

Armada Hoffler Properties, Inc.
Form 10-Q
August 03, 2016

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, 2016

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 46-1214914
(State of Organization) (IRS Employer Identification No.)

222 Central Park Avenue, Suite 2100 23462
Virginia Beach, Virginia
(Address of Principal Executive Offices) (Zip Code)

(757) 366-4000
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes
No

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer

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or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer

Accelerated Filer

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of August 1, 2016, the Registrant had 33,501,966 shares of common stock outstanding.

Table of Contents

ARMADA HOFFLER PROPERTIES, INC.

QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2016

Table of Contents

	Page
<u>Part I. Financial Information</u>	<u>1</u>
<u>Item 1. Financial Statements</u>	<u>1</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>18</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>33</u>
<u>Item 4. Controls and Procedures</u>	<u>33</u>
<u>Part II. Other Information</u>	<u>34</u>
<u>Item 1. Legal Proceedings</u>	<u>34</u>
<u>Item 1A. Risk Factors</u>	<u>34</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>34</u>
<u>Item 3.</u>	<u>34</u>

Defaults
Upon Senior
Securities

Item 4. Mine Safety 34
Disclosures

Item 5. Other 34
Information

Item 6. Exhibits 34

Signatures 35

Table of Contents

PART I. Financial Information

Item 1. Financial Statements

ARMADA HOFFLER PROPERTIES, INC.
Condensed Consolidated Balance Sheets

(In thousands, except par value and share data)

	June 30, 2016 (UNAUDITED)	December 31, 2015
ASSETS		
Real estate investments:		
Income producing property	\$ 752,783	\$ 579,000
Held for development	2,032	1,180
Construction in progress	79,258	53,411
	834,073	633,591
Accumulated depreciation	(127,337)	(125,380)
Net real estate investments	706,736	508,211
Real estate investments held for sale	5,829	40,232
Cash and cash equivalents	19,984	26,989
Restricted cash	3,158	2,824
Accounts receivable, net	14,366	21,982
Notes receivable	39,311	7,825
Construction receivables, including retentions	31,277	36,535
Construction contract costs and estimated earnings in excess of billings	1,756	88
Other assets	72,055	44,861
Total Assets	\$ 894,472	\$ 689,547
LIABILITIES AND EQUITY		
Indebtedness, net	\$ 501,940	\$ 377,593
Debt secured by real estate investments held for sale	6,380	—
Accounts payable and accrued liabilities	6,379	6,472
Construction payables, including retentions	49,203	52,067
Billings in excess of construction contract costs and estimated earnings	2,893	2,224
Other liabilities	38,935	25,471
Total Liabilities	\$ 605,730	\$ 463,827
Stockholders' equity:		
Common stock, \$0.01 par value, 500,000,000 shares authorized, 32,825,063 and 30,076,359 shares issued and outstanding as of June 30, 2016 and December 31, 2015, respectively	328	300
Additional paid-in capital	133,915	102,906
Distributions in excess of earnings	(45,114)	(53,010)
Accumulated other comprehensive loss	—	(648)
Total stockholders' equity	89,129	49,548
Noncontrolling interests	199,613	176,172
Total Equity	288,742	225,720
Total Liabilities and Equity	\$ 894,472	\$ 689,547

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Revenues				
Rental revenues	\$24,251	\$19,908	\$47,534	\$38,098
General contracting and real estate services revenues	33,200	47,066	70,003	76,137
Total revenues	57,451	66,974	117,537	114,235
Expenses				
Rental expenses	5,071	4,631	10,400	9,391
Real estate taxes	2,382	1,959	4,731	3,616
General contracting and real estate services expenses	32,025	45,283	67,062	73,425
Depreciation and amortization	8,602	5,766	16,751	10,674
General and administrative expenses	2,224	2,096	4,708	4,424
Acquisition, development and other pursuit costs	437	591	1,141	762
Impairment charges	—	23	35	23
Total expenses	50,741	60,349	104,828	102,315
Operating income	6,710	6,625	12,709	11,920
Interest income	722	—	904	—
Interest expense	(3,978)	(3,358)	(7,769)	(6,404)
Loss on extinguishment of debt	—	(180)	—	(407)
Gain on real estate dispositions	13	7,210	26,687	13,407
Change in fair value of interest rate derivatives	(373)	(40)	(2,762)	(187)
Other income	43	24	119	39
Income before taxes	3,137	10,281	29,888	18,368
Income tax (provision) benefit	(6)	4	(224)	35
Net income	3,131	10,285	29,664	18,403
Net income attributable to noncontrolling interests	(1,097)	(3,764)	(10,260)	(6,777)
Net income attributable to stockholders	\$2,034	\$6,521	\$19,404	\$11,626
Net income per share and unit:				
Basic and diluted	\$0.06	\$0.25	\$0.62	\$0.46
Weighted-average outstanding:				
Common shares	31,736	25,587	30,964	25,316
Common units	17,113	14,769	16,570	14,772
Basic and diluted	48,849	40,356	47,534	40,088
Dividends and distributions declared per common share and unit	\$0.18	\$0.17	\$0.18	\$0.17
Comprehensive income:				
Net income	\$3,131	\$10,285	\$29,664	\$18,403
Unrealized cash flow hedge losses	—	238	—	(548)
Comprehensive income	3,131	10,523	29,664	17,855
Comprehensive income attributable to noncontrolling interests	(1,097)	(3,851)	(10,260)	(6,573)
Comprehensive income attributable to stockholders	\$2,034	\$6,672	\$19,404	\$11,282

See Notes to Condensed Consolidated Financial Statements.

2

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

	Shares of common stock	Common Stock	Additional paid-in capital	Distributions in excess of earnings	Accumulated other comprehensive loss	Total stockholders' equity	Noncontrolling interests	Total Equity
Balance, January 1, 2016	30,076,359	\$ 300	\$ 102,906	\$(53,010)	\$(648)	\$ 49,548	\$ 176,172	\$ 225,720
Net income	—	—	—	19,404	—	19,404	10,260	29,664
Dedesignation of cash flow hedge	—	—	—	—	648	648	400	1,048
Net proceeds from sales of common stock	2,649,986	26	30,361	—	—	30,387	—	30,387
Restricted stock awards	118,631	2	866	—	—	868	—	868
Restricted stock award forfeitures	(19,913)	—	(216)	—	—	(216)	—	(216)
Acquisitions of real estate investments in exchange of operating partnership units	—	—	—	—	—	—	18,430	18,430
Redemption of operating partnership units	—	—	(2)	—	—	(2)	(56)	(58)
Dividends and distributions declared	—	—	—	(11,508)	—	(11,508)	(5,593)	(17,101)
Balance, June 30, 2016	32,825,063	\$ 328	\$ 133,915	\$(45,114)	\$ —	\$ 89,129	\$ 199,613	\$ 288,742

See Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended	
	June 30,	
	2016	2015
OPERATING ACTIVITIES		
Net income	\$29,664	\$18,403
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of buildings and tenant improvements	11,105	8,950
Amortization of leasing costs and in-place lease intangibles	5,646	1,724
Accrued straight-line rental revenue	(448)	(1,349)
Amortization of leasing incentives and above or below-market rents	(49)	394
Accrued straight-line ground rent expense	132	158
Bad debt expense	95	72
Noncash stock compensation	652	582
Impairment charges	35	23
Noncash interest expense	475	558
Noncash loss on extinguishment of debt	—	407
Gain on real estate dispositions	(26,687)	(13,407)
Change in the fair value of derivatives	2,762	187
Changes in operating assets and liabilities:		
Property assets	(2,019)	(2,067)
Property liabilities	(1,543)	810
Construction assets	3,264	(20,040)
Construction liabilities	(4,136)	9,900
Net cash provided by operating activities	18,948	5,305
INVESTING ACTIVITIES		
Development of real estate investments	(32,669)	(31,050)
Tenant and building improvements	(2,875)	(2,471)
Acquisitions of real estate investments, net of cash received	(164,978)	(35,372)
Dispositions of real estate investments	92,775	50,613
Notes receivable issuances	(31,486)	—
(Decrease) increase in restricted cash	(179)	1,179
Leasing costs	(1,003)	(1,508)
Leasing incentives	(87)	(1,563)
Contributions to equity method investments	(8,887)	—
Net cash used for investing activities	(149,389)	(20,172)
FINANCING ACTIVITIES		
Proceeds from sales of common stock	31,180	3,596
Offering costs	(793)	(203)
Debt issuances, credit facility and construction loan borrowings	185,239	173,994
Debt and credit facility repayments, including principal amortization	(75,700)	(146,378)
Debt issuance costs	(559)	(1,446)
Redemption of operating partnership units	(58)	(79)
Dividends and distributions	(15,873)	(13,144)
Net cash provided by financing activities	123,436	16,340

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Net (decrease) increase in cash and cash equivalents	(7,005)	1,473
Cash and cash equivalents, beginning of period	26,989	25,883
Cash and cash equivalents, end of period	\$19,984	\$27,356

See Notes to Condensed Consolidated Financial Statements.

4

Table of ContentsARMADA 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 throughout the Mid-Atlantic United States. The Company is the sole general partner of Armada Hoffler, L.P. (the “Operating Partnership”). The operations of the Company are carried on primarily through the Operating Partnership and the wholly owned subsidiaries of the Operating Partnership. Both the Company and the Operating Partnership were formed on October 12, 2012 and commenced operations upon completion of the underwritten initial public offering of shares of the Company’s common stock and certain related formation transactions on May 13, 2013.

