

Armada Hoffler Properties, Inc.
Form 424B4
May 09, 2013
Table of Contents

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File Number 333-187513

PROSPECTUS

16,525,000 Shares

Armada Hoffler Properties, Inc.

Common Stock

This is the initial public offering of Armada Hoffler Properties, Inc. We are selling 16,525,000 shares of our common stock.

Our common stock has been approved for listing, subject to official notice of issuance, on the New York Stock Exchange under the symbol AHH. We intend to elect to be taxed and to operate in a manner that will allow us to qualify as a real estate investment trust for federal income tax purposes commencing with our taxable year ending December 31, 2013. To assist us in qualifying as a real estate investment trust, among other purposes, our charter generally limits any person from beneficially or constructively owning more than 9.8% in value or number of shares, whichever is more restrictive, of the outstanding shares of any class or series of our capital stock. See Description of Capital Stock Restrictions on Ownership and Transfer.

We are an emerging growth company under the federal securities laws and will be subject to reduced public company reporting requirements. Investing in our common stock involves a high degree of risk. See Risk Factors beginning on page 25 of this prospectus for a discussion of certain risk factors that you should consider before investing in our common stock.

	Per Share	Total
Public offering price	\$11.500	\$190,037,500
Underwriting discount ⁽¹⁾	\$0.805	\$13,302,625
Proceeds, before expenses, to us	\$10.695	\$176,734,875

(1) See Underwriting for a detailed description of compensation payable to the underwriters. The underwriters may also exercise their option to purchase up to an additional 2,478,750 shares from us, at the public offering price, less the underwriting discount, for 30 days after the date of this prospectus to cover overallocments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The shares will be ready for delivery on or about May 13, 2013.

Baird

BB&T Capital Markets

**Raymond James
Oppenheimer & Co.**

Janney Montgomery Scott

The date of this prospectus is May 7, 2013.

Stifel

Wunderlich Securities

Table of Contents

Table of Contents**TABLE OF CONTENTS**

	Page
<u>PROSPECTUS SUMMARY</u>	1
<u>RISK FACTORS</u>	25
<u>FORWARD-LOOKING STATEMENTS</u>	59
<u>USE OF PROCEEDS</u>	61
<u>DISTRIBUTION POLICY</u>	62
<u>CAPITALIZATION</u>	70
<u>DILUTION</u>	71
<u>SELECTED FINANCIAL DATA</u>	73
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	76
<u>INDUSTRY AND MARKET OPPORTUNITY</u>	108
<u>BUSINESS AND PROPERTIES</u>	127
<u>MANAGEMENT</u>	186
<u>EXECUTIVE COMPENSATION</u>	195
<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	202
<u>POLICIES WITH RESPECT TO CERTAIN ACTIVITIES</u>	206
<u>STRUCTURE AND FORMATION OF OUR COMPANY</u>	212
<u>DESCRIPTION OF THE PARTNERSHIP AGREEMENT OF ARMADA HOFFLER, L.P.</u>	220
<u>PRINCIPAL STOCKHOLDERS</u>	227
<u>DESCRIPTION OF CAPITAL STOCK</u>	229
<u>CERTAIN PROVISIONS OF MARYLAND LAW AND OF OUR CHARTER AND BYLAWS</u>	233
<u>SHARES ELIGIBLE FOR FUTURE SALE</u>	239
<u>MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS</u>	241
<u>ERISA CONSIDERATIONS</u>	263
<u>UNDERWRITING</u>	264
<u>LEGAL MATTERS</u>	268
<u>EXPERTS</u>	268
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	268

You should rely only on the information contained in this document or to which we have referred you. We have not, and the underwriters have not, authorized anyone to provide you with information that is different. If anyone provides you with different information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. The information in this prospectus is current as of the date such information is presented. Our business, financial condition, liquidity, funds from operations, or FFO, results of operations and prospects may have changed since those dates.

We use market data, demographic data, industry forecasts and industry projections throughout this prospectus. Unless otherwise indicated, we derived such information from the market study prepared for us by Rosen Consulting Group, or RCG, a nationally recognized real estate consulting firm. Such information is included in this prospectus in reliance on RCG's authority as an expert on such matters. We have paid RCG a fee of \$45,000 for such services. In addition, we have obtained certain market and industry data from publicly available industry publications. These sources generally state that the information they provide has been obtained from sources believed to be reliable, but that the accuracy and completeness of the information are not guaranteed. The industry forecasts and projections are based on historical market data and the preparers experience in the industry, and there is no assurance that any of the projected amounts will be achieved. We believe that the market and industry research others have performed are reliable, but we have not independently verified this information.

Table of Contents

PROSPECTUS SUMMARY

You should read the following summary together with the more detailed information regarding our company and the historical and pro forma financial statements appearing elsewhere in this prospectus, including under the caption Risk Factors. References in this prospectus 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, which we refer to in this prospectus as our operating partnership. We are the sole general partner of the operating partnership. The historical and current operations described in this prospectus refer to historical and current operations of the businesses and assets of our predecessor and its affiliates (which we refer to collectively in this prospectus as Armada Hoffler) that we will succeed to upon consummation of the formation transactions described in this prospectus under the caption Structure and Formation of Our Company as if such operations were conducted by us. Unless otherwise indicated, the information contained in this prospectus is as of December 31, 2012 and assumes that (1) the underwriters' overallotment option is not exercised, (2) the formation transactions are consummated and (3) the common units of limited partnership interest in our operating partnership, or common units, to be issued in the formation transactions are valued at \$11.50 per common unit, which is the initial public offering price per share shown on the front cover of this prospectus. Commencing one year following the completion of this offering and the formation transactions, each common unit will be redeemable, at the option of the holder, for cash equal to the then-current market value of one share of common stock or, at our option, for one share of our common stock.

Our Company

Overview

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. Upon completion of this offering and the formation transactions, we intend to elect to be taxed as a real estate investment trust, or REIT, for U.S. federal income tax purposes. Our initial portfolio consists of properties in various markets in Virginia and North Carolina. We intend to develop and acquire office, retail and multifamily properties in the broader Mid-Atlantic region, including, among other cities, Washington, D.C. and Baltimore, Maryland. In this prospectus, we refer to cities in the Mid-Atlantic region as our target markets. We believe our experience, strategic focus on the Mid-Atlantic region and multi-sector portfolio strategy positions us to compete as a leading commercial real estate owner, operator and developer in our target markets. In addition to developing and building properties for our own account, we also provide general construction and development services to third-party clients throughout the Mid-Atlantic and Southeastern regions of the United States.

We were formed as a Maryland corporation in October 2012 to succeed to the business of Armada Hoffler, a privately owned real estate business founded in 1979. Upon completion of this offering and the related formation transactions, our initial portfolio will consist of 100% of the interests in the following properties:

- i **Office:** Seven properties consisting of approximately 1.0 million net rentable square feet, which were approximately 94.1% leased and constituted approximately 43.8% of the total annualized base rent of our initial portfolio as of December 31, 2012.

- i **Retail:** Fifteen properties consisting of approximately 1.1 million net rentable square feet, which were approximately 93.9% leased and constituted approximately 38.2% of the total annualized base rent of our initial portfolio as of December 31, 2012.

- i **Multifamily:** Two properties consisting of 626 apartment units, which were approximately 94.9% leased and constituted approximately 18.0% of the total annualized base rent of our initial portfolio as of December 31, 2012.

Table of Contents

In addition to our initial portfolio described above, on May 1, 2013, we entered into a contribution agreement to acquire the Apprentice School Apartments, a 197-unit multifamily property located in Newport News, Virginia upon satisfaction of certain conditions, which is currently expected to occur in November 2013. For more information regarding the Apprentice School project, see Business and Properties Property under Contract. Upon completion of this offering and the formation transactions, we also will succeed to Armada Hoffler's development pipeline, which consists of two office properties, two retail properties and two multifamily properties in various stages of development, which we refer to in this prospectus as our identified development pipeline. Based on current development plans and agreements, we expect that the projects in our identified development pipeline will consist of a total of approximately 290,000 square feet of office space, 90,000 square feet of retail space and 491 apartment units. We have also entered into agreements providing us options to purchase eight parcels of developable land from certain of our executive officers and their affiliates.

We develop and build properties for our own account and through joint ventures between us and unaffiliated partners. We also provide general contracting services to third parties. Our construction and development experience includes mid- and high-rise office buildings, retail strip malls and retail power centers, multifamily apartment communities, hotels and conference centers, single- and multi-tenant industrial, distribution and manufacturing facilities, educational, medical and special purpose facilities, government projects, parking garages and mixed-use town centers. Our third-party construction contracts have included signature properties across the Mid-Atlantic region, such as the Inner Harbor East development in Baltimore, Maryland, including the Four Seasons Hotel and Legg Mason office tower, the Mandarin Oriental Hotel in Washington, D.C., and a \$50 million proton therapy institute for Hampton University in Hampton, Virginia. Our construction company historically has been ranked among the Top 400 General Contractors nationwide by Engineering News Record and has been ranked among the Top 50 Retail Contractors by Shopping Center World. As part of our formation transactions, we expect to acquire construction contracts from Armada Hoffler for seven on-going projects and will assume Armada Hoffler's ongoing obligations under those contracts.

In addition to our general expertise and extensive experience in developing, building and owning high-quality commercial properties, we believe that we have particular expertise and a well-established track record forming partnerships between and among public and private entities to develop, construct and own high-quality, institutional-grade properties. Our senior management team has worked at our predecessor for an average of 18 years and is led by Daniel A. Hoffler, our Executive Chairman, who has over 33 years of experience in the commercial real estate industry in our target markets, Russ Kirk, our Vice Chairman, who has been with the Company for almost 30 years, and Lou Haddad, our President and CEO, who has been with the Company for over 28 years.

Our Competitive Strengths

We believe the following competitive strengths distinguish us from many of our competitors:

- i **Seasoned, Committed and Aligned Senior Management Team with a Proven Track Record.** Our senior management team, led by Daniel Hoffler, Louis Haddad and Russell Kirk, has extensive experience developing, constructing, owning, operating, renovating and financing institutional-grade office, retail, multifamily and hotel properties in the Mid-Atlantic region. Since inception, Armada Hoffler has developed in excess of \$1.4 billion of properties, including all but one of the properties in our initial portfolio. Upon completion of this offering and the related formation transactions, our executive officers, directors and their respective affiliates collectively will own approximately 34.0% of our company on a fully diluted basis, which we believe will align their interests with those of our stockholders.

- i **High-Quality, Diversified Portfolio.** Our initial portfolio consists of institutional-grade, premier office, retail and multifamily properties located in Virginia and North Carolina. Our properties are generally in the top tier of commercial properties in their markets and offer Class-A amenities and finishes. Our properties have an average age of 11.4 years, and were, with one exception, built and developed by us. We believe we generally have lower tenant improvement costs per square foot than many of our public

Table of Contents

company peers due to the average age of our properties, our historical retention rate, high barriers to entry in our markets and the institutional-grade quality of our portfolio. We believe that we have maintained our properties to the highest standards and that the quality and location of our properties, together with our active asset management strategies, have resulted in our properties achieving and maintaining competitive rents and occupancy levels relative to competitive properties, including during the recent recessionary period of 2007 to 2009 and subsequent weak recovery. For example, when occupancy rates on our stabilized office and retail portfolios reached post-2007 lows of 92.4% in 2011, and 93.4% in 2010, respectively, the U.S. office and retail occupancy rates were 83.3% and 91.2%, respectively, for the comparable period, according to RCG. Additionally, in 2010, when the U.S. office and retail occupancy rates reached post-2007 lows of 82.1% and 91.2%, respectively, the comparable occupancy rates on our stabilized office and retail portfolios were 96.0% and 93.4%, respectively.

i **Strategic Focus on Attractive Mid-Atlantic Markets.** We focus our activities in our target markets in the Mid-Atlantic region of the United States that demonstrate attractive fundamentals driven by favorable supply and demand characteristics and limited competition from other large, well-capitalized operators. According to RCG, many of our target markets enjoy high concentrations of employers in industry sectors that historically have been resistant to recession, including military, state government, higher education and healthcare. The Hampton Roads Metropolitan Statistical Area, or MSA, region, from which we derive a majority of our annualized base rent, had an unemployment rate of 6.4% as of August 2012, as compared to unemployment rates of 8.3%, 8.2% and 8.1% in the top 10, top 25 and top 50 MSAs, respectively, and the U.S. national rate of 7.8%. Furthermore, RCG projects steady population growth in all of the markets in which the properties in our initial portfolio are located. We believe that our longstanding presence in our target markets provides us with significant advantages in sourcing and executing development opportunities, identifying and mitigating potential risks and negotiating attractive pricing.

i **Extensive Experience with Construction and Development.** Since 1982, Armada Hoffler has provided third-party general contracting services through both design/build and design/bid/build delivery methods with a commitment to delivering a quality project on schedule and within the established budget. Our platform consists of development, construction and asset management capabilities, which comprise an integrated delivery system for every project that we build for our own account or for third-party clients. This integrated approach provides a single source of accountability for design and construction, simplifies coordination and communication among the relevant stakeholders in each project and provides us valuable insight from an operational perspective. In addition to building 23 of the 24 properties in our initial portfolio, we have had a lead role in the following construction and development projects for third party clients:

- i *Inner Harbor East, Baltimore, MD:* Harbor East is a \$1.7 billion, mixed-use waterfront project covering more than eight blocks adjacent to Baltimore's Inner Harbor and Little Italy, which includes a Four Seasons hotel, the Legg Mason office tower, other Class-A office space and upscale retail shops.
- i *The Mandarin Oriental Hotel, Washington, D.C.:* The Washington, D.C. Mandarin Oriental is a five-star, 400-room luxury hotel, which was completed in 2004 for a total cost of approximately \$144 million.
- i *The Embassy of Sweden/Harbourside, Washington, D.C.:* The Embassy of Sweden and Harbourside comprise a two-building Class-A office and residential complex along the Potomac River and Rock Creek Park in Washington, D.C., which was completed in 2004 for a total cost of approximately \$100 million.
- i *Hampton University Projects, Hampton, VA:* Since the late 1980s, we have been the preferred construction and development partner for Hampton University and have built several facilities

Table of Contents

for a total cost of approximately \$170 million, including the Proton Therapy Institute (approximately \$50 million), Hampton University Student Center (approximately \$15 million) and Hampton University Convocation Center (approximately \$13 million).

In addition to the revenue that we generate from our third-party construction and development clients, we believe that being regularly engaged in construction and development projects provides us significant and distinct advantages, including enhanced market intelligence, greater insight into best practices, enhanced operating leverage and first look access to development and ownership opportunities in our target markets.

- i **Longstanding Public and Private Relationships.** We have extensive experience with public/private real estate development projects dating back to 1984, having worked with the Commonwealth of Virginia, the State of Georgia and the Kingdom of Sweden, as well as various municipalities. Through our experience and longstanding relationships with governmental entities such as these, we have learned to successfully navigate the often complex and time-consuming government approval process, which has given us the ability to capture opportunities that we believe many of our competitors are unable to pursue.

Our Business and Growth Strategies

Our primary business objectives are to (i) continue to develop, build and own institutional-grade office, retail and multifamily properties in our target markets, (ii) finance and operate our portfolio in a manner that increases cash flow and property values, (iii) increase the size and volume of our third-party construction business and (iv) pursue selective acquisition opportunities, particularly when the acquisition involves a significant redevelopment aspect. We will seek to achieve our objectives through the following strategies:

- i **Complete the Development of our Identified Development Pipeline.** We intend to complete the development of our identified development pipeline of high-quality projects, consisting of two office, two retail and two multifamily projects representing a total of approximately 290,000 square feet of office space, 90,000 square feet of retail space and 491 apartment units. We also have entered into an agreement to acquire the Apprentice School Apartments, a 197-unit multifamily property currently under construction in Newport News, Virginia, upon the satisfaction of certain conditions, including completion of construction of all three components of the Apprentice School project, which is currently expected to occur in November 2013.
- i **Growth-Oriented Capital Structure.** We intend to use a portion of the net proceeds of this offering to repay approximately \$112.8 million of mortgage debt secured by certain properties in our initial portfolio, including related costs and fees. Going forward, we intend to target a debt to gross total assets ratio of approximately 45.0%, which we believe is in line with that of similar publicly traded REITs. We have received a commitment letter from Bank of America, N.A. and Merrill Lynch, Pierce, Fenner & Smith Incorporated to arrange a \$100 million senior credit facility, which we intend to use to fund a portion of our identified development pipeline, for future development and for selective acquisitions. Furthermore, we believe our ability to issue common units in our operating partnership to equity holders of potential acquisition properties will provide us a significant advantage over many of our competitors.
- i **Pursue a Disciplined, Opportunistic Development and Acquisition Strategy Focused on Office, Retail and Multifamily Properties.** We intend to grow our asset base through continued strategic development of office, retail and multifamily properties, including the projects in our identified development pipeline, and the selective acquisition of high-quality properties that are well-located in their submarkets. In evaluating property investment opportunities, we intend to focus on supply and demand characteristics, management of property specific risks and diversification opportunities to meet our investment objectives and provide attractive risk-adjusted returns. We believe that our relationships with real estate developers, governmental entities, brokers, national and regional lenders, high-quality financially stable tenants and other market participants in our target markets will provide us with access to development and acquisition

Table of Contents

opportunities before they become known to other real estate investors and developers. We seek to create value by developing properties with a minimum expected market capitalization rate approximately 150 basis points higher than the market capitalization rate we would expect to achieve through acquisition. Furthermore, we believe our construction and development expertise provides a high level of quality control while ensuring that the projects we construct and develop are completed more quickly and at a lower cost than if we engaged a third-party general contractor.

i **Pursue New, and Expand Existing, Public/Private Relationships.** We intend to leverage our extensive experience in completing large, complex, mixed-use, public/private projects to establish relationships with new public partners while expanding our relationships with existing public partners. In the current environment of constrained municipal budgets, we believe that public/private partnerships are the most cost-effective method of creating value in what historically have been public projects. We believe our experience and expertise in executing these types of projects provide us with a significant competitive advantage in pursuing these often highly complex transactions, and our continuing success with these projects has resulted in repeat business with our public partners.

i **Leverage our Construction and Development Platform to Attract Additional Third-Party Clients.** We believe that we have a unique advantage over many of our competitors due to our integrated construction and development business that provides expertise, oversight and a broad array of client-focused services. We intend to continue to conduct and grow our construction business and other third-party services by pursuing new clients and expanding our relationships with existing clients.

i **Engage in Disciplined Capital Recycling.** Although we do not have any current plans to dispose of any of the properties in our initial portfolio, we intend to opportunistically divest properties when we believe returns have been maximized and to redeploy the capital into new development, acquisition, repositioning or redevelopment projects that are expected to generate higher potential risk-adjusted returns.

