

Armada Hoffler Properties, Inc.
Form 10-Q
November 12, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014

or

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

For the transition period from _____ to _____

Commission file number: 001-35908

ARMADA HOFFLER PROPERTIES, INC.
(Exact Name of Registrant as Specified in its Charter)

Maryland
(State of Organization)

46-1214914
(IRS Employer

Identification No.)

222 Central Park Avenue, Suite 2100

Virginia Beach, Virginia
(Address of Principal Executive Offices)

23462
(Zip Code)

(757) 366-4000

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large Accelerated Filer

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 November 7, 2014, the Registrant had 25,019,470 shares of common stock outstanding.

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ARMADA HOFFLER PROPERTIES, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2014

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

(In Thousands, except par value and share data)

	SEPTEMBER 30, 2014 (UNAUDITED)	DECEMBER 31, 2013
<u>ASSETS</u>		
Real estate investments:		
Income producing property	\$ 499,661	\$ 406,239
Held for development		
Construction in progress	93,946	56,737
	593,607	462,976
Accumulated depreciation	(115,839)	(105,228)
Net real estate investments	477,768	357,748
Cash and cash equivalents	17,101	18,882
Restricted cash	4,425	2,160
Accounts receivable, net	20,307	18,272
Construction receivables, including retentions	15,285	12,633
Construction contract costs and estimated earnings in excess of billings	40	1,178
Other assets	32,409	24,409
Total Assets	\$ 567,335	\$ 435,282
<u>LIABILITIES AND EQUITY</u>		
Indebtedness	\$ 335,792	\$ 277,745
Accounts payable and accrued liabilities	7,569	6,463
Construction payables, including retentions	39,820	28,139
Billings in excess of construction contract costs and estimated earnings	3,420	1,541
Other liabilities	17,979	15,873
Total Liabilities	404,580	329,761

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Stockholders' equity:				
Common stock, \$0.01 par value, 500,000,000 shares authorized, 25,018,733 and 19,163,413 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively		250	192	
Additional paid-in capital		51,179	1,247	
Distributions in excess of earnings		(53,695)	(47,934)	
Total stockholders' deficit		(2,266)	(46,495)	
Noncontrolling interests		165,021	152,016	
Total Equity		162,755	105,521	
Total Liabilities and Equity	\$	567,335	\$	435,282

See Notes to Condensed Consolidated and Combined Financial Statements.

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30, 2014	2013	SEPTEMBER 30, 2014	2013
Revenues				
Rental revenues	\$ 16,713	\$ 14,899	\$ 47,225	\$ 42,528
General contracting and real estate services revenues	31,532	21,896	71,261	63,143
Total revenues	48,245	36,795	118,486	105,671
Expenses				
Rental expenses	4,414	3,840	12,230	10,468
Real estate taxes	1,480	1,317	4,231	3,777
General contracting and real estate services expenses	30,468	20,907	67,807	60,868
Depreciation and amortization	4,567	3,933	12,593	11,112
General and administrative expenses	1,741	1,638	5,768	5,212
Acquisition, development and other pursuit costs	174		174	
Impairment charges	15		15	533
Total expenses	42,859	31,635	102,818	91,970
Operating income	5,386	5,160	15,668	13,701
Interest expense	(2,734)	(2,598)	(7,977)	(9,802)
Loss on extinguishment of debt		(1,127)		(2,252)
Gain on acquisitions				9,460
Other income (loss)	59	(109)	(23)	343
Income before taxes	2,711	1,326	7,668	11,450
Income tax benefit (provision)	43	(74)	(135)	137
Net income	2,754	1,252	7,533	11,587
Net income attributable to Predecessor				(2,020)
Net income attributable to noncontrolling interests	(1,139)	(507)	(3,128)	(3,936)
Net income attributable to stockholders	\$ 1,615	\$ 745	\$ 4,405	\$ 5,631
Net income per share:				
Basic and diluted	\$ 0.08	\$ 0.04	\$ 0.23	\$ 0.30

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Weighted-average outstanding:				
Common shares	20,266	19,164	19,574	18,969
Common units	14,291	13,059	13,905	13,059
Basic and diluted	34,557	32,223	33,479	32,028
Dividends declared per common share and unit	\$ 0.16	\$ 0.16	\$ 0.48	\$ 0.24

See Notes to Condensed Consolidated and Combined Financial Statements.

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

	Shares of common stock	Common stock	Additional Distributions paid- in capital	in excess of earnings	Total stockholder deficit	Noncontrolling interests	Total Equity
Balance, January 1, 2014	19,163,413	\$ 192	\$ 1,247	\$ (47,934)	\$ (46,495)	\$ 152,016	\$ 105,521
Net proceeds from sale of common stock	5,750,000	57	49,242		49,299		49,299
Restricted stock award grants	128,050	1	(1)				
Vesting of restricted stock awards			1,204		1,204		1,204
Minimum tax withholding	(21,376)		(212)		(212)		(212)
Restricted stock award forfeitures	(1,354)						
Acquisitions of real estate investments in exchange for common units						16,351	16,351
Exchange of owners equity for common units			(301)		(301)	301	
Net income				4,405	4,405	3,128	7,533
Dividends and distributions declared				(10,166)	(10,166)	(6,775)	(16,941)
Balance, September 30, 2014	25,018,733	\$ 250	\$ 51,179	\$ (53,695)	\$ (2,266)	\$ 165,021	\$ 162,755

See Notes to Condensed Consolidated and Combined Financial Statements.

Table of Contents**ARMADA HOFFLER PROPERTIES, INC. AND PREDECESSOR****Condensed Consolidated and Combined Statements of Cash Flows****(In Thousands)****(Unaudited)**

	NINE MONTHS ENDED SEPTEMBER 30,	
	2014	2013
OPERATING ACTIVITIES		
Net income	\$ 7,533	\$ 11,587
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of buildings and tenant improvements	10,611	9,482
Amortization of deferred leasing costs and in-place lease intangibles	1,982	1,630
Accrued straight-line rental revenue	(1,730)	(763)
Amortization of lease incentives and above or below-market rents	461	537
Accrued straight-line ground rent expense	236	273
Bad debt expense	48	155
Noncash stock compensation	720	1,012
Impairment charges	15	533
Noncash interest expense	410	482
Noncash loss on extinguishment of debt		542
Gain on acquisitions		(9,460)
Change in the fair value of derivatives	123	(41)
Income from real estate joint ventures		(210)
Changes in operating assets and liabilities:		
Property assets	(1,932)	6,438
Property liabilities	234	(563)
Construction assets	(4,298)	(2,375)
Construction liabilities	6,879	(1,071)
Net cash provided by operating activities	21,292	18,188
INVESTING ACTIVITIES		
Development of real estate investments	(77,094)	(24,928)
Tenant and building improvements	(4,622)	(2,452)
Acquisitions of real estate investments, net of cash acquired	(2,754)	(2,106)
Government development grants	300	300
(Increase) decrease in restricted cash	(1,713)	455
Contributions to real estate joint ventures		(81)
Return of capital from real estate joint ventures		511
Leasing costs	(1,524)	(671)
Leasing incentives	(63)	(243)

Net cash used for investing activities	(87,470)	(29,215)
FINANCING ACTIVITIES		
Proceeds from sale of common stock	49,566	203,245
Offering costs	(320)	(7,604)
Formation Transactions		(47,221)
Debt issuances, credit facility and construction loan borrowings	92,409	62,700
Debt and credit facility repayments, including principal amortization	(61,494)	(184,606)
Debt issuance costs	(35)	(1,825)
Predecessor distributions, net		(10,709)
Dividends and distributions	(15,729)	(2,578)
Net cash (used for) provided by financing activities	64,397	11,402
Net (decrease) increase in cash and cash equivalents	(1,781)	375
Cash and cash equivalents, beginning of period	18,882	9,400
Cash and cash equivalents, end of period	\$ 17,101	\$ 9,775
Supplemental cash flow information:		
Cash paid for interest	\$ 8,967	\$ 10,170
Debt assumed in acquisitions of real estate investments	\$ 27,100	\$ 36,048

See Notes to Condensed Consolidated and Combined Financial Statements.

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

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

As of September 30, 2014, the Company owned 25 stabilized properties, four unstabilized properties and had six new properties under development. The Company generally considers a property to be stabilized when it reaches 80% occupancy or three years after acquisition or completion.