As of June 30, 2016, the Company owned 100% of the interests in, and consolidated for financial reporting purposes, each of the following properties in its operating property portfolio:

Property	Segment	Location
4525 Main Street	Office	Virginia Beach, Virginia*
Armada Hoffler Tower	Office	Virginia Beach, Virginia*
Commonwealth of Virginia - Chesapeake	Office	Chesapeake, Virginia
Commonwealth of Virginia - Virginia Beach	Office	Virginia Beach, Virginia
One Columbus	Office	Virginia Beach, Virginia*
Oyster Point	Office	Newport News, Virginia***
Two Columbus	Office	Virginia Beach, Virginia*
249 Central Park Retail	Retail	Virginia Beach, Virginia*
Alexander Pointe	Retail	Salisbury, North Carolina**
Bermuda Crossroads	Retail	Chester, Virginia
Broad Creek Shopping Center	Retail	Norfolk, Virginia
Broadmoor Plaza	Retail	South Bend, Indiana**
Columbus Village	Retail	Virginia Beach, Virginia*
Commerce Street Retail	Retail	Virginia Beach, Virginia*
Courthouse 7-Eleven	Retail	Virginia Beach, Virginia
Dick’s at Town Center	Retail	Virginia Beach, Virginia*
Dimmock Square	Retail	Colonial Heights, Virginia
Fountain Plaza Retail	Retail	Virginia Beach, Virginia*
Gainsborough Square	Retail	Chesapeake, Virginia
Greentree Shopping Center	Retail	Chesapeake, Virginia
Hanbury Village	Retail	Chesapeake, Virginia
Harper Hill Commons	Retail	Winston-Salem, North Carolina**
Harrisonburg Regal	Retail	Harrisonburg, Virginia
Kroger Junction	Retail	Pasadena, Texas**, ***
North Hampton Market	Retail	Taylors, South Carolina**
North Point Center	Retail	Durham, North Carolina
Oakland Marketplace	Retail	Oakland, Tennessee**
Parkway Marketplace	Retail	Virginia Beach, Virginia
Patterson Place	Retail	Durham, North Carolina**
Perry Hall Marketplace	Retail	Perry Hall, Maryland

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Providence Plaza
Sandbridge Commons

Retail
Retail

Charlotte, North Carolina
Virginia Beach, Virginia

5

Table of Contents

Property	Segment	Location
Socastee Commons	Retail	Myrtle Beach, South Carolina
Southgate Square	Retail	Colonial Heights, Virginia
South Retail	Retail	Virginia Beach, Virginia*
South Square	Retail	Durham, North Carolina**
Stone House Square	Retail	Hagerstown, Maryland
Studio 56 Retail	Retail	Virginia Beach, Virginia*
Tyre Neck Harris Teeter	Retail	Portsmouth, Virginia
Waynesboro Commons	Retail	Waynesboro, Virginia**
Wendover Village	Retail	Greensboro, North Carolina**
Encore Apartments	Multifamily	Virginia Beach, Virginia*
Liberty Apartments	Multifamily	Newport News, Virginia
Smith's Landing	Multifamily	Blacksburg, Virginia
The Cosmopolitan	Multifamily	Virginia Beach, Virginia*

*Located in the Town Center of Virginia Beach

** Acquired as part of eleven asset portfolio on January 14, 2016

*** Held for sale as of June 30, 2016

As of June 30, 2016, the following properties that the Company consolidates for financial statement purposes were under development or construction:

Property	Segment	Location
Lightfoot Marketplace	Retail	Williamsburg, Virginia
Johns Hopkins Village	Multifamily	Baltimore, Maryland
Brooks Crossing	Office/Retail	Newport News, Virginia

The Company owns a 60% controlling financial interest in Lightfoot Marketplace. Subject to the occurrence of certain events, the Company's ownership interest in Lightfoot Marketplace may increase to 70%. The Company owns an 80% controlling financial interest in Johns Hopkins Village. The noncontrolling interest holder of Johns Hopkins Village has the right to exchange its 20% ownership interest for Class A units of limited partnership interest in the Operating Partnership ("Class A Units") upon and for a period of one year after the project's completion. The Company is entitled to a preferred return of 9% on its investment in Johns Hopkins Village. The Company owns a 65% controlling interest in Brooks Crossing.

Please see Note 4 for information related to the Company's investment in Durham City Center II, LLC, which is an unconsolidated subsidiary that the Company accounts for using the equity method of accounting.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

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

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

The accompanying condensed consolidated financial statements were prepared in accordance with the requirements for interim financial information. Accordingly, these interim financial statements have not been audited and exclude certain

6

Table of Contents

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, 2015.

Use of Estimates

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

Significant Accounting Policies

The accompanying condensed consolidated financial statements were prepared on the basis of the accounting principles described in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, among others.

Recent Accounting Pronouncements

On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued a new standard that provides a single, comprehensive model for recognizing revenue from contracts with customers. The new standard could change the way the Company recognizes revenue from construction and development contracts with third party customers. The new standard will be effective for the Company on January 1, 2018. Management is currently evaluating the potential impact of the new revenue recognition standard on the Company's consolidated financial statements.

On February 18, 2015, the FASB issued new consolidation guidance that changes: (i) the identification of variable interests, (ii) the variable interest entity ("VIE") characteristics for a limited partnership or similar entity and (iii) primary beneficiary determination. The amended guidance also eliminates the presumption that a general partner controls a limited partnership. The Company adopted the guidance on January 1, 2016 with no material impact on the Company's consolidated financial statements.

On February 25, 2016, the FASB issued a new lease standard that requires lessees to recognize most leases in their balance sheets as lease liabilities with corresponding right-of-use assets. The new standard also makes targeted changes to lessor accounting. The new standard will be effective for the Company on January 1, 2019 and requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application with an option to use certain transition relief. Management is currently evaluating the potential impact of the new lease standard on the Company's consolidated financial statements.

On March 10, 2016, the FASB issued new guidance clarifying that the novation of a derivative contract in a hedge accounting relationship does not, in and of itself, require dedesignation of that hedge accounting relationship. Hedge accounting relationships could continue as long as all of the other hedge accounting criteria are met, including the expectation that the hedge will be highly effective when the creditworthiness of the new counterparty to the derivative contract is considered. The new guidance will be effective for the Company on January 1, 2017, and may be applied prospectively, or the Company may use a modified retrospective approach. Management does not expect the adoption of the new guidance to have a material effect on the Company's financial position or results of operations.

On March 17, 2016, the FASB issued new guidance eliminating the requirement that an investor retrospectively apply equity method accounting when an investment that it had accounted for by another method initially qualifies for the equity method. The new guidance is effective for the Company on January 1, 2017. Management is currently evaluating the potential impact of the new guidance on the Company's consolidated financial statements.

On March 30, 2016, the FASB issued new guidance that will change the accounting for certain aspects of share-based payments to employees. Entities will be required to recognize the income tax effects of awards in the income statement when the awards vest or are settled, and allows the Company to account for forfeitures as they occur. The new guidance is effective for the Company on January 1, 2017. Management is currently evaluating the potential impact of the new guidance on the Company's consolidated financial statements.

On June 16, 2016, the FASB issued new guidance that modifies the accounting for recognizing credit losses on financial instruments. This new guidance replaces the incurred loss impairment methodology with a methodology that reflects

Table of Contents

expected credit losses and requires consideration of a broader range of information to inform credit loss estimates. The new guidance is effective for the Company on January 1, 2020. Management is currently evaluating the potential impact of the new guidance on the Company's consolidated financial statements.

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, 2016 and 2015 was as follows (in thousands):

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
	2016	2015	2016	2015
	(Unaudited)			
Office real estate				
Rental revenues	\$5,299	\$8,052	\$10,820	\$15,755
Rental expenses	1,298	1,704	2,754	3,458
Real estate taxes	526	803	1,065	1,494
Segment net operating income	3,475	5,545	7,001	10,803
Retail real estate				
Rental revenues	14,113	7,567	27,145	14,192
Rental expenses	2,220	1,346	4,556	2,745
Real estate taxes	1,330	704	2,614	1,270
Segment net operating income	10,563	5,517	19,975	10,177
Multifamily residential real estate				
Rental revenues	4,839	4,289	9,569	8,151
Rental expenses	1,553	1,581	3,090	3,188
Real estate taxes	526	452	1,052	852
Segment net operating income	2,760	2,256	5,427	4,111
General contracting and real estate services				
Segment revenues	33,200	47,066	70,003	76,137
Segment expenses	32,025	45,283	67,062	73,425
Segment gross profit	1,175	1,783	2,941	2,712
Net operating income	\$17,973	\$15,101	\$35,344	\$27,803

General contracting and real estate services revenues for the three and six months ended June 30, 2016 exclude revenue related to intercompany construction contracts of \$17.9 million and \$32.9 million, respectively. General contracting and real estate services expenses for the three and six months ended June 30, 2016 exclude expenses related to intercompany construction contracts of \$17.8 million and \$32.6 million, respectively. General contracting and real estate services expenses for the three and six months ended June 30, 2016 include noncash stock compensation expense of less than \$0.1 million and \$0.3 million, respectively.

General contracting and real estate services revenues for the three and six months ended June 30, 2015 exclude revenue from intercompany construction contracts of \$8.0 million and \$16.5 million, respectively. General contracting and real estate services expenses for the three and six months ended June 30, 2015 exclude expenses for intercompany construction contracts of \$8.0 million and \$16.4 million, respectively. General contracting and real estate services expenses for the three and six months ended June 30, 2015 include noncash stock compensation expense of less than \$0.1 million and \$0.1 million, respectively.

8

Table of Contents

The following table reconciles net operating income to net income for the three and six months ended June 30, 2016 and 2015 (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	(Unaudited)			
Net operating income	\$17,973	\$15,101	\$35,344	\$27,803
Depreciation and amortization	(8,602)	(5,766)	(16,751)	(10,674)
General and administrative expenses	(2,224)	(2,096)	(4,708)	(4,424)
Acquisition, development and other pursuit costs	(437)	(591)	(1,141)	(762)
Impairment charges	—	(23)	(35)	(23)
Interest income	722	—	904	—
Interest expense	(3,978)	(3,358)	(7,769)	(6,404)
Loss on extinguishment of debt	—	(180)	—	(407)
Gain on real estate dispositions and acquisitions	13	7,210	26,687	13,407
Change in fair value of interest rate derivatives	(373)	—	(2,762)	—
Other (expense) income	43	(16)	119	(148)
Income tax benefit (provision)	(6)	4	(224)	35
Net income	\$3,131	\$10,285	\$29,664	\$18,403

General and administrative expenses for the three and six months ended June 30, 2016 include noncash stock compensation expense of \$0.2 million and \$0.5 million, respectively. General and administrative expenses for the three and six months ended June 30, 2015 include noncash stock compensation expense of \$0.2 million and \$0.4 million, respectively.