Summary Risk Factors

Investing in our common stock involves a high degree of risk. Prospective investors are urged to carefully consider the matters discussed under Risk Factors prior to making an investment in our common stock. Such risks include, but are not limited to:

i The geographic concentration of our initial portfolio could cause us to be more susceptible to adverse economic or regulatory developments in the markets in which our properties are located than if we owned a more geographically diverse portfolio.

i We expect to have approximately \$280 million of indebtedness outstanding following this offering, including amounts to be drawn from our credit facility at or shortly after the completion of this offering, which may expose us to the risk of default under our debt obligations and may include covenants that restrict our ability to pay distributions to our stockholders.

i We depend on significant tenants in certain of our office properties, and a bankruptcy, insolvency or inability to pay rent by any of these tenants could result in a material decrease in our rental income, which would have a material adverse effect on us, including our financial condition, results of operations, cash flow, cash available for distribution and our ability to service our debt obligations.

i The loss of, or a store closure by, one of the anchor stores or major tenants in our retail shopping center properties could result in a material decrease in our rental income, which would have a material adverse effect on us, including our financial condition, results of operations, cash flow, cash available for distribution and our ability to service our debt obligations.

Table of Contents

- i We may be unable to renew leases, lease vacant space or re-let space on favorable terms or at all as leases expire, which could materially adversely affect us, including our financial condition, results of operations, cash flow, cash available for distribution and our ability to service our debt obligations.

- i Adverse economic and regulatory conditions, particularly in the Mid-Atlantic region, could adversely affect our construction and development business, which could have a material adverse effect on our financial condition, results of operations, cash flow, cash available for distribution and our ability to service our debt obligations.

- i There can be no assurance that all of the properties in our identified development pipeline will be completed in their entirety in accordance with the anticipated cost, or that we will achieve the results we expect from the development of such properties, which could materially adversely affect our growth prospects, financial condition, results of operations, cash available for distribution and our ability to service our debt obligations.

- i Our dependence on third-party subcontractors and equipment and material providers could result in material shortages or project delays and could reduce our profits or result in project losses, which could materially adversely affect our financial condition, results of operations, cash flow, cash available for distribution and our ability to service our debt obligations.

- i We have not obtained any third-party appraisals of the properties and other assets to be acquired by us from the prior investors in connection with the formation transactions. Accordingly, the value of the cash and common units to be paid or issued as consideration for the properties and assets to be acquired by us in the formation transactions may exceed their aggregate fair market value and will exceed their aggregate historical combined net tangible book value of approximately \$(41.3) million as of December 31, 2012.

- i Upon completion of this offering and the formation transactions, Daniel Hoffler and his affiliates, directly or indirectly, will own a substantial beneficial interest in our company on a fully diluted basis and will have the ability to exercise significant influence on our company and our operating partnership, including the approval of significant corporate transactions.

- i Messrs. Hoffler, Haddad, Kirk, Nero and Apperson and their affiliates will receive benefits in connection with this offering, which create a conflict of interest because they have interests in the successful completion of this offering that may influence their decisions affecting the terms and circumstances under which this offering and formation transactions are completed.

- i Our charter and bylaws and Maryland law contain provisions that may delay, defer or prevent a change of control transaction that might involve a premium price for our common stock or that our stockholders otherwise believe to be in their best interests.

- i Our tax protection agreements could limit our ability to sell or otherwise dispose of certain properties.

- i Failure to qualify as a REIT, or failure to remain qualified as a REIT, would cause us to be taxed as a regular corporation, which would substantially reduce funds available for distributions to our stockholders.

- i We may be unable to make distributions at expected levels, which could result in a decrease in the market price of our common stock.

Table of Contents

Our Initial Portfolio

Upon completion of this offering and the formation transactions, we will own 100% of the interests in 24 properties located predominantly in the Hampton Roads, Richmond and Raleigh-Durham markets, consisting of a total of approximately 1.0 million net rentable square feet of office space, 1.1 million net rentable square feet of retail space and 626 multifamily units, which we refer to in this prospectus as our initial portfolio. We built and developed 23 of the 24 properties in our initial portfolio. Our initial portfolio includes ten properties within the Virginia Beach Town Center, a \$500 million central business district mixed-use project that we developed in partnership with the City of Virginia Beach, Virginia. In addition, two properties in our identified development pipeline are located within the Virginia Beach Town Center. The Virginia Beach Town Center is a 17-block, on-going, multi-phase development. To date, the City of Virginia Beach has invested approximately \$150 million in the Virginia Beach Town Center, which has created a vibrant downtown central business district for Virginia Beach and attracted new tenants both to the city and larger metropolitan statistical area, with 51.0% of tenants being new to Virginia Beach and 34.4% of tenants being new to the larger Hampton Roads Market.

Table of Contents

The following table presents an overview of our initial portfolio as of December 31, 2012. As described in the notes to the table below, we occupy space in the Armada Hoffer Tower, Oyster Point and the 249 Central Park Retail properties. The rent and square footage for such space are reflected in the table below, but the rent paid by us is eliminated in consolidation in the financial statements and other financial statement information herein.

Property	Location	Year Built	Net Rentable Square Feet ⁽¹⁾	% Leased ⁽²⁾	Annualized Base Rent ⁽³⁾	Annualized Base Rent per Leased Square Foot ⁽³⁾	Average Net Effective Annual Base Rent per Leased Square Foot ⁽⁴⁾
Office Properties							
Armada Hoffer Tower ⁽⁵⁾	Virginia Beach, VA	2002	327,123	98.3%	\$ 8,652,192	\$ 26.90	\$ 27.73
One Columbus	Virginia Beach, VA	1984	129,424	94.7	2,697,265	22.01	24.61
Two Columbus	Virginia Beach, VA	2009	109,512	80.3	2,134,392	24.26	24.60
Virginia Natural Gas ⁽⁶⁾	Virginia Beach, VA	2010	31,000	100.0	568,230	18.33	20.17
Richmond Tower	Richmond, VA	2010	206,969	98.0	6,911,970	34.08	41.84
Oyster Point ⁽⁷⁾	Newport News, VA	1989	100,214	81.5	1,700,444	20.81	20.73
Sentara Williamsburg ⁽⁶⁾	Williamsburg, VA	2008	49,200	100.0	914,628	18.59	20.50
Subtotal/Weighted Average Office Properties⁽⁸⁾			953,442	94.1%	\$ 23,579,121	\$ 26.29	\$ 28.89
Retail Properties Not Subject to Ground Lease							
Bermuda Crossroads	Chester, VA	2001	111,566	93.6%	\$ 1,442,692	\$ 13.81	\$ 12.92
Broad Creek Shopping Center	Norfolk, VA	1997-2001	227,750	95.5	2,895,024	13.31	11.81
Courthouse 7-Eleven	Virginia Beach, VA	2011	3,177	100.0	125,000	39.35	43.81
Gainsborough Square	Chesapeake, VA	1999	88,862	93.0	1,280,905	15.50	15.36
Hanbury Village	Chesapeake, VA	2006-2009	61,049	84.7	1,332,563	25.76	25.60
North Point Center	Durham, NC	1997-2009	215,699	91.1	2,324,762	11.84	11.30
Parkway Marketplace	Virginia Beach, VA	1998	37,804	100.0	753,568	19.93	19.97
Harrisonburg Regal	Harrisonburg, VA	1999	49,000	100.0	683,550	13.95	13.95
Dicks at Town Center	Virginia Beach, VA	2002	100,804	91.4	908,460	9.86	8.30
249 Central Park Retail ⁽⁹⁾	Virginia Beach, VA	2004	92,515	98.7	2,511,180	27.50	27.09
Studio 56 Retail	Virginia Beach, VA	2007	11,600	84.8	333,400	33.91	37.15
Commerce Street Retail	Virginia Beach, VA	2008	20,123	100.0	779,835	38.75 ⁽¹⁰⁾	39.99
Fountain Plaza Retail	Virginia Beach, VA	2004	35,961	100.0	972,426	27.04	26.26
South Retail	Virginia Beach, VA	2002	38,763	92.5	825,363	23.02	26.54
Subtotal/Weighted Average Retail Properties Not Subject to Ground Lease⁽¹¹⁾			1,094,673	93.9%	\$ 17,168,728	\$ 16.70	\$ 16.16
Retail Properties Subject to Ground Lease							
Bermuda Crossroads ⁽¹²⁾	Chester, VA	2001	(14)	100.0%	\$ 155,100		
Broad Creek Shopping Center ⁽¹³⁾	Norfolk, VA	1997-2001	(15)	100.0	572,291		
Hanbury Village ⁽¹²⁾	Chesapeake, VA	2006-2009	(16)	100.0	1,067,598		
North Point Center ⁽¹²⁾	Durham, NC	1998-2009	(17)	100.0	1,048,135		
Tyre Neck Harris Teeter ⁽¹¹⁾	Portsmouth, VA	2011	(18)	100.0	507,603		
Subtotal/Weighted Average Retail Properties Subject to Ground Lease				100.0%	\$ 3,350,727		
Total/Weighted Average Retail Properties			1,094,673⁽¹⁹⁾		\$ 20,519,455		

Property	Location	Year Built	Apartment Units ⁽²⁰⁾	% Leased ⁽²⁾	Annualized Base Rent ⁽²¹⁾	Average Monthly Base Rent per Leased Unit ⁽²²⁾
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Multifamily

Smith's Landing ⁽²³⁾	Blacksburg, VA	2009	284	98.6%	\$ 3,305,046	\$ 983.64
The Cosmopolitan	Virginia Beach, VA	2006	342	91.9	6,389,254 ⁽²⁴⁾	1,494.50
Total/Weighted Average Multifamily Properties			626	94.9%	\$ 9,694,300	\$ 1,253.81
Total Portfolio					\$ 53,792,876	

Table of Contents

- (1) The net rentable square footage for each of our office properties is the sum of (a) the square footages of existing leases, plus (b) for available space, management's estimate of net rentable square footage based, in part, on past leases. The net rentable square footage included in office leases is generally determined consistently with the Building Owners and Managers Association, or BOMA, 1996 measurement guidelines. The net rentable square footage for each of our retail properties is the sum of (a) the square footages of existing leases, plus (b) for available space, the field verified square footage.
- (2) Percentage leased for each of our office and retail properties is calculated as (a) square footage under commenced leases as of December 31, 2012, divided by (b) net rentable square feet, expressed as a percentage. Percentage leased for our multifamily properties is calculated as (a) total units rented as of December 31, 2012, divided by (b) total units available, expressed as a percentage.
- (3) For the properties in our office and retail portfolios, annualized base rent is calculated by multiplying (a) base rental payments (defined as cash base rents (before abatements) excluding tenant reimbursements for expenses paid by the landlord) for the month ended December 31, 2012, by (b) 12. Annualized base rent per leased square foot is calculated by dividing (a) annualized base rent, by (b) square footage under commenced leases as of December 31, 2012. In the case of triple net or modified gross leases, annualized base rent does not include tenant reimbursements for real estate taxes, insurance, common area or other operating expenses.
- (4) Average net effective annual base rent per leased square foot represents (a) the contractual base rent for leases in place as of December 31, 2012, calculated on a straight-line basis to amortize free rent periods and abatements, but without regard to tenant improvement allowances and leasing commissions, divided by (b) square footage under commenced leases as of December 31, 2012.
- (5) As of December 31, 2012, we occupied 16,151 square feet at this property at an annualized base rent of \$484,853, or \$30.02 per leased square foot, which amounts are reflected in the % leased, annualized base rent and annualized base rent per square foot columns in the table above. In the combined financial statements of our Predecessor and following completion of this offering and the formation transactions, the rent paid by us is eliminated from our revenues in consolidation. In addition, effective March 1, 2013, we sublease approximately 5,000 square feet of space from a tenant at this property.
- (6) This property is subject to a triple net lease pursuant to which the tenant pays operating expenses, insurance and real estate taxes.
- (7) As of December 31, 2012, we occupied 1,718 square feet at this property on which we do not pay rent.
- (8) Reflects square footage and annualized base rent pursuant to leases for space occupied by us. If the space occupied by us were excluded from the table, net rentable square feet, % leased, annualized base rent and annualized base rent per leased square foot for our office portfolio would be 935,573, 94.0%, \$23,094,269 and \$26.27, respectively.
- (9) As of December 31, 2012, we occupied 13,839 square feet at this property at an annualized base rent of \$299,338, or \$21.63 per leased square foot, which amounts are reflected in the % leased, annualized base rent and annualized base rent per square foot columns in the table above. In the combined financial statements of our Predecessor and following completion of this offering and the formation transactions, the rent paid by us is eliminated from our revenues in consolidation.
- (10) Includes \$25,200 of annualized base rent pursuant to a rooftop lease.
- (11) Reflects square footage and annualized base rent pursuant to leases for space occupied by us. If the space occupied by us were excluded from the table, net rentable square feet, % leased, annualized base rent and annualized base rent per leased square foot for our retail properties not subject to ground lease portfolio would be 1,080,843, 93.8%, \$16,869,391 and \$16.63, respectively.

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- (12) For this ground lease, we own the land and the tenant owns the improvements thereto. We will succeed to the ownership of the improvements to the land upon the termination of the ground lease.
- (13) We lease the land underlying this property from the owner of the land pursuant to a ground lease. We re-lease the land to our tenant under a separate ground lease pursuant to which our tenant owns the improvements on the land.
- (14) Tenants collectively lease approximately 139,356 square feet of land from us pursuant to ground leases.
- (15) Tenants collectively lease approximately 299,170 square feet of land from us pursuant to ground leases.
- (16) Tenants collectively lease approximately 105,988 square feet of land from us pursuant to ground leases.
- (17) Tenants collectively lease approximately 1,443,985 square feet of land from us pursuant to ground leases.
- (18) Tenant leases approximately 200,073 square feet of land from us pursuant to a ground lease.
- (19) The total square footage of our retail portfolio excludes the square footage of land subject to ground leases.
- (20) Units represent the total number of apartment units available for rent at December 31, 2012.
- (21) For the properties in our multifamily portfolio, annualized base rent is calculated by multiplying (a) base rental payments for the month ended December 31, 2012 by (b) 12.
- (22) Average monthly base rent per leased unit represents the average monthly rent for all leased units for the month ended December 31, 2012.
- (23) We lease the land underlying this property from the owner of the land pursuant to a ground lease.
- (24) The annualized base rent for The Cosmopolitan includes \$752,604 of annualized rent from 14 retail leases at the property.

Table of Contents*Our Identified Development Pipeline*

In addition to the properties in our initial portfolio, we have entered into a contribution agreement to acquire a 197-unit multifamily property located in Newport News, Virginia, upon the satisfaction of certain conditions, including completion of the project's construction, which is currently expected to occur in November 2013, and will succeed to the projects in Armada Hoffer's development pipeline, which we refer to in this prospectus as our identified development pipeline, as described below (dollars in thousands):

Property	Location	Property Type	Estimated Square Footage ⁽¹⁾	Estimated Units ⁽¹⁾	Estimated Cost ⁽¹⁾	Cost Incurred through December 31, 2012	Estimated Date of Completion ⁽¹⁾	Estimated Ownership % ⁽¹⁾	Principal Tenants
Main Street Office ⁽²⁾	Virginia Beach, VA	Office	234,000 ⁽³⁾	N/A	\$ 50,863	\$ 750	July 2014	100%	Clark Nexsen, Development Authority of Virginia Beach ⁽⁴⁾
Main Street Apartments ⁽²⁾	Virginia Beach, VA	Multifamily	N/A	288	32,845	277	July 2014	100%	N/A
Jackson Street Apartments	Durham, NC	Multifamily	N/A	203	26,182	218	July 2014	80%	N/A
Sandbridge Commons	Virginia Beach, VA	Retail	75,000	N/A	13,675	266	September 2014	85%	Harris Teeter ⁽⁴⁾
Brooks Crossing	Newport News, VA	Office ⁽⁵⁾	60,000	N/A	12,793	476	February 2015	65%	Huntington Ingalls ⁽⁴⁾ , City of Newport News ⁽⁴⁾
Greentree Shopping Center ⁽⁶⁾	Chesapeake, VA	Retail	15,600	N/A	5,402	103	September 2014	100%	WaWa ⁽⁴⁾
Total			384,600	491	\$ 141,760	\$ 2,090			

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

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

(3) Approximately 83,600 square feet have been pre-leased by Clark Nexsen, an architectural firm. We expect approximately 23,300 square feet to be pre-leased by the Development Authority of Virginia Beach, although no lease has been signed as of the date of this prospectus.

(4) No lease agreement has been signed as of the date of this prospectus. We expect the lease agreement to be in place prior to the commencement of construction on this project.

(5) We expect that this property will include 28,200 square feet of retail space.

(6) We are currently negotiating with Wal-Mart to sell them a pad-ready site adjacent to Greentree Shopping Center.

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In November 2012, Armada Hoffler was selected by Johns Hopkins University, after an extensive competitive selection process, to join with the University in the redevelopment of a 1.12 acre property adjacent to the University's Homewood campus in Baltimore, Maryland. The project is expected to include market-rate student housing, a hotel, 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. Upon completion of this offering and the formation transactions, we will succeed to Armada Hoffler's right to develop and build the Johns Hopkins project.

The commencement of construction on all of the projects identified in the table above and the Johns Hopkins project, are subject to, among other factors, regulatory approvals, the acquisition of financing and suitable market conditions. See *Business and Properties - Our Identified Development Pipeline* for more information regarding the projects in our identified development pipeline.

Our Third-Party Construction Business

Upon the completion of this offering and the formation transactions, we will succeed to Armada Hoffler's construction business, which was engaged as general contractor with respect to 20 construction projects for both third-party and related

Table of Contents

party clients as of December 31, 2012. As part of the formation transactions, we will acquire from Armada Hoffler all of the construction contracts in place on the date of the completion of this offering and, as a result, will assume all of Armada Hoffler's obligations under those contracts. Of the 20 construction projects in progress as of December 31, 2012, we currently expect that seven of these construction projects will be on-going upon completion of this offering. As of December 31, 2012, these seven construction projects have an estimated contract value of approximately \$82.8 million with approximately \$20.1 million of work in place and a balance to complete of approximately \$62.7 million. See [Business and Properties Our Third Party Construction Business](#).

Our Third-Party Construction Pipeline

As of December 31, 2012, Armada Hoffler also had construction contracts in various stages of negotiation with both third parties and related parties, which we refer to as our third-party construction pipeline. As of December 31, 2012, no contracts had been executed with respect to any projects in our third-party construction pipeline. We cannot assure you that any or all of these contracts will be executed or that, once executed, we will commence or complete construction on all or any of the projects. Twelve of the 16 construction projects being negotiated are expected to be built in Virginia, including 11 in the Hampton Roads region of Virginia. The other four construction projects being negotiated are expected to be built in Maryland, including two located in Baltimore, Maryland. We currently estimate that the aggregate contract value of these contracts under negotiation will be approximately \$200 million, but the actual value of the construction contracts we enter into may be significantly less than this amount. See [Business and Properties Our Third-Party Construction Pipeline](#) for more information regarding the projects in our third-party construction pipeline.

