges that the Due Diligence Period has expired and, therefore, in accordance with Section 4.3.3 of the Purchase Agreement, Buyer shall be deemed to be satisfied with all aspects of all the Property and Buyer shall be obligated to acquire the Real Property in accordance with, and subject to, the provisions of the Purchase Agreement and this First Amendment.
4. **Payment of Deposit.** Notwithstanding anything stated to the contrary in the Purchase Agreement or this First Amendment, if Buyer fails to deposit with Escrow Holder the Deposit by 2:00 p.m. (California time) on June 7, 2019, then the Purchase Agreement and this First Amendment shall not be effective and of no force or effect.
5. **Interpretation.** The terms and conditions of the Purchase Agreement shall be interpreted and construed to take into account the fact that the last day of the Due Diligence Period is the same date as the Effective Date of the Purchase Agreement.

6. **Effectiveness of Agreement.** Except as modified by this First Amendment, all the terms of the Purchase Agreement shall remain unchanged and in full force and effect.

7. **Counterparts.** This First Amendment may be executed in counterparts, and all counterparts together shall be construed as one document.

8. **Telecopied/Emailed Signatures.** A counterpart of this First Amendment that is signed by one party to this First Amendment and telecopied/emailed to the other party to this First Amendment or its counsel (a) shall have the same effect as an original signed counterpart of this First Amendment, and (b) shall be conclusive proof, admissible in judicial proceedings, of such party's execution of this First Amendment.

9. **Successors and Assigns.** All of the terms and conditions of this First Amendment shall apply to benefit and bind the successors and assigns of the respective parties.

IN WITNESS WHEREOF, Seller and Buyer have entered into this First Amendment as of the date first above stated.

[SIGNATURES ON NEXT PAGE]

SELLER:

EOSII AT THAMES STREET WHARF, LLC,
a Delaware limited liability company

By: EOS PROPERTIES II, LLC,
a Delaware limited liability company,
its sole member and manager

By: EOS INVESTMENT FUND II, L.P.,
a Delaware limited partnership,
its sole member

By: POLIS REALTY ADVISORS II, LTD.,
a British Virgin Islands company,
its general partner

By: /s/ Charles J. Schreiber, Jr.

Charles J. Schreiber, Jr.,
Chief Executive Officer

BUYER:

1300 THAMES STREET OFFICE, LLC,
a Virginia limited liability company

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

By: /s/ Michael P. O'Hara

Michael P. O'Hara, Manager

**SECOND AMENDMENT TO PURCHASE AND SALE AGREEMENT
AND ESCROW INSTRUCTIONS**

THIS SECOND AMENDMENT TO PURCHASE AND SALE AGREEMENT AND ESCROW

INSTRUCTIONS (this “**Second Amendment**”) is made as of the 10th day of June, 2019, by and between EOSII AT THAMES STREET WHARF, LLC, Delaware limited liability company (“**Seller**”), and 1300 THAMES STREET OFFICE, LLC, a Virginia limited liability company (“**Buyer**”). In consideration of the mutual promises and covenants contained herein, the parties hereto agree as follows:

RECITALS

A. Seller and Buyer are parties to that certain Purchase and Sale Agreement and Escrow Instructions dated as of June 7, 2019, as amended by that certain First Amendment to Purchase and Sale Agreement and Escrow Instructions (the “**First Amendment**”) dated as of June 7, 2019 (as amended, the “**Purchase Agreement**”). All initially-capitalized terms not otherwise defined herein shall have the meanings set forth in the Purchase Agreement unless the context clearly indicates otherwise.

B. Seller and Buyer have agreed to modify the terms of the Purchase Agreement as set forth in this Second Amendment.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intended to be legally bound, Seller and Buyer agree as follows:

1. **Recitals.** The Recitals set forth above are hereby incorporated herein by reference as if the same were fully set forth herein.
2. **Payment of Deposit.** Notwithstanding anything stated to the contrary in the Purchase Agreement (including, without limitation, Paragraph 4 of the First Amendment), Seller and Buyer hereby agree that in the event Buyer deposits with Escrow Holder the Deposit by 5:00 p.m. (California time) on June 10, 2019, then the Purchase Agreement, as amended, shall be effective and in force and effect.
3. **Effectiveness of Agreement.** Except as modified by this Second Amendment, all the terms of the Purchase Agreement shall remain unchanged and in full force and effect.
4. **Counterparts.** This Second Amendment may be executed in counterparts, and all counterparts together shall be construed as one document.
5. **Telecopied/Emailed Signatures.** A counterpart of this Second Amendment that is signed by one party to this Second Amendment and telecopied/mailed to the other party to this Second Amendment or its counsel (a) shall have the same effect as an original signed counterpart of this Second Amendment, and (b) shall be conclusive proof, admissible in judicial proceedings, of such party’s execution of this Second Amendment.
6. **Successors and Assigns.** All of the terms and conditions of this Second Amendment shall apply to the benefit and bind the successors and assigns of the respective parties.

IN WITNESS WHEREOF, Seller and Buyer have entered into this Second Amendment as of the date first above stated.