4. Real Estate Investments

Operating Property Acquisitions

In connection with operating property acquisitions, the Company identifies and recognizes all assets acquired and liabilities assumed at their estimated fair values as of the acquisition date. The purchase price allocations to tangible assets, such as land, site improvements, and buildings and improvements, are presented within income producing property in the condensed consolidated balance sheet and depreciated over their estimated useful lives. Acquired lease intangibles are presented within other assets and liabilities in the condensed consolidated balance sheet and amortized over their respective lease terms. The Company expenses all costs incurred related to operating property acquisitions. The Company values land based on a market approach, looking to recent sales of similar properties, adjusting for differences due to location and the state of entitlement as well as the shape and size of the parcel. Improvements to land are valued using a replacement cost approach, which applies industry standard replacement costs adjusted for geographic specific considerations and reduced by estimated depreciation. The value of buildings acquired is estimated using the replacement cost approach, assuming the buildings were vacant at acquisition. The replacement cost approach considers the composition of the structures acquired, adjusted for an estimate of depreciation. The estimate of depreciation is made considering industry standard information and depreciation curves for the identified asset classes. The value of acquired lease intangibles considers the estimated cost of leasing the properties as if the acquired buildings were vacant, as well as the value of the current leases relative to market-rate leases. The in-place lease value is determined using an estimated total lease-up time and lost rental revenues during such time. The value of current leases relative to market-rate leases is based on market rents obtained for comparable assets in the applicable markets. Given the significance of unobservable inputs used in the valuation of acquired real estate assets,

the Company classifies them as Level 3 inputs in the fair value hierarchy.

On January 14, 2016, the Company completed the acquisition of an eleven asset retail portfolio totaling 1.1 million square feet for a gross purchase price of \$170.5 million, less normal closing adjustments. In the three months ended June 30, 2016, the Company finalized its purchase price accounting on this portfolio, which resulted in an increase in below-market leases of \$5.1 million and a corresponding decrease in income producing property of \$5.1 million when compared to the preliminary fair value as of March 31, 2016.

Table of Contents

On April 29, 2016, the Company completed the acquisition of Southgate Square, located in Colonial Heights, Virginia, for aggregate consideration of \$39.5 million, comprised of the assumption of \$21.1 million in debt (which approximates fair value as of the closing date) and 1,575,185 Class A Units.

As part of the Southgate Square purchase agreement, the Company acquired an option to purchase an adjacent undeveloped land parcel from the seller. The option for the land parcel is valid for an initial period of two years, and its value would be determined by applying a mutually agreed upon capitalization rate to the base rent of tenants provided by the seller and approved by the Company. If at the end of the two-year period no suitable tenants have been found, the Company has the option of either paying \$3.0 million to the seller of the land parcel or extending the period for an additional year. If at the end of the additional year no suitable tenants have been found, the Company can either pay \$1.25 million to the seller for the land parcel or let the option expire. Management has evaluated the option and determined that its value is immaterial to the consolidated financial statements.

The following table summarizes the acquisition date fair values of the assets acquired and liabilities assumed during the six months ended June 30, 2016 (in thousands):

	Portfolio	Southgate Square	Total
Land	\$66,260	8,890	\$75,150
Site improvements	3,870	2,140	6,010
Building and improvements	88,820	23,810	112,630
In-place leases	20,630	5,990	26,620
Above-market leases	1,960	100	2,060
Below-market leases	(11,040)	(1,400)	(12,440)
Net assets acquired	\$170,500	39,530	\$210,030

The following table summarizes the consolidated results of operations of the Company on a pro forma basis, as if the retail portfolio acquisition had occurred on January 1, 2015 (in thousands):

	Three Months		Six Months	
	Ended	Ended	Ended	Ended
	June 30,	June 30,	June 30,	June 30,
	2016	2015	2016	2015
	(Unaudited)		(Unaudited)	
Rental revenues	\$24,251	\$24,523	\$48,065	\$47,329
Net income	3,131	4,231	3,693	6,321

The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisitions had taken place on January 1, 2015. The pro forma financial information includes adjustments to rental revenues for above and below-market leases and adjustments to depreciation and amortization expense for acquired property and in-place lease assets.

For the three months ended June 30, 2016, rental revenues and net income from the acquired properties for the period from the respective acquisition dates to June 30, 2016 included in the consolidated statement of comprehensive income was \$4.9 million and \$0.9 million, respectively. For the six months ended June 30, 2016, rental revenues and net income from the acquired properties for the period from the respective acquisition dates to June 30, 2016 included in the consolidated statement of comprehensive income was \$8.5 million and \$1.3 million, respectively.

Investment in Unconsolidated Entities

City Center

On February 25, 2016, the Company acquired a 37% interest in Durham City Center II, LLC (“City Center”) for purposes of developing a 22-story mixed use tower in Durham, North Carolina. As of June 30, 2016, the Company has invested \$10.3 million in City Center. The Company has agreed to guarantee 37% of the construction loan for City Center; however, the loan is collateralized by 100% of the assets of City Center. As of June 30, 2016, the construction loan has not been drawn against.

Table of Contents

As of June 30, 2016, the difference between the carrying value of the Company's initial investment in City Center and the amount of underlying equity was immaterial. For the three and six months ended June 30, 2016, City Center did not have any operating activity, and therefore the Company did not receive any dividends or allocated income.

Based on the terms of City Center's operating agreement, the Company does not have the power to direct the activities of the project that most significantly impact its performance. Therefore, the Company is not the project's primary beneficiary and, therefore, does not consolidate City Center in its consolidated financial statements. The investment in City Center is reflected in the "other assets" line item in the Company's condensed consolidated balance sheet.

Point Street Apartments

The Company holds a note receivable for the Point Street Apartments project, which was entered into in October 2015. The Company has agreed to fund up to \$23.0 million for this project. The balance of the note receivable was \$15.3 and \$7.8 million as of June 30, 2016 and December 31, 2015, respectively. During the three and six months ended June 30, 2016, the Company recognized \$0.3 million and \$0.4 million of interest income on the note, respectively. No portion of the note receivable balance is past due and the Company has not recorded an impairment balance on the note.

Annapolis Junction

On April 21, 2016, the Company entered into a note receivable with a maximum principal balance of \$42.0 million in the Annapolis Junction residential component of the Annapolis Junction Town Center, Maryland ("Annapolis Junction"). Annapolis Junction is an estimated \$102.0 million mixed-use development project with plans for 416 residential units, 17,000 square feet of retail space and a 150-room hotel. Annapolis Junction Apartments Owner, LLC ("AJAO") is the developer of the residential component and has engaged the Company to serve as construction general contractor for the residential component. Annapolis Junction is scheduled to open in 2018; however, management can provide no assurances that Annapolis Junction will open on the anticipated timeline or at the anticipated cost.

AJAO is responsible for securing a senior construction loan of up to \$60.0 million to fund the development and construction of Annapolis Junction's residential component. The Company has agreed to guarantee up to \$25.0 million of the senior construction loan in exchange for the option to purchase up to an 88% controlling interest in Annapolis Junction upon completion of the project as follows: (i) an option to purchase an 80% indirect interest in Annapolis Junction's residential component for the lesser of the seller's budgeted or actual cost, exercisable within one year from the project's completion (the "First Option") and (ii) provided that the Company has exercised the First Option, an option to purchase an additional 8% indirect interest in Annapolis Junction for the lesser of the seller's actual or budgeted cost, exercisable within 27 months from the project's completion (the "Second Option").

The Company's investment in the Annapolis Junction project is in the form of a loan under which AJAO may borrow up to \$48.0 million, including a \$6.0 million interest reserve (the "AJAO loan"). Interest on the AJAO loan accrues at 10.0% per annum and matures on the earlier of: (i) December 21, 2020, which may be extended by AJAO under two one-year extension options, (ii) the maturity date or earlier termination of the senior construction loan or (iii) the date the Company exercises the Second Option as described further below. In the event that the Company exercises the First Option, AJAO is required to simultaneously pay down both the senior construction loan and the AJAO loan by 80%, at which time the interest rate on the AJAO loan will automatically be reduced to the interest rate on the senior construction loan. In the event the Company exercises the Second Option, AJAO is required to simultaneously repay any remaining amounts outstanding under the AJAO loan, with any excess proceeds received from the exercise of the Second Option applied against the remaining balance of the senior construction loan. In the event that the Company does not exercise either the First Option or the Second Option, the interest rate on the AJAO loan will automatically be reduced to the interest rate on the senior construction loan for the remaining term of the AJAO loan. During the

three and six months ended June 30, 2016, the Company recognized \$0.5 million in interest income on the note. No portion of the note receivable balance is past due and the Company has not recorded an impairment balance on the note.

The balance on the Annapolis Junction note was \$23.7 million as of June 30, 2016.

On March 16, 2016, the Company entered into a note receivable with a maximum balance of \$0.5 million with Southern Apartment Group-Harding, LLC ("SAGH") for funding of pre-development expenses on an apartment development project in Charlotte, North Carolina ("SAGH Note"). Interest on the note accrues at 10.0% per annum and matures on the earlier of: (i) the funding of a mezzanine loan to cover the development costs of the project or (ii) 120 days from the date that the Company advises SAGH that it will not fund the mezzanine loan or (iii) within three years of the date of the loan.

Table of Contents

On July 28, 2016, the Company advised SAGH that it would not fund the mezzanine loan, making the maturity date November 25, 2016. The Company plans to pursue the development through other financing arrangements.

The balance on the SAGH Note was \$0.3 million as of June 30, 2016.

Real Estate Dispositions

On November 2, 2015, the Company entered into an agreement to sell the Richmond Tower office building for \$78.0 million. The Company completed the disposition on January 8, 2016. Net proceeds after transaction costs were \$77.0 million. The gain on the disposition of Richmond Tower was \$26.2 million.

On January 7, 2016, the Company completed the sale of a building constructed for the Economic Development Authority of Newport News, Virginia. Net proceeds after transaction costs were \$6.6 million. The gain on the disposition was \$0.4 million.

On June 20, 2016, the Company completed the sale of the Willowbrook Commons property located in Nashville, Tennessee for \$9.2 million. The gain on the sale of the Willowbrook Commons property was not significant.

During the six months ended June 30, 2016, the Company placed the Oyster Point office property and the Kroger Junction retail property in real estate investments held for sale.

Subsequent to June 30, 2016

On July 29, 2016, the Company completed the sale of the Kroger Junction property located in Pasadena, Texas for \$3.7 million. The loss on the sale of the Kroger Junction property was not significant.

5. Indebtedness

Credit Facility

On February 20, 2015, the Operating Partnership, as borrower, and the Company, as parent guarantor, entered into a new \$200.0 million senior unsecured credit facility that includes a \$150.0 million senior unsecured revolving credit facility and a \$50.0 million senior unsecured term loan facility. The new credit facility replaced the prior \$155.0 million senior secured revolving credit facility that was scheduled to mature on May 13, 2016. During the first quarter of 2016, the total capacity was increased to \$250.0 million pursuant to the accordion feature of the credit facility.