Structure and Formation of Our Company

Our Operating Entities

Our Company

We were formed as a Maryland corporation in October 2012 and will commence operations upon completion of this offering and the formation transactions. We will conduct our business through a traditional umbrella partnership real estate investment trust, or UPREIT, structure in which our properties are owned by our operating partnership directly or through limited partnerships, limited liability companies or other subsidiaries, as described below under [Our Operating Partnership](#). We are the sole general partner of our operating partnership and, upon completion of this offering and the formation transactions, will own approximately 56.2% of the common units in our operating partnership. Our board of directors will oversee our business and affairs.

Our Operating Partnership

Our operating partnership was formed as a Virginia limited partnership in October 2012 and will commence operations upon completion of this offering and the formation transactions. Following completion of this offering and the formation transactions, substantially all of our assets will be held by, and our operations will be conducted through, our operating partnership. As the sole general partner of our operating partnership, we generally will have the exclusive power under the partnership agreement to manage and conduct its business and affairs, subject to certain limited approval and voting rights of the limited partners, which are described more fully below in [Description of the Partnership Agreement of Armada Hoffler, L.P.](#) In the future, we may issue common units from time to time in connection with property acquisitions, compensation or otherwise.

Our Services Company

As part of the formation transactions, we formed AHP Holding, Inc., which we refer to in this prospectus as our services company. Our services company is wholly owned by our operating partnership and will conduct, through its wholly-owned subsidiaries, our third-party construction and development business and our asset management business. We will elect

Table of Contents

with our services company to treat it as a taxable REIT subsidiary, or TRS, for federal income tax purposes. As a result, our services company and any other TRSs we may form will be fully subject to federal, state and local corporate income taxes.

Formation Transactions

The properties and businesses that will be owned by us through our operating partnership upon completion of this offering and the formation transactions are currently owned directly or indirectly by partnerships, limited liability companies and corporations in which Messrs. Hoffler, Haddad, Kirk and their affiliates and certain of our other officers and their affiliates, whom we refer to as the Armada Hoffler affiliates, and other third parties own a direct or indirect interest. We refer to these partnerships, limited liability companies and corporations collectively as the ownership entities. The current owners of the ownership entities or their parent companies, whom we refer to as the prior investors, have entered into contribution agreements with our operating partnership pursuant to which they will contribute their interests in the ownership entities, or sell certain assets, to our operating partnership or its subsidiaries concurrently with the completion of this offering. Pursuant to contribution agreements, the prior investors will contribute equity interests in the entities that own the properties in our initial portfolio to our operating partnership in exchange for cash and common units. In addition, (i) Armada Hoffler Construction Company and Armada Hoffler Construction Company of Virginia will transfer to our services company, pursuant to an asset purchase agreement, certain assets of their construction business, including construction contracts in progress, which we refer to as the construction business, and (ii) the owners of the development and asset management businesses of Armada Hoffler will transfer, pursuant to an asset purchase agreement, certain assets to our services company. See Certain Relationships and Related Transactions. The value of the consideration to be paid to the prior investors in the formation transactions will be based upon the terms of the applicable contribution agreements and asset purchase agreements and was not based on arms-length negotiations. No appraisal of our initial portfolio and other assets was obtained. See Structure and Formation of Our Company Our Structure Determination of Consideration Payable in the Formation Transactions.

The numbers and values of common units set forth below and herein are based on a value per common unit of \$11.50, which is the initial public offering price per share of our common stock in this offering. Pursuant to the terms of the contribution agreements entered into with the prior investors other than the Armada Hoffler affiliates, the value to be received by them in exchange for their contribution of interests in the ownership entities is fixed.

Pursuant to the formation transactions, the following have occurred or will occur substantially concurrently with the completion of this offering.

- i We were formed as a Maryland corporation, and our operating partnership was formed as a Virginia limited partnership, in October 2012.

- i We will sell 16,525,000 shares of our common stock in this offering and an additional 2,478,750 shares if the underwriters exercise their overallotment option in full, and we will contribute the net proceeds from this offering to our operating partnership in exchange for 16,525,000 common units (or 19,003,750 common units if the underwriters exercise their overallotment option in full).

- i Our operating partnership will consolidate the ownership of our initial portfolio of properties by acquiring from the prior owners all of the equity interests in the ownership entities that directly or indirectly own such properties in exchange for cash and common units of our operating partnership pursuant to contribution agreements between us and such prior owners.

Table of Contents

- i Our services company will succeed to the construction business of Armada Hoffler through its acquisition of the construction contracts and certain other assets of Armada Hoffler Construction Company and Armada Hoffler Construction Company of Virginia pursuant to an asset purchase agreement.

- i Our services company will succeed to the development and asset management businesses of Armada Hoffler through the sale of certain assets to our services company.

- i Our operating partnership will acquire equity interests in entities that own or control the projects in our identified development pipeline from Armada Hoffler and its affiliates and assume certain debt related to the development projects, which we currently expect will be approximately \$2.2 million in the aggregate.

- i Prior investors, other than the Armada Hoffler affiliates, will receive as consideration for such contributions and acquisitions an aggregate of approximately \$17.8 million of cash, including amounts representing repayments of debt, and 2,937,687 common units having an aggregate value of approximately \$33.8 million in accordance with the terms of the applicable contribution and asset purchase agreements.

- i Prior investors who are Armada Hoffler affiliates, including Messrs. Hoffler, Haddad and Kirk and certain of our other officers, will receive as consideration for such contributions and acquisitions, an aggregate of approximately \$31.9 million of cash, including amounts representing repayments of debt, and 10,102,309 common units having an aggregate value of approximately \$116.2 million.

- i On May 1, 2013, we entered into a contribution agreement to acquire the Apprentice School Apartments project from Messrs. Hoffler, Haddad and Kirk and certain of our other officers upon the satisfaction of certain conditions, including the completion of construction of all three components of the Apprentice School project, which is currently expected to occur in November 2013, for approximately \$8.0 million in common units, the repayment of \$3.0 million of mezzanine indebtedness and the assumption of approximately \$20.9 million of first mortgage debt.

- i We and our operating partnership have acquired options to acquire eight vacant parcels of developable land from entities owned or controlled by Messrs. Hoffler, Haddad and Kirk and certain of our other officers. See Our Business and Properties Option Properties.

- i Mr. Hoffler will enter into a representation, warranty and indemnity agreement, pursuant to which he will make certain representations and warranties to us regarding the properties being acquired in the formation transactions and agree to indemnify us and our operating partnership for certain breaches of such representations and warranties for one year after the completion of the formation transactions. Mr. Hoffler will also agree to indemnify us with respect to certain aspects of the construction business. See Structure and Formation of Our Company Formation Transactions. Other than Mr. Hoffler, none of the prior investors will provide us with any indemnification, other than with respect to representations regarding their interests in the ownership entities that they will contribute to us.

- i We will enter into tax protection agreements with certain of the prior investors who will become limited partners of our operating partnership, including the Armada Hoffler affiliates, pursuant to which we will agree to indemnify them against certain adverse tax consequences to them, which may affect the way in which we conduct our business, including with respect to when and under what circumstances we sell properties in our initial portfolio or interests therein or repay debt during the restriction period. See Structure and Formation of Our Company Tax Protection Agreements.

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- i The current management team of Armada Hoffler will become our senior management team, and approximately 100 current employees of Armada Hoffler and its affiliates will become our employees.

- i Concurrently with or shortly after completion of this offering, we will enter into an agreement for a \$100 million secured credit facility, which we expect to contain an accordion feature that will

Table of Contents

allow us to increase the borrowing capacity under the facility up to \$250 million, subject to our satisfaction of certain conditions. We expect to use approximately \$19.3 million of borrowings under this credit facility initially to fund a portion of the cash consideration payable in connection with the completion of the formation transactions, to acquire the projects in our identified development pipeline and to repay existing lines of credit and certain debt relating to the projects in our development pipeline and thereafter for general corporate purposes, including funding acquisitions and development and redevelopment of properties in our portfolio and for working capital.

- i Our operating partnership intends to use a portion of the net proceeds of this offering to repay approximately \$112.8 million of outstanding indebtedness, including associated fees and costs. As a result, we expect to have approximately \$280 million of total debt outstanding upon completion of this offering and the formation transactions, including amounts expected to be drawn from our credit facility at or shortly after the completion of this offering.

- i As a result of the foregoing, (i) we will own 100% of the interests in the properties in our initial portfolio, (ii) our services company will succeed to the ongoing construction and development business of Armada Hoffler, (iii) we will assume asset management of certain of the properties in our initial portfolio, (iv) our services company will succeed to the third-party asset management business of Armada Hoffler, (v) we will own interests in entities that own or control the six development projects in our identified development pipeline, (vi) we have acquired options to acquire eight parcels of developable land from Armada Hoffler, and (vii) we have entered into a contribution agreement to acquire the Apprentice School Apartments, a 197-unit multifamily property currently under construction in Newport News, Virginia, upon completion of construction of all the three components of the Apprentice School project, which is currently expected to occur in November 2013.

Benefits of the Formation Transactions to Related Parties

In connection with this offering and the formation transactions, affiliates of Armada Hoffler will receive material benefits described in Certain Relationships and Related Transactions, including those described below. All amounts are based on a value equal to \$11.50, which is the price to the public of our common stock in this offering.

- i Mr. Hoffler, our Executive Chairman, and his affiliates, including certain trusts he established for the benefit of his family, will receive common units having an aggregate value of approximately \$62.1 million and approximately \$16.0 million in cash in connection with the formation transactions. As a result, Mr. Hoffler and his affiliates will own approximately 18.2% of the combined shares of our common stock and common units in our operating partnership upon completion of this offering and the formation transactions, or 16.8% if the underwriters' overallotment option is exercised in full.

- i Mr. Haddad, our President and Chief Executive Officer, will receive common units having an aggregate value of approximately \$22.7 million and approximately \$5.8 million in cash in connection with the formation transactions. As a result, Mr. Haddad will own approximately 6.6% of the combined shares of our common stock and common units in our operating partnership upon completion of this offering and the formation transactions, or 6.1% if the underwriters' overallotment option is exercised in full.

- i Mr. Kirk, our Vice Chairman, and his affiliates, including a trust and entities he established for the benefit of his family, will receive common units having an aggregate value of approximately \$16.3 million and approximately \$3.8 million in cash in connection with the formation transactions. As a result, Mr. Kirk and his affiliates will own approximately 4.8% of the combined shares of our common stock and common units in our operating partnership upon completion of this offering and the formation transactions, or 4.4% if the underwriters' overallotment option is exercised in full.

Table of Contents

- i Other executive officers and employees of our company will receive, in the aggregate, common units having an aggregate value of approximately \$15.1 million and approximately \$6.4 million in cash in connection with the formation transactions.

- i Messrs. Hoffler, Haddad and Kirk are guarantors of approximately \$70.7 million of indebtedness, in the aggregate, which will be repaid with a portion of the net proceeds from this offering and, as a result, Messrs. Hoffler, Haddad and Kirk will be released from these guarantee obligations. In addition, Messrs. Hoffler, Haddad and Kirk are guarantors of approximately \$109.2 million of indebtedness, in the aggregate, that will be assumed by us upon completion of this offering. In connection with this assumption, we will seek to have Messrs. Hoffler, Haddad and Kirk released from such guarantees and to have our operating partnership directly assume any such guarantee obligations as replacement guarantor or, alternatively, we will agree to reimburse Messrs. Hoffler, Haddad and Kirk for any amounts paid by them under guarantees with respect to the assumed indebtedness.

- i Our operating partnership will enter into tax protection agreements with certain of the prior investors who become limited partners of our operating partnership, including Messrs. Hoffler, Haddad, Kirk, Anthony Nero, our President of Development, and Eric Apperson, our President of Construction, and their affiliates, and certain of our other officers, pursuant to which our operating partnership will agree to indemnify such limited partners against adverse tax consequences (including as a result of receiving a tax protection payment) in connection with: (i) our sale of the protected properties in our initial portfolio in a taxable transaction until the seventh (or in a limited number of cases, the tenth) anniversary of the completion of the formation transactions; and (ii) our operating partnership's failure to provide such limited partners the opportunity to guarantee certain debt of our operating partnership until the tenth anniversary of the completion of the formation transactions. Pursuant to the tax protection agreements, it is anticipated that the total amount of protected built in gain on the protected properties will be approximately \$146.9 million. Our operating partnership also will agree to provide certain prior investors, including Messrs. Hoffler, Haddad, Kirk, Nero and Apperson and their affiliates, as well as certain of our other officers, the opportunity to guarantee a portion of our operating partnership's indebtedness, or, alternatively, to enter into deficit restoration obligations, to provide them with certain tax protections. We are currently evaluating, and have not yet determined, whether such limited partners will have a need to guarantee debt immediately upon the completion of the formation transactions and this offering. In addition to any guarantee opportunities provided immediately upon completion of the formation transactions and this offering, this opportunity will also be provided upon future repayment, retirement, refinancing, or other reduction (other than scheduled amortization) of our operating partnership's liabilities, and we will indemnify those partners for any tax liabilities they incur as a result of our failure to timely provide such opportunity and any tax liabilities incurred as a result of such tax protection payment. See [Structure and Formation of Our Company Tax Protection Agreements](#) and [Structure and Formation of Our Company Benefits of the Formation Transactions to Related Parties](#).

- i Pursuant to the terms of the partnership agreement of our operating partnership, we will agree to file, following the date on which we become eligible to file a registration statement on Form S-3 under the Securities Act of 1933, as amended, one or more registration statements registering the issuance and resale of the common stock issuable upon redemption of the common units issued in connection with the formation transactions, including those issued to Messrs. Hoffler, Haddad and Kirk, their affiliates and related trusts and certain of our other directors and executive officers and their affiliates. We will agree to pay all of the expenses relating to such registration statements. See [Shares Eligible for Future Sale Registration Rights](#).

- i We intend to adopt a severance plan, effective upon completion of this offering, in which certain of our officers will be participants, including our named executive officers. The material terms of this plan are

Table of Contents

described under Executive Compensation Severance Benefits and Executive Compensation Summary Compensation Table.

- i We intend to enter into indemnification agreements with our directors and executive officers effective upon the completion of this offering, providing for procedures for indemnification by us to the fullest extent permitted by law and advancements by us of certain expenses and costs relating to claims, suits or proceedings arising from their service to us or, at our request, service to other entities, as officers or directors or in certain other capacities.

- i We have adopted our 2013 Equity Incentive Plan, under which we may grant cash or equity incentive awards to our directors, officers, employees and consultants. Upon completion of this offering, we will issue an aggregate of 7,826 shares of restricted common stock to Messrs. Hoffer and Kirk, and an aggregate of 8,696 shares of restricted common stock to our independent directors. See Executive Compensation Equity Incentive Plan.

Implications of Being an Emerging Growth Company

We qualify as an emerging growth company, as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. An emerging growth company may take advantage of specified reduced reporting requirements and are relieved of certain other significant requirements that are otherwise generally applicable to public companies. As an emerging growth company, among other things:

- i we are exempt from the requirement to obtain an attestation and report from our auditors on the assessment of our internal control over financial reporting pursuant to the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act;

- i we are permitted to provide less extensive disclosure about our executive compensation arrangements;

- i we are not required to give our stockholders non-binding advisory votes on executive compensation or golden parachute arrangements; and

- i we have elected not to use an extended transition period for complying with new or revised accounting standards.

We may take advantage of these provisions for up to five years or such earlier time that we are no longer an emerging growth company. We would cease to be an emerging growth company if we have more than \$1 billion in annual revenues, have more than \$700 million in market value of shares of our common stock held by non-affiliates, or issue more than \$1 billion of non-convertible debt securities over a three-year period.

Table of Contents

Our Structure

The following diagram depicts our expected ownership structure upon completion of this offering and the formation transactions. Our operating partnership will own the various properties in our initial portfolio directly or indirectly, and in some cases through special purpose entities that were created in connection with various financings.

- (1) Reflects (a) 4,348 and 3,478 shares of restricted common stock to be granted to Messrs. Hoffler and Kirk, respectively, concurrently with the completion of this offering, (b) 2,174 shares of restricted common stock to be granted to each of our independent directors concurrently with the completion of this offering and (c) an aggregate of 157,391 shares of restricted common stock to be granted to certain officers and employees of our company concurrently with the completion of this offering.

Restrictions on Transfer

Under the partnership agreement for our operating partnership, holders of common units may not transfer their units without our prior consent, as general partner of the operating partnership. Each of our executive officers, directors and director nominees and their respective affiliates have agreed not to sell or otherwise transfer or encumber any shares of our common stock or securities convertible or exchangeable into our common stock (including common units) owned by them at the completion of this offering or thereafter acquired by them for a period of 180 days (with respect to our executive officers, directors and director nominees and their affiliates) without the written consent of Robert W. Baird & Co. Incorporated. Beginning on the first anniversary of the completion of the formation transactions, holders of common units may tender their units for redemption by the operating partnership in exchange for cash equal to the market price of our common stock at the time of redemption or, at our option, for shares of our common stock on a one-for-one basis as described under Description of the Partnership Agreement of Armada Hoffler, L.P. Redemption Rights.

Restrictions on Ownership of our Capital Stock

Due to limitations on the concentration of ownership of REIT stock imposed by the Internal Revenue Code of 1986, as amended, or the Code, effective upon the completion of this offering and subject to certain exceptions, our charter will provide that no person may beneficially or constructively own more than 9.8% in value or in number of shares, whichever is

Table of Contents

more restrictive, of the outstanding shares of any class or series of our capital stock. See [Description of Capital Stock](#) [Restrictions on Ownership and Transfer](#).

Our charter will also prohibit any person from, among other things:

- i beneficially or constructively owning or transferring shares of our capital stock if such ownership or transfer would result in our being [closely held](#) within the meaning of Section 856(h) of the Code (without regard to whether the ownership interest is held during the last half of a year);

- i transferring shares of our capital stock if such transfer would result in our capital stock being owned by less than 100 persons;

- i beneficially or constructively owning shares of our capital stock to the extent such beneficial or constructive ownership would cause us to constructively own ten percent or more of the ownership interests in a tenant (other than a TRS) of our real property within the meaning of Section 856(d)(2)(B) of the Code; and

- i beneficially or constructively owning or transferring shares of our capital stock if such beneficial or constructive ownership or transfer would otherwise cause us to fail to qualify as a REIT under the Code, including, but not limited to, as a result of any hotel management companies failing to qualify as an [eligible independent contractor](#) under the REIT rules.

Our board of directors, in its sole discretion, may exempt (prospectively or retroactively) a person from the 9.8% ownership limit and certain other restrictions in our charter and may establish or increase an excepted holder percentage limit for such person if our board of directors obtains such representations, covenants and undertakings as it deems appropriate in order to conclude that granting the exemption or establishing or increasing the excepted holder percentage limit will not cause us to lose our status as a REIT.