As of September 30, 2014, the Company's stabilized operating property portfolio consisted of the following properties:

Name	Segment	Location
Armada Hoffler Tower	Office	Virginia Beach, Virginia
One Columbus	Office	Virginia Beach, Virginia
Oyster Point	Office	Newport News, Virginia
Richmond Tower	Office	Richmond, Virginia
Sentara Williamsburg	Office	Williamsburg, Virginia
Two Columbus	Office	Virginia Beach, Virginia
Virginia Natural Gas	Office	Virginia Beach, Virginia
249 Central Park Retail	Retail	Virginia Beach, Virginia
Bermuda Crossroads	Retail	Chester, Virginia
Broad Creek Shopping Center	Retail	Norfolk, Virginia
Commerce Street Retail	Retail	Virginia Beach, Virginia
Courthouse 7-Eleven	Retail	Virginia Beach, Virginia
Dick's at Town Center	Retail	Virginia Beach, Virginia
Dimmock Square	Retail	Colonial Heights, Virginia
Fountain Plaza Retail	Retail	Virginia Beach, Virginia
Gainsborough Square	Retail	Chesapeake, Virginia
Hanbury Village	Retail	Chesapeake, Virginia
Harrisonburg Regal	Retail	Harrisonburg, Virginia
North Point Center	Retail	Durham, North Carolina
Parkway Marketplace	Retail	Virginia Beach, Virginia
South Retail	Retail	Virginia Beach, Virginia
Studio 56 Retail	Retail	Virginia Beach, Virginia
Tyre Neck Harris Teeter	Retail	Portsmouth, Virginia
Smith's Landing	Multifamily	Blacksburg, Virginia
The Cosmopolitan	Multifamily	Virginia Beach, Virginia

As of September 30, 2014, the following properties had not reached stabilization:

Name	Segment	Location
4525 Main Street	Office	Virginia Beach, Virginia
Encore Apartments	Multifamily	Virginia Beach, Virginia
Liberty Apartments	Multifamily	Newport News, Virginia
Whetstone Apartments	Multifamily	Durham, North Carolina

As of September 30, 2014, the Company had the following properties under development:

Name	Segment	Location
Commonwealth of Virginia Chesapeake	Office	Chesapeake, Virginia
Commonwealth of Virginia Virginia Beach	Office	Virginia Beach, Virginia
Oceaneering	Office	Chesapeake, Virginia
Greentree Shopping Center	Retail	Chesapeake, Virginia
Sandbridge Commons	Retail	Virginia Beach, Virginia
Lightfoot Marketplace	Retail	Williamsburg, Virginia

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

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

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

References to Armada Hoffler in these notes to consolidated and combined financial statements signify the Company for the period after the completion of the IPO and the Formation Transactions on May 13, 2013 and the Predecessor for all prior periods. Because of the timing of the IPO and the Formation Transactions, the results of operations for the nine months ended September 30, 2013 reflect those of the Predecessor together with the Company, while the results of operations for the three months ended September 30, 2013 and the three and nine months ended September 30, 2014 as well as the financial condition as of September 30, 2014 and December 31, 2013 reflect only those of the Company.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

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

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

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

The accompanying consolidated and combined financial statements were prepared in accordance with the requirements for interim financial information. Accordingly, these interim financial statements have not been audited and exclude certain disclosures required for annual financial statements. Also, the operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These interim financial statements should be read in conjunction with the audited consolidated and combined financial statements of the Company included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

Use of Estimates

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

Table of Contents**Significant Accounting Policies**

The accompanying consolidated and combined financial statements were prepared on the basis of the accounting principles described in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, among others.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (FASB) revised the reporting and disclosure guidance for discontinued operations. Under the revised guidance, only disposals representing a strategic shift that has or will have a major effect on the Company's operations and financial results will be reported as discontinued operations. The revised guidance also expands the disclosure requirements for discontinued operations and other disposals of significant business components. The revised guidance is not effective for the Company until January 1, 2015; however early adoption is permitted. The Company early adopted the revised guidance effective January 1, 2014.

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

3. Segments

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

Net operating income of Armada Hoffler's reportable segments for the three and nine months ended September 30, 2014 and 2013 was as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	(Unaudited)			
<i>Office real estate</i>				
Rental revenues	\$ 7,295	\$ 6,364	\$ 20,363	\$ 19,270
Property expenses	2,351	2,081	6,453	5,967
Segment net operating income	4,944	4,283	13,910	13,303

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<i>Retail real estate</i>				
Rental revenues	6,086	5,683	17,559	16,071
Property expenses	1,795	1,745	5,310	5,054
Segment net operating income	4,291	3,938	12,249	11,017
<i>Multifamily residential real estate</i>				
Rental revenues	3,332	2,852	9,303	7,187
Property expenses	1,748	1,331	4,698	3,224
Segment net operating income	1,584	1,521	4,605	3,963
<i>General contracting and real estate services</i>				
Segment revenues	31,532	21,896	71,261	63,143
Segment expenses	30,468	20,907	67,807	60,868
Segment net operating income	1,064	989	3,454	2,275
Net operating income	\$ 11,883	\$ 10,731	\$ 34,218	\$ 30,558

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General contracting and real estate services revenues for the three and nine months ended September 30, 2014 exclude revenue from intercompany construction contracts of \$24.2 million and \$68.8 million, respectively. General contracting and real estate services expenses for the three and nine months ended September 30, 2014 exclude expenses for intercompany construction contracts of \$24.1 million and \$68.2 million, respectively. General contracting and real estate services expenses for the three and nine months ended September 30, 2014 include noncash stock compensation of less than \$0.1 million and \$0.2 million, respectively.

General contracting and real estate services revenues for the three and nine months ended September 30, 2013 exclude revenue from intercompany construction contracts of \$13.3 million and \$18.9 million, respectively. General contracting and real estate services expenses for the three and nine months ended September 30, 2013 exclude expenses for intercompany construction contracts of \$13.1 million and \$18.7 million, respectively.

The following table reconciles net operating income to net income for the three and nine months ended September 30, 2014 and 2013 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Unaudited)			
Net operating income	\$ 11,883	\$ 10,731	\$ 34,218	\$ 30,558
Depreciation and amortization	(4,567)	(3,933)	(12,593)	(11,112)
General and administrative expenses	(1,741)	(1,638)	(5,768)	(5,212)
Acquisition, development and other pursuit costs	(174)		(174)	
Impairment charges	(15)		(15)	(533)
Interest expense	(2,734)	(2,598)	(7,977)	(9,802)
Loss on extinguishment of debt		(1,127)		(2,252)
Gain on acquisitions				9,460
Other income (loss)	59	(109)	(23)	343
Income tax benefit (provision)	43	(74)	(135)	137
Net income	\$ 2,754	\$ 1,252	\$ 7,533	\$ 11,587

General and administrative expenses represent costs not directly associated with the operation and management of Armada Hoffler's real estate properties and general contracting business. General and administrative expenses include office personnel salaries and benefits, bank fees, accounting fees, legal fees and other corporate office expenses. General and administrative expenses for the three and nine months ended September 30, 2014 include noncash stock compensation of \$0.2 million and \$0.5 million, respectively. General and administrative expenses for the three and nine months ended September 30, 2013 include noncash stock compensation of \$0.2 million and \$1.0 million, respectively.

During the three and nine months ended September 30, 2014, the Company recognized \$0.2 million of acquisition, development and other pursuit costs related primarily to the acquisition of Dimmock Square.

During the nine months ended September 30, 2013, the Company recognized a \$0.5 million impairment of unamortized leasing assets related to two vacated retail tenants.

During the three months ended September 30, 2013, the Company defeased \$13.9 million of debt and, as a result, recognized a \$1.1 million loss on extinguishment of debt. During the nine months ended September 30, 2013, the Company used proceeds from the IPO and borrowings under the credit facility to repay \$150.0 million of debt. The Company recognized a \$1.1 million loss on extinguishment of debt representing \$0.6 million of fees and \$0.5 million of unamortized debt issuance costs.

Substantially concurrent with the completion of the IPO on May 13, 2013 and in connection with the Formation Transactions, the Operating Partnership acquired 100% of the interests in Bermuda Crossroads and Smith's Landing. The acquisitions of controlling interests in Bermuda Crossroads and Smith's Landing were accounted for as purchases at fair value under the acquisition method of accounting. Prior to the acquisition date, the Predecessor accounted for its noncontrolling interests in Bermuda Crossroads and Smith's Landing as equity method investments. The Company recognized a \$9.5 million gain on acquisitions as a result of remeasuring the Predecessor's prior equity interests in Bermuda Crossroads and Smith's Landing on the acquisition date.

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Rental revenues of Armada Hoffler's reportable segments for the three and nine months ended September 30, 2014 and 2013 comprised the following (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	(Unaudited)			
Minimum rents				
Office	\$ 6,954	\$ 6,059	\$ 19,326	\$ 18,264
Retail	5,167	4,759	14,760	13,733
Multifamily	2,813	2,370	7,906	6,060
Percentage rents ⁽¹⁾				
Office			45	104
Retail	36	35	173	88
Multifamily	19	21	78	84
Other ⁽²⁾				
Office	341	304	992	901
Retail	883	890	2,626	2,251
Multifamily	500	461	1,319	1,043
Rental revenues	\$ 16,713	\$ 14,899	\$ 47,225	\$ 42,528

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

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

Property expenses of Armada Hoffler's reportable segments for the three and nine months ended September 30, 2014 and 2013 comprised the following (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	(Unaudited)			
Rental expenses				
Office	\$ 1,742	\$ 1,536	\$ 4,756	\$ 4,341
Retail	1,255	1,230	3,764	3,593
Multifamily	1,417	1,074	3,710	2,534
Total	\$ 4,414	\$ 3,840	\$ 12,230	\$ 10,468
Real estate taxes				
Office	\$ 609	\$ 545	\$ 1,697	\$ 1,626

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Retail	540	515	1,546	1,461
Multifamily	331	257	988	690
Total	\$ 1,480	\$ 1,317	\$ 4,231	\$ 3,777
Property expenses	\$ 5,894	\$ 5,157	\$ 16,461	\$ 14,245

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

Table of Contents**4. Real Estate Investments**

The Company's real estate investments comprised the following as of September 30, 2014 and December 31, 2013 (in thousands):

	Income producing property	September 30, 2014 Held for development Construction in progress (Unaudited)		Total
Land	\$ 38,691	\$	\$ 19,428	\$ 58,119
Land improvements	13,891			13,891
Buildings and improvements	447,079			447,079
Development and construction costs			74,518	74,518
Real estate investments	\$ 499,661	\$	\$ 93,946	\$ 593,607

	Income producing property	December 31, 2013 Held for development Construction in progress		Total
Land	\$ 27,736	\$	\$ 13,577	\$ 41,313
Land improvements	12,562			12,562
Buildings and improvements	365,941			365,941
Development and construction costs			43,160	43,160
Real estate investments	\$ 406,239	\$	\$ 56,737	\$ 462,976

Acquisition of Liberty Apartments

As discussed in Note 1, the Company completed the acquisition of Liberty Apartments on January 17, 2014. The fair value of the total consideration transferred at the acquisition date to acquire Liberty Apartments was \$26.7 million, consisting of 695,652 common units of limited partner interest in the Operating Partnership, \$3.0 million in cash to affiliates of the Predecessor and the assumption of \$17.0 million of debt. The fair value adjustment to the assumed debt of Liberty Apartments was a \$1.5 million discount. The outstanding principal balance of the assumed debt of Liberty Apartments at the acquisition date was \$18.5 million.