Depending on the Operating Partnership's total leverage, the revolving credit facility bears interest at LIBOR plus 1.40% to 2.00% and the term loan facility bears interest at LIBOR plus 1.35% to 1.95%. As of June 30, 2016, the effective interest rates on the revolving credit facility and the term loan facility were 2.21% and 2.16%, respectively. The revolving credit facility has a scheduled maturity date of February 20, 2019, with a one-year extension option, subject to certain conditions, and the term loan facility has a scheduled maturity date of February 20, 2020. The Operating Partnership may, at any time, voluntarily prepay any loan under the new credit facility in whole or in part without premium or penalty.

On February 25, 2016, the Company amended the credit facility to, among other things, allow the maximum leverage ratio of the Company to be increased to 65% for the two consecutive quarters following any acquisition that is equal to or greater than 10% of the Company's total asset value (as defined in the credit agreement), but only up to two times during the term of the credit facility.

During the first quarter of 2016, the Company increased the borrowings under the senior unsecured term loan facility to \$100.0 million.

As of June 30, 2016, the outstanding balances on the revolving credit facility and the term loan facility were \$107.0 million and \$100.0 million, respectively.

Other Financing Activity

During the six months ended June 30, 2016, the Company borrowed \$28.2 million under its construction loans to fund new development and construction.

12

Table of Contents

6. 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 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 effective portion of the gain or loss is reported as a component of other comprehensive loss and reclassified into earnings in the periods during which the hedged forecasted transaction affects earnings.

On February 25, 2016, the Operating Partnership entered into a LIBOR interest rate cap agreement on a notional amount of \$75.0 million at a strike rate of 1.50% for a premium of less than \$0.1 million. The interest rate cap agreement expires on March 1, 2018.

On June 17, 2016, the Operating Partnership entered into a LIBOR interest rate cap agreement on a notional amount of \$70.0 million at a strike rate of 1.00% for a premium of less than \$0.1 million. The interest rate cap agreement expires on June 17, 2018.

The Company's derivatives were comprised of the following as of June 30, 2016 and December 31, 2015 (in thousands):

	June 30, 2016 (Unaudited)		December 31, 2015			
	Notional Amount	Fair Value	Notional Amount	Fair Value		
				Asset	Liability	
Interest rate swaps	\$56,999	\$—	\$(2,492)	\$57,093	\$—	\$(1,082)
Interest rate caps	270,000	96	—	246,546	164	—
Total	\$326,999	\$96	\$(2,492)	\$303,639	\$164	\$(1,082)

The changes in the fair value of the Company's derivatives during the three and six months ended June 30, 2016 and 2015 were comprised of the following (in thousands):

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
	(Unaudited)		(Unaudited)	
	2016	2015	2016	2015
Interest rate swaps	\$(244)	\$239	\$(2,488)	\$(548)
Interest rate caps	(129)	(41)	(274)	(187)
Total	\$(373)	\$198	\$(2,762)	\$(735)
Comprehensive income statement presentation:				
Change in fair value of interest rate derivatives	\$(373)	\$(40)	\$(2,762)	\$(187)
Unrealized gain (loss) on cash flow hedge	—	238	—	(548)
Total	\$(373)	\$198	\$(2,762)	\$(735)

Effective March 31, 2016, the Company determined that the short-cut method of hedge accounting was not appropriate for two of its interest-rate swaps and, for accounting purposes, the hedge relationship was terminated. The swaps were entered into in February and July 2015. Accordingly, changes in fair value of the swap should have been recorded in income rather than other comprehensive income. The Company determined that the errors were

immaterial to all previously issued financial statements. The Company recognized \$0.7 million of accumulated other comprehensive income and \$0.4 million, which was previously allocated to noncontrolling interest as of December 31, 2015, in earnings during the first quarter of 2016. Subsequent changes in the value of the interest rate swap for the period from January 1, 2016 to June 30, 2016 were also recognized in earnings during the first and second quarters of 2016. Net income for the three and six months ended June 30, 2015 was overstated by \$0.5 million and \$0.3 million, respectively. In reaching its conclusions, management considered the nature of the error, the effect of the error on operating results for 2015, and the effects of the error on important financial statement measures, including related trends.

Table of Contents

7. Equity

Stockholders' Equity

On May 4, 2016, the Company commenced a new at-the-market continuous equity offering program (the "New 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 \$75.0 million. Upon commencing the New ATM Program, the Company simultaneously terminated its prior \$50.0 million at-the-market continuous equity offering program (the "Prior ATM Program"), which the Company entered into in May 2015. During the six months ended June 30, 2016, the Company issued and sold an aggregate of 1,512,919 shares of common stock at a weighted average price of \$10.87 per share under the Prior ATM Program, receiving net proceeds after offering costs and commissions of \$12.2 million. From the inception date through June 30, 2016, the Company issued and sold an aggregate of 1,497,067 shares of common stock at a weighted average of \$12.45 per share under the New ATM Program, receiving net proceeds after offering costs and commissions of \$18.2 million.

As of June 30, 2016 and December 31, 2015, the Company's authorized capital was 500 million shares of common stock and 100 million shares of preferred stock. The Company had 32.8 million and 30.1 million shares of common stock issued and outstanding as of June 30, 2016 and December 31, 2015, respectively. No shares of preferred stock were issued and outstanding as of June 30, 2016 or December 31, 2015.

Noncontrolling Interests

As of June 30, 2016 and December 31, 2015, the Company held a 65.5% and 65.6% interest in the Operating Partnership, respectively. 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 65.5% 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 Company represent units of limited partnership interest not held by the Company.

As of June 30, 2016, there were 16,322,171 Class A Units not held by the Company.

As partial consideration for Columbus Village, the Operating Partnership issued 1,000,000 Class B Units on July 10, 2015 and agreed to issue 275,000 Class C Units on January 10, 2017. Subject to the occurrence of certain events, the Class B Units and Class C Units will not earn or accrue distributions until July 10, 2017 and January 10, 2018, respectively, at which time each automatically will convert to Class A Units.

Common Stock Dividends and Class A Unit Distributions

On January 7, 2016, the Company paid cash dividends of \$5.1 million to common stockholders and the Operating Partnership paid cash distributions of \$2.5 million to holders of Class A Units.

On April 7, 2016, the Company paid cash dividends of \$5.6 million to common stockholders and the Operating Partnership paid cash distributions of \$2.7 million to holders of Class A Units.

On May 2, 2016, the Board of Directors declared a cash dividend of \$0.18 per share payable on July 7, 2016 to stockholders of record on June 29, 2016.

Subsequent to June 30, 2016

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On July 7, 2016, the Company paid cash dividends of \$5.9 million to common stockholders and the Operating Partnership paid cash distributions of \$2.9 million to holders of Class A Units.

From July 1, 2016 to July 14, 2016, the Company issued and sold an aggregate of 676,903 shares of common stock under the New ATM Program at a weighted average price of \$13.81 per share. Net proceeds to the Company after offering costs and commissions were \$9.2 million.

Table of Contents

8. Stock-Based Compensation

During the six months ended June 30, 2016, the Company granted an aggregate of 118,631 shares of restricted stock to employees and non-employee directors with a weighted average grant date fair value of \$11.16 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.

On January 1, 2016, the Company established its Long Term Incentive Plan (“LTIP”) and entered into agreements with certain of its employees to issue performance-based awards in the form of restricted stock units. The performance period for these agreements is three years, with a required two-year service period immediately following the performance period. The compensation expense and the effect on the Company’s weighted average diluted shares calculation were immaterial.

During the three and six months ended June 30, 2016, the Company recognized \$0.3 million and \$0.9 million of stock-based compensation expense, respectively. During the three and six months ended June 30, 2015, the Company recognized \$0.3 million and \$0.8 million of stock-based compensation expense, respectively. As of June 30, 2016, there were 105,191 nonvested restricted shares outstanding; the total unrecognized compensation expense related to nonvested restricted shares was \$0.8 million, which the Company expects to recognize over the next 21 months.

9. Fair Value of Financial Instruments

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

Level 1—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 value. 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.

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

The fair value of the Company’s long term debt is sensitive to fluctuations in interest rates. Discounted cash flow analysis based on Level 2 inputs is generally used to estimate the fair value of the Company’s long term debt. Considerable judgment is used to estimate the fair value of financial instruments. The estimates of fair value presented herein are not necessarily indicative of the amounts that could be realized upon disposition of the financial instruments.

The carrying amounts and fair values of the Company’s financial instruments, all of which are based on Level 2 inputs, as of June 30, 2016 and December 31, 2015, were as follows (in thousands):

June 30, 2016		December 31, 2015	
Carrying	Fair	Carrying	Fair
Value	Value	Value	Value

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(Unaudited)

Indebtedness	\$508,320	\$511,181	\$377,593	\$384,691
Interest rate swap liabilities	2,492	2,492	1,082	1,082
Interest rate cap assets	96	96	164	164

15

Table of Contents

10. Related Party Transactions

The Company provides general contracting and real estate services to certain related party entities that are not included in these condensed consolidated financial statements. Revenue from construction contracts with related party entities of the Company were \$8.4 million and \$14.9 million for the three and six months ended June 30, 2016, respectively. Gross profit from such contracts was \$0.3 million and \$0.6 million for the three and six months ended June 30, 2016, respectively. Revenue from construction contracts with related party entities of the Company was \$2.5 million and \$4.0 million for the three and six months ended June 30, 2015, respectively. Gross profit from such contracts was less than \$0.1 million and \$0.2 million for the three and six months ended June 30, 2015. Real estate services fees from affiliated entities of the Company were not significant for either the three and six months ended June 30, 2016 or 2015. In addition, affiliated entities also reimburse the Company for monthly maintenance and facilities management services provided to the properties. Cost reimbursements earned by the Company from affiliated entities were not significant for either the three and six months ended June 30, 2016 or 2015.

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. In addition, the tax protection agreements provide that the Operating Partnership will offer certain of the original contributors, including certain of the Company's directors and executive officers, the opportunity to guarantee debt, or, alternatively, to enter into a deficit restoration obligation, for ten years from the closing of the Company's initial public offering in a manner intended to provide an allocation of Operating Partnership liabilities to the partner for federal income tax purposes. Pursuant to these tax protection agreements, certain of the Company's executive officers have guaranteed \$0.3 million of the Operating Partnership's outstanding debt as of June 30, 2016.

In addition, the loan for the City Center joint venture is underwritten by a syndicate which includes Park Sterling Bank. The Chief Executive Officer of Park Sterling Bank is the Chairman of the Company's Audit Committee.