Our charter will also provide that any ownership or purported transfer of our stock in violation of the foregoing restrictions will result in the shares owned or transferred in such violation being automatically transferred to one or more charitable trusts for the benefit of a charitable beneficiary and the purported owner or transferee acquiring no rights in such shares, except that any transfer that results in the violation of the restriction relating to shares of our capital stock being beneficially owned by fewer than 100 persons will be null and void. If the transfer to the trust is ineffective for any reason to prevent a violation of the restriction, the transfer that would have resulted in such violation will be null and void.

Conflicts of Interest

Following the completion of this offering and the formation transactions, conflicts of interest may arise between the holders of common units of our operating partnership, on the one hand, and our stockholders, on the other hand, with respect to certain transactions, such as the sale of properties or a reduction of indebtedness, which could have adverse tax consequences to holders of common units, including Messrs. Hoffer, Haddad and Kirk (our Executive Chairman, President and Chief Executive Officer and Vice Chairman, respectively), thereby making those transactions less desirable to such holders. See [Policies with respect to Certain Activities](#) [Conflict of Interest Policies](#) and [Description of the Partnership Agreement of Armada Hoffer, L.P.](#) In addition, Messrs. Hoffer, Haddad and Kirk and our other directors and executive officers are parties to, or have interests in, certain agreements with us, including contribution agreements and, in the case of Mr. Hoffer, a representation, warranty and indemnity agreement. See [Certain Relationships and Related Transactions](#) [Formation Transactions](#). Furthermore, our operating partnership will enter into tax protection agreements with certain prior investors who will become limited partners of our operating partnership, including Messrs. Hoffer, Haddad, Kirk, Nero and Apperson and their affiliates and certain of our other officers, pursuant to which our operating partnership will agree to

Table of Contents

indemnify them against certain adverse tax consequences to them, which may affect the way in which we conduct our business, including with respect to when and under what circumstances we sell properties in our initial portfolio or interests therein or repay debt during the restriction period. See [Structure and Formation of Our Company Tax Protection Agreements](#). There may be conflicts of interest in the interpretation and enforcement of such agreements.

In addition, our management team will retain ownership interests in certain properties that will not be contributed to us in our formation transactions. We will provide asset management services to 16 of these properties and construction and development services to the Apprentice School project following the completion of this offering. As a result of these ownership interests and asset management agreements, our management team will have conflicts of interest. See [Risk Factors Risks Related to Our Organizational Structure](#) We may pursue less vigorous enforcement of terms of the contribution and other agreements with members of our senior management and our affiliates because of our dependence on them and conflicts of interest. For additional information about these relationships, see [Certain Relationships and Related Transactions Excluded Assets](#).

We will have options to purchase eight parcels of developable land from entities owned or controlled by the Armada Hoffler affiliates following the completion of the formation transactions. These individuals will have a conflict of interest with respect to our election to exercise these options and acquire these properties.

Distribution Policy

We intend to pay regular quarterly cash dividends to holders of our common stock. Although we have not previously paid dividends, we intend to pay a pro rata dividend with respect to the period commencing on the completion of this offering and ending June 30, 2013 based on \$0.1575 per share for a full quarter. On an annualized basis, this would be \$0.63 per share, or an annual dividend rate of approximately 5.48%, based on a value equal to \$11.50, which is the price to the public of our common stock in this offering. We intend to maintain our initial dividend rate for the 12-month period following completion of this offering unless actual results of operations, economic conditions or other factors differ materially from the assumptions used in our estimates. Actual distributions may be significantly different from expected distributions. Distributions declared by us will be authorized by our board of directors in its sole discretion out of funds legally available therefor and will depend upon a number of factors, including restrictions under applicable law, our results of operations, the capital requirements of our company and the distribution requirements necessary to maintain our qualification as a REIT. See [Distribution Policy](#).

We intend to make dividend distributions that will enable us to meet the distribution requirements applicable to REITs and to eliminate or minimize our obligation to pay income and excise taxes. Although we have no current intention to pay dividends in shares of our common stock, we may in the future choose to do so. See [Material U.S. Federal Income Tax Considerations Taxation of Taxable U.S. Stockholders](#) and [Risk Factors Risks Related to Our Status as a REIT](#) We may pay taxable dividends in shares of our common stock and cash, in which case stockholders may sell shares of our common stock to pay tax on such dividends, placing downward pressure on the market price of our common stock. We do not intend to reduce the expected dividend per share if the underwriters' overallotment option is exercised.

Our Tax Status

We intend to elect and qualify to be taxed as a REIT for U.S. federal income tax purposes commencing with our short taxable year ending December 31, 2013. Our qualification as a REIT will depend upon our ability to meet, on a continuing basis, through actual investment and operating results, various complex requirements under the Code relating to, among other things, the sources of our gross income, the composition and values of our assets, our distribution levels and the diversity of ownership of our capital stock. We believe that we will be organized in conformity with the requirements for qualification as a REIT under the Code and that our intended manner of operation will enable us to meet the requirements for qualification and taxation as a REIT for U.S. federal income tax purposes commencing with our short taxable year ending December 31, 2013. In addition, we intend to elect to treat AHP Holding, Inc., which, through its wholly-owned subsidiaries, will operate our construction, development and third-party asset management businesses, as a TRS.

Table of Contents

As a REIT, we generally will not be subject to U.S. federal income tax on our net taxable income that we distribute currently to our stockholders. Under the Code, REITs are subject to numerous organizational and operational requirements, including a requirement that they distribute each year at least 90% of their REIT taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gains. If we fail to qualify for taxation as a REIT in any taxable year and do not qualify for certain statutory relief provisions, our income for that year will be taxed at regular corporate rates, and we would be disqualified from taxation as a REIT for the four taxable years following the year during which we ceased to qualify as a REIT. Even if we qualify as a REIT for U.S. federal income tax purposes, we may still be subject to state and local taxes on our income and assets and to federal income and excise taxes on our undistributed income. Additionally, any income earned by our services company, and any other TRS we form in the future, will be fully subject to federal, state and local corporate income tax.

Corporate Information

Our principal executive office is located at 222 Central Park Avenue, Suite 2100, Virginia Beach, Virginia 23462 in the Armada Hoffler Tower at the Virginia Beach Town Center. In addition, we have construction offices located at 249 Central Park Avenue, Suite 300, Virginia Beach, Virginia 23462 and 720 Aliceanna Street, Suite 320-A, Baltimore, Maryland 21202. The telephone number for our principal executive office is (757) 366-4000. We maintain a website located at www.armadahoffler.com. The information on, or accessible through, our website is not incorporated into and does not constitute a part of this prospectus or any other report or document we file with or furnish to the Securities and Exchange Commission, or SEC.

Table of Contents

This Offering

Common stock offered by us 16,525,000 shares (plus up to an additional 2,478,750 shares of our common stock that we may issue and sell upon the exercise of the underwriters' overallotment option in full).

Common stock to be outstanding after this offering 16,698,913 shares⁽¹⁾

Common stock and common units to be outstanding after this offering and the formation transactions 29,738,909 shares and common units⁽¹⁾⁽²⁾

Use of proceeds We estimate that the net proceeds of this offering, after deducting the underwriting discount and commissions and estimated unpaid offering expenses of approximately \$3.0 million payable by us, will be approximately \$173.7 million (approximately \$200.2 million if the underwriters exercise their overallotment option in full). We will contribute the net proceeds of this offering to our operating partnership. Our operating partnership intends to use the net proceeds of this offering as follows:

approximately \$112.8 million to repay outstanding indebtedness, including exit fees, defeasance costs and assumption costs of approximately \$2.2 million;

approximately \$44.0 million to pay prior investors in connection with the formation transactions; and

the remaining net proceeds, if any, for general corporate purposes, including working capital, future acquisitions, transfer taxes and, potentially, paying distributions.

Risk Factors Investing in our common stock involves a high degree of risk. You should carefully read and consider the information set forth under the heading "Risk Factors" beginning on page 21 and other information included in this prospectus before investing in our common stock.

NYSE symbol AHH

(1) Includes (a) 16,525,000 shares of common stock to be issued in this offering, (b) an aggregate of 16,522 restricted shares to be granted to our directors concurrently with the completion of this offering (c) an aggregate of 157,391 shares of restricted stock to be granted to our employees concurrently with the completion of this offering. Excludes (a) 2,478,750 shares of our common stock issuable upon the exercise of the underwriters' overallotment option in full, (b) 526,087 shares of our common stock available for future issuance under our 2013 Equity Incentive Plan, and (c) 13,039,996 shares that may be issued, at our option, upon redemption of common units to be issued in the formation transactions.

(2) Includes 13,039,996 common units expected to be issued in the formation transactions, which may, subject to certain limitations, and as set forth in the partnership agreement of our operating partnership, be redeemed for cash or, at our option, for shares of our common stock on a one-for-one basis beginning one year following completion of the formation transactions.

Table of Contents

Summary Selected Financial Data

The following table sets forth summary selected financial and operating data on a historical combined basis for our Predecessor. Our Predecessor, which is not a legal entity, is comprised of certain entities and their consolidated subsidiaries that own directly or indirectly (i) controlling interests in 22 office, retail and multifamily properties, (ii) non-controlling, unconsolidated equity interests in one retail and one multifamily property, (iii) the property development and asset management business of Armada Hoffler and (iv) the general commercial construction business of Armada Hoffler. We refer to these entities and their subsidiaries as the ownership entities. Each of the ownership entities currently owns, directly or indirectly, one or more office, retail or multifamily properties. Upon completion of this offering and the formation transactions, we will acquire the 22 office, retail and multifamily properties owned directly or indirectly by our Predecessor, as well as our Predecessor's unconsolidated equity interests in one retail and one multifamily property, and assume the ownership and operation of its business. We have not presented historical information for Armada Hoffler Properties, Inc. because we have not had any corporate activity since our formation other than the issuance of 1,000 shares of common stock in connection with the initial capitalization of the company and activity in connection with this offering, and because we believe that a discussion of the results of Armada Hoffler Properties, Inc. would not be meaningful.

You should read the following summary selected financial data in conjunction with our historical combined financial statements and the related notes and with Management's Discussion and Analysis of Financial Condition and Results of Operations, which are included elsewhere in this prospectus.

The historical combined balance sheet information as of December 31, 2012 and 2011 of our Predecessor and the combined statements of operations for the years ended December 31, 2012, 2011 and 2010 of our Predecessor have been derived from the historical audited combined financial statements included elsewhere in this prospectus and includes all adjustments consisting of normal recurring adjustments, which management considers necessary for a fair presentation of the historical financial statements for such periods. The historical combined balance sheet information of our Predecessor as of December 31, 2010 has been derived from the historical audited combined financial statements not included in this prospectus.

Our unaudited selected pro forma consolidated financial statements and operating information as of and for the year ended December 31, 2012 assume completion of this offering and the formation transactions as of January 1, 2012 for the operating data and as of December 31, 2012 for the balance sheet data. Our pro forma financial information is not necessarily indicative of what our actual financial position and results of operations would have been as of the date and for the periods indicated, nor does it purport to represent our future financial position or results of operations.

Table of Contents

The Company (Pro Forma) and Our Predecessor

	Year Ended December 31,			
	Pro Forma Consolidated 2012	2012	Historical Combined 2011	2010
(In thousands, except per share data)				
Statement of Operations Data:				
Revenues:				
Rental revenues	\$ 60,075	\$ 54,436	\$ 52,578	\$ 47,847
General contractor and service revenues	54,046	54,046	77,602	87,279
Total revenues	114,121	108,482	130,180	135,126
Expenses:				
Rental expenses	14,192	12,682	12,568	11,734
Real estate taxes	5,256	4,865	4,781	4,463
General contractor expenses	50,103	50,103	72,138	82,127
General and administrative expenses	4,197	3,232	3,728	2,523
Depreciation and amortization	15,260	12,909	12,994	12,158
Total expenses	89,008	83,791	106,209	113,005
Operating income	25,113	24,691	23,971	22,121
Other income (expense)	138	777	258	168
Interest expense	(13,075)	(16,561)	(18,134)	(18,208)
Loss on extinguishment of debt			(3,448)	
Income from continuing operations, before tax	12,176	8,907	2,647	4,081
Income tax provision	259			
Income from continuing operations	11,917	8,907	2,647	4,081
Discontinued operations:				
Loss from discontinued operations		(35)	(318)	(338)
Loss on sale of real estate		25	(63)	1
Results from discontinued operations		(10)	(381)	(337)
Net income	\$ 11,917	\$ 8,897	\$ 2,266	\$ 3,744
Net income attributable to noncontrolling interests in operating partnership	5,225			
Net income attributable to common stockholders	6,692			
Balance Sheet Data (at period end):				
Assets				
Real estate, at cost				
Operating real estate	\$ 401,278	\$ 350,814	\$ 345,412	\$ 340,131
Held for development	3,926	3,926	1,836	1,836
Construction in progress			2,685	1,660
	405,204	354,740	349,933	343,627
Accumulated depreciation	(92,454)	(92,454)	(80,923)	(69,532)
Net real estate investments	312,750	262,286	269,010	274,095
Real estate assets held-for-sale			473	3,162
Cash and cash equivalents	18,404	9,400	13,449	8,435
Restricted cash	3,025	3,725	4,335	6,156
Other assets	59,171	56,402	52,867	67,600
Total Assets	\$ 393,350	\$ 331,813	\$ 340,134	\$ 359,448
Liabilities and Equity				
Indebtedness:				
Secured debt	\$ 279,944	\$ 334,438	\$ 338,919	\$ 333,568
Participating note		643	643	643
Debt related to real estate assets held-for-sale				1,225
Construction payables including retention	17,369	17,369	20,375	27,079
Other liabilities	21,497	20,704	17,596	20,478
Total Liabilities	\$ 318,810	\$ 373,154	\$ 377,533	\$ 382,993
Equity	74,540	(41,341)	(37,399)	(23,545)
Total Liabilities and Equity	\$ 393,350	\$ 331,813	\$ 340,134	\$ 359,448
Per Share Data:				
Pro forma basic earnings per share	\$ 0.40			
Pro forma diluted earnings per share	\$ 0.40			

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Pro forma weighted average shares of common stock outstanding basic	16,699			
Pro forma weighted average shares of common stock outstanding diluted	16,699			
Other Data:				
Pro forma funds from operations ⁽¹⁾	\$ 27,177			
Cash flows from:				
Operating activities	\$ 25,094	\$ 22,326	\$ 23,183	\$ 6,090
Investing activities	(7,471)	(4,702)	(5,998)	(14,715)
Financing activities	(12,668)	(21,673)	(12,171)	5,566

Table of Contents

- (1) We calculate FFO in accordance with the standards established by the National Association of Real Estate Investment Trusts, or NAREIT. FFO represents net income (loss) (computed in accordance with U.S. generally accepted accounting principles, or GAAP), excluding gains (or losses) from sales of depreciable operating property, real estate related depreciation and amortization (excluding amortization of deferred financing costs) and after adjustments for unconsolidated partnerships and joint ventures. FFO is a supplemental non-GAAP financial measure. Management uses FFO as a supplemental performance measure because it believes that FFO is beneficial to investors as a starting point in measuring our operational performance. Specifically, in excluding real estate related depreciation and amortization and gains and losses from property dispositions, which do not relate to or are not indicative of operating performance, FFO provides a performance measure that, when compared year over year, captures trends in occupancy rates, rental rates and operating costs. We also believe that, as a widely recognized measure of the performance of REITs, FFO will be used by investors as a basis to compare our operating performance with that of other REITs. However, because FFO excludes real estate related 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. The following table sets forth a reconciliation of our pro forma FFO to net income, the most directly comparable GAAP equivalent, for the periods presented:

	Pro Forma Year Ended December 31, 2012
Pro forma net income	\$ 11,917
Plus: pro forma real estate depreciation and amortization	15,260
Pro forma funds from operations	\$ 27,177

Table of Contents

RISK FACTORS

*Investing in our common stock involves a high degree of risk. In addition to other information contained in this prospectus, you should carefully consider the following factors, together with the other information contained in this prospectus, including our historical and pro forma combined financial statements and the notes thereto, before making an investment decision to purchase shares of our common stock offered by this prospectus. The occurrence of any of the following risks could materially and adversely affect our business, prospects, financial condition, cash flows, funds from operations, results of operations, the per share trading price of our common stock and our ability to make cash distributions to our stockholders, which could cause you to lose all or a part of your investment in our common stock. Some statements in this prospectus, including statements in the following risk factors, constitute forward-looking statements. Please refer to the section titled *Forward-Looking Statements*.*

Risks Related to Our Real Estate Ownership, Acquisition and Development Business

The geographic concentration of our initial portfolio could cause us to be more susceptible to adverse economic or regulatory developments in the markets in which our properties are located than if we owned a more geographically diverse portfolio.

The properties in our initial portfolio are located in Virginia and North Carolina, which exposes us to greater economic risks than if we owned a more geographically diverse portfolio. As of December 31, 2012, our properties in the Virginia and North Carolina markets represented approximately 93.7% and 6.3%, respectively, of the total annualized base rent of the properties in our portfolio. As a result, we are particularly susceptible to adverse economic, regulatory or other conditions in these markets (such as periods of economic slowdown or recession, business layoffs or downsizing, industry slowdowns, relocations of businesses, increases in real estate and other taxes and the cost of complying with governmental regulations or increased regulation), as well as to natural disasters that occur in these markets (such as hurricanes and other events). For example, the markets in Virginia in which the properties in our initial portfolio are located contain high concentrations of military personnel and operations. A reduction of the military presence or cuts in defense spending in these markets including, but not limited to, as a result of the triggered automatic reductions in U.S. government spending known as sequestration, which went into effect March 1, 2013, could have a material adverse effect on us. If there is a further downturn in the economy in the Virginia or North Carolina markets, our operations and our revenue and cash available for distribution, including cash available to pay distributions to our stockholders, could be materially adversely affected. We cannot assure you that these markets will grow or that underlying real estate fundamentals will be favorable to owners and operators of office, retail or multifamily properties. Our operations may also be affected if competing properties are built in these markets. Moreover, submarkets within any of our target markets may be dependent upon a limited number of industries. Any adverse economic or real estate developments in our markets, or any decrease in demand for office, retail or multifamily space resulting from the regulatory environment, business climate or energy or fiscal problems, could materially adversely affect us, including our financial condition, results of operations, cash flow, cash available for distribution and our ability to satisfy our debt service obligations.

We expect to have approximately \$280 million of indebtedness outstanding following this offering, including amounts to be drawn from our credit facility at or shortly after the completion of this offering, which may expose us to the risk of default under our debt obligations and may include covenants that restrict our ability to pay distributions to our stockholders.