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

	Liberty Apartments (Unaudited)	
Land	\$	3,580
Site improvements		280

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Building and improvements	23,214
In-place leases	340
Indebtedness	(16,966)
Net working capital	(679)
Net assets acquired	\$ 9,769

Liberty Apartments did not have any operations during the nine months ended September 30, 2013. Rental revenues and net loss from Liberty Apartments for the period from the acquisition date to September 30, 2014 included in the consolidated statement of income was \$0.6 million and \$(1.7) million, respectively.

Table of Contents**Acquisition of Dimmock Square**

On August 15, 2014, the Company completed the acquisition of Dimmock Square, a 106,166 square foot retail center located in Colonial Heights, Virginia. The fair value of the total consideration transferred at the acquisition date to acquire Dimmock Square was \$19.7 million, consisting of 990,952 common units of limited partner interest in the Operating Partnership and \$10.1 million of cash that was used to immediately defease the loan secured by Dimmock Square upon its contribution to the Operating Partnership.

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

	Dimmock Square (Unaudited)	
Land	\$	5,100
Site improvements		600
Building and improvements		12,526
In-place leases		1,880
Above and below-market leases		(390)
Net assets acquired	\$	19,716

The following table summarizes the consolidated and combined results of operations of Armada Hoffler on a pro forma basis, as if Dimmock Square had been acquired on January 1, 2013 (in thousands):

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	2013	2013	2013	2013
	(Unaudited)			
Rental revenues	\$ 16,952	\$ 15,409	\$ 48,479	\$ 44,059
Net income	3,316	1,329	8,135	11,527

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 acquisition had taken place on January 1, 2013. 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.

Rental revenues and net loss from Dimmock Square for the period from the acquisition date to September 30, 2014 included in the consolidated statement of income was \$0.3 million and \$(0.1) million, respectively.

Other Real Estate Transactions

On April 16, 2014, the Company purchased land in Williamsburg, Virginia for \$7.6 million for the development and construction of Lightfoot Marketplace.

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

On July 30, 2014, the Company entered into a non-binding letter of intent to sell the Virginia Natural Gas office property for approximately \$8.9 million. The Company expects to enter into a purchase and sale agreement and complete the disposition in 2014. However, no assurances can be given that the Company will enter into a binding agreement related to this disposition or that the Company will complete the disposition on the terms described herein or at all. Net assets of \$5.2 million associated with the Virginia Natural Gas office property were included in the consolidated balance sheet as of September 30, 2014.

On September 29, 2014, the Company purchased land in Virginia Beach, Virginia for \$0.2 million for the development and construction of a new administrative building for the Commonwealth of Virginia.

Subsequent to September 30, 2014

On October 2, 2014, the Company entered into a non-binding letter of intent to sell the Sentara Williamsburg office property for approximately \$15.4 million. The Company expects to enter into a purchase and sale agreement and complete the disposition in 2014. However, no assurances can be given that the Company will enter into a binding agreement related to this disposition or that the Company will complete the disposition on the terms described herein or at all. Net assets of \$9.1 million associated with the Sentara Williamsburg office property were included in the consolidated balance sheet as of September 30, 2014.

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5. *Indebtedness*

On January 17, 2014, the Company assumed \$17.0 million of debt at fair value in connection with the acquisition of Liberty Apartments. The fair value adjustment to the assumed debt of Liberty Apartments was a \$1.5 million discount. The outstanding principal balance of the assumed debt of Liberty Apartments at the acquisition date was \$18.5 million. On June 13, 2014, the Company borrowed the remaining \$2.4 million available under the Liberty Apartments loan. The loan amortizes over 30 years, bears interest at 5.66% and matures on November 1, 2043.

On February 28, 2014, the Company closed on a \$19.5 million loan to fund the development and construction of the Oceaneering International facility. The construction loan bears interest at LIBOR plus 1.75% and matures on February 28, 2018. As of September 30, 2014, the Company had \$7.7 million outstanding on the construction loan at an effective interest rate of 1.91%.

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

On August 15, 2014, the Company defeased the loan secured by Dimmock Square for \$10.1 million.

On August 28, 2014, the Company closed on a \$5.4 million loan to fund the development and construction of a new administrative building for the Commonwealth of Virginia. The construction loan bears interest at LIBOR plus 1.90% and matures on August 28, 2017. As of September 30, 2014, the Company had \$0.7 million outstanding on the construction loan at an effective interest rate of 2.06%.

During the nine months ended September 30, 2014, the Operating Partnership borrowed \$33.0 million under the credit facility. On September 15, 2014, the Operating Partnership used the proceeds from the Company's underwritten public offering of common stock to repay \$49.0 million of the outstanding balance under the credit facility that had been used to fund the Company's development activities. As of September 30, 2014, the outstanding balance under the credit facility was \$54.0 million.

During the nine months ended September 30, 2014, the Company borrowed \$48.6 million under its existing construction loans to fund the construction of 4525 Main Street, Encore Apartments, Whetstone Apartments and Sandbridge Commons.

Subsequent to September 30, 2014

On October 15, 2014, the Operating Partnership borrowed \$10.0 million under the credit facility.

On November 3, 2014, the Operating Partnership repaid the North Point Center Note 4 for \$1.0 million.

Table of Contents**6. Derivative Financial Instruments**

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

The Company's derivatives comprised the following as of September 30, 2014 and December 31, 2013 (in thousands):

	September 30, 2014 (Unaudited)			December 31, 2013		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
		Asset	Liability		Asset	Liability
Pay fixed interest rate swaps	\$ 690	\$	\$ (11)	\$ 705	\$	\$ (16)
Interest rate caps	180,496	370		130,672	102	
Total	\$ 181,186	\$ 370	\$ (11)	\$ 131,377	\$ 102	\$ (16)

The changes in the fair value of Armada Hoffler's derivatives during the three and nine months ended September 30, 2014 and 2013 comprised the following (in thousands):

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2013	
	(Unaudited)			
	2014	2013	2014	2013
Pay fixed interest rate swaps	\$ 4	\$ (2)	\$ 5	\$ 150
Interest rate caps	42	(113)	(128)	(109)
Other income (loss)	\$ 46	\$ (115)	\$ (123)	\$ 41

7. Equity**Stockholders' Equity**

On September 15, 2014, the Company completed an underwritten public offering of 5,750,000 shares of common stock at \$9.05 per share. The net proceeds to the Company after deducting the underwriting discount and related offering costs were \$49.3 million, which the Company used to repay a portion of the amount outstanding under the credit facility.

As of September 30, 2014 and December 31, 2013, the Company's authorized capital was 500 million shares of common stock and 100 million shares of preferred stock. The Company had 25.0 million and 19.2 million shares of common stock issued and outstanding as of September 30, 2014 and December 31, 2013, respectively. No shares of preferred stock were issued and outstanding as of September 30, 2014 or December 31, 2013.

Noncontrolling Interests

As of September 30, 2014 and December 31, 2013, the Company held a 62.9% and 59.5% interest in the Operating Partnership, respectively. As the sole general partner and the majority interest holder, the Company consolidates the financial position and results of operations of the Operating Partnership. Noncontrolling interests in the Company represent common units of the Operating Partnership not held by the Company.

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

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

On August 15, 2014, the Operating Partnership issued 990,952 common units as partial consideration for the acquisition of Dimmock Square.

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Common Stock Dividends and Common Unit Distributions

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

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

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

On August 4, 2014, the Company's Board of Directors declared a cash dividend/distribution of \$0.16 per share/unit payable on October 9, 2014 to common stockholders and common unitholders of record on October 1, 2014.

Subsequent to September 30, 2014

On October 9, 2014, the Company paid cash dividends of \$4.0 million to common stockholders and cash distributions of \$2.4 million to common unitholders.

On November 10, 2014, the Company's Board of Directors declared a cash dividend/distribution of \$0.16 per share/unit payable on January 8, 2015 to common stockholders and common unitholders of record on December 30, 2014.

8. *Stock-Based Compensation*

On March 3, 2014, the Company granted 99,289 shares of restricted stock to employees with a grant date fair value of \$9.94 per share. These restricted stock awards to employees vest over a period of two years: one-third immediately on the grant date and the remaining two-thirds in equal amounts on the first two anniversaries following the grant date, subject to continued service to the Company.

During the nine months ended September 30, 2014, the Company granted 28,761 shares of restricted stock to directors with a weighted average grant date fair value of \$9.57 per share. These restricted stock awards to directors vest either immediately upon grant or over a period of one year, subject to continued service to the Company.

During the three and nine months ended September 30, 2014, the Company recognized \$0.3 million and \$1.2 million, respectively, of stock-based compensation using the accelerated attribution method. As of September 30, 2014, there were 143,585 nonvested restricted shares outstanding; the total unrecognized compensation related to nonvested restricted shares was \$0.7 million, which the Company expects to recognize over the next 17 months.