11. Commitments and Contingencies

Legal Proceedings

The Company is from time to time involved in various disputes, lawsuits, warranty claims, environmental and other matters arising in the ordinary course of 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.

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 \$184.1 million and \$183.0 million as of June 30, 2016 and December 31, 2015, respectively.

The Operating Partnership has entered into standby letters of credit using the available capacity under the credit facility. The letters of credit relate to the guarantee of future performance on certain of the Company's construction contracts. Letters of credit generally are available for draw down in the event the Company does not perform. As of June 30, 2016 and December 31, 2015, the Operating Partnership had total outstanding letters of credit of \$2.0 million and \$8.0 million, respectively.

Table of Contents

Review Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders of

Armada Hoffler Properties, Inc.

We have reviewed the condensed consolidated balance sheet of Armada Hoffler Properties, Inc. as of June 30, 2016, and the related condensed consolidated statements of comprehensive income for the three and six-month periods ended June 30, 2016 and 2015, the condensed consolidated statements of cash flows for the six-month periods ended June 30, 2016 and 2015 and the condensed consolidated statement of equity for the six-month period ended June 30, 2016. These financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Armada Hoffler Properties, Inc. as of December 31, 2015, and the related consolidated statements of comprehensive income, equity, and cash flows for the year then ended (not presented herein) and we expressed an unqualified audit opinion on those consolidated financial statements in our report dated March 2, 2016. In our opinion, the accompanying condensed consolidated balance sheet as of December 31, 2015, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

McLean, Virginia

August 3, 2016

17

Table of Contents

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,” “will,” “result” and similar expressions, which do not relate solely to historical matters, are intended to identify forward-looking statements. Such statements are subject to risks, uncertainties and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. We caution you that while forward-looking statements reflect our good faith beliefs when we make them, they are not guarantees of future performance and are impacted by actual events when they occur after we make such statements. We expressly disclaim any responsibility to update forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. Accordingly, investors should use caution in relying on past forward-looking statements, which are based on results and trends at the time they are made, to anticipate future results or trends.

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

- adverse economic or real estate developments, either nationally or in the markets in which our properties are located;
- our failure to develop the properties in our development pipeline successfully, on the anticipated timeline or at the anticipated costs;
- our failure to generate sufficient cash flows to service our outstanding indebtedness;
- defaults on, early terminations of or non-renewal of leases by tenants, including significant tenants;
- bankruptcy or insolvency of a significant tenant or a substantial number of smaller tenants;
- difficulties in identifying or completing development, acquisition or disposition opportunities;
- our failure to successfully operate developed and acquired properties;
- our failure to generate income in our general contracting and real estate services segment in amounts that we anticipate;
- fluctuations in interest rates and increased operating costs;
- our failure to obtain necessary outside financing on favorable terms or at all;
- our inability to extend the maturity of or refinance existing debt or comply with the financial covenants in the agreements that govern our existing debt;
- financial market fluctuations;
- risks that affect the general retail environment or the market for office properties or multifamily units;
- the competitive environment in which we operate;
- decreased rental rates or increased vacancy rates;

• conflicts of interests with our officers and directors;

- lack or insufficient amounts of insurance;

18

Table of Contents

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

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

Business Description

We are a full-service real estate company with extensive experience developing, building, owning and managing high-quality, institutional-grade office, retail and multifamily properties in attractive markets throughout the Mid-Atlantic United States. As of June 30, 2016, we owned 100% of the interests in, and consolidate for financial reporting purposes, each of the following properties in our operating property portfolio:

Property	Segment	Location
4525 Main Street	Office	Virginia Beach, Virginia*
Armada Hoffler Tower	Office	Virginia Beach, Virginia*
Commonwealth of Virginia - Chesapeake	Office	Chesapeake, Virginia
Commonwealth of Virginia - Virginia Beach	Office	Virginia Beach, Virginia
One Columbus	Office	Virginia Beach, Virginia*
Oyster Point	Office	Newport News, Virginia***
Two Columbus	Office	Virginia Beach, Virginia*
249 Central Park Retail	Retail	Virginia Beach, Virginia*
Alexander Pointe	Retail	Salisbury, North Carolina**
Bermuda Crossroads	Retail	Chester, Virginia
Broad Creek Shopping Center	Retail	Norfolk, Virginia
Broadmoor Plaza	Retail	South Bend, Indiana**
Columbus Village	Retail	Virginia Beach, Virginia*
Commerce Street Retail	Retail	Virginia Beach, Virginia*
Courthouse 7-Eleven	Retail	Virginia Beach, Virginia
Dick’s at Town Center	Retail	Virginia Beach, Virginia*
Dimmock Square	Retail	Colonial Heights, Virginia
Fountain Plaza Retail	Retail	Virginia Beach, Virginia*
Gainsborough Square	Retail	Chesapeake, Virginia
Greentree Shopping Center	Retail	Chesapeake, Virginia
Hanbury Village	Retail	Chesapeake, Virginia
Harper Hill Commons	Retail	Winston-Salem, North Carolina**

Table of Contents

Property	Segment	Location
Harrisonburg Regal	Retail	Harrisonburg, Virginia
Kroger Junction	Retail	Pasadena, Texas**, ***
North Hampton Market	Retail	Taylors, South Carolina**
North Point Center	Retail	Durham, North Carolina
Oakland Marketplace	Retail	Oakland, Tennessee**
Parkway Marketplace	Retail	Virginia Beach, Virginia
Patterson Place	Retail	Durham, North Carolina**
Perry Hall Marketplace	Retail	Perry Hall, Maryland
Providence Plaza	Retail	Charlotte, North Carolina
Sandbridge Commons	Retail	Virginia Beach, Virginia
Socastee Commons	Retail	Myrtle Beach, South Carolina
Southgate Square	Retail	Colonial Heights, Virginia
South Retail	Retail	Virginia Beach, Virginia*
South Square	Retail	Durham, North Carolina**
Stone House Square	Retail	Hagerstown, Maryland
Studio 56 Retail	Retail	Virginia Beach, Virginia*
Tyre Neck Harris Teeter	Retail	Portsmouth, Virginia
Waynesboro Commons	Retail	Waynesboro, Virginia**
Wendover Village	Retail	Greensboro, North Carolina**
Encore Apartments	Multifamily	Virginia Beach, Virginia*
Liberty Apartments	Multifamily	Newport News, Virginia
Smith's Landing	Multifamily	Blacksburg, Virginia
The Cosmopolitan	Multifamily	Virginia Beach, Virginia*

*Located in the Town Center of Virginia Beach

** Acquired as part of eleven asset portfolio on January 14, 2016

*** Held for sale as of June 30, 2016

As of June 30, 2016, the following properties that we consolidate for financial reporting purposes were either under development or construction:

Property	Segment	Location
Lightfoot Marketplace	Retail	Williamsburg, Virginia
Johns Hopkins Village	Multifamily	Baltimore, Maryland
Brooks Crossing	Office/Retail	Newport News, Virginia

We own a 60% controlling financial interest in Lightfoot Marketplace. Subject to the occurrence of certain events, our ownership interest in Lightfoot Marketplace may increase to 70%. We own an 80% controlling financial interest in Johns Hopkins Village. The noncontrolling interest holder of Johns Hopkins Village has the right to exchange its 20% ownership interest for Class A units of limited partnership interest in the Operating Partnership upon and for a period of one year after the project's completion. We are entitled to a preferred return of 9% on our investment in Johns Hopkins Village. We own a 65% controlling financial interest in Brooks Crossing.

Please see Note 4 to our condensed consolidated financial statements in Item 1 of this Quarterly Report on Form 10-Q for information related to our investment in Durham City Center II, LLC, which is an unconsolidated subsidiary that we account for under the equity method of accounting.

Table of Contents

Acquisitions and Dispositions

On April 29, 2016, we completed the acquisition of Southgate Square, located in Colonial Heights, Virginia, for aggregate consideration of \$39.5 million, comprised of the assumption of \$21.1 million in debt and 1,575,185 Class A Units.

On June 20, 2016, we completed the sale of the Willowbrook Commons property located in Nashville, Tennessee for \$9.2 million.

On July 29, 2016, we completed the sale of the Kroger Junction property located in Pasadena, Texas for \$3.7 million.

Second Quarter 2016 Highlights

The following highlights our results of operations and significant transactions for the three months ended June 30, 2016:

- Net income of \$3.1 million, or \$0.06 per diluted share, compared to \$10.3 million, or \$0.25 per diluted share, for the three months ended June 30, 2015.
- FFO of \$11.7 million, or \$0.24 per diluted share, compared to \$8.8 million, or \$0.22 per diluted share, for the three months ended June 30, 2015. See “Non-GAAP Financial Measures.”
- Normalized funds from operations (“FFO”) of \$12.5 million, or \$0.26 per diluted share, compared to \$9.7 million, or \$0.24 per diluted share, for the three months ended June 30, 2015. See “Non-GAAP Financial Measures.”
- Property segment net operating income (“NOI”) of \$16.8 million compared to \$13.3 million for the three months ended June 30, 2015:
 - Office NOI of \$3.5 million compared to \$5.5 million
 - Retail NOI of \$10.6 million compared to \$5.5 million
 - Multifamily NOI of \$2.8 million compared to \$2.3 million
- Same store NOI of \$9.2 million compared to \$9.1 million for the three months ended June 30, 2015:
 - Office same store NOI of \$2.9 million compared to \$2.7 million
 - Retail same store NOI of \$4.6 million compared to \$4.6 million
 - Multifamily same store NOI of \$1.7 million compared to \$1.7 million
- General contracting and real estate services segment gross profit of \$1.2 million compared to \$1.8 million for the three months ended June 30, 2015.
- Third party construction backlog of \$252.3 million as of June 30, 2016.
- Raised \$2.40 million of gross proceeds at a weighted average price of \$11.35 per share under our Prior ATM Program (as defined below). Net proceeds totaled \$2.40 million.
- Raised \$18.6 million of gross proceeds at a weighted average price of \$12.45 per share under our New ATM Program (as defined below). Net proceeds totaled \$18.2 million.
- Declared cash dividends of \$0.18 per share.
- Invested \$42.0 million in the Annapolis Junction Town Center project in Annapolis Junction, Maryland (“Annapolis Junction”), an estimated \$102.0 million mixed-use development project.