Upon completion of this offering and the formation transactions, we anticipate that our total indebtedness will be approximately \$280 million, including amounts to be drawn from our credit facility at or shortly after the completion of this offering, a substantial portion of which will be guaranteed by our operating partnership, and we may incur significant additional debt to finance future acquisition and development activities. Concurrently with, or shortly after, the completion of this offering, we will enter into a \$100 million secured credit facility, which we expect to contain an accordion feature that will allow us to increase the borrowing capacity under the facility up to \$250 million, subject to our satisfaction of certain conditions.

Table of Contents

Payments of principal and interest on borrowings may leave us with insufficient cash resources to operate our properties or to pay the dividends currently contemplated or necessary to maintain our REIT qualification. Our level of debt and the limitations imposed on us by our debt agreements could have significant adverse consequences, including the following:

- i our cash flow may be insufficient to meet our required principal and interest payments;
- i we may be unable to borrow additional funds as needed or on favorable terms, which could, among other things, adversely affect our ability to meet operational needs;
- i we may be unable to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our original indebtedness;
- i we may be forced to dispose of one or more of our properties, possibly on unfavorable terms or in violation of certain covenants to which we may be subject;
- i we may default on our obligations, in which case the lenders or mortgagees may have the right to foreclose on any properties that secure the loans or collect rents and other income from our properties;
- i we may violate restrictive covenants in our loan documents, which would entitle the lenders to accelerate our debt obligations or reduce our ability to pay, or prohibit us from paying, distributions to our stockholders; and
- i our default under any loan with cross default provisions could result in a default on other indebtedness.

If any one of these events were to occur, our financial condition, results of operations and cash flow could be materially adversely affected. Furthermore, foreclosures could create taxable income without accompanying cash proceeds, which could hinder our ability to meet the REIT distribution requirements imposed by the Code. See Management's Discussion and Analysis of Financial Condition and Results of Operations Consolidated Indebtedness to be Outstanding After this Offering.

We depend on significant tenants in certain of our office properties, and a bankruptcy, insolvency or inability to pay rent by any of these tenants could result in a material decrease in our rental income, which would have a material adverse effect on us, including our financial condition, results of operations, cash flow, cash available for distribution and our ability to service our debt obligations.

As of December 31, 2012, the three largest tenants at properties in our office portfolio Williams Mullen, Troutman Sanders LLP and Pender & Coward collectively represented approximately 40.8%, and individually represented 32.4%, 4.4% and 4.0%, respectively, of the total annualized base rent in our office portfolio. In addition, Sentara Williamsburg and Virginia Natural Gas are 100% occupied by Sentara Medical Group and Virginia Natural Gas, respectively. The inability of these or other significant tenants to pay rent or the bankruptcy or insolvency of a significant tenant may adversely affect the income produced by our office properties. For example, Williams Mullen, the largest tenant at properties in our initial portfolio by annualized base rent, accounts for an annualized base rent of approximately \$7.6 million, which represents 14.2% of the total annualized base rent of our initial portfolio. As a result, Williams Mullen's inability to pay rent could materially adversely affect the income produced by our initial portfolio.

If a tenant becomes bankrupt or insolvent, federal law may prohibit us from evicting such tenant based solely upon such bankruptcy or insolvency. In addition, a bankrupt or insolvent tenant may be authorized to reject and terminate its lease with us. Any claim against such tenant for unpaid, future rent would be subject to a statutory cap that might be substantially less than the remaining rent owed under the lease. If any of these tenants were to experience a downturn in its business or a weakening of its financial condition resulting in its failure to make timely rental payments or causing it to default under its lease, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment. In many cases, we may have made substantial initial investments in the applicable leases through tenant

Table of Contents

improvement allowances and other concessions that we may not be able to recover. Any such event could have a material adverse effect on us, including our financial condition, results of operations, cash flow, cash available for distribution and our ability to service our debt obligations.

The loss of, or a store closure by, one of the anchor stores or major tenants in our retail shopping center properties could result in a material decrease in our rental income, which would have a material adverse effect on us, including our financial condition, results of operations, cash flow, cash available for distribution and our ability to service our debt obligations.

Our retail shopping center properties typically are anchored by large, nationally recognized tenants. As of December 31, 2012, Home Depot, Harris Teeter and Food Lion collectively represented approximately 23.2%, and individually represented 9.9%, 7.0% and 6.3%, respectively, of the total annualized base rent in our retail portfolio. In addition, several of our retail properties are single-tenant properties or are occupied primarily by a single tenant. As of December 31, 2012, the Courthouse 7-Eleven, Tyre Neck Harris Teeter and Harrisonburg Regal Cinemas retail properties in our portfolio were 100% occupied by 7-Eleven, Harris Teeter and Regal Cinemas, respectively, and the Dick's at Town Center and Studio 56 retail properties were approximately 83% and 69% occupied by Dick's Sporting Goods and McCormack & Schmick's, respectively. At any time, our tenants may experience a downturn in their business that may weaken significantly their financial condition. As a result, our tenants, including our anchor and other major tenants, may fail to comply with their contractual obligations to us, seek concessions in order to continue operations or declare bankruptcy, any of which could result in the termination of such tenants' leases and the loss of rental income attributable to the terminated leases. In addition, certain of our tenants may cease operations while continuing to pay rent, which could decrease customer traffic, thereby decreasing sales for our other tenants at the applicable retail property. In addition to these potential effects of a business downturn, mergers or consolidations among retail establishments could result in the closure of existing stores or duplicate or geographically overlapping store locations, which could include stores at our retail properties.

Loss of, or a store closure by, an anchor or major tenant could significantly reduce our occupancy level or the rent we receive from our retail properties, and we may not have the right to re-lease vacated space or we may be unable to re-lease vacated space at attractive rents or at all. Moreover, in the event of default by a major tenant or anchor store, we may experience delays and costs in enforcing our rights as landlord to recover amounts due to us under the terms of our agreements with those parties. The occurrence of any of the situations described above, particularly if it involves an anchor tenant with leases in multiple locations, could seriously harm our performance and could adversely affect the value of the affected retail property.

In the event that any of the anchor stores, major tenants or single-tenant property tenants in our retail properties do not renew their leases with us when they expire, we may be unable to re-lease such premises at market rents, or at all, which could have a material adverse effect on us, including our financial condition, results of operations, cash flow and cash available for distribution and our ability to satisfy our debt service obligations.

We may be unable to renew leases, lease vacant space or re-let space on favorable terms or at all as leases expire, which could materially adversely affect us, including our financial condition, results of operations, cash flow, cash available for distribution and our ability to service our debt obligations.

As of December 31, 2012, 6.0% of the square footage of the properties in our office and retail portfolios was available. We cannot assure you that leases will be renewed or that our properties will be re-let at net effective rental rates equal to or above the current average net effective rental rates or that substantial rent abatements, tenant improvements, early termination rights or below-market renewal options will not be offered to attract new tenants or retain existing tenants. In addition, our ability to lease our multifamily properties at favorable rates, or at all, may be adversely affected by the increase in supply of multifamily properties in our target markets. Our ability to lease our properties depends upon the overall level of spending in the economy, which is adversely affected by, among other things, job losses and unemployment levels, recession, personal debt levels, the housing market, stock market volatility and uncertainty about the future. If rental rates for our properties decrease, our existing tenants do not renew their leases or we do not re-let a significant portion of our available space and space for which leases expire, our financial condition, results of operations, cash flow, cash available for distributions and our ability to service our debt obligations could be materially adversely affected.

Table of Contents

Competition for property acquisitions and development opportunities may reduce the number of opportunities available to us and increase our costs, which could have a material adverse effect on our growth prospects.

The current market for property acquisitions and development opportunities continues to be extremely competitive. This competition may increase the demand for the types of properties in which we typically invest and, therefore, reduce the number of suitable investment opportunities available to us and increase the purchase prices for such properties, in the event we are able to acquire or develop such properties. We face significant competition for attractive investment opportunities from an indeterminate number of investors, including publicly traded and privately held REITs, private equity investors and institutional investment funds, some of which have greater financial resources than we do, a greater ability to borrow funds to make investments in properties and the ability to accept more risk than we can prudently manage, including risks with respect to the geographic proximity of investments and the payment of higher acquisition prices. This competition will increase if investments in real estate become more attractive relative to other forms of investment. If the level of competition for investment opportunities is significant in our target markets, it could have a material adverse effect on our growth prospects.

The failure of properties developed or acquired in the future to meet our financial expectations could have a material adverse effect on us, including our financial condition, results of operations, cash flow, the per share trading price of our common stock and our growth prospects.

Our future acquisitions and development projects and our ability to successfully operate these properties may be exposed to the following significant risks, among others:

- i we may acquire or develop properties that are not accretive to our results upon acquisition, and we may not successfully manage and lease those properties to meet our expectations;

- i our cash flow may be insufficient to enable us to pay the required principal and interest payments on the debt secured by the property;

- i we may spend more than budgeted amounts to make necessary improvements or renovations to acquired properties or to develop new properties;

- i we may be unable to quickly and efficiently integrate new acquisitions or developed properties into our existing operations;

- i market conditions may result in higher than expected vacancy rates and lower than expected rental rates; and

- i we may acquire properties subject to liabilities and without any recourse, or with only limited recourse, with respect to unknown liabilities such as liabilities for clean-up of undisclosed environmental contamination, claims by tenants, vendors or other persons dealing with the former owners of the properties, liabilities incurred in the ordinary course of business and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

If we cannot operate acquired or developed properties to meet our financial expectations, our growth prospects could be materially adversely affected.

Certain of the leases at our retail properties contain co-tenancy or go-dark provisions, which, if triggered, may allow tenants to pay reduced rent, cease operations or terminate their leases, any of which could materially adversely affect our performance or the value of the affected retail property.

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Certain of the leases at our retail properties contain co-tenancy provisions that condition a tenant's obligation to remain open, the amount of rent payable by the tenant or the tenant's obligation to continue occupancy on certain conditions, including: (1) the presence of a certain anchor tenant or tenants; (2) the continued operation of an anchor tenant's store; and (3) minimum occupancy levels at the retail property. If a co-tenancy provision is triggered by a failure of any of these or other

Table of Contents

applicable conditions, a tenant could have the right to cease operations, to terminate its lease early or to reduce its rent. In periods of prolonged economic decline, there is a higher than normal risk that co-tenancy provisions will be triggered as there is a higher risk of tenants closing stores or terminating leases during these periods. In addition to these co-tenancy provisions, certain of the leases at our retail properties contain go-dark provisions that allow the tenant to cease operations while continuing to pay rent. This could result in decreased customer traffic at the affected retail property, thereby decreasing sales for our other tenants at that property, which may result in our other tenants being unable to pay their minimum rents or expense recovery charges. These provisions also may result in lower rental revenue generated under the applicable leases. To the extent co-tenancy or go-dark provisions in our retail leases result in lower revenue or tenant sales or tenants' rights to terminate their leases early or to a reduction of their rent, revenues and the value of the affected retail property could be materially adversely affected.

Our dependence on smaller businesses, particularly in our retail portfolio, to rent our space could have a material adverse effect on our cash flow and results of operations.

Many of our tenants, particularly those that lease space in our retail properties are smaller businesses that generally do not have the financial strength or resources of larger corporate tenants. In particular, 69 of our retail tenants (representing approximately 11.7% of our annualized base rent from retail properties as of December 31, 2012) lease 2,500 or less square feet from us, and many of those tenants are smaller independent businesses, which generally experience a higher rate of failure than large businesses. As a result of our dependence on these smaller businesses, we could experience a higher rate of tenant defaults, turnover and bankruptcies, which could have a material adverse effect on our cash flow and results of operations.

Many of our operating costs and expenses are fixed and will not decline if our revenues decline.

Our results of operations depend, in large part, on our level of revenues, operating costs and expenses. The expense of owning and operating a property is not necessarily reduced when circumstances such as market factors and competition cause a reduction in revenue from the property. As a result, if revenues decline, we may not be able to reduce our expenses to keep pace with the corresponding reductions in revenues. Many of the costs associated with real estate investments, such as real estate taxes, insurance, loan payments and maintenance, generally will not be reduced if a property is not fully occupied or other circumstances cause our revenues to decrease, which could have a material adverse effect on us, including our financial condition, results of operations, cash flow, cash available for distribution and our ability to service our debt obligations.

Increases in mortgage rates or unavailability of mortgage debt may make it difficult for us to finance or refinance our debt, which could have a material adverse effect on our financial condition, growth prospects and our ability to make distributions to stockholders.

If mortgage debt is unavailable to us at reasonable rates or at all, we may not be able to finance the purchase or development of additional properties or refinance existing debt when it becomes due. If interest rates are higher when we refinance our properties, our income and cash flow could be reduced, which would reduce cash available for distribution to our stockholders and may hinder our ability to raise more capital by issuing more stock or by borrowing more money. In addition, to the extent we are unable to refinance our debt when it becomes due, we will have fewer debt guarantee opportunities available to offer under our tax protection agreements, which could trigger an obligation to indemnify certain parties under the applicable tax protection agreements.

Mortgage debt obligations expose us to the possibility of foreclosure, which could result in the loss of our investment in a property or group of properties subject to mortgage debt.

Mortgage and other secured debt obligations increases our risk of property losses because defaults on indebtedness secured by properties may result in foreclosure actions initiated by lenders and ultimately our loss of the property securing any loans for which we are in default. Any foreclosure on a mortgaged property or group of properties could adversely affect the overall value of our portfolio of properties. For tax purposes, a foreclosure on any of our properties that is subject to a nonrecourse mortgage loan would be treated as a sale of the property for a purchase price equal to the

Table of Contents

outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but would not receive any cash proceeds, which could hinder our ability to meet the REIT distribution requirements imposed by the Code. Foreclosures could also trigger our tax indemnification obligations under the terms of our tax protection agreements with respect to the sales of certain properties.

Most of our debt arrangements involve balloon payment obligations, which may materially adversely affect us, including our cash flows, financial condition and ability to make distributions.

Most of our debt arrangements require us to make a lump-sum or balloon payment at maturity. Our ability to make a balloon payment at maturity is uncertain and may depend upon our ability to obtain additional financing or our ability to sell the property. At the time the balloon payment is due, we may or may not be able to refinance the existing financing on terms as favorable as the original loan or sell the property at a price sufficient to make the balloon payment. In addition, balloon payments and payments of principal and interest on our indebtedness may leave us with insufficient cash to pay the distributions that we are required to pay to maintain our qualification as a REIT.

Upon completion of the offering, we expect to have approximately \$16 million of indebtedness pursuant to a loan on which the lender has waived a financial covenant default through December 31, 2013, and any future default could have a material adverse effect on us, including our cash available for distribution and our ability to service our debt obligations.

One of the properties in our initial portfolio, Two Columbus, is subject to a loan which we expect to have an outstanding balance of approximately \$16 million upon completion of the offering. As of December 31, 2012, the entity that owned Two Columbus, which we will acquire in connection with the formation transaction, was in violation of a covenant in the loan agreement evidencing such loan that required the entity to, among other things, maintain a minimum cash flow to debt service coverage ratio for the fiscal year ended December 31, 2012 and for each fiscal year thereafter.

The lender for this loan has waived this covenant default through December 31, 2013, but there can be no assurance that we will be in compliance with this covenant after December 31, 2013 or will not violate this or another financial covenant in the loan agreement at some point in the future. If such a covenant default were to occur and we were unable to obtain a waiver, we could be required to repay the loan in full, which could have a material adverse effect on us, including our cash available for distribution and our ability to service our other debt obligations.

Our credit facility is expected to restrict our ability to engage in certain business activities, including our ability to incur additional indebtedness, make capital expenditures and make certain investments.

Our credit facility is expected to contain customary negative covenants and other financial and operating covenants that, among other things:

- i restrict our ability to incur additional indebtedness;

- i restrict our ability to incur additional liens;

- i restrict our ability to make certain investments (including certain capital expenditures);

- i restrict our ability to merge with another company;

- i restrict our ability to sell or dispose of assets;

- i restrict our ability to make distributions to stockholders; and

j require us to satisfy minimum financial coverage ratios, minimum tangible net worth requirements and maximum leverage ratios.

Table of Contents

These limitations will restrict our ability to engage in certain business activities, which could materially adversely affect our financial condition, results of operations, cash flow, cash available for distribution and our ability to service our debt obligations. In addition, our credit facility may contain specific cross-default provisions with respect to specified other indebtedness, giving the lenders the right, in certain circumstances, to declare a default if we are in default under other loans.

Adverse economic and geopolitical conditions and dislocations in the credit markets could have a material adverse effect on us, including our financial condition, results of operations, cash flow, cash available for distribution and our ability to service our debt obligations.

Our business may be affected by market and economic challenges experienced by the U.S. economy or real estate industry as a whole, such as the dislocations in the credit markets and general global economic downturn during the recent recessionary period. These conditions, or similar conditions in the future, may materially adversely affect us as a result of the following potential consequences, among others:

- i decreased demand for office, retail and multifamily space, which would cause market rental rates and property values to be negatively impacted;
- i reduced values of our properties may limit our ability to dispose of assets at attractive prices or obtain debt financing secured by our properties and may reduce the availability of unsecured loans;
- i our ability to obtain financing on terms and conditions that we find acceptable, or at all, may be limited, which could reduce our ability to pursue acquisition and development opportunities and refinance existing debt, reduce our returns from our acquisition and development activities and increase our future debt service expense; and
- i one or more lenders under our credit facility could refuse to fund their financing commitment to us or could fail and we may not be able to replace the financing commitment of any such lenders on favorable terms, or at all.

In addition, the recent economic downturn has adversely affected, and may continue to adversely affect, the businesses of many of our tenants. As a result, we may see increases in bankruptcies of our tenants and increased defaults by tenants, and we may experience higher vacancy rates and delays in re-leasing vacant space, which could negatively impact our business and results of operations, cash flow, cash available for distribution and our ability to service our debt obligations.

Failure to hedge effectively against interest rate changes may adversely affect our financial condition, results of operations, cash flow, cash available for distribution and our ability to service our debt obligations.

Subject to maintaining our qualification as a REIT, we may enter into hedging transactions to protect us from the effects of interest rate fluctuations on floating rate debt. Our hedging transactions may include entering into interest rate cap agreements or interest rate swap agreements. These agreements involve risks, such as the risk that such arrangements would not be effective in reducing our exposure to interest rate changes or that a court could rule that such an agreement is not legally enforceable. In addition, interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates. Hedging could increase our costs and reduce the overall returns on our investments. In addition, while hedging agreements would be intended to lessen the impact of rising interest rates on us, they could also expose us to the risk that the other parties to the agreements would not perform, we could incur significant costs associated with the settlement of the agreements or that the underlying transactions could fail to qualify as highly-effective cash flow hedges under Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 815, *Derivatives and Hedging*.

Table of Contents

Adverse conditions in the general retail environment could have a material adverse effect on us, including our financial condition, results of operations, cash flow, cash available for distribution and our ability to satisfy our debt service obligations and to make distributions to our stockholders.