Table of Contents**9. Fair Value of Financial Instruments**

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

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

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

Level 3 Inputs unobservable inputs

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

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

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

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

The carrying amounts and fair values of our financial instruments, all of which are based on Level 2 inputs, as of September 30, 2014 and December 31, 2013 were as follows (in thousands):

	September 30, 2014		December 31, 2013	
	Carrying	Fair	Carrying	Fair
	Value	Value	Value	Value
	(Unaudited)			
Secured debt	\$ 335,792	\$ 342,414	\$ 277,745	\$ 273,310
Interest rate swap liabilities	11	11	16	16
Interest rate cap assets	370	370	102	102

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10. Related Party Transactions

Armada Hoffler provides general contracting and real estate services to certain related party entities that are not included in these consolidated and combined financial statements. Revenue from construction contracts with related party entities of Armada Hoffler was \$1.1 million and \$5.0 million for the three and nine months ended September 30, 2014, respectively. Fees from such contracts were less than \$0.1 million and \$0.3 million for the three and nine months ended September 30, 2014, respectively. Revenue from construction contracts with related party entities of Armada Hoffler was \$10.6 million and \$35.7 million for the three and nine months ended September 30, 2013, respectively. Fees from such contracts were \$0.3 million and \$1.1 million for the three and nine months ended September 30, 2013, respectively. Real estate services fees from affiliated entities of Armada Hoffler were not significant for either the three or nine months ended September 30, 2014 or 2013. Affiliated entities also reimburse Armada Hoffler for monthly maintenance and facilities management services provided to the properties. Cost reimbursements earned by Armada Hoffler from affiliated entities were not significant for either the three or nine months ended September 30, 2014 or 2013.

11. Commitments and Contingencies

Legal Proceedings

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

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

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

Commitments

Armada Hoffler has a bonding line of credit for its general contracting construction business and is contingently liable under performance and payment bonds, bonds for cancellation of mechanics liens and defect bonds. Such bonds collectively totaled \$193.4 million and \$35.8 million as of September 30, 2014 and December 31, 2013, respectively.

The Operating Partnership has entered into standby letters of credit using the available capacity under the credit facility. The letters of credit relate to the guarantee of future performance on certain of the Company's construction contracts. Letters of credit generally are available for draw down in the event the Company does not perform. As of September 30, 2014 and December 31, 2013, the Operating Partnership had total outstanding letters of credit of \$11.0 million and \$3.0 million, respectively.

12. Subsequent Events

As discussed in Note 4, the Company entered into a non-binding letter of intent to sell the Sentara Williamsburg office property for approximately \$15.4 million.

As discussed in Note 5, the Operating Partnership borrowed \$10.0 million under the credit facility on October 15, 2014 and repaid the North Point Center Note 4 for \$1.0 million on November 3, 2014.

As discussed in Note 7, the Company paid cash dividends of \$4.0 million to common stockholders and \$2.4 million to common unitholders on October 9, 2014. The Company's Board of Directors declared a cash dividend/distribution of \$0.16 per share/unit on November 10, 2014 to common stockholders and common unitholders of record on December 30, 2014.

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Review Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders of

Armada Hoffler Properties, Inc.

We have reviewed the condensed consolidated balance sheet of Armada Hoffler Properties, Inc. (successor to the entities described in Note 1) as of September 30, 2014, and the related condensed consolidated and combined statements of income for the three and nine-month periods ended September 30, 2014 and 2013, the condensed consolidated and combined statements of cash flows for the nine-month periods ended September 30, 2014 and 2013 and the condensed consolidated statement of equity for the nine-month period ended September 30, 2014. These financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Armada Hoffler Properties, Inc. as of December 31, 2013, and the related consolidated and combined statements of income, equity, and cash flows for the year then ended (not presented herein) and we expressed an unqualified audit opinion on those consolidated and combined financial statements in our report dated March 31, 2014. In our opinion, the accompanying condensed consolidated balance sheet as of December 31, 2013, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Richmond, Virginia

November 12, 2014

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

References to we, our, us, and our company refer to Armada Hoffler Properties, Inc., a Maryland corporation, together with our consolidated subsidiaries, including Armada Hoffler, L.P., a Virginia limited partnership, of which we are the sole general partner and to which we refer to in this Quarterly Report on Form 10-Q as our Operating Partnership.

Forward-Looking Statements

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

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

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

our failure to develop the properties in our 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;

general economic conditions;

financial market fluctuations;

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

the competitive environment in which we operate;

decreased rental rates or increased vacancy rates;

conflicts of interests with our officers and directors;

lack or insufficient amounts of insurance;

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

other factors affecting the real estate industry generally;

our failure to 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.

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

Business Description

We are a full-service real estate company with extensive experience developing, building, owning and managing high-quality, institutional-grade office, retail and multifamily properties in attractive markets throughout the Mid-Atlantic United States.

We generally consider a property to be stabilized when it reaches 80% occupancy or three years after acquisition or completion. As of September 30, 2014, our stabilized operating property portfolio comprised seven office properties and 16 retail properties aggregating over 2.1 million net rentable square feet as well as two multifamily properties aggregating 626 apartment units. In addition to our stabilized operating property portfolio, we had four office properties and four retail properties aggregating over 0.6 million net rentable square feet as well as two multifamily properties aggregating 489 apartment units that were under development/redevelopment or had not yet reached stabilization as of the date of this Quarterly Report on Form 10-Q.

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

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

The results of operations of the properties and entities acquired by us in connection with our IPO and the Formation Transactions are included in our results beginning on May 13, 2013. Accordingly, the results of operations for the nine months ended September 30, 2013 reflect those of our Predecessor together with our company. The results of operations for the three months ended September 30, 2013 and the three and nine months ended September 30, 2014 reflect those of our company.

Third Quarter 2014 Highlights

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Net income of \$2.8 million, or \$0.08 per share, for the three months ended September 30, 2014, compared to \$1.3 million, or \$0.04 per share, for the corresponding period in 2013.

Funds from operations (FFO) of \$7.3 million, or \$0.21 per share, for the three months ended September 30, 2014, compared to \$5.2 million, or \$0.16 per share, for the corresponding period in 2013. See Non-GAAP Financial Measures.

Maintained stabilized operating property portfolio occupancy at 95.1% as of September 30, 2014, compared to 94.6% as of June 30, 2014, 94.5% as of March 31, 2014 and 94.4% as of December 31, 2013.

Stabilized occupancy by segment as of September 30, 2014 compared to September 30, 2013:

Office occupancy at 94.8% compared to 93.4%

Retail occupancy at 94.7% compared to 93.6%

Multifamily occupancy at 96.6% compared to 92.7%

Increased net operating income across all segments compared to the third quarter of 2013.

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Increased same store net operating income across all segments compared to the third quarter of 2013.

Generated \$12.3 million of net cash from operations.

Invested \$29.4 million in new real estate development.

Third party construction backlog of \$153.5 million as of September 30, 2014.

Completed an underwritten public offering of 5,750,000 shares of common stock raising net proceeds of \$49.3 million that was used to repay a portion of the amount outstanding under the credit facility.

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Development Pipeline

As of the date of this Quarterly Report on Form 10-Q, our development pipeline consisted of the following (\$ in thousands):

Location	Estimated Size ⁽¹⁾	Estimated Cost ⁽¹⁾	Cost Incurred		Schedule			AHH Ownership % ⁽¹⁾	Property Type	Anchor Tenant
			through Sept 30, 2014	Start	Anchor Tenant Occupancy	Stabilized Operation				
Chesapeake, VA	155,000 sf	\$ 26,000	\$ 16,000	4Q13	1Q15	1Q15	100%	Office	Ocean	
Virginia Beach, VA	70,000 sf	13,000	8,000	4Q13	1Q15	4Q15	100%	Retail	Harris	
Chesapeake, VA	36,000 sf	7,000	4,000	2Q14	1Q15	1Q15	100%	Office	Comm	
Virginia Beach, VA	11,000 sf	3,000	2,000	2Q14	1Q15	1Q15	100%	Office	Comm	
Williamsburg, VA	88,000 sf	24,000	9,000	3Q14	1Q16	2Q17	60% ⁽²⁾	Retail	Harris	
		\$ 73,000	\$ 39,000							

Location	Estimated Size ⁽¹⁾	Estimated Cost ⁽¹⁾	Cost Incurred		Schedule			AHH Ownership % ⁽¹⁾	Property Type	Anchor Tenant
			through Sept 30, 2014	Start	Initial Occupancy	Stabilized Operation				
Virginia Beach, VA	239,000 sf	\$ 50,000	\$ 40,000	1Q13	3Q14	1Q16	100%	Office	Anthro	
Chesapeake, VA	18,000 sf	6,000	5,000	4Q13	3Q14	3Q15	100%	Retail	W	
Virginia Beach, VA	286 units	34,000	28,000	1Q13	3Q14	4Q15	100%	Multifamily	N	
Durham, NC	203 units	28,000	25,000	2Q13	3Q14	4Q15	100%	Multifamily	N	
		\$ 118,000	\$ 98,000							

Location	Estimated Size ⁽¹⁾	Estimated Cost ⁽¹⁾	Cost Incurred		Schedule		Anchor Tenant	% Leased
			through Sept 30, 2014	Start	Complete ⁽¹⁾	Property Type		

(3)	Virginia Beach, VA	20,000 sf	\$ 2,000	\$ 1,000	1Q14	4Q14	Retail	USI Insurance Services	100%
			\$ 193,000	\$ 138,000					

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- (1) Represents estimates that may change as the development process proceeds.
 - (2) We are entitled to a preferred return on equity prior to any distributions to minority partners.
 - (3) Located in the Town Center of Virginia Beach.
 - (4) Approximately 83,000 square feet occupied by Clark Nexsen, approximately 23,000 square feet occupied by the City of Virginia Beach Development Authority and approximately 9,000 square feet occupied by Anthropologie.
- In addition to the projects in our development pipeline, we have been selected by Johns Hopkins University to join in the redevelopment of a 1.12 acre property adjacent to the university's Homewood campus in Baltimore, Maryland. This mixed-use development will include student housing, retail space, restaurants and parking. The goal of the completed project will be to complement the Homewood campus and nearby Charles Village neighborhood and provide a catalyst for future development in the area. The Johns Hopkins project continues to move forward with a ground lease having been executed and the schematic design phase well under way.