Segment Results of Operations

As of June 30, 2016, we operated our business in four segments: (i) office real estate, (ii) retail real estate, (iii) multifamily residential real estate and (iv) general contracting and real estate services, which are conducted through our taxable REIT subsidiaries (“TRS”). Net operating income (segment revenues minus segment expenses), or “NOI”, is the measure used by management to assess segment performance and allocate our resources among our segments. NOI is not a measure of operating income or cash flows from operating activities as measured by

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

21

Table of Contents

understanding the core operations of our real estate and construction businesses. See Note 3 to our condensed consolidated financial statements in Item 1 of this Quarterly Report on Form 10-Q for a reconciliation of NOI to net income.

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

Office Segment Data

	Three Months			Six Months		
	Ended June 30,			Ended June 30,		
	2016	2015	Change	2016	2015	Change
	(\$ in thousands)					
Rental revenues	\$5,299	\$8,052	\$(2,753)	\$10,820	\$15,755	\$(4,935)
Property expenses	1,824	2,507	(683)	3,819	4,952	(1,133)
Segment NOI	\$3,475	\$5,545	\$(2,070)	\$7,001	\$10,803	\$(3,802)

Office segment NOI for the three and six months ended June 30, 2016 decreased \$2.1 million and \$3.8 million, respectively, compared to the corresponding periods in 2015. This decrease is due to the sales of the Sentara Williamsburg, Richmond Tower and Oceaneering office buildings, which contributed \$2.3 million and \$3.9 million, respectively, in office segment NOI for the three and six months ended June 30, 2015. We completed the sale of the Sentara Williamsburg in the first quarter of 2015, the sale of the Oceaneering office building in the fourth quarter of 2015, and the sale of the Richmond Tower office building in the first quarter of 2016.

Office Same Store Results

Office same store results for the three months ended June 30, 2016 exclude new real estate development – 4525 Main Street – as well as the Sentara Williamsburg and Richmond Tower office buildings, which we sold in the first quarter of 2015 and the first quarter of 2016, respectively. Office same store results for the six months ended June 30, 2016 exclude those previously mentioned properties, as well as the administrative building for the Commonwealth of Virginia in Virginia Beach.

Office same store rental revenues, property expenses and NOI for the three and six months ended June 30, 2016 and 2015 were as follows:

	Three Months			Six Months		
	Ended June 30,			Ended June 30,		
	2016	2015	Change	2016	2015	Change
	(\$ in thousands)					
Rental revenues	\$4,287	\$4,277	\$10	\$8,466	\$8,518	\$(52)
Property expenses	1,430	1,555	(125)	2,942	3,181	(239)
Same Store NOI	\$2,857	\$2,722	\$135	\$5,524	\$5,337	\$187
Non-Same Store NOI	618	2,823	(2,205)	1,477	5,466	(3,989)
Segment NOI	\$3,475	\$5,545	\$(2,070)	\$7,001	\$10,803	\$(3,802)

Office same store NOI for the three and six months ended June 30, 2016 increased 5% and 4%, respectively, compared to the corresponding periods in 2015 as a result of lower use of utilities resulting from the milder winter in 2016 as compared to 2015. These savings on utilities were offset by lower occupancy at the office properties in the Town Center of Virginia Beach, specifically One Columbus.

Table of Contents

Retail Segment Data

	Three Months			Six Months		
	Ended June 30,			Ended June 30,		
	2016	2015	Change	2016	2015	Change
	(\$ in thousands)					
Rental revenues	\$14,113	\$7,567	\$6,546	\$27,145	\$14,192	\$12,953
Property expenses	3,550	2,050	1,500	7,170	4,015	3,155
Segment NOI	\$10,563	\$5,517	\$5,046	\$19,975	\$10,177	\$9,798

Retail segment NOI for the three and six months ended June 30, 2016 increased \$5.0 million and \$9.8 million, respectively, compared to the corresponding periods in 2015. Acquisitions and new real estate development contributed \$4.9 million and \$9.8 million, respectively, of NOI during the three and six months ended June 30, 2016. Same store NOI growth accounted for the balance of the increase.

During the second quarter of 2015, we acquired Stone House Square in Hagerstown, Maryland and Perry Hall Marketplace in Perry Hall, Maryland. During the third quarter of 2015, we acquired Socastee Commons in Myrtle Beach, South Carolina, Columbus Village in Virginia Beach, Virginia and Providence Plaza in Charlotte, North Carolina. During the first quarter of 2016, we acquired the eleven property retail portfolio. During the second quarter of 2016, we acquired Southgate Square in Colonial Heights, Virginia.

Retail Same Store Results

Retail same store results exclude new real estate development – Sandbridge Commons – as well as new property acquisitions – Stone House Square, Perry Hall Marketplace, Socastee Commons, Columbus Village, Providence Plaza, the eleven property retail portfolio and Southgate Square.

Retail same store rental revenues, property expenses and NOI for the three and six months ended June 30, 2016 and 2015 were as follows:

	Three Months			Six Months		
	Ended June 30,			Ended June 30,		
	2016	2015	Change	2016	2015	Change
	(\$ in thousands)					
Rental revenues	\$6,451	\$6,403	\$48	\$13,059	\$12,909	\$150
Property expenses	1,825	1,777	48	3,771	3,718	53
Same Store NOI	\$4,626	\$4,626	\$—	\$9,288	\$9,191	\$97
Non-Same Store NOI	5,937	891	5,046	10,687	986	9,701
Segment NOI	\$10,563	\$5,517	\$5,046	\$19,975	\$10,177	\$9,798

Retail same store NOI for the three months ended June 30, 2016 remained constant and increased 1% for the six months ended June 30, 2016, compared to the corresponding periods in 2015. The increase for the six months ended June 30, 2016 was the result of higher occupancy at retail properties in the Town Center of Virginia Beach, particularly South Retail and the redeveloped ground floor space at Dick's at Town Center.

Multifamily Segment Data

	Three Months			Six Months		
	Ended June 30,			Ended June 30,		
	2016	2015	Change	2016	2015	Change
	(\$ in thousands)					

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Rental revenues	\$4,839	\$4,289	\$ 550	\$9,569	\$8,151	\$1,418
Property expenses	2,079	2,033	46	4,142	4,040	102
Segment NOI	\$2,760	\$2,256	\$ 504	\$5,427	\$4,111	\$1,316

23

Table of Contents

Multifamily segment NOI for the three and six months ended June 30, 2016 increased \$0.5 million and \$1.3 million, respectively, compared to the corresponding periods in 2015, primarily as a result of the stabilization of Encore Apartments and Liberty Apartments, as well as improved leasing at The Cosmopolitan. Liberty Apartments stabilized in the third quarter of 2015.

Multifamily Same Store Results

Multifamily same store results exclude new real estate development – Encore Apartments and Whetstone Apartments – as well as Liberty Apartments, which was acquired during the first quarter of 2014 and stabilized in the third quarter of 2015.

Multifamily same store rental revenues, property expenses and NOI for the three and six months ended June 30, 2016 and 2015 were as follows:

	Three Months			Six Months		
	Ended June 30, 2016	2015	Change	Ended June 30, 2016	2015	Change
	(\$ in thousands)					
Rental revenues	\$3,021	\$3,027	\$ (6)	\$6,072	\$5,964	\$ 108
Property expenses	1,299	1,321	(22)	2,620	2,571	49
Same Store NOI	\$1,722	\$1,706	\$ 16	\$3,452	\$3,393	\$ 59
Non-Same Store NOI	1,038	550	488	1,975	718	1,257
Segment NOI	\$2,760	\$2,256	\$ 504	\$5,427	\$4,111	\$ 1,316

Multifamily same store NOI for the three and six months ended June 30, 2016 increased 1% and 2%, respectively, compared to the corresponding periods in 2015. The increase for the three months ended June 30, 2016 was primarily due to timing of expenses, while the increase for the six months ended June 30, 2016 was primarily because of improved leasing at The Cosmopolitan in the Town Center of Virginia Beach and Smith's Landing.

General Contracting and Real Estate Services Segment Data

	Three Months Ended			Six Months Ended		
	June 30, 2016	2015	Change	June 30, 2016	2015	Change
	(\$ in thousands)					
Segment revenues	\$33,200	\$47,066	\$(13,866)	\$70,003	\$76,137	\$(6,134)
Segment expenses	32,025	45,283	(13,258)	67,062	73,425	(6,363)
Segment gross profit	1,175	1,783	(608)	2,941	2,712	229
Operating margin	3.5	% 3.8	% (0.3)	% 4.2	% 3.6	% 0.6

Segment profit for the three and six months ended June 30, 2016 decreased \$0.6 million and increased \$0.2 million compared to the corresponding periods in 2015 because of timing of volume on our construction contracts. The overall operating margin on our construction contracts for the three and six months ended June 30, 2016 fluctuated compared to the overall operating margin for the corresponding periods in 2015 due to the closeout of certain projects and timing of work completed.

The changes in third party construction backlog for the three and six months ended June 30, 2016 and 2015 were as follows:

Three Months Ended	Six Months Ended
June 30,	June 30,

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	2016	2015	2016	2015
	(\$ in thousands)			
Beginning backlog	\$176,180	\$138,448	\$83,433	\$159,139
New contracts/change orders	109,289	104,077	238,790	112,406
Work performed	(33,151)	(47,013)	(69,905)	(76,033)
Ending backlog	\$252,318	\$195,512	\$252,318	\$195,512

24

Table of Contents

During the six months ended June 30, 2016, we added \$64.9 million to backlog for the construction of the Point Street Apartments project, \$61.6 million in backlog for the City Center project in Durham, North Carolina and \$68.4 million in backlog on the Annapolis Junction project. As of June 30, 2016, we had \$60.1 million in backlog on the Point Street Apartments project, \$58.0 million in backlog on the City Center project and \$66.2 million in backlog on the Annapolis Junction project.

As of June 30, 2016, we had \$25.6 million in backlog related to the 27th Street Oceanfront hotel project, which we expect to substantially complete in 2017.

As of June 30, 2016, we had \$3.4 million of backlog on the Exelon construction project at the Inner Harbor of Baltimore, Maryland, which we expect to substantially complete in the third quarter of 2016.