Fifteen of our 24 properties, representing approximately 38.1% of our total annualized base rent as of December 31, 2012, are retail properties. As a result, we are subject to factors that affect the retail sector generally, as well as the market for retail space. The retail environment and the market for retail space have been, and could continue to be, adversely affected by weakness in the national, regional and local economies, the level of consumer spending and consumer confidence, the adverse financial condition of some large retailing companies, the ongoing consolidation in the retail sector, the excess amount of retail space in a number of markets and increasing competition from discount retailers, outlet malls, internet retailers and other online businesses. Increases in consumer spending via the internet may significantly affect our retail tenants' ability to generate sales in their stores. New and enhanced technologies, including new digital technologies and new web services technologies, may increase competition for certain of our retail tenants.

Any of the foregoing factors could adversely affect the financial condition of our retail tenants and the willingness of retailers to lease space in our retail properties. In turn, these conditions could negatively affect market rents for retail space and could materially and adversely affect us, including our financial condition, results of operations, cash flow, cash available for distributions and our ability to service our debt obligations.

We have no operating history as a REIT or a publicly traded company.

We have no operating history as a REIT or a publicly traded company. We cannot assure you that the past experience of our senior management team will be sufficient to successfully operate our company as a REIT or a publicly traded company, including the requirements to timely meet disclosure requirements of the SEC. Following completion of this offering, we will be required to develop and implement control systems and procedures in order to qualify and maintain our qualification as a REIT and satisfy our periodic and current reporting requirements under applicable SEC regulations and comply with New York Stock Exchange, or NYSE, listing standards, and this transition could place a significant strain on our management systems, infrastructure and other resources. See Risks Related to Our Status as a REIT Failure to qualify as a REIT would have significant adverse consequences to us and the per share trading price of our common stock.

We are an emerging growth company, and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make shares of our common stock less attractive to investors.

In April 2012, President Obama signed into law the Jumpstart Our Business Startups Act, or the JOBS Act. The JOBS Act contains provisions that, among other things, relax certain reporting requirements for emerging growth companies, including certain requirements relating to accounting standards and compensation disclosure. We are classified as an emerging growth company. For as long as we are an emerging growth company, which may be up to five full fiscal years, we may take advantage of exemptions from various reporting and other requirements that are applicable to other public companies that are not emerging growth companies, including the requirements to:

- i provide an auditor's attestation report on management's assessment of the effectiveness of our system of internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act;
- i comply with any new or revised financial accounting standards applicable to public companies until such standards are also applicable to private companies;
- i comply with any new requirements adopted by the Public Company Accounting Oversight Board, or the PCAOB, requiring mandatory audit firm rotation or a supplement to the auditor's report in which the auditor would be required to provide additional information about the audit and the financial statements of the issuer;
- i comply with any new audit rules adopted by the PCAOB after April 5, 2012, unless the SEC determines otherwise;

Table of Contents

i provide certain disclosure regarding executive compensation required of larger public companies; or

i hold stockholder advisory votes on executive compensation.

We cannot predict if investors will find shares of our common stock less attractive because we will not be subject to the same reporting and other requirements as other public companies. If some investors find shares of our common stock less attractive as a result, there may be a less active trading market for our common stock, the per share trading price of our common stock could decline and may be more volatile.

We will incur new costs as a result of becoming a public company, and such costs may increase if and when we cease to be an emerging growth company.

As a public company, we will incur significant legal, accounting, insurance and other expenses that we have not incurred as a private company, including costs associated with public company reporting requirements. The expenses incurred by public companies generally for reporting and corporate governance purposes have been increasing. We expect compliance with these public reporting requirements and associated rules and regulations to increase expenses, particularly after we are no longer an emerging growth company, although we are currently unable to estimate these costs with any degree of certainty. We could be an emerging growth company for up to five years, although circumstances could cause us to lose that status earlier, which could result in our incurring additional costs applicable to public companies that are not emerging growth companies.

We will be subject to the requirements of the Sarbanes-Oxley Act of 2002.

As long as we remain an emerging growth company, as that term is defined in the JOBS Act, we will be permitted to gradually comply with certain of the on-going reporting and disclosure obligations of public companies pursuant to the Sarbanes-Oxley Act. See Risk Factors Risks Related to Our Business and Operations We are an emerging growth company, and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make shares of our common stock less attractive to investors.

However, after we are no longer an emerging growth company under the JOBS Act, management will be required to deliver a report that assesses the effectiveness of our internal controls over financial reporting, pursuant to Section 302 of the Sarbanes-Oxley Act. Section 404 of the Sarbanes-Oxley Act may require our auditors to deliver an attestation report on the effectiveness of our internal controls over financial reporting in conjunction with their opinion on our audited financial statements as of December 31 subsequent to the year in which the registration statement (of which this prospectus forms a part) relating to this offering becomes effective. Substantial work on our part is required to implement appropriate processes, document the system of internal control over key processes, assess their design, remediate any deficiencies identified and test their operation. This process is expected to be both costly and challenging. We cannot give any assurances that material weaknesses will not be identified in the future in connection with our compliance with the provisions of Section 302 and 404 of the Sarbanes-Oxley Act. The existence of any material weakness described above would preclude a conclusion by management and our independent auditors that we maintained effective internal control over financial reporting. Our management may be required to devote significant time and expense to remediate any material weaknesses that may be discovered and may not be able to remediate any material weakness in a timely manner. The existence of any material weakness in our internal control over financial reporting could also result in errors in our financial statements that could require us to restate our financial statements, cause us to fail to meet our reporting obligations and cause investors to lose confidence in our reported financial information, all of which could lead to a decline in the per share trading price of our common stock.

We may be required to make rent or other concessions or significant capital expenditures to improve our properties in order to retain and attract tenants, which may materially adversely affect us, including our financial condition, results of operations, cash flow, cash available for distributions and our ability to service our debt obligations.

Upon expiration of our leases to our tenants, to the extent that adverse economic conditions in the real estate market reduce the demand for office, retail and multifamily space, we may be required to make rent or other concessions,

Table of Contents

accommodate requests for renovations, build-to-suit remodeling and other improvements or provide additional services to our tenants, any of which would increase our costs. As a result, we may have to make significant capital or other expenditures in order to retain tenants whose leases expire and to attract new tenants in sufficient numbers. Additionally, we may need to raise capital to make such expenditures. If we are unable to do so or capital is otherwise unavailable, we may be unable to make the required expenditures. This could result in non-renewals by tenants upon expiration of their leases. If any of the foregoing were to occur, it could have a material adverse effect on us, including our financial condition, results of operations, cash flow, cash available for distribution and our ability to service our debt obligations.

Our use of common units as currency to acquire properties could result in stockholder dilution or limit our ability to sell such properties, which could have a material adverse effect on us.

In the future we may acquire properties or portfolios of properties through tax deferred contribution transactions in exchange for partnership interests in our operating partnership, which may result in stockholder dilution. This acquisition structure may have the effect of, among other things, reducing the amount of tax depreciation we could deduct over the tax life of the acquired properties, and may require that we agree to protect the contributors' ability to defer recognition of taxable gain through restrictions on our ability to dispose of the acquired properties or the allocation of partnership debt to the contributors to maintain their tax bases. These restrictions could limit our ability to sell properties at a time, or on terms, that would be favorable absent such restrictions.

Significant competition in the leasing market could have a material adverse effect on us, including our financial condition, results of operations, cash flow, cash available for distribution and our ability to service our debt obligations.

We compete with numerous developers, owners and operators of real estate, many of which own properties similar to ours in the same submarkets in which our properties are located. If our competitors offer space at rental rates below current market rates, or below the rental rates we currently charge our tenants, we may lose existing or potential tenants and we may be pressured to reduce our rental rates below those we currently charge or to offer more substantial rent abatements, tenant improvements, early termination rights or below-market renewal options in order to retain tenants when our tenants' leases expire. As a result, our financial condition, results of operations, cash flow cash available for distributions and our ability to service our debt obligations could be materially and adversely affected.

We have not obtained any third-party appraisals of the properties and other assets to be acquired by us from the prior investors in connection with the formation transactions. Accordingly, the value of the cash and common units to be paid or issued as consideration for the properties and assets to be acquired by us in the formation transactions may exceed their aggregate fair market value and will exceed their aggregate historical combined net tangible book value of approximately \$(41.3) million as of December 31, 2012.

We have not obtained any third-party appraisals of the properties and other assets to be acquired by us from the prior investors in connection with the formation transactions. The initial public offering price of our common stock was determined in consultation with the underwriters. The initial public offering price of \$11.50 per share of our common stock in this offering does not necessarily bear any relationship to the book value or the fair market value of such properties and assets. As a result, the price to be paid by us for the acquisition of the properties and assets in the formation transactions may exceed the fair market value of those properties and assets. The aggregate historical combined net tangible book value of our predecessor was approximately \$(41.3) million as of December 31, 2012.

Our success depends on key personnel whose continued service is not guaranteed, and the loss of one or more of our key personnel could adversely affect our ability to manage our business and to implement our growth strategies, or could create a negative perception of our company in the capital markets.

Our continued success and our ability to manage anticipated future growth depend, in large part, upon the efforts of key personnel, particularly Messrs. Hoffer, Kirk, Haddad, Nero, Apperson, O Hara, and Smith and Ms. Hampton, who have

Table of Contents

extensive market knowledge and relationships and exercise substantial influence over our operational, financing, development and construction activity. Among the reasons that these individuals are important to our success is that each has a national or regional industry reputation that attracts business and investment opportunities and assists us in negotiations with lenders, existing and potential tenants and industry personnel. If we lose their services, our relationships with such personnel could diminish.

Many of our other senior executives also have extensive experience and strong reputations in the real estate industry, which aid us in identifying opportunities, having opportunities brought to us and negotiating with tenants and build-to-suit prospects. The loss of services of one or more members of our senior management team, or our inability to attract and retain highly qualified personnel, could adversely affect our business, diminish our investment opportunities and weaken our relationships with lenders, business partners, existing and prospective tenants and industry participants, which could materially adversely affect our financial condition, results of operations, cash flow and the per share trading price of our common stock.

Following the completion of this offering and the formation transactions, we may be subject to on-going or future litigation, including existing claims relating to the entities that own the properties described in this prospectus and otherwise in the ordinary course of business, which could have a material adverse effect on our financial condition, results of operations, cash flow and the per share trading price of our common stock.

Upon the completion of this offering and the formation transactions, we may be subject to on-going litigation, including existing claims relating to the entities that own the properties and operate the businesses described in this prospectus and otherwise in the ordinary course of business. Some of these claims may result in significant defense costs and potentially significant judgments against us, some of which are not, or cannot be, insured against. We generally intend to vigorously defend ourselves. However, we cannot be certain of the ultimate outcomes of currently asserted claims or of those that may arise in the future. In addition, we may become subject to litigation in connection with the formation transactions in the event that prior investors dispute the valuation of their respective interests, the adequacy of the consideration to be received by them in the formation transactions or the interpretation of the agreements implementing the formation transactions. Resolution of these types of matters against us may result in our having to pay significant fines, judgments, or settlements, which, if uninsured, or if the fines, judgments, and settlements exceed insured levels, could adversely impact our earnings and cash flows, thereby having an adverse effect on our financial condition, results of operations, cash flow, cash available for distribution and our ability to service our debt obligations. Certain litigation or the resolution of certain litigation may affect the availability or cost of some of our insurance coverage, which could materially adversely affect our results of operations and cash flows, expose us to increased risks that would be uninsured and adversely impact our ability to attract officers and directors.

Potential losses from hurricanes in Virginia and North Carolina may not be covered by insurance.

All of the properties in our initial portfolio are located in Virginia and North Carolina, which are areas particularly susceptible to hurricanes. While we will carry insurance on certain of our properties in Virginia, the amount of our insurance coverage may not be sufficient to fully cover losses from hurricanes and will be subject to limitations involving large deductibles or co-payments. In addition, we may reduce or discontinue insurance on some or all of our properties in the future if the cost of premiums for any such policies exceeds, in our judgment, the value of the coverage discounted for the risk of loss. As a result, in the event of a hurricane, we may be required to incur significant costs, and, to the extent that a loss exceeds policy limits, we could lose the capital invested in the damaged properties as well as the anticipated future cash flows from those properties. In addition, if the damaged properties are subject to recourse indebtedness, we would continue to be liable for the indebtedness, even if these properties were irreparably damaged.

We may not be able to rebuild our existing properties to their existing specifications if we experience a substantial or comprehensive loss of such properties.

In the event that we experience a substantial or comprehensive loss of one of our properties, we may not be able to rebuild such property to its existing specifications. Further, reconstruction or improvement of such a property would likely require significant upgrades to meet zoning and building code requirements. Environmental and legal restrictions could also restrict the rebuilding of our properties.

Table of Contents

Joint venture investments could be adversely affected by our lack of sole decision-making authority, our reliance on co-venturers financial condition and disputes between us and our co-venturers.

In the past, we have, and in the future, we expect to, co-invest with third parties through partnerships, joint ventures or other entities, acquiring non-controlling interests in or sharing responsibility for developing properties and managing the affairs of a property, partnership, joint venture or other entity. In particular, in connection with the formation transactions, we have provided certain of the prior investors with the right to co-develop certain projects with us in the future and the right to acquire a minority equity interest in certain properties that we may develop in the future, in each case under certain circumstances and subject to certain conditions set forth in the applicable agreement. In the event that we co-develop a property together with a third party, we would be required to share a portion of the development fee. With respect to any such arrangement or any similar arrangement that we may enter into in the future, we may not be in a position to exercise sole decision-making authority regarding the development, property, partnership, joint venture or other entity. Investments in partnerships, joint ventures or other entities may, under certain circumstances, involve risks not present where a third party is not involved, including the possibility that partners or co-venturers might become bankrupt or fail to fund their share of required capital contributions. Partners or co-venturers may have economic or other business interests or goals which are inconsistent with our business interests or goals and may be in a position to take actions contrary to our policies or objectives, and they may have competing interests in our markets that could create conflicts of interest. Such investments may also have the potential risk of impasses on decisions, such as a sale or financing, because neither we nor the partner(s) or co-venturer(s) would have full control over the partnership or joint venture. In addition, a sale or transfer by us to a third party of our interests in the joint venture may be subject to consent rights or rights of first refusal, in favor of our joint venture partners, which would in each case restrict our ability to dispose of our interest in the joint venture. Where we are a limited partner or non-managing member in any partnership or limited liability company, if such entity takes or expects to take actions that could jeopardize our status as a REIT or require us to pay tax, we may be forced to dispose of our interest in such entity. Disputes between us and partners or co-venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and directors from focusing their time and effort on our business. Consequently, actions by or disputes with partners or co-venturers might result in subjecting properties owned by the partnership or joint venture to additional risk. In addition, we may in certain circumstances be liable for the actions of our third-party partners or co-venturers. Our joint ventures may be subject to debt and, during periods of volatile credit markets, the refinancing of such debt may require equity capital calls.

Increased competition and increased affordability of residential homes could limit our ability to retain our residents, lease apartment units or increase or maintain rents at our multifamily apartment communities.

Our multifamily apartment communities compete with numerous housing alternatives in attracting residents, including other multifamily apartment communities and single-family rental units, as well as owner-occupied single- and multifamily units. Competitive housing in a particular area and an increase in the affordability of owner-occupied single- and multifamily units due to, among other things, declining housing prices, oversupply, mortgage interest rates and tax incentives and government programs to promote home ownership, could adversely affect our ability to retain residents, lease apartment units and increase or maintain rents at our multifamily properties.

Our growth depends on external sources of capital that are outside of our control and may not be available to us on commercially reasonable terms or at all, which could limit our ability to, among other things, meet our capital and operating needs or make the cash distributions to our stockholders necessary to maintain our qualification as a REIT.

In order to maintain our qualification as a REIT, we are required under the Code to, among other things, distribute annually at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gain. In addition, we will be subject to income tax at regular corporate rates to the extent that we distribute less than 100% of our REIT taxable income, including any net capital gains. Because of these distribution requirements, we may not be able to fund future capital needs, including any necessary capital expenditures, from operating cash flow. Consequently, we intend to rely on third-party sources to fund our capital needs. We may not be able to obtain such financing on favorable terms or at all and any additional debt we incur will increase our leverage and likelihood of default. Our access to third-party sources of capital depends, in part, on:

i general market conditions;

Table of Contents

- i the market's perception of our growth potential;
- i our current debt levels;
- i our current and expected future earnings;
- i our cash flow and cash distributions; and
- i the market price per share of our common stock.

Recently, the capital markets have been subject to significant disruptions. If we cannot obtain capital from third-party sources, we may not be able to acquire or develop properties when strategic opportunities exist, meet the capital and operating needs of our existing properties, satisfy our debt service obligations or make the cash distributions to our stockholders necessary to maintain our qualification as a REIT.

Risks Related to Our Third-Party Construction Business

Adverse economic and regulatory conditions, particularly in the Mid-Atlantic region, could adversely affect our construction and development business, which could have a material adverse effect on our financial condition, results of operations, cash flow, cash available for distribution and our ability to service our debt obligations.

Our third-party construction activities have been, and are expected to continue to be, primarily focused in the Mid-Atlantic region, although we have also undertaken construction projects in various states in the Southeast, Northeast and Midwest regions of the United States. As a result of our concentration of construction projects in the Mid-Atlantic region of the United States, we are particularly susceptible to adverse economic or other conditions in this market (such as periods of economic slowdown or recession, business layoffs or downsizing, industry slowdowns, relocations of businesses, labor disruptions and the costs of complying with governmental regulations or increased regulation), as well as to natural disasters that occur in this region. We cannot assure you that our target markets will support construction and development projects of the type in which we typically engage. While our services company will provide a wide range of development and construction services, any adverse economic or real estate developments in the Mid-Atlantic region could materially adversely affect our financial condition, results of operations, cash flow and ability to satisfy our debt service obligations and pay distributions to our stockholders.

There can be no assurance that all of the projects in our third-party construction pipeline will be commenced or completed in their entirety in accordance with the anticipated cost, or that we will achieve the financial results we expect from the construction of such properties, which could materially adversely affect our cash flows, results of operations and growth prospects.

Upon completion of this offering and the formation transactions, we expect to assume all of Armada Hoffler's obligations with respect to seven on-going construction projects. We earn profit for serving as the general contractor equal to the difference between the total construction fees that we charge and the costs we incur to build the property. If the decision is made by a third-party client to abandon a construction project for any reason, our anticipated fee revenue from such project could be significantly lower than we expect. In addition, our ability to complete the projects in our identified construction pipeline on time and on budget could be materially adversely affected as a result of the following factors, among others:

- i shortages of subcontractors, equipment, materials or skilled labor;
- i unscheduled delays in the delivery of ordered materials and equipment;
- i unanticipated increases in the cost of equipment, labor and raw materials;

i unforeseen engineering, environmental or geological problems;

i weather interferences;

Table of Contents

- i difficulties in obtaining necessary permits or in meeting permit conditions;
- i client acceptance delays; or
- i work stoppages and other labor disputes.