We had previously identified Brooks Crossing among the projects in our development pipeline. Brooks Crossing is a multi-building, multi-phase partnership with the City of Newport News. The City of Newport News has now indicated that it intends to purchase the first building upon completion. As a result, we have removed Brooks Crossing from the preceding table, but continue to work with the City of Newport News on potential future phases of the project.

Our execution on all of the projects identified in the preceding table and the Johns Hopkins project are subject to, among other factors, regulatory approvals, financing availability and suitable market conditions.

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

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

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

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

4525 Main Street is our most recent addition to the Town Center of Virginia Beach and is located at the intersection of Main Street and Town Center Drive across from The Cosmopolitan, One Columbus and Armada Hoffler Tower. This 15-story office tower is anchored by Clark Nexsen, an international architecture and engineering firm, to whom we delivered approximately 83,000 square feet of office space on schedule in July 2014. Additionally, we delivered to the City of Virginia Beach Development Authority approximately 23,000 square feet of office space on schedule in June 2014. 4525 Main Street also features approximately 26,000 square feet of ground floor retail space anchored by Anthropologie, which opened in October 2014. All of the remaining retail space is under lease by West Elm and Tupelo Honey Cafe.

Greentree Shopping Center is a retail power center that will feature a Wawa convenience store and gas station adjacent to a new Walmart Neighborhood Market. We delivered to Walmart their pad-ready site on schedule in the first quarter of 2014. We have a long-term ground lease with Wawa and delivered their pad on schedule in May 2014. We delivered the remaining retail space in October 2014.

Encore Apartments are also located in the Town Center of Virginia Beach adjacent to 4525 Main Street. Encore Apartments feature free covered parking, a private pool, concierge service, a business center and meeting space. We delivered the first units at Encore Apartments in September 2014.

Whetstone Apartments is Durham, North Carolina's newest urban community and is conveniently located near Duke University. We delivered the initial units at Whetstone Apartments in September 2014.

Dick's at Town Center: In September 2014, we executed a lease with USI Insurance Services for the space that we are currently renovating and expanding adjacent to Dick's Sporting Goods in the Town Center of Virginia Beach. We expect to deliver the redeveloped 20,000 square feet of office space in the fourth quarter of 2014.

Acquisitions

On January 17, 2014, we completed our acquisition of Liberty Apartments for total consideration of \$26.7 million, consisting of 695,652 common units of limited partner interest in our Operating Partnership, \$3.0 million of cash and the assumption of \$17.0 million of debt. Liberty Apartments are located in Newport News, Virginia, next to another one of our public/private partnership projects the Newport News Apprentice School of Shipbuilding. In addition to 197 apartment units, Liberty Apartments also feature approximately 28,000 square feet of retail space.

On August 15, 2014, we completed our acquisition of Dimmock Square for total consideration of \$19.7 million, consisting of 990,952 common units of limited partner interest in our Operating Partnership and \$10.1 million of cash that we used to immediately defease the loan secured by the property. Dimmock Square is a 100% occupied 106,166 square foot retail center located in Colonial Heights, Virginia. The center is anchored by Old Navy, Best Buy and Pier 1 Imports.

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Dispositions

On July 30, 2014, we entered into a non-binding letter of intent to sell the Virginia Natural Gas office property for approximately \$8.9 million of cash. We expect to enter into a purchase and sale agreement and complete the disposition in 2014.

On October 2, 2014, we entered into a non-binding letter of intent to sell the Sentara Williamsburg office property for approximately \$15.4 million of cash. We expect to enter into a purchase and sale agreement and complete the disposition in 2014.

Segment Results of Operations

As of September 30, 2014, we operated our business in four segments: (i) office real estate, (ii) retail real estate, (iii) multifamily residential real estate and (iv) general contracting and real estate services, which are conducted through our taxable REIT subsidiaries (TRSs). Net operating income (segment revenues minus segment expenses) or NOI is the measure used by management to assess segment performance and allocate our resources among our segments. See Note 3 to Armada Hoffler Properties, Inc. and Predecessor s condensed consolidated and combined financial statements for additional discussion of our segments.

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

Table of Contents**Office Segment Data**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(\$ in thousands)			
Rental revenues	\$ 7,295	\$ 6,364	\$ 20,363	\$ 19,270
NOI	\$ 4,944	\$ 4,283	\$ 13,910	\$ 13,303
Properties (1)	7	7	7	7
Square feet (1)	949,789	954,594	949,789	954,594
Occupancy (1)	94.8%	93.4%	94.8%	93.4%

(1) Stabilized properties as of the end of the periods presented.

Rental revenues for the three and nine months ended September 30, 2014 increased \$0.9 million and \$1.1 million, respectively, compared to the corresponding periods in 2013. NOI for the three months and nine months ended September 30, 2014 increased \$0.7 million and \$0.6 million, respectively, compared to the corresponding periods in 2013. The increases in rental revenues and NOI for the comparison periods resulted from the delivery and initial occupancy of our new 4525 Main Street office tower and higher occupancy at Two Columbus.

Office Same Store Results

Office same store rental revenues, property expenses and NOI for the three and nine months ended September 30, 2014 and 2013 were as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	(1) 2014	2013	Change	2014 (1)	2013	Change
	(\$ in thousands)					
Rental revenues	\$ 6,623	\$ 6,364	\$ 259	\$ 19,645	\$ 19,270	\$ 375
Property expenses	2,139	2,081	58	6,242	5,967	275
Same store NOI	\$ 4,484	\$ 4,283	\$ 201	\$ 13,403	\$ 13,303	\$ 100
Non-same store NOI	460		460	507		507
Segment NOI	\$ 4,944	\$ 4,283	\$ 661	\$ 13,910	\$ 13,303	\$ 607

(1) Same store excludes 4525 Main Street, which had not yet reached stabilization as of September 30, 2014.

Same store rental revenues for the three months and nine months ended September 30, 2014 increased \$0.3 million and \$0.4 million, respectively, compared to the corresponding periods in 2013. Same store NOI for the three and nine months ended September 30, 2014 increased \$0.2 million and \$0.1 million, respectively, compared to the corresponding periods in 2013. The increases in same store rental revenues and NOI for the comparison periods resulted from higher occupancy at Two Columbus.

Table of Contents**Retail Segment Data**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(\$ in thousands)			
Rental revenues	\$ 6,086	\$ 5,683	\$ 17,559	\$ 16,071
NOI	\$ 4,291	\$ 3,938	\$ 12,249	\$ 11,017
Properties (1)	16	15	16	15
Square feet (1)	1,198,207	1,093,319	1,198,207	1,093,319
Occupancy (1)	94.7%	93.6%	94.7%	93.6%

(1) Stabilized properties as of the end of the periods presented.

Rental revenues and NOI for the three months ended September 30, 2014 both increased \$0.4 million compared to the corresponding period in 2013. The increases in rental revenues and NOI resulted primarily from our acquisition of Dimmock Square on August 15, 2014 and higher occupancy in the South Retail section of the Town Center of Virginia Beach.

Rental revenues and NOI for the nine months ended September 30, 2014 increased \$1.5 million and \$1.2 million, respectively, compared to the corresponding period in 2013. The increases in rental revenues and NOI resulted primarily from our consolidation of Bermuda Crossroads upon completion of our IPO and Formation Transactions on May 13, 2013 and our acquisition of Dimmock Square on August 15, 2014.

Retail Same Store Results

Retail same store rental revenues, property expenses and NOI for the three and nine months ended September 30, 2014 and 2013 were as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014 (1)	2013	Change	2014 (1)(2)	2013 (2)	Change
	(\$ in thousands)					
Rental revenues	\$ 5,765	\$ 5,683	\$ 82	\$ 15,625	\$ 15,299	\$ 326
Property expenses	1,739	1,745	(6)	4,901	4,899	2
Same store NOI	\$ 4,026	\$ 3,938	\$ 88	\$ 10,724	\$ 10,400	\$ 324
Non-same store NOI	265		265	1,525	617	908
Segment NOI	\$ 4,291	\$ 3,938	\$ 353	\$ 12,249	\$ 11,017	\$ 1,232

- (1) Same store excludes Dimmock Square, which we acquired on August 15, 2014, and Greentree Shopping Center, which had not reached stabilization as of September 30, 2014.
- (2) Same store excludes Bermuda Crossroads, which was an unconsolidated property prior to May 13, 2013. Same store rental revenues and NOI for the three months ended September 30, 2014 both increased \$0.1 million compared to the corresponding period in 2013 because of higher occupancy in the South Retail section of the Town Center of Virginia Beach and higher occupancy at Gainsborough Square.

Same store rental revenues and NOI for the nine months ended September 30, 2014 both increased \$0.3 million compared to the corresponding period in 2013 because of higher occupancy at North Point Center, Gainsborough Square and Fountain Plaza, as well as increased percentage rent from 249 Central Park Retail.