Consolidated Results of Operations

The following table summarizes the results of operations for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
	(\$ in thousands)					
Revenues						
Rental revenues	\$24,251	\$19,908	\$4,343	\$47,534	\$38,098	\$9,436
General contracting and real estate services revenues	33,200	47,066	(13,866)	70,003	76,137	(6,134)
Total revenues	57,451	66,974	(9,523)	117,537	114,235	3,302
Expenses						
Rental expenses	5,071	4,631	440	10,400	9,391	1,009
Real estate taxes	2,382	1,959	423	4,731	3,616	1,115
General contracting and real estate services expenses	32,025	45,283	(13,258)	67,062	73,425	(6,363)
Depreciation and amortization	8,602	5,766	2,836	16,751	10,674	6,077
General and administrative expenses	2,224	2,096	128	4,708	4,424	284
Acquisition, development and other pursuit costs	437	591	(154)	1,141	762	379
Impairment charges	—	23	(23)	35	23	12
Total expenses	50,741	60,349	(9,608)	104,828	102,315	2,513
Operating income	6,710	6,625	85	12,709	11,920	789
Interest income	722	—	722	904	—	904
Interest expense	(3,978)	(3,358)	(620)	(7,769)	(6,404)	(1,365)
Loss on extinguishment of debt	—	(180)	180	—	(407)	407
Gain on real estate dispositions and acquisitions	13	7,210	(7,197)	26,687	13,407	13,280
Change in fair value of interest rate derivatives	(373)	(40)	(333)	(2,762)	(187)	(2,575)
Other (expense) income	43	24	19	119	39	80
Income before taxes	3,137	10,281	(7,144)	29,888	18,368	11,520
Income tax benefit (provision)	(6)	4	(10)	(224)	35	(259)
Net income	\$3,131	\$10,285	\$(7,154)	\$29,664	\$18,403	\$11,261

Rental revenues for the three and six months ended June 30, 2016 increased \$4.3 million and \$9.4 million, respectively, compared to the corresponding periods in 2015, as follows:

Three Months Ended June 30,			Six Months Ended June 30,		
2016	2015	Change	2016	2015	Change
(\$ in thousands)					

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Office	\$5,299	\$8,052	\$(2,753)	\$10,820	\$15,755	\$(4,935)
Retail	14,113	7,567	6,546	27,145	14,192	12,953
Multifamily	4,839	4,289	550	9,569	8,151	1,418
	\$24,251	\$19,908	\$4,343	\$47,534	\$38,098	\$9,436

25

Table of Contents

Office rental revenues for the three and six months ended June 30, 2016 decreased 34% and 31%, respectively, compared to the corresponding periods in 2015 as a result of the sales of the Sentara Williamsburg, Oceaneering and Richmond Tower office buildings, which contributed \$2.8 million and \$5.1 million in office rental revenues for the three and six months ended June 30, 2015, compared to \$0.0 million and \$0.2 million, respectively, for the three and six months ended June 30, 2016. This decrease was partially offset by rents from new real estate developments. Office same store rental revenues fluctuated slightly during the three and six months ended June 30, 2016, driven primarily by lower occupancy at our office buildings, specifically One Columbus. These decreases were partially offset by lower utility expenses.

Retail rental revenues for the three and six months ended June 30, 2016 increased 87% and 91%, respectively, compared to the corresponding periods in 2015 as a result of property acquisitions, our delivery of Greentree Shopping Center and organic growth in the same store retail portfolio due to higher occupancy rates. The eleven property retail portfolio and Southgate Square contributed \$5.1 million and \$8.5 million in retail rental revenues for the three and six months ended June 30, 2016.

Multifamily rental revenues for the three and six months ended June 30, 2016 increased 13% and 17%, respectively, compared to the corresponding periods in 2015 as a result of the stabilization of Encore Apartments and Liberty Apartments as well as higher occupancy at The Cosmopolitan. Liberty Apartments stabilized in the third quarter of 2015.

General contracting and real estate services revenues for the three and six months ended June 30, 2016 increased 29% and 8%, respectively, compared to the corresponding periods in 2015 as a result of higher construction volume, primarily related to the Point Street Apartments, City Center and 27th Street Oceanfront hotel construction projects.

Rental expenses for the three and six months ended June 30, 2016 increased \$0.4 million and \$1.0 million, respectively, compared to the corresponding periods in 2015, as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
Office	\$1,298	\$1,704	\$(406)	\$2,754	\$3,458	\$(704)
Retail	2,220	1,346	874	4,556	2,745	1,811
Multifamily	1,553	1,581	(28)	3,090	3,188	(98)
	\$5,071	\$4,631	\$440	\$10,400	\$9,391	\$1,009

Office rental expenses for the three and six months ended June 30, 2016 decreased compared to the corresponding periods in 2015 due to the sales of the Sentara Williamsburg and Richmond Tower office buildings. Retail rental expenses for the three and six months ended June 30, 2016 increased compared to the corresponding periods in 2015 as a result of property acquisitions. Multifamily rental expenses decreased due to the disposition of Whetstone Apartments.

Real estate taxes for the three and six months ended June 30, 2016 increased \$0.4 million and \$1.1 million, respectively, compared to the corresponding periods in 2015, as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
Office	\$526	\$803	\$(277)	\$1,065	\$1,494	\$(429)

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Retail	1,330	704	626	2,614	1,270	1,344
Multifamily	526	452	74	1,052	852	200
	\$2,382	\$1,959	\$423	\$4,731	\$3,616	\$1,115

Office real estate taxes for the three and six months ended June 30, 2016 decreased compared to the corresponding periods in 2015 due to the sales of the Sentara Williamsburg and Richmond Tower office buildings. Retail and multifamily real estate taxes for the three and six months ended June 30, 2016 increased compared to the corresponding periods in 2015 as a result of acquisitions and increases from new tax assessments.

Table of Contents

General contracting and real estate services expenses for the three and six months ended June 30, 2016 increased 29% and 9%, respectively, compared to the corresponding periods in 2015 because of higher volume on our construction contracts.

Depreciation and amortization for the three and six months ended June 30, 2016 increased 49% and 57%, respectively, compared to the corresponding periods in 2015 as a result of property acquisitions.

General and administrative expenses for the three and six months ended June 30, 2016 increased 6% and 6%, respectively, compared to the corresponding periods in 2015 as a result of higher regulatory and compliance costs as well as higher compensation and benefit costs from increased employee headcount.

Acquisition, development and other pursuit costs for the three months ended June 30, 2016 decreased compared to the corresponding period in 2015, and increased for the six months ended June 30, 2016 compared to the corresponding period in 2015. Approximately \$0.1 million and \$0.7 million of the acquisition costs incurred in the three and six months ended June 30, 2016 were related to the eleven property retail portfolio acquisition. Socastee Commons, Perry Hall Marketplace and Stone House Square were acquired during the six months ended June 30, 2015.

Impairment charges were not significant for the three and six months ended June 30, 2016 or 2015.

Interest expense for the three and six months ended June 30, 2016 increased 18% and 21%, respectively, compared to the corresponding periods in 2015, primarily as a result of increased borrowings.

The change in fair value of interest rate derivatives for the three and six months ended June 30, 2016 increased \$0.3 million and \$2.6 million, respectively, due to the \$1.0 million adjustment made for interest rate derivatives.

During the three and six months ended June 30, 2015, we recognized losses on extinguishment of debt of \$0.2 million and \$0.4 million, respectively, representing the unamortized debt issuance costs associated with repaid mortgages in connection with the closing of our new credit facility. No losses on extinguishment of debt were recognized in the three and six months ended June 30, 2016.

During the three and six months ended June 30, 2016, we recognized gains of \$0.01 million and \$26.7 million, respectively, on our sales of Willowbrook Commons, the Richmond Tower office building and the Newport News Economic Authority building. During the three and six months ended June 30, 2015, we recognized gains of \$7.2 million and \$13.4 million, respectively, on our sales of the Sentara Williamsburg office building and Whetstone Apartments.

Income tax benefits (provisions) that we recognized during the three and six months ended June 30, 2016 and 2015 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 and strategic acquisitions. We expect to meet our short-term liquidity requirements through net cash provided by operations, reserves established from existing cash,

borrowings under construction loans to fund new real estate development and construction, borrowings available under our credit facility and proceeds from the sale of common stock through our new at-the-market continuous equity offering program (“New 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 and capital improvements. We expect to meet our long-term liquidity requirements with net cash from operations, long-term secured and unsecured indebtedness and the issuance of equity and debt securities. We also may fund property development and acquisitions and capital improvements using our credit facility pending long-term financing.

As of June 30, 2016, we had unrestricted cash and cash equivalents of \$20.0 million available for both current liquidity needs as well as development activities. We also had restricted cash of \$3.2 million available for property

Table of Contents

improvements and required maintenance. As of June 30, 2016, we had \$41.0 million available under our credit facility and \$56.4 million available for future issuance under our New ATM Program to meet our short-term liquidity requirements.

ATM Equity Offering Programs

On May 4, 2016, we commenced our New ATM Program through which we may, from time to time, issue and sell shares of common stock having an aggregate offering price of up to \$75.0 million. Upon commencing our New ATM Program, we simultaneously terminated our prior \$50.0 million at-the-market continuous equity offering program (the "Prior ATM Program"), which we entered into in May 2015 and under which we sold an aggregate of 2,261,068 shares of common stock, resulting in aggregate net proceeds of \$23.1 million. Our sale of shares under the New ATM Program will depend on a variety of factors, including among other things, market conditions, the trading price of our common stock, capital needs and our determination of appropriate sources of funding. We have no obligation to sell any shares and may at any time suspend or terminate the New ATM Program. Each of our sales agents are entitled to a commission of up to 2.0% of the gross offering proceeds of shares that they sell through the New ATM Program. We intend to use any net proceeds from the sale of shares through the ATM Equity Offering Program to fund development or redevelopment activities, fund potential acquisition opportunities, repay indebtedness, including amounts outstanding under our credit facility, or for general corporate purposes. In the three months ended June 30, 2016, we raised \$2.40 million of gross proceeds at a weighted average price of \$11.35 per share under the Prior ATM Program, resulting in net proceeds after offering costs and commissions of \$2.40 million. In the three months ended June 30, 2016, we raised \$18.6 million of gross proceeds at a weighted average price of \$12.45 per share under the New ATM Program, resulting in net proceeds after offering costs and commissions of \$18.2 million.

Credit Facility

On February 20, 2015, we entered into a \$200.0 million senior unsecured credit facility that includes a \$150.0 million senior unsecured revolving credit facility and a \$50.0 million senior unsecured term loan facility. The credit facility replaced the prior \$155.0 million senior secured revolving credit facility that was scheduled to mature on May 13, 2016. We intend to use future borrowings under the credit facility for general corporate purposes, including funding acquisitions, 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 increased to \$350.0 million, subject to certain conditions. On January 5, 2016 and March 31, 2016, we increased the total borrowing capacity to \$225.0 million and \$250.0 million, respectively, using this feature. The amount permitted to be borrowed under the credit facility, together with all of our other unsecured indebtedness, is generally limited to the lesser of: (i) 60% of the value of our unencumbered borrowing base properties, (ii) the maximum amount of principal that would result in a debt service coverage ratio of 1.50 to 1.0, and (iii) the maximum aggregate loan commitment, which currently is \$250.0 million.