If we do not complete the construction of the projects in our identified construction pipeline on time and on budget, it could have a material adverse effect on us, including our cash flows, results of operations and growth prospects.

Our dependence on third-party subcontractors and equipment and material providers could result in material shortages and project delays and could reduce our profits or result in project losses, which could materially adversely affect our financial condition, results of operations and cash flow.

Because our construction business provides general contracting services, we rely on third-party subcontractors and equipment and material providers. For example, we procure equipment and construction materials as needed when engaged in large construction projects. To the extent that we cannot engage subcontractors or acquire equipment and materials at reasonable costs or if the amount we are required to pay for subcontractors or equipment exceeds our estimates, our ability to complete a construction project in a timely fashion or at a profit may be impaired. In addition, if a subcontractor or a manufacturer is unable to deliver its services, equipment or materials according to the negotiated terms for any reason, including the deterioration of its financial condition, we may be required to purchase the services, equipment or materials from another source at a higher price. Additionally, while our construction contracts generally provide that our obligation to pay subcontractors is expressly made subject to the condition precedent that we shall have first received payment, we cannot assure you that these so called pay-if-paid or pay-when-paid provisions will be recognized in all jurisdictions in which we do business, or that a subcontractor or payment bond surety may not otherwise be entitled to payment or to record a lien on the affected property. In such event, we may be required to pay a payment bond surety or the subcontractors we engage even though we have yet to receive our fees as general contractor. This may reduce the profit to be realized or result in a loss on a project for which the services, equipment or materials are needed, which may materially adversely affect us, including our financial condition, results of operations and cash flow.

Our construction business recognizes certain revenue on a percentage-of-completion basis and upon the achievement of contractual milestones, and any delay or cancellation of a construction project could materially adversely affect our cash flows and results of operations.

Our construction business recognizes certain revenue on a percentage-of-completion basis and, as a result, revenue from our construction business is driven by the performance of our contractual obligations. The percentage-of-completion method of accounting is inherently subjective because it relies on estimates of total project cost as a basis for recognizing revenue and profit. Accordingly, revenue and profit recognized under the percentage-of-completion method is potentially subject to adjustments in subsequent periods based on refinements in the estimated cost to complete a project, which could result in a reduction or reversal of previously recorded revenues and profits. In addition, delays in, or the cancellation of, any particular construction project could adversely impact our ability to recognize revenue in a particular period. Furthermore, changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in revisions to costs and income in the period in which they are determined. If any of the foregoing were to occur, it could have a material adverse effect on our cash flows and results of operations.

Construction project sites are inherently dangerous workplaces, and, as a result, our failure to maintain safe construction project sites could result in deaths or injuries, reduced profitability, the loss of projects or clients and possible exposure to litigation, any of which could materially adversely affect our financial condition, results of operations, cash flow and reputation.

Construction and maintenance sites often put our employees, employees of subcontractors, our tenants and members of the public in close proximity with mechanized equipment, moving vehicles, chemical and manufacturing processes and highly regulated materials. On many sites, we are responsible for safety and, accordingly, must implement

Table of Contents

safety procedures. If we fail to implement these procedures or if the procedures we implement are ineffective, we may suffer the loss of or injury to our employees, fines or expose our tenants and members of the public to potential injury, thereby creating exposure to litigation. As a result, our failure to maintain adequate safety standards could result in reduced profitability or the loss of projects, clients and tenants, which may materially adversely affect our financial condition, results of operations, cash flow and our reputation.

Supply shortages and other risks associated with demand for skilled labor could increase construction costs and delay performance of our obligations under construction contracts, which could materially adversely affect the profitability of our construction business, our cash flow and results of operations.

There is a high level of competition in the construction industry for skilled labor. Increased costs, labor shortages or other disruptions in the supply of skilled labor, such as carpenters, roofers, electricians and plumbers, could cause increases in construction costs and construction delays. We may not be able to pass on increases in construction costs because of market conditions or negotiated contractual terms. Sustained increases in construction costs due to competition for skilled labor and delays in performance under construction contracts may materially adversely affect the profitability of our construction business, our financial condition, results of operations and cash flow.

Our failure to successfully and profitably bid on construction contracts could materially adversely affect our results of operations and cash flow.

Many of the costs related to our construction business, such as personnel costs, are fixed and are incurred by us irrespective of the level of activity of our construction business. The success of our construction business depends, in part, on our ability to successfully and profitably bid on construction contracts for private and public sector clients. Contract proposals and negotiations are complex and frequently involve a lengthy bidding and selection process, which can be impacted by a number of factors, many of which are outside our control, including market conditions, financing arrangements and required governmental approvals. If we are unable to maintain a consistent flow of third-party construction contracts, our results of operations and cash flow could be materially adversely affected.

If we fail to timely complete a construction project, miss a required performance standard or otherwise fail to adequately perform on a construction project, we may incur losses or financial penalties, which could materially adversely affect our financial condition, results of operations, cash flow and reputation.

We may contractually commit to a construction client that we will complete a construction project by a scheduled date at a fixed cost. We may also commit that a construction project, when completed, will achieve specified performance standards. If the construction project is not completed by the scheduled date or fails to meet required performance standards, we may either incur significant additional costs or be held responsible for the costs incurred by the client to rectify damages due to late completion or failure to achieve the required performance standards. In addition, completion of projects can be adversely affected by a number of factors beyond our control, including unavoidable delays from governmental inaction, public opposition, inability to obtain financing, weather conditions, unavailability of vendor materials, availabilities of subcontractors, changes in the project scope of services requested by our clients, industrial accidents, environmental hazards, labor disruptions and other factors. In some cases, if we fail to meet required performance standards or milestone requirements, we may also be subject to agreed-upon financial damages in the form of liquidated damages, which are determined pursuant to the contract governing the construction project. To the extent that these events occur, the total costs of the project could exceed our estimates and our contracted cost and we could experience reduced profits or, in some cases, incur a loss on a project, which may materially adversely affect our financial condition, results of operations and cash flow. Failure to meet performance standards or complete performance on a timely basis could also adversely affect our reputation.

Unionization or work stoppages could have a materials adverse effect on us.

From time to time, our construction business and the subcontractors we engage may use unionized construction workers, which requires us to pay the prevailing wage in a jurisdiction to such workers. Due to the highly labor-intensive and price-competitive nature of the construction business, the cost of unionization or prevailing wage requirements for new

Table of Contents

developments could be substantial, which could adversely affect our profitability. In addition, the use of unionized construction workers could cause us to become subject to organized work stoppages, which would materially adversely affect our ability to meet our construction timetables and could significantly increase the cost of completing a construction project.

Risks Related to Our Development Business and Property Acquisitions

Our failure to establish new development relationships with public partners and expand our development relationships with existing public partners could have a material adverse effect on us, including our cash flows, results of operations and growth prospects.

Our growth strategy depends significantly on our ability to leverage our extensive experience in completing large, complex, mixed-use public/private projects to establish new relationships with public partners and expand our relationships with existing public partners. Future increases in our revenues may depend significantly on our ability to expand the scope of the work we do with the state and local government agencies with which we currently have partnered and attract new state and local government agencies to undertake public/private development projects with us. Our ability to obtain new work with state and local governmental authorities on new public/private development and financing partnerships could be adversely affected by several factors, including decreases in state and local budgets, changes in administrations, the departure of government personnel with whom we have worked and negative public perceptions about public/private partnerships. In addition, to the extent that we engage in public/private partnerships in states or local communities in which we have not previously worked, we could be subject to risks associated with entry into new markets, such as lack of market knowledge or understanding of the local economy, lack of business relationships in the area and unfamiliarity with local governmental and permitting procedures. If we fail to establish new relationships with public partners and expand our relationships with existing public partners, it could have a material adverse effect on our growth prospects.

We may be unable to identify and complete development opportunities and acquisitions of properties that meet our investment criteria, which may materially adversely affect our financial condition, results of operations, cash flow and growth prospects.

Our business and growth strategy involves the development and selective acquisition of office, retail and multifamily properties. We may expend significant management time and other resources, including out-of-pocket costs, in pursuing these investment opportunities. Our ability to complete development projects or acquire properties on favorable terms, or at all, may be exposed to the following significant risks:

- i we may incur significant costs and divert management attention in connection with evaluating and negotiating potential development opportunities and acquisitions, including those that we are subsequently unable to complete;
- i agreements for the development or acquisition of properties are subject to conditions, which we may be unable to satisfy; and
- i we may be unable to obtain financing on favorable terms or at all.

If we are unable to identify attractive investment opportunities, our financial condition, results of operations, cash flow and growth prospects could be materially adversely affected.

The risks associated with land holdings and related activities could have a material adverse effect on us, including our results of operations.

After the completion of this offering and the formation transactions, we will hold options to acquire undeveloped parcels of land for future development and may in the future acquire additional land holdings for development. The risks inherent in purchasing, owning, and developing land increase as demand for office, retail or multifamily properties, or rental rates, decreases. Real estate markets are highly uncertain and volatile and, as a result, the value of undeveloped land has fluctuated significantly and may continue to fluctuate. In addition, carrying costs, including interest and other pre-development costs, can be significant and can result in losses or reduced profitability. If there are subsequent changes in the fair value of

Table of Contents

our undeveloped land holdings that cause us to determine that the fair value of our undeveloped land holdings is less than their carrying basis reflected in our financial statements plus estimated costs to sell, we may be required to take future impairment charges which would reduce our net income and could materially and adversely affect our results of operations.

The success of our activities to design, construct and develop properties in which we will retain an ownership interest is dependent, in part, on the availability of suitable undeveloped land at acceptable prices as well as our having sufficient liquidity to fund investments in such undeveloped land and subsequent development.

Our success in designing, constructing and developing projects for our own account depends, in part, upon the continued availability of suitable undeveloped land at acceptable prices. The availability of undeveloped land for purchase at favorable prices depends on a number of factors outside of our control, including the risk of competitive over-bidding on land and governmental regulations that restrict the potential uses of land. If the availability of suitable land opportunities decreases, the number of development projects we may be able to undertake could be reduced. In addition, our ability to make land purchases will depend upon us having sufficient liquidity or access to external sources of capital to fund such purchases. Thus, the lack of availability of suitable land opportunities and insufficient liquidity to fund the purchases of any such available land opportunities could have a material adverse effect on our results of operations and growth prospects.

Our real estate development activities are subject to risks particular to development, such as unanticipated expenses, delays and other contingencies, any of which could materially adversely affect us, including our financial condition, results of operations and cash flow.

We intend to engage in development and redevelopment activities and will be subject to the following risks associated with such activities:

- i unsuccessful development or redevelopment opportunities could result in direct expenses to us and cause us to incur losses;
- i construction or redevelopment costs of a project may exceed original estimates, possibly making the project less profitable than originally estimated, or unprofitable;
- i time required to complete the construction or redevelopment of a project or to lease up the completed project may be greater than originally anticipated, thereby adversely affecting our cash flow and liquidity;
- i contractor and subcontractor disputes, strikes, labor disputes or supply disruptions;
- i failure to achieve expected occupancy or rent levels within the projected time frame, or at all;
- i delays with respect to obtaining or the inability to obtain necessary zoning, occupancy, land use and other governmental permits, and changes in zoning and land use laws;
- i occupancy rates and rents of a completed project may not be sufficient to make the project profitable; and
- i the availability and pricing of financing to fund our development activities on favorable terms or at all.

These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development or redevelopment activities once undertaken, any of which could have an adverse effect on our financial condition, results of operations and cash flow.

Our ability to acquire and complete the projects in our identified development pipeline is subject to the availability of proceeds under our credit facility or another source of financing, and any delay or the failure to close the credit facility or obtain an alternative source of financing could materially delay our acquisition of, or cause us to be unable to acquire and complete, the projects in our identified development pipeline.

We currently anticipate that we will acquire the projects in our identified development pipeline from Armada Hoffler affiliates in exchange for consideration in an amount equal to all costs incurred by the Armada Hoffler affiliates with respect to all of the development projects through the date of the closing of the formation transactions, which we currently expect will be

Table of Contents

approximately \$18.3 million. In addition, we intend to fund a substantial portion of the development costs for the projects in our identified pipeline with borrowings under our credit facility or an alternative source of funds. Thus, our ability to acquire and complete the projects in our identified development is subject to the availability of proceeds under our credit facility. If we are unable to arrange the credit facility, have insufficient borrowing capacity under the credit facility or are unable find an alternative source of funds to acquire the projects in our identified development pipeline, we may not be able to acquire or complete these projects on our anticipated timeline or at all, which could have a material adverse effect on our growth prospects.

There can be no assurance that all of the properties in our identified development pipeline will be completed in their entirety in accordance with the anticipated cost, or that we will achieve the results we expect from the development of such properties, which could materially adversely affect our growth prospects, financial condition and results of operations.

The development of the projects in our identified development pipeline are subject to numerous risks, many of which are outside of our control. The cost necessary to complete the development of our identified development pipeline could be materially higher than we anticipate. Because we generally intend to commence the construction phase of an office or retail project for our own account only where a substantial percentage of the commercial space is pre-leased, we could decide not to undertake construction on one or more of the projects in our identified development pipeline if our pre-leasing efforts are unsuccessful. Furthermore, if we are delayed in the completion of any development project, tenants may have the right to terminate pre-development leases, which could materially adversely affect the financial viability of the project. In addition, even if we decide to commence construction on a project, we can provide no assurances that we will complete any of the projects in our identified development pipeline on the anticipated schedule, or that, once completed, the properties in our identified development pipeline will achieve the results that we expect. Although we currently anticipate that construction of the Apprentice School Apartments project will be completed in November 2013, we cannot provide any assurances that construction will be completed on time. If construction on any of the three components of such project is delayed, we may not be able to acquire the project for our portfolio at the anticipated time. If the development of our identified development pipeline is not completed in accordance with our anticipated timing or at the anticipated cost, or the properties fail to achieve the financial results we expect, it could have a material adverse effect on our financial condition and results of operations.

Our option properties are subject to various risks, and we may not be able to acquire them.

We have options to acquire from certain of our officers and directors eight parcels of developable land that will not be acquired by us in connection with the formation transactions. These parcels are exposed to many of the same risks that may affect the other properties in our portfolio. The terms of the option agreements relating to these parcels were not determined by arm's-length negotiations, and such terms may be less favorable to us than those that may have been obtained through negotiations with third parties. In addition, it may become economically unattractive to exercise our options with respect to these parcels, which could cause us to decide not to exercise our option to purchase these parcels in the future. In such event, or in the event that the option agreements expire by their terms, the parcels could be sold to one of our competitors without restriction. Because our officers and directors own economic interests in these parcels, our decision to exercise or refrain from exercising such options will create conflicts of interest.

Risks Related to the Real Estate Industry

Our business is subject to risks associated with real estate assets and the real estate industry, which could materially adversely affect our financial condition, results of operations, cash flow, cash available for distribution and our ability to service our debt obligations.

Our ability to pay expected dividends to our stockholders depends on our ability to generate revenues in excess of expenses, scheduled principal payments on debt and capital expenditure requirements. Events and conditions generally applicable to owners and operators of real property that are beyond our control may decrease cash available for distribution and the value of our properties. These events include many of the risks set forth above under Risks Related to Our Business and Operations, as well as the following:

- i oversupply or reduction in demand for office, retail or multifamily space in our markets;

Table of Contents

- i adverse changes in financial conditions of buyers, sellers and tenants of properties;

- i vacancies or our inability to rent space on favorable terms, including possible market pressures to offer tenants rent abatements, tenant improvements, early termination rights or below-market renewal options, and the need to periodically repair, renovate and re-let space;

- i increased operating costs, including insurance premiums, utilities, real estate taxes and state and local taxes;

- i a favorable interest rate environment that may result in a significant number of potential residents of our multifamily apartment communities deciding to purchase homes instead of renting;

- i rent control or stabilization laws, or other laws regulating rental housing, which could prevent us from raising rents to offset increases in operating costs;

- i civil unrest, acts of war, terrorist attacks and natural disasters, including hurricanes, which may result in uninsured or underinsured losses;

- i decreases in the underlying value of our real estate;

- i changing submarket demographics; and

- i changing traffic patterns.

In addition, periods of economic downturn or recession, rising interest rates or declining demand for real estate, or the public perception that any of these events may occur, could result in a general decline in rents or an increased incidence of defaults under existing leases, which could materially adversely affect our financial condition, results of operations, cash flow, cash available for distribution and ability to service our debt obligations.

Illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of our properties and harm our financial condition.

The real estate investments made, and to be made, by us are difficult to sell quickly. As a result, our ability to promptly sell one or more properties in our portfolio in response to changing economic, financial and investment conditions is limited. Return of capital and realization of gains, if any, from an investment generally will occur upon disposition or refinancing of the underlying property. We may be unable to realize our investment objectives by sale, other disposition or refinancing at attractive prices within any given period of time or may otherwise be unable to complete any exit strategy. In particular, our ability to dispose of one or more properties within a specific time period is subject to certain limitations imposed by our tax protection agreements, as well as weakness in or even the lack of an established market for a property, changes in the financial condition or prospects of prospective purchasers, changes in national or international economic conditions and changes in laws, regulations or fiscal policies of jurisdictions in which the property is located.

In addition, the Code imposes restrictions on a REIT's ability to dispose of properties that are not applicable to other types of real estate companies. In particular, the tax laws applicable to REITs effectively require that we hold our properties for investment, rather than primarily for sale in the ordinary course of business, which may cause us to forego or defer sales of properties that otherwise would be in our best interests. Therefore, we may not be able to vary our portfolio in response to economic or other conditions promptly or on favorable terms.

Our property taxes could increase due to property tax rate changes or reassessment, which would adversely impact our cash flows.

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Even if we qualify as a REIT for federal income tax purposes, we will be required to pay some state and local taxes on our properties. The real property taxes on our properties may increase as property tax rates change or as our properties

Table of Contents

are assessed or reassessed by taxing authorities. Therefore, the amount of property taxes we pay in the future may increase substantially from what we have paid in the past. If the property taxes we pay increase, our cash flow would be adversely impacted, and our ability to pay dividends to our stockholders could be adversely affected.

As an owner of real estate, we could incur significant costs and liabilities related to environmental matters.

Under various federal, state and local laws and regulations relating to the environment, as a current or former owner or operator of real property, we may be liable for costs and damages resulting from the presence or discharge of hazardous or toxic substances, waste or petroleum products at, on, in, under or migrating from such property, including costs to investigate, clean up such contamination and liability for harm to natural resources. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of such contamination, and the liability may be joint and several. These liabilities could be substantial and the cost of any required remediation, removal, fines or other costs could exceed the value of the property and our aggregate assets. In addition, the presence of contamination or the failure to remediate contamination at our properties may expose us to third-party liability for costs of remediation and personal or property damage or materially adversely affect our ability to sell, lease or develop our properties or to borrow using the properties as collateral. In addition, environmental laws may create liens on contaminated sites in favor of the government for damages and costs it incurs to address such contamination. Moreover, if contamination is discovered on our properties, environmental laws may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may require substantial expenditures. See Business and Properties Regulation Environmental Matters.