Table of Contents**Multifamily Segment Data**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(\$ in thousands)			
Rental revenues	\$ 3,332	\$ 2,852	\$ 9,303	\$ 7,187
NOI	\$ 1,584	\$ 1,521	\$ 4,605	\$ 3,963
Properties (1)	2	2	2	2
Apartment units (1)	626	626	626	626
Occupancy (1)	96.6%	92.7%	96.6%	92.7%

(1) Stabilized properties as of the end of the periods presented.

Rental revenues and NOI for the three months ended September 30, 2014 increased \$0.5 million and \$0.1 million, respectively, compared to the corresponding period in 2013. The increases in rental revenues and NOI resulted from higher occupancy at The Cosmopolitan and our acquisition of Liberty Apartments on January 17, 2014. Our delivery of the initial units at Encore Apartments in September 2014 also contributed to the increase in rental revenues.

Rental revenues and NOI for the nine months ended September 30, 2014 increased \$2.1 million and \$0.6 million, respectively, compared to the corresponding period in 2013. The increases in rental revenues and NOI resulted primarily from our consolidation of Smith's Landing upon completion of our IPO and Formation Transactions on May 13, 2013. Our acquisition of Liberty Apartments on January 17, 2014 also contributed to the increase in rental revenues.

Multifamily Same Store Results

Multifamily same store rental revenues, property expenses and NOI for the three and nine months ended September 30, 2014 and 2013 were as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014 (1)	2013	Change	2014 (1)(2)	(2)	Change
	(\$ in thousands)					
Rental revenues	\$ 2,979	\$ 2,852	\$ 127	\$ 5,752	\$ 5,684	\$ 68
Property expenses	1,386	1,331	55	2,661	2,558	103
Same store NOI	\$ 1,593	\$ 1,521	\$ 72	\$ 3,091	\$ 3,126	\$ (35)
Non-same store NOI	(9)		(9)	1,514	837	677
Segment NOI	\$ 1,584	\$ 1,521	\$ 63	\$ 4,605	\$ 3,963	\$ 642

- (1) Same store excludes Liberty Apartments, which we acquired on January 17, 2014, and both Encore Apartments and Whetstone Apartments, neither of which had reached stabilization as of September 30, 2014.
 - (2) Same store excludes Smith's Landing, which was an unconsolidated property prior to May 13, 2013.
- Same store rental revenues and NOI for the three months ended September 30, 2014 both increased \$0.1 million compared to the corresponding period in 2013 because of higher occupancy at The Cosmopolitan.

Same store rental revenues for the nine months ended September 30, 2014 increased \$0.1 million compared to the corresponding period in 2013 because of higher occupancy at The Cosmopolitan. Same store NOI for the nine months ended September 30, 2014 was relatively unchanged compared to the corresponding period in 2013.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	(\$ in thousands)			
Segment revenues	\$ 31,532	\$ 21,896	\$ 71,261	\$ 63,143
NOI	1,064	989	3,454	2,275
Operating margin	3.4%	4.5%	4.8%	3.6%

Segment revenues for the three and nine months ended September 30, 2014 increased \$9.6 million and \$8.1 million, respectively, compared to the corresponding periods in 2013. The increase in segment revenues resulted from higher volume on our construction contracts. NOI for the three and nine months ended September 30, 2014 increased \$0.1 million and \$1.2 million, respectively, compared to the corresponding periods in 2013. Our increased volume in the third quarter of 2014 helped to offset the slight decrease in operating margin compared to the third quarter of 2013. However, for the year-to-date period, we continue to experience better operating margins on our construction contracts during 2014 compared to 2013.

Backlog as of September 30, 2014 was \$153.5 million compared to \$59.5 million as of September 30, 2013. We executed \$5.9 million and \$177.9 million of new contract or change order work during the three and nine months ended September 30, 2014, respectively. The changes in backlog for the three and nine months ended September 30, 2014 were as follows:

	Three Months Ended	Nine Months Ended
	September 30, 2014	September 30, 2014
	(\$ in thousands)	
Beginning backlog	\$ 178,987	\$ 46,385
New contracts/change orders	5,914	177,895
Work performed	(31,401)	(70,780)
Ending backlog	\$ 153,500	\$ 153,500

During the nine months ended September 30, 2014, we executed a \$166.5 million contract for the construction of Harbor Point, a 900,000 square foot mixed-use tower in Baltimore, Maryland. The building will become headquarters to Exelon's Constellation business unit. Exelon is the nation's leading competitive energy provider. Construction began in the spring of 2014 with completion expected in the spring of 2016. As of September 30, 2014, we had \$143.8 million of backlog on the Harbor Point project.

Table of Contents**Consolidated and Combined Results of Operations**

Because of the timing of our IPO, the results of operations for the three months ended September 30, 2013 and the three and nine months ended September 30, 2014 reflect those of our company while the results of operations for the nine months ended September 30, 2013 reflect those of our Predecessor together with our company.

The following table summarizes the results of operations for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Change	Nine Months Ended September 30,		Change
	2014	2013		2014	2013	
	(\$ in thousands)					
Revenues						
Rental revenues	\$ 16,713	\$ 14,899	\$ 1,814	\$ 47,225	\$ 42,528	\$ 4,697
General contracting and real estate services revenues	31,532	21,896	9,636	71,261	63,143	8,118
Total revenues	48,245	36,795	11,450	118,486	105,671	12,815
Expenses						
Rental expenses	4,414	3,840	574	12,230	10,468	1,762
Real estate taxes	1,480	1,317	163	4,231	3,777	454
General contracting and real estate services expenses	30,468	20,907	9,561	67,807	60,868	6,939
Depreciation and amortization	4,567	3,933	634	12,593	11,112	1,481
General and administrative expenses	1,741	1,638	103	5,768	5,212	556
Acquisition, development and other pursuit costs	174		174	174		174
Impairment charges	15		15	15	533	(518)
Total expenses	42,859	31,635	11,224	102,818	91,970	10,848
Operating income	5,386	5,160	226	15,668	13,701	1,967
Interest expense	(2,734)	(2,598)	(136)	(7,977)	(9,802)	1,825
Loss on extinguishment of debt		(1,127)	1,127		(2,252)	2,252
Gain on acquisitions					9,460	(9,460)
Other income (loss)	59	(109)	168	(23)	343	(366)
Income before taxes	2,711	1,326	1,385	7,668	11,450	(3,782)
Income tax benefit (provision)	43	(74)	117	(135)	137	(272)
Net income	\$ 2,754	\$ 1,252	\$ 1,502	\$ 7,533	\$ 11,587	\$ (4,054)

Rental Revenues. Rental revenues for the three and nine months ended September 30, 2014 increased \$1.8 million and \$4.7 million, respectively, compared to the corresponding periods in 2013, as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	Change	2014	2013	Change
	(\$ in thousands)					
Office	\$ 7,295	\$ 6,364	\$ 931	\$ 20,363	\$ 19,270	\$ 1,093
Retail	6,086	5,683	403	17,559	16,071	1,488
Multifamily	3,332	2,852	480	9,303	7,187	2,116
	\$ 16,713	\$ 14,899	\$ 1,814	\$ 47,225	\$ 42,528	\$ 4,697

Office rental revenues increased during the three and nine months ended September 30, 2014 compared to the corresponding periods in 2013 because of the delivery and initial occupancy of our new 4525 Main Street office tower and higher occupancy at Two Columbus.

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Retail rental revenues increased during the three months ended September 30, 2014 compared to the corresponding period in 2013 because of our acquisition of Dimmock Square on August 15, 2014 and higher occupancy in the South Retail section of the Town Center of Virginia Beach. Retail rental revenues increased during the nine months ended September 30, 2014 compared to the corresponding period in 2013 because of our consolidation of Bermuda Crossroads on May 13, 2013 and our acquisition of Dimmock Square on August 15, 2014.

Multifamily rental revenues increased during the three months ended September 30, 2014 compared to the corresponding period in 2013 because of higher occupancy at The Cosmopolitan, our acquisition of Liberty Apartments on January 17, 2014 and our delivery of the initial units at Encore Apartments in September 2014. Multifamily rental revenues increased during the nine months ended September 30, 2014 compared to the corresponding period in 2013 because of our consolidation of Smith's Landing on May 13, 2013 and our acquisition of Liberty Apartments on January 17, 2014.

General Contracting and Real Estate Services Revenues. General contracting and real estate services revenues increased during the three and nine months ended September 30, 2014 compared to the corresponding periods in 2013 primarily because of higher volume on our construction contracts.

Rental Expenses. Rental expenses for the three and nine months ended September 30, 2014 increased \$0.6 million and \$1.8 million, respectively, compared to the corresponding periods in 2013, as follows:

	Three Months Ended			Nine Months Ended		
	September 30, 2014	2013	Change	September 30, 2014	2013	Change
	(\$ in thousands)					
Office	\$ 1,742	\$ 1,536	\$ 206	\$ 4,756	\$ 4,341	\$ 415
Retail	1,255	1,230	25	3,764	3,593	171
Multifamily	1,417	1,074	343	3,710	2,534	1,176
	\$ 4,414	\$ 3,840	\$ 574	\$ 12,230	\$ 10,468	\$ 1,762

Office rental expenses increased during the three and nine months ended September 30, 2014 compared to the corresponding periods in 2013 because of the initial operation of 4525 Main Street. Office rental expenses for the nine months ended September 30, 2014 were also impacted by higher asset management costs due to increased headcount.

Retail rental expenses increased during the three months ended September 30, 2014 compared to the corresponding period in 2013 because of our acquisition of Dimmock Square on August 15, 2014. Retail rental expenses increased during the nine months ended September 30, 2014 compared to the corresponding period in 2013 primarily because of our consolidation of Bermuda Crossroads on May 13, 2013.