[SIGNATURES ON NEXT PAGE]

SELLER:

EOSII AT THAMES STREET WHARF, LLC,
a Delaware limited liability company

By: EOS PROPERTIES II, LLC,
a Delaware limited liability company,
its sole member and manager

By: EOS INVESTMENT FUND II, L.P.,
a Delaware limited partnership,
its sole member

By: POLIS REALTY ADVISORS II, LTD.,
a British Virgin Islands company,
its general partner

By: /s/ Charles J. Schreiber, Jr.

Charles J. Schreiber, Jr.,
Chief Executive Officer

BUYER:

1300 THAMES STREET OFFICE, LLC,
a Virginia limited liability company

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

By: /s/ Michael P. O'Hara

Michael P. O'Hara, Manager

**THIRD AMENDMENT TO PURCHASE AND SALE AGREEMENT
AND ESCROW INSTRUCTIONS**

THIS THIRD AMENDMENT TO PURCHASE AND SALE AGREEMENT AND ESCROW

INSTRUCTIONS (this “**Third Amendment**”) is made as of the 25th day of June, 2019, by and between EOSII AT THAMES STREET WHARF, LLC, Delaware limited liability company (“**Seller**”), and 1300 THAMES STREET OFFICE, LLC, a Virginia limited liability company (“**Buyer**”). In consideration of the mutual promises and covenants contained herein, the parties hereto agree as follows:

RECITALS

A. Seller and Buyer are parties to that certain Purchase and Sale Agreement and Escrow Instructions dated as of June 7, 2019, as amended by that certain First Amendment to Purchase and Sale Agreement and Escrow Instructions dated as of June 7, 2019 and that certain Second Amendment to Purchase and Sale Agreement and Escrow Instructions dated as of June 10, 2019 (as amended, the “**Purchase Agreement**”). All initially-capitalized terms not otherwise defined herein shall have the meanings set forth in the Purchase Agreement unless the context clearly indicates otherwise.

B. Seller and Buyer have agreed to modify the terms of the Purchase Agreement as set forth in this Second Amendment.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intended to be legally bound, Seller and Buyer agree as follows:

1. **Recitals**. The Recitals set forth above are hereby incorporated herein by reference as if the same were fully set forth herein.
2. **Outstanding Charges**. Buyer hereby covenants and agrees to pay and be responsible for (a) any unpaid real estate taxes for which Buyer received a credit at Closing, and (b) all public taxes, assessments and charges due and owed on the Property attributable to the period from and after the Closing Date (collectively, the “**Outstanding Charges**”), and Buyer hereby agrees to indemnify, defend, and hold Seller harmless from and against all claims and/or demands made by the City of Baltimore (the “**City**”) arising out of the Outstanding Charges and will reimburse Seller for all attorneys’ fees incurred or that may be incurred as a result of any such claims and/or demands as well as for all loss, expenses, verdicts, judgments, settlements, interest, costs and other expenses incurred or that may be incurred by Seller as a result of any such claims and/or demands by the City. The provisions of this Section 2 of this Third Amendment shall survive the Close of Escrow and shall not be deemed merged into the Deed upon its recordation.
3. **Effectiveness of Agreement**. Except as modified by this Third Amendment, all the terms of the Purchase Agreement shall remain unchanged and in full force and effect.
4. **Counterparts**. This Third Amendment may be executed in counterparts, and all counterparts together shall be construed as one document.
5. **Telecopied/Emailed Signatures**. A counterpart of this Third Amendment that is signed by one party to this Third Amendment and telecopied/emailed to the other party to this Third Amendment or its counsel (a) shall have the same effect as an original signed counterpart of this Third

Amendment, and (b) shall be conclusive proof, admissible in judicial proceedings, of such party's execution of this Third Amendment.

6. Successors and Assigns. All of the terms and conditions of this Third Amendment shall apply to benefit and bind the successors and assigns of the respective parties.

IN WITNESS WHEREOF, Seller and Buyer have entered into this Third Amendment as of the date first above stated.

[SIGNATURES ON NEXT PAGE]

BUYER:

1300 THAMES STREET OFFICE, LLC,
a Virginia limited liability company

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

By: /s/ Michael P. O'Hara

Michael P. O'Hara, Manager

SELLER:

EOSII AT THAMES STREET WHARF, LLC,
a Delaware limited liability company

By: EOS PROPERTIES II, LLC,
a Delaware limited liability company,
its sole member and manager

By: EOS INVESTMENT FUND II, L.P.,
a Delaware limited partnership,
its sole member

By: POLIS REALTY ADVISORS II, LTD.,
a British Virgin Islands company,
its general partner

By: /s/ Charles J. Schreiber, Jr.

Charles J. Schreiber, Jr.,
Chief Executive Officer

**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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - 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.
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: August 5, 2019

/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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - 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.
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: August 5, 2019

/s/ Michael P. O'Hara

Michael P. O'Hara

Chief Financial Officer, Treasurer and Secretary

CERTIFICATION

The undersigned, Louis S. Haddad, the President and Chief Executive Officer 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 June 30, 2019 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: August 5, 2019

/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 June 30, 2019 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: August 5, 2019

/s/ Michael P. O'Hara

Michael P. O'Hara

Chief Financial Officer, Treasurer and Secretary