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

The revolving credit facility bears interest at LIBOR plus 1.40% to 2.00%, depending on our total leverage. The term loan facility bears interest at LIBOR plus 1.35% to 1.95%, depending on our total leverage. We are also obligated to pay an unused commitment fee of 15 or 25 basis points on the unused portions of the commitments under the 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.

On February 25, 2016, we entered into an amendment to the credit facility to, among other things, amend the maximum leverage ratio as set forth below.

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

Total leverage ratio of the Company of not more than 60% (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 to fixed charges of the Company of not less than 1.50 to 1.0;

Table of Contents

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

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

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

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

The 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 Internal Revenue Code of 1986, as amended. 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.

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

Table of Contents

Consolidated Indebtedness

The following table sets forth our consolidated indebtedness as of June 30, 2016 (\$ in thousands):

Secured Debt	Amount Outstanding	Interest Rate(a)	Effective Rate for Variable Debt		Maturity Date	Balance at Maturity
249 Central Park Retail	\$ 15,134	5.99	%		September 8, 2016	\$ 15,084
South Retail	6,677	5.99			September 8, 2016	6,655
Fountain Plaza Retail	7,567	5.99			September 8, 2016	7,542
4525 Main Street	31,613	LIBOR+1.95	2.41	%	January 30, 2017	31,613
Encore Apartments	25,184	LIBOR+1.95	2.41	%	January 30, 2017	25,184
North Point Note 5	654	LIBOR+2.00	3.57	% (b)	February 1, 2017	641
Oyster Point	6,400	LIBOR+1.40 to 2.00	2.21	%	February 28, 2017	6,400
Harrisonburg Regal Commonwealth of Virginia – Chesapeake	3,361	6.06			June 8, 2017	3,165
Hanbury Village	4,933	LIBOR+1.90	2.36	%	August 28, 2017	4,933
Lightfoot Marketplace	20,841	6.67			October 11, 2017	20,499
Sandbridge Commons	9,449	LIBOR+1.90	2.36	%	November 14, 2017	9,449
Southgate Square	9,494	LIBOR+1.85	2.31	%	January 17, 2018	9,009
Columbus Village Note 1	21,150	LIBOR+2.00	2.46	%	April 29, 2021	20,665
Columbus Village Note 2	6,346	LIBOR+2.00	3.05	% (b)	April 5, 2018	5,891
Johns Hopkins Village	2,287	LIBOR+2.00	2.46	%	April 5, 2018	2,108
North Point Note 1	29,973	LIBOR+1.90	2.34	%	July 30, 2018	29,973
Socastee Commons	9,874	6.45			February 5, 2019	9,333
North Point Note 2	4,912	(c) 4.57			January 6, 2023	4,223
Smith's Landing	2,614	7.25			September 15, 2025	1,344
Liberty Apartments	20,873	4.05			June 1, 2035	—
The Cosmopolitan	20,161	(c) 5.66			November 1, 2043	—
Total secured debt	46,205	3.75			July 1, 2051	—
Unsecured Debt	\$ 305,702					\$ 213,711
Revolving credit facility	107,000	LIBOR+1.40 to 2.00	2.21	%	February 20, 2019	107,000
Term loan	50,000	LIBOR+1.35 to 1.95	2.16	%	February 20, 2020	50,000
Term loan	50,000	LIBOR+1.35 to 1.95	3.70	% (b)	February 20, 2020	50,000
Total unsecured debt	\$ 207,000					\$ 207,000
Unamortized GAAP adjustments	(4,382)					—
Indebtedness, net	\$ 508,320					\$ 420,711

(a)LIBOR rate is determined by individual lenders.

(b) Subject to an interest rate swap agreement.

(c) Principal balance excluding fair value adjustments.

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

30

Table of Contents

As of June 30, 2016, our outstanding indebtedness matures during the following years (\$ in thousands):

Year	Amount Due	Percentage of Total
2016	\$ 30,909	6 %
2017	105,200	21 %
2018	50,191	10 %
2019	119,039	23 %
2020	102,805	20 %
Thereafter	104,558	20 %
	\$ 512,702	100 %

Interest Rate Derivatives

We may use interest rate derivatives from time to time to manage our exposure to interest rate risks. Using an interest rate swap, we fixed our interest payments under North Point Center Note 5 at 3.57% through maturity on February 1, 2017.

On February 20, 2015, we entered into a \$50.0 million floating-to-fixed interest rate swap attributable to one-month LIBOR indexed interest payments. The \$50.0 million interest rate swap has a fixed rate of 2.00%, an effective date of March 1, 2016 and a maturity date of February 20, 2020. We entered into this interest rate swap agreement in connection with the \$50.0 million senior unsecured term loan facility that bears interest at LIBOR plus 1.35% to 1.95%, depending on our total leverage.

On July 13, 2015, we entered into a \$6.5 million floating-to-fixed interest rate swap attributable to one-month LIBOR indexed interest payments. The \$6.5 million interest rate swap has a fixed rate of 3.05%, an effective date of July 13, 2015 and a maturity date of April 5, 2018.

As of June 30, 2016, we were party to the following LIBOR interest rate cap agreements (\$ in thousands):

Effective Date	Maturity Date	Strike Rate	Notional Amount
March 14, 2014	March 1, 2017	1.25 %	50,000
October 26, 2015	October 15, 2017	1.25 %	75,000
February 25, 2016	March 1, 2018	1.50 %	75,000
June 17, 2016	June 17, 2018	1.00 %	70,000
Total			\$ 270,000

As of June 30, 2016, the notional amounts of our LIBOR interest rate cap agreements with strike rates below and above 1.25% were as follows (\$ in thousands):

Strike Rate	Notional Amount
≤ 1.25%	\$ 195,000
> 1.25%	75,000
Total	\$ 270,000

On February 25, 2016, we entered into a LIBOR interest rate cap agreement on a notional amount of \$75.0 million at a strike rate of 1.50% for a premium of less than \$0.1 million. The interest rate cap agreement expires on March 1, 2018.

On June 17, 2016, we entered into a LIBOR interest rate cap agreement on a notional amount of \$70.0 million at a strike rate of 1.00% for a premium of less than \$0.1 million. The interest rate cap agreement expires on June 17, 2018.

Off-Balance Sheet Arrangements

We have entered into standby letters of credit relating to the guarantee of future performance on certain of our construction contracts. Letters of credit generally are available for draw down in the event we do not perform. As of June 30, 2016, we had aggregate outstanding standby letters of credit totaling \$2.0 million that expire during 2016. However, any of our standby letters of credit may be renewed for additional periods until completion of the underlying contractual obligation.

Table of Contents

Cash Flows

	Six Months Ended		
	June 30,		
	2016	2015	Change
	(\$ in thousands)		
Operating Activities	\$18,948	\$5,305	\$13,643
Investing Activities	(149,389)	(20,172)	(129,217)
Financing Activities	123,436	16,340	107,096
Net Increase (Decrease)	\$(7,005)	\$1,473	\$(8,478)
Cash and Cash Equivalents, Beginning of Period	\$26,989	\$25,883	
Cash and Cash Equivalents, End of Period	\$19,984	\$15,191	

Net cash provided by operating activities during the six months ended June 30, 2016 increased 257% compared to the six months ended June 30, 2015, primarily as a result of increased net cash collected under our construction contracts and increased depreciation and amortization. This increase was offset by a \$13.3 million increase in the gain on real estate dispositions in 2016 when compared to the dispositions which occurred in 2015.

During the six months ended June 30, 2016, we invested 641% more cash compared to the six months ended June 30, 2015, primarily as a result of our acquisitions of the eleven property retail portfolio and Southgate Square, coupled with the mezzanine financing in Annapolis Junction.

Net cash provided by financing activities during the six months ended June 30, 2016 increased 655% compared to the six months ended June 30, 2015, primarily as a result of net proceeds from common stock sales and increased borrowing on the credit facility.

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) 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 the Company's operating property portfolio and affect the comparability of the Company's 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, property acquisition, development and other pursuit costs, mark-to-market adjustments for interest rate derivatives and other non-comparable items.

32

Table of Contents

The following table sets forth a reconciliation of FFO and Normalized FFO for the three and six months ended June 30, 2016 and 2015 to net income, the most directly comparable GAAP equivalent:

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2016	2015	2016	2015
	(\$ in thousands)			
Net income	\$3,131	\$10,285	\$29,664	\$18,403
Depreciation and amortization	8,602	5,766	16,751	10,674
Gain on real estate dispositions and acquisitions	(13)	(7,210)	(26,257)	(13,407)
Funds from operations	\$11,720	\$8,841	\$20,158	\$15,670
Acquisition, development and other pursuit costs	437	591	1,141	762
Impairment charges	—	23	35	23
Loss on extinguishment of debt	—	180	—	407
Change in fair value of interest rate derivatives	\$373	\$40	\$2,762	\$187
Normalized funds from operations	\$12,530	\$9,675	\$24,096	\$17,049
FFO per diluted share	\$0.24	\$0.22	\$0.42	\$0.39
Normalized FFO per diluted share	\$0.26	\$0.24	\$0.51	\$0.43
Weighted average common shares - diluted	48,849	40,356	47,534	40,088

The adjustment for gain on real estate dispositions and acquisitions excludes the gain on the Newport News Economic Authority building because this building was sold before being placed in service.

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, 2015.

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, 2016, approximately \$215.2 million, or 42.0%, of our debt had fixed interest rates and approximately \$297.5 million, or 58.0%, had variable interest rates. Assuming no increase in the level of our variable rate debt, if interest rates increased by 1.0%, our cash flow would decrease by approximately \$3.0 million per year. At June 30, 2016, LIBOR was approximately 46 basis points. Assuming no increase in the level of our variable rate debt, if LIBOR was reduced to 0 basis points, our cash flow would increase by approximately \$1.4 million per year.

Item 4. Controls and Procedures

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

33

Table of Contents

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, 2016, 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, 2016, 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 period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2015.

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

Unregistered Sales 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.

34

Table of Contents

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 3, 2016 /s/ LOUIS S. HADDAD

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

Date: August 3, 2016 /s/ MICHAEL P. O'HARA

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

Table of Contents

Exhibit Index

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