Multifamily rental expenses increased during the three months ended September 30, 2014 compared to the corresponding period in 2013 because of our acquisition of Liberty Apartments on January 17, 2014. Multifamily rental expenses increased during the nine months ended September 30, 2014 compared to the corresponding period in 2013 because of our consolidation of Smith's Landing on May 13, 2013 as well as our acquisition of Liberty Apartments.

Real Estate Taxes. Real estate taxes for the three and nine months ended September 30, 2014 increased \$0.2 million and \$0.5 million, respectively, compared to the corresponding periods in 2013, as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	Change	2014	2013	Change
	(\$ in thousands)					
Office	\$ 609	\$ 545	\$ 64	\$ 1,697	\$ 1,626	\$ 71
Retail	540	515	25	1,546	1,461	85
Multifamily	331	257	74	988	690	298
	\$ 1,480	\$ 1,317	\$ 163	\$ 4,231	\$ 3,777	\$ 454

Office real estate taxes increased during the three and nine months ended September 30, 2014 compared to the corresponding periods in 2013 because of the initial operation of 4525 Main Street.

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Retail real estate taxes increased during the three months ended September 30, 2014 compared to the corresponding period in 2013 because of our acquisition of Dimmock Square on August 15, 2014. Retail real estate taxes increased during the nine months ended September 30, 2014 compared to the corresponding period in 2013 because of our consolidation of Bermuda Crossroads on May 13, 2013 as well as our acquisition of Dimmock Square.

Multifamily real estate taxes increased during the three months ended September 30, 2014 compared to the corresponding period in 2013 because of our acquisition of Liberty Apartments on January 17, 2014. Multifamily real estate taxes increased during the nine months ended September 30, 2014 compared to the corresponding period in 2013 because of our consolidation of Smith's Landing on May 13, 2013 as well as our acquisition of Liberty Apartments.

General Contracting and Real Estate Services Expenses. General contracting and real estate services expenses increased during the three and nine months ended September 30, 2014 compared to the corresponding periods in 2013 because of higher volume on our construction contracts.

Depreciation and Amortization. Depreciation and amortization increased during the three and nine months ended September 30, 2014 compared to the corresponding periods in 2013 because of our acquisitions of Liberty Apartments on January 17, 2014 and Dimmock Square on August 15, 2014 as well as the initial operation of 4525 Main Street. Our consolidation of Bermuda Crossroads on May 13, 2013 also contributed to the increase in depreciation and amortization for the nine months ended September 30, 2014.

General and Administrative Expenses. General and administrative expenses increased during the three months ended September 30, 2014 compared to the corresponding period in 2013 because of higher back office and IT infrastructure costs. General and administrative expenses increased during the nine months ended September 30, 2014 compared to the corresponding period in 2013 because of higher regulatory and compliance costs incurred to operate as a public company.

Acquisition, Development and Other Pursuit Costs. During the three and nine months ended September 30, 2014, we recognized \$0.2 million of acquisition, development and other pursuit costs related primarily to our acquisition of Dimmock Square.

Impairment Charges. Impairment charges for the three and nine months ended September 30, 2014 were nominal. We recognized impairment charges of \$0.5 million during the three and nine months ended September 30, 2013 resulting from two retail tenants that vacated prior to their lease expiration. The impairment charge consisted of unamortized deferred leasing costs and lease incentives related to these two tenants.

Interest Expense. Interest expense increased during the three months ended September 30, 2014 compared to the corresponding period in 2013 because of our acquisition of Liberty Apartments and assumption of \$17.0 million of debt secured by the property as well as the initial operation of 4525 Main Street. Interest expense decreased during the nine months ended September 30, 2014 because we repaid \$174.7 million of debt secured by our stabilized portfolio during 2013. The decrease in interest expense was partially offset by our assumption of \$25.0 million of debt secured by Smith's Landing and \$17.0 million of debt secured by Liberty Apartments.

Loss on Extinguishment of Debt. During the three months September 30, 2013, we recognized costs of \$1.1 million for the defeasance of the loan secured by One Columbus. During the nine months ended September 30, 2013, we also recognized a \$1.1 million loss on the extinguishment of \$150.0 million of debt using a portion of the net proceeds from our IPO and borrowings under our credit facility.

Gain on Acquisitions. We accounted for our acquisition of controlling interests in Bermuda Crossroads and Smith's Landing as purchases at fair value under the acquisition method of accounting in accordance with GAAP. As a result, we recognized a \$9.5 million gain on acquisitions representing the difference between the fair value and carrying value of our Predecessor's prior noncontrolling equity interests in Bermuda Crossroads and Smith's Landing.

Other Income (Loss). Other income (loss) increased during the three months ended September 30, 2014 compared to the corresponding period in 2013 because of positive mark-to-market adjustments on our interest rate derivatives. Other income (loss) decreased during the nine months ended September 30, 2014 compared to the corresponding period in 2013 because of our consolidation of Bermuda Crossroads and Smith's Landing on May 13, 2013. We previously accounted for our noncontrolling interests in both Bermuda Crossroads and Smith's Landing under the equity method and presented our earnings from each within other income. Negative mark-to-market adjustments on our interest rate derivatives also contributed to the decrease in other income (loss) during the nine months ended September 30, 2014.

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Income Tax Benefit (Provision). Prior to the completion of our IPO on May 13, 2013, we made no provision for U.S. federal, state or local income taxes because the profits and losses of our Predecessor flowed through to its respective partners, members and shareholders who were individually responsible for reporting such amounts. Subsequent to the completion of our IPO, our TRSs through which we conduct our development and construction business are subject to federal, state and local corporate income taxes. The income tax benefit (provision) recognized during the three and nine months ended September 30, 2014 and 2013 is attributable to the taxable profits or losses of our TRSs.

Liquidity and Capital Resources

Overview

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

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

As of September 30, 2014, we had unrestricted cash and cash equivalents of \$17.1 million and restricted cash in escrow of \$4.4 million available for both current liquidity needs as well as development activities. As of September 30, 2014, we had \$90.0 million available under our credit facility to meet our short-term liquidity requirements.

Credit Facility

On May 13, 2013, we closed on a \$100.0 million senior secured credit facility that includes an accordion feature that allows us to increase the borrowing capacity under the facility up to \$250.0 million, subject to certain conditions. On October 10, 2013, we increased the borrowing capacity under the credit facility to \$155.0 million pursuant to the accordion feature by adding six properties to the borrowing base collateral. As of September 30, 2014, the following ten properties collectively served as the borrowing base collateral for the credit facility: (i) Armada Hoffler Tower, (ii) Richmond Tower, (iii) One Columbus, (iv) Two Columbus, (v) Virginia Natural Gas, (vi) Sentara Williamsburg, (vii) a portion of North Point Center, (viii) Gainsborough Square, (ix) Parkway Marketplace and (x) Courthouse 7-Eleven.

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

The credit facility bears interest at LIBOR plus 1.60% to 2.20%, depending on our total leverage ratio. As of September 30, 2014, the interest rate on the credit facility was LIBOR plus 1.95%. In addition to interest owed under the credit facility, we are obligated to pay an annual fee based on the average unused portion of the credit facility. This

fee is payable quarterly in arrears and is 0.25% of the amount of the unused portion of the credit facility if amounts borrowed are greater than 50% of the credit facility and 0.30% of the unused portion of the credit facility if amounts borrowed are less than 50% of the credit facility.

As of September 30, 2014, we had \$54.0 million borrowed under the credit facility and had standby letters of credit issued under the credit facility totaling \$11.0 million. As of September 30, 2014, we had \$90.0 million of aggregate capacity available under the credit facility. On October 15, 2014, we borrowed an additional \$10.0 million under the credit facility.

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

Maximum leverage ratio (as amended on April 22, 2014) of 65% as of the last day of each fiscal quarter through maturity;

Minimum fixed charge coverage ratio of 1.75x;

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Minimum tangible net worth equal to at least the sum of 80% of tangible net worth on the closing date of the credit facility plus 75% of the net proceeds of any additional equity issuances;

Maximum amount of variable rate indebtedness not exceeding 30% of our total asset value; and

Maximum amount of secured recourse indebtedness of 35% of our total asset value.

The credit facility permits investments in the following types of assets: (i) unimproved land holdings in an aggregate amount not exceeding 5% of our total asset value, (ii) construction in progress in an aggregate amount not exceeding 25% of our total asset value and (iii) unconsolidated affiliates in an aggregate amount not exceeding 5% of our total asset value. Investments in these types of assets cannot collectively exceed 30% of our total asset value. In addition to these financial covenants, the credit facility requires us to comply with various customary affirmative and negative covenants that restrict our ability to, among other things, incur debt and liens, make investments, dispose of properties and make distributions.

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

Table of Contents*Consolidated Indebtedness*

The following table sets forth our consolidated indebtedness as of September 30, 2014 (\$ in thousands):

	Amount Outstanding	Interest Rate (1)	Effective Rate for Variable-Rate Debt as of September 30, 2014	Maturity Date	Balance at Maturity
Oyster Point	\$ 6,323		5.41%	December 1, 2015	\$ 6,089
Broad Creek Shopping Center					
Note 1	4,465	LIBOR+2.25	2.41%	October 31, 2018	4,223
Note 2	8,197	LIBOR+2.25	2.41%	October 31, 2018	7,752
Note 3	3,432	LIBOR+2.25	2.41%	October 31, 2018	3,246
Hanbury Village					
Note 1	21,278	6.67		October 11, 2017	20,499
Note 2	4,108	LIBOR+2.25	2.41%	October 31, 2018	3,777
Harrisonburg Regal North Point Center	3,706	6.06		June 8, 2017	3,165
Note 1	10,193	6.45		February 5, 2019	9,333
Note 2	2,775	7.25		September 15, 2025	1,344
Note 4	1,011	5.59		December 1, 2014	1,007
Note 5	690	LIBOR+2.00	3.57%(2)	February 1, 2017	641
Tyre Neck Harris Teeter	2,449	LIBOR+2.25	2.41%	October 31, 2018	2,235
249 Central Park Retail	15,635	5.99		September 8, 2016	15,084
South Retail	6,898	5.99		September 8, 2016	6,655
Studio 56 Retail	2,636	3.75		May 7, 2015	2,592
Commerce Street Retail	5,566	LIBOR+2.25	2.41%	October 31, 2018	5,264
Fountain Plaza Retail	7,818	5.99		September 8, 2016	7,542
Dick s at Town Center	8,242	LIBOR+2.75	2.91%	October 31, 2017	7,889
The Cosmopolitan	47,282	3.75		July 1, 2051	
Smith s Landing	24,551	LIBOR+2.15	2.31%	January 31, 2017	23,793
Stabilized Portfolio	\$ 187,255				\$ 132,130
Credit Facility	54,000	LIBOR+1.60-2.20	2.11%	May 13, 2016	54,000
4525 Main Street	29,600	LIBOR+1.95	2.11%	January 30, 2017	29,600
Encore Apartments	19,568	LIBOR+1.95	2.11%	January 30, 2017	19,568
Whetstone Apartments	12,651	LIBOR+1.90	2.06%	October 8, 2016	12,651
Sandbridge Commons	5,092	LIBOR+1.85	2.01%	January 17, 2018	5,092
Oceaneering	7,699	LIBOR+1.75	1.91%	February 28, 2018	7,699
Commonwealth of Virginia Chesapeake	709	LIBOR+1.90	2.06%	August 28, 2017	709

Liberty Apartments	20,673(3)	5.66	November 1, 2043
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Total	\$ 337,247		\$ 261,449
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Unamortized fair value adjustments	(1,455)		
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Indebtedness	\$ 335,792		
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- (1) LIBOR rate is determined by individual lenders.
- (2) Subject to an interest rate swap lock.
- (3) Principal balance excluding fair value adjustments.

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

As of September 30, 2014, our outstanding indebtedness matures during the following years:

Year	Amount Due (\$ in thousands)	Percentage of Total
2014	\$ 1,007	<1%
2015	8,681	3
2016	95,932	37
2017	105,864	40
2018 and thereafter	49,965	19
	\$ 261,449	100%

On November 3, 2014, we repaid the North Point Center Note 4 for \$1.0 million.

Interest Rate Derivatives

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

As of September 30, 2014, we were party to the following LIBOR interest rate cap agreements (\$ in thousands):

Effective Date	Maturity Date	Strike Rate	Notional Amount
May 31, 2012	May 29, 2015	1.09%	\$ 8,950
September 1, 2013	March 1, 2016	3.50%	25,198
September 1, 2013	March 1, 2016	3.50%	37,848
September 1, 2013	March 1, 2016	1.50%	40,000
October 4, 2013	April 1, 2016	1.50%	18,500
March 14, 2014	March 1, 2017	1.25%	50,000
Total			\$ 180,496

As of September 30, 2014, the notional amounts of our LIBOR interest rate cap agreements with strike rates below and above 1.50% were as follows (\$ in thousands):

Strike Rate	Notional Amount
£ 1.50%	\$ 117,450

>1.50%	63,046
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Total	\$ 180,496
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Off-Balance Sheet Arrangements

We have entered into standby letters of credit relating to the guarantee of future performance on certain of our construction contracts. Letters of credit generally are available for draw down in the event we do not perform. As of September 30, 2014, we had aggregate outstanding letters of credit totaling \$11.0 million, which are scheduled to expire during 2014 and 2015. However, we may renew our standby letters of credit for additional periods until completion of the underlying contractual obligation.

Table of Contents**Cash Flows**

	Nine Months Ended September 30,		
	2014	2013	Change
	(\$ in thousands)		
Operating activities	\$ 21,292	\$ 18,188	\$ 3,104
Investing activities	(87,470)	(29,215)	(58,255)
Financing activities	64,397	11,402	52,995
Net (decrease) increase	\$ (1,781)	\$ 375	\$ (2,156)
Cash and cash equivalents, beginning of period	\$ 18,882	\$ 9,400	
Cash and cash equivalents, end of period	\$ 17,101	\$ 9,775	

Net cash from operating activities increased \$3.1 million during the nine months ended September 30, 2014 compared to the corresponding period in 2013. The increase resulted from higher NOI from our office, retail and multifamily segments, higher gross profits from our general contracting and real estate services segment and lower interest costs.

Net cash used in investing activities increased \$58.3 million during the nine months ended September 30, 2014 compared to the corresponding period in 2013. The increase resulted primarily from greater investment in new real estate development. During the nine months ended September 30, 2014, we invested \$77.1 million in the development and construction of the projects in our development pipeline compared to \$24.9 million during the corresponding period in 2013.

Net cash from financing activities increased \$53.0 million during the nine months ended September 30, 2014 compared to the corresponding period in 2013. The increase resulted primarily from lower debt repayments and increased borrowings, partially offset by lower net proceeds from equity offerings. During the nine months ended September 30, 2014, we made debt repayments of \$61.5 million, including \$49.0 million on our credit facility, compared to debt repayments of \$184.6 million during the corresponding period in 2013. We borrowed \$92.4 million on our construction loans and credit facility during the nine months ended September 30, 2014 compared to \$62.7 million during the corresponding period in 2013. On September 15, 2014, we completed an underwritten public offering of 5.75 million shares of common stock raising net proceeds of \$49.3 million. Net proceeds raised from our IPO during the nine months ended September 30, 2013 was \$195.6 million. In 2013, we also paid \$47.2 million as partial consideration to prior investors upon completing our IPO and related Formation Transactions.

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 it believes that FFO is beneficial to investors as a starting point in measuring our operational performance. Specifically, in excluding real estate related depreciation and amortization and gains and losses from property dispositions, which do not relate to or are not indicative of operating performance, FFO provides a performance

measure that, when compared period over period, captures trends in occupancy rates, rental rates and operating costs. We also believe that, as a widely recognized measure of the performance of REITs, FFO will be used by investors as a basis to compare our operating performance with that of other REITs.

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

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The following table sets forth a reconciliation of FFO for the three and nine months ended September 30, 2014 and 2013 to net income, the most directly comparable GAAP equivalent:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	(\$ in thousands)			
Net income	\$ 2,754	\$ 1,252	\$ 7,533	\$ 11,587
Depreciation and amortization	4,567	3,933	12,593	11,112
Gain on acquisitions				(9,460)
Real estate joint ventures, net				(85)
Funds from operations	\$ 7,321	\$ 5,185	\$ 20,126	\$ 13,154

FFO for the three months ended September 30, 2014 increased \$2.1 million compared to the corresponding period in 2013 because of the positive initial leasing performance of 4525 Main Street, our acquisition of Dimmock Square, increased occupancy and same store NOI in each of our operating property segments and the negative impact of a \$1.1 million loss on debt extinguishment during the three months ended September 30, 2013.

FFO for the nine months ended September 30, 2014 increased \$7.0 million compared to the corresponding period in 2013 because of our consolidation of Bermuda Crossroads and Smith's Landing, higher gross profit from our general contracting and real estate services segment, the positive initial leasing performance of 4525 Main Street, our acquisition of Dimmock Square, higher overall same store NOI from our operating property portfolio, lower interest expense and the negative impact of a \$2.3 million loss on debt extinguishment during the nine months ended September 30, 2013.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated and combined financial statements that have been prepared in accordance with GAAP. The preparation of these financial statements requires us to exercise our best judgment in making estimates that affect the reported amounts of assets, liabilities, revenues and expenses. We base our estimates on historical experience and other assumptions that we believe to be reasonable under the circumstances. We evaluate our estimates on an ongoing basis, based upon current available information. Actual results could differ from these estimates. We discuss the accounting policies and estimates that are most critical to understanding our reported financial results in our Annual Report on Form 10-K for the year ended December 31, 2013.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

As of September 30, 2014, approximately \$144.8 million, or 43%, of our debt had fixed interest rates and approximately \$191.0 million, or 57%, had variable interest rates. Considering interest rate swaps, approximately \$190.3 million of our debt is subject to interest rate risk. Assuming no increase in the level of our variable rate debt, if interest rates increased by 1.0%, our cash flow would decrease by approximately \$1.9 million per year. As of September 30, 2014, LIBOR was approximately 16 basis points. Assuming no increase in the level of our variable rate debt, if LIBOR was reduced to 0 basis points, our cash flow would increase by approximately \$0.3 million per year.

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Item 4. Controls and Procedures

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

We have carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, regarding the effectiveness of our disclosure controls and procedures as of September 30, 2014, the end of the period covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer have concluded, as of September 30, 2014, that our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in reports filed or submitted under the Exchange Act: (i) is processed, recorded, summarized and reported within the time periods specified in the SEC s rules and forms and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

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

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Part II. Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2013.

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

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

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Signatures

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

ARMADA HOFFLER PROPERTIES, INC.

Date: November 12, 2014

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

(Principal Executive Officer)

Date: November 12, 2014

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

(Principal Accounting and Financial Officer)

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Exhibit Index

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

* Filed herewith