Some of our properties have been or may be impacted by contamination arising from current or prior uses of the property, or adjacent properties, for commercial or industrial purposes. Such contamination may arise from spills of petroleum or hazardous substances or releases from tanks used to store such materials. For example, some of the tenants of properties in our retail portfolio operate gas stations or other businesses that utilize storage tanks to store petroleum products, propane or wastes typically associated with automobile service or other operations conducted at the properties, and spills or leaks of hazardous materials from those storage tanks could expose us to liability. See Business and Properties Regulation Environmental Matters. In addition to the foregoing, while we obtained Phase I Environmental Site Assessments for each of the properties in our portfolio, the assessments are limited in scope and may have failed to identify all environmental conditions or concerns. For example, they do not generally include soil sampling, subsurface investigations or hazardous materials survey. Furthermore, we do not have current Phase I Environmental Site Assessment reports for all of the properties in our portfolio and, as such, may not be aware of all potential or existing environmental contamination liabilities at the properties in our portfolio. As a result, we could potentially incur material liability for these issues.

As the owner of the buildings on our properties, we could face liability for the presence of hazardous materials, such as asbestos or lead, or other adverse conditions, such as poor indoor air quality, in our buildings. Environmental laws govern the presence, maintenance, and removal of hazardous materials in buildings, and if we do not comply with such laws, we could face fines for such noncompliance. Also, we could be liable to third parties, such as occupants of the buildings, for damages related to exposure to hazardous materials or adverse conditions in our buildings, and we could incur material expenses with respect to abatement or remediation of hazardous materials or other adverse conditions in our buildings. In addition, some of our tenants routinely may handle and use hazardous or regulated substances and wastes as part of their operations at our properties, which are subject to regulation. Such environmental and health and safety laws and regulations could subject us or our tenants to liability resulting from these activities. Environmental liabilities could affect a tenant's ability to make rental payments to us, and changes in laws could increase the potential liability for noncompliance. This may result in significant unanticipated expenditures or may otherwise materially and adversely affect our operations, or those of our tenants, which could in turn have an adverse effect on us. If we incur material environmental liabilities in the future, we may face significant remediation costs, and we may find it difficult to sell any affected properties.

Our properties may contain or develop harmful mold or suffer from other air quality issues, which could lead to liability for adverse health effects and costs of remediation.

When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne

Table of Contents

toxins or irritants. Indoor air quality issues can also stem from inadequate ventilation, chemical contamination from indoor or outdoor sources, and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to airborne toxins or irritants above certain levels can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at any of our properties could require us to undertake a costly remediation program to contain or remove the mold or other airborne contaminants from the affected property or increase indoor ventilation. In addition, the presence of significant mold or other airborne contaminants could expose us to liability from our tenants, employees of our tenants or others if property damage or personal injury is alleged to have occurred.

We may incur significant costs complying with various federal, state and local laws, regulations and covenants that are applicable to our properties.

Properties are subject to various covenants and federal, state and local laws and regulatory requirements, including permitting and licensing requirements. Local regulations, including municipal or local ordinances, zoning restrictions and restrictive covenants imposed by community developers may restrict our use of our properties and may require us to obtain approval from local officials or restrict our use of our properties and may require us to obtain approval from local officials of community standards organizations at any time with respect to our properties, including prior to developing or acquiring a property or when undertaking renovations of any of our existing properties. Among other things, these restrictions may relate to fire and safety, seismic or hazardous material abatement requirements. There can be no assurance that existing laws and regulatory policies will not adversely affect us or the timing or cost of any future development, acquisitions or renovations, or that additional regulations will not be adopted that increase such delays or result in additional costs. Our growth strategy may be affected by our ability to obtain permits, licenses and zoning relief.

In addition, federal and state laws and regulations, including laws such as the ADA and the Fair Housing Amendment Act of 1988, or FHAA, impose further restrictions on our properties and operations. Under the ADA and the FHAA, all public accommodations must meet federal requirements related to access and use by disabled persons. Some of our properties may currently be in non-compliance with the ADA or the FHAA. If one or more of the properties in our portfolio is not in compliance with the ADA, the FHAA or any other regulatory requirements, we may incur additional costs to bring the property into compliance, incur governmental fines or the award of damages to private litigants or be unable to refinance such properties. In addition, we do not know whether existing requirements will change or whether future requirements will require us to make significant unanticipated expenditures that will adversely impact our financial condition, results of operations and cash flow.

Risks Related to Our Organizational Structure

Upon completion of this offering and the formation transactions, Daniel Hoffler and his affiliates will own, directly or indirectly, a substantial beneficial interest in our company on a fully diluted basis and will have the ability to exercise significant influence on our company and our operating partnership, including the approval of significant corporate transactions.

Upon completion of this offering and the formation transactions, Mr. Hoffler and his affiliates will own approximately 18.2% and, collectively, Messrs. Hoffler, Haddad and Kirk and their affiliates collectively will own approximately 29.6% of the combined outstanding shares of our common stock and common units of our operating partnership (which common units may be redeemable for shares of our common stock). Consequently, these individuals may be able to significantly influence the outcome of matters submitted for stockholder action, including the approval of significant corporate transactions, including business combinations, consolidations and mergers.

Conflicts of interest may exist or could arise in the future between the interests of our stockholders and the interests of holders of units in our operating partnership, which may impede business decisions that could benefit our stockholders.

Conflicts of interest may exist or could arise in the future as a result of the relationships between us and our affiliates, on the one hand, and our operating partnership or any partner thereof, on the other. Our directors and officers have

Table of Contents

duties to our company under Maryland law in connection with their management of our company. At the same time, we, as the general partner of our operating partnership, have fiduciary duties and obligations to our operating partnership and its limited partners under Virginia law and the partnership agreement of our operating partnership in connection with the management of our operating partnership. Our fiduciary duties and obligations as the general partner of our operating partnership may come into conflict with the duties of our directors and officers to our company. Messrs. Hoffer, Haddad and Kirk own a significant interest in our operating partnership as limited partners and may have conflicts of interest in making decisions that affect both our stockholders and the limited partners of our operating partnership.

Under Virginia law, a general partner of a Virginia limited partnership has fiduciary duties of loyalty and care to the partnership and its partners and must discharge its duties and exercise its rights as general partner under the partnership agreement or Virginia law consistently with the obligation of good faith and fair dealing. The partnership agreement provides that, in the event of a conflict between the interests of our operating partnership or any partner, on the one hand, and the separate interests of our company or our stockholders, on the other hand, we, in our capacity as the general partner of our operating partnership, are under no obligation not to give priority to the separate interests of our company or our stockholders, and that any action or failure to act on our part or on the part of our directors that gives priority to the separate interests of our company or our stockholders that does not result in a violation of the contract rights of the limited partners of the operating partnership under its partnership agreement does not violate the duty of loyalty that we, in our capacity as the general partner of our operating partnership, owe to the operating partnership and its partners.

Additionally, the partnership agreement provides that we will not be liable to the operating partnership or any partner for monetary damages for losses sustained, liabilities incurred or benefits not derived by the operating partnership or any limited partner, except for liability for our intentional harm or gross negligence. Our operating partnership must indemnify us, our directors and officers and our designees from and against any and all claims that relate to the operations of our operating partnership, unless (1) an act or omission of the person was material to the matter giving rise to the action and either was committed in bad faith or was the result of active and deliberate dishonesty, (2) the person actually received an improper personal benefit in violation or breach of the partnership agreement or (3) in the case of a criminal proceeding, the indemnified person had reasonable cause to believe that the act or omission was unlawful. Our operating partnership must also pay or reimburse the reasonable expenses of any such person upon its receipt of a written affirmation of the person's good faith belief that the standard of conduct necessary for indemnification has been met and a written undertaking to repay any amounts paid or advanced if it is ultimately determined that the person did not meet the standard of conduct for indemnification. Our operating partnership will not indemnify or advance funds to any person with respect to any action initiated by the person seeking indemnification without our approval (except for any proceeding brought to enforce such person's right to indemnification under the partnership agreement) or if the person is found to be liable to our operating partnership on any portion of any claim in the action.

We may assume unknown liabilities in connection with our formation transactions, and any recourse against third parties, including the prior investors in our assets, for certain of these liabilities will be limited.

As part of our formation transactions, we will acquire entities and assets that are subject to existing liabilities, some of which may be unknown or unquantifiable at the time this offering is completed. These liabilities might include liabilities for cleanup or remediation of undisclosed environmental conditions, claims by tenants, vendors or other persons dealing with our predecessor entities (that had not been asserted or threatened prior to this offering), tax liabilities and accrued but unpaid liabilities incurred in the ordinary course of business. While in some instances we may have the right to seek reimbursement against an insurer, any recourse against third parties, including the prior investors in our assets, for certain of these liabilities will be limited. Mr. Hoffer has entered into a Representation, Warranty and Indemnity Agreement with us with respect to certain aspects of the formation transactions but his liability to us is limited with respect to time and dollar amount. There can be no assurance that we will be entitled to any such reimbursement or that ultimately we will be able to recover in respect of such rights for any of these historical liabilities.

Table of Contents

Our charter contains certain provisions restricting the ownership and transfer of our stock that may delay, defer or prevent a change of control transaction that might involve a premium price for our common stock or that our stockholders otherwise believe to be in their best interests.

Our charter contains certain ownership limits with respect to our stock. Our charter, among other restrictions, prohibits the beneficial or constructive ownership by any person of more than 9.8% in value or number of shares, whichever is more restrictive, of the outstanding shares of any class or series of our stock, excluding any shares that are not treated as outstanding for federal income tax purposes. Our board of directors, in its sole and absolute discretion, may exempt a person, prospectively or retroactively, from this ownership limit if certain conditions are satisfied. See Description of Capital Stock Restrictions on Ownership and Transfer. This ownership limit as well as other restrictions on ownership and transfer of our stock in our charter may:

- i discourage a tender offer or other transactions or a change in management or of control that might involve a premium price for our common stock or that our stockholders otherwise believe to be in their best interests; and
- j result in the transfer of shares acquired in excess of the restrictions to a trust for the benefit of a charitable beneficiary and, as a result, the forfeiture by the acquirer of certain of the benefits of owning the additional shares.

We could increase the number of authorized shares of stock, classify and reclassify unissued stock and issue stock without stockholder approval.

Our board of directors, without stockholder approval, has the power under our charter to amend our charter to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we are authorized to issue. In addition, under our charter, our board of directors, without stockholder approval, has the power to authorize us to issue authorized but unissued shares of our common stock or preferred stock and to classify or reclassify any unissued shares of our common stock or preferred stock into one or more classes or series of stock and set the preference, conversion or other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications or terms or conditions of redemption for such newly classified or reclassified shares. See Description of Capital Stock Power to Increase or Decrease Authorized Shares of Common Stock and Issue Additional Shares of Common and Preferred Stock. As a result, we may issue series or classes of common stock or preferred stock with preferences, dividends, powers and rights, voting or otherwise, that are senior to, or otherwise conflict with, the rights of holders of our common stock. Although our board of directors has no such intention at the present time, it could establish a class or series of preferred stock that could, depending on the terms of such series, delay, defer or prevent a transaction or a change of control that might involve a premium price for our common stock or that our stockholders otherwise believe to be in their best interests.

Certain provisions of Maryland law could inhibit changes of control, which may discourage third parties from conducting a tender offer or seeking other change of control transactions that could involve a premium price for our common stock or that our stockholders otherwise believe to be in their best interests.

Certain provisions of the Maryland General Corporation Law, or MGCL, may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change of control under circumstances that otherwise could provide the holders of shares of our common stock with the opportunity to realize a premium over the then-prevailing market price of such shares, including:

- i business combination provisions that, subject to limitations, prohibit certain business combinations between us and an interested stockholder (defined generally as any person who beneficially owns 10% or more of the voting power of our outstanding voting shares or an affiliate or associate of ours who was the beneficial owner, directly or indirectly, of 10% or more of the voting power of our then outstanding stock at any time within the two-year period immediately prior to the date in question) or an affiliate thereof for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter imposes certain fair price and supermajority stockholder voting requirements on these combinations; and

Table of Contents

- i control share provisions that provide that holders of control shares of our company (defined as shares of stock that, when aggregated with other shares of stock controlled by the stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a control share acquisition (defined as the direct or indirect acquisition of ownership or control of issued and outstanding control shares) have no voting rights with respect to their control shares, except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

By resolution of our board of directors, we have opted out of the business combination provisions of the MGCL and provided that any business combination between us and any other person is exempt from the business combination provisions of the MGCL, provided that the business combination is first approved by our board of directors (including a majority of directors who are not affiliates or associates of such persons). In addition, pursuant to a provision in our bylaws, we have opted out of the control share provisions of the MGCL. However, our board of directors may by resolution elect to opt in to the business combination provisions of the MGCL and we may, by amendment to our bylaws, opt in to the control share provisions of the MGCL in the future.

Certain provisions of the MGCL permit our board of directors, without stockholder approval and regardless of what is currently provided in our charter or bylaws, to implement certain corporate governance provisions, some of which (for example, a classified board) are not currently applicable to us. If implemented, these provisions may have the effect of limiting or precluding a third party from making an unsolicited acquisition proposal for us or of delaying, deferring or preventing a change in control of us under circumstances that otherwise could provide the holders of shares of our common stock with the opportunity to realize a premium over the then current market price. Our charter contains a provision whereby we elect, at such time as we become eligible to do so, to be subject to the provisions of Title 3, Subtitle 8 of the MGCL relating to the filling of vacancies on our board of directors. See Certain Provisions of Maryland Law and of Our Charter and Bylaws.

Certain provisions in the partnership agreement of our operating partnership may delay or prevent unsolicited acquisitions of us.

Provisions in the partnership agreement of our operating partnership may delay, or make more difficult, unsolicited acquisitions of us or changes of our control. These provisions could discourage third parties from making proposals involving an unsolicited acquisition of us or change of our control, although some of our stockholders might consider such proposals, if made, desirable. These provisions include, among others:

- i redemption rights;
- i a requirement that we may not be removed as the general partner of our operating partnership without our consent;
- i transfer restrictions on common units;
- i our ability, as general partner, in some cases, to amend the partnership agreement and to cause the operating partnership to issue units with terms that could delay, defer or prevent a merger or other change of control of us or our operating partnership without the consent of the limited partners; and
- i the right of the limited partners to consent to direct or indirect transfers of the general partnership interest, including as a result of a merger or a sale of all or substantially all of our assets, in the event that such transfer requires approval by our common stockholders.

Upon completion of this offering and the formation transactions, the limited partners, including Mr. Hoffler and his affiliates and our other executive officers and directors and their respective affiliates, will own approximately 43.8% of the combined outstanding shares of our common stock and common units of our operating partnership.

Table of Contents

Our tax protection agreements could limit our ability to sell or otherwise dispose of certain properties.

In connection with the formation transactions, our operating partnership will enter into tax protection agreements that provide that if we dispose of any interest in the protected initial properties in a taxable transaction prior to the seventh (or, in a limited number of cases, the tenth) anniversary of the completion of the formation transactions, subject to certain exceptions, we will indemnify certain contributors, including Messrs. Hoffler, Haddad, Kirk, Nero and Apperson and their respective affiliates and certain of our other officers, for their tax liabilities attributable to the built-in gain that exists with respect to such property interests as of the time of this offering, and the tax liabilities incurred as a result of such tax protection payment. Therefore, although it may be in our stockholders' best interests that we sell one of these properties, it may be economically prohibitive for us to do so because of these obligations. Moreover, as a result of these potential tax liabilities, Messrs. Hoffler, Haddad, Kirk, Nero and Apperson and certain of our other officers may have a conflict of interest with respect to our determination as to these properties.

Our tax protection agreements may require our operating partnership to maintain certain debt levels that otherwise would not be required to operate our business.

Under our tax protection agreements, our operating partnership will provide certain of our contributors, including Messrs. Hoffler, Haddad, Kirk, Nero and Apperson and their respective affiliates and certain of our other officers, the opportunity to guarantee debt or enter into a deficit restoration obligations both at the completion of the formation transactions and this offering (if needed) and upon a future repayment, retirement, refinancing or other reduction (other than scheduled amortization) of currently outstanding debt prior to the tenth anniversary of the completion of the formation transactions. If we fail to make such opportunities available, we will be required to deliver to each such contributor a cash payment intended to approximate the contributor's tax liability resulting from our failure to make such opportunities available to that contributor and the tax liabilities incurred as a result of such tax protection payment. See *Structure and Formation of Our Company Tax Protection Agreements*. We agreed to these provisions in order to assist our contributors in deferring the recognition of taxable gain as a result of and after the formation transactions. These obligations may require us to maintain more or different indebtedness than we would otherwise require for our business.

We may pursue less vigorous enforcement of terms of the contribution and other agreements with members of our senior management and our affiliates because of our dependence on them and conflicts of interest.

Each of Messrs. Hoffler, Haddad and Kirk, our Executive Chairman of the Board, President and Chief Executive Officer and Vice Chairman of the Board, respectively, are parties to or have interests in contribution agreements with us pursuant to which we will acquire interests in our properties and assets. In addition, we have entered into option agreements with certain of our officers and directors, or entities they control, with respect to certain parcels of developable land. Mr. Hoffler will enter into a representation, warranty and indemnity agreement with us pursuant to which he will make certain representations and warranties to us regarding the entities and assets being acquired in the formation transactions and agree to indemnify us and our operating partnership for breaches of such representations and warranties for one year after the completion of this offering and the formation transactions. We may choose not to enforce, or to enforce less vigorously, our rights under these agreements because of our desire to maintain our ongoing relationships with members of our board of directors and our management, with possible negative impact on stockholders.

Our board of directors may change our strategies, policies and procedures without stockholder approval and we may become more highly leveraged, which may increase our risk of default under our debt obligations.

Our investment, financing, leverage and distribution policies, and our policies with respect to all other activities, including growth, capitalization and operations, will be determined exclusively by our board of directors, and may be amended or revised at any time by our board of directors without notice to or a vote of our stockholders. This could result in us conducting operational matters, making investments or pursuing different business or growth strategies than those contemplated in this prospectus. Further, our charter and bylaws do not limit the amount or percentage of indebtedness, funded or otherwise, that we may incur. Our board of directors may alter or eliminate our current policy on borrowing at any time without stockholder approval. If this policy changed, we could become more highly leveraged which could result in an increase in our debt service. Higher leverage also increases the risk of default on our obligations. In addition, a change in our

Table of Contents

investment policies, including the manner in which we allocate our resources across our portfolio or the types of assets in which we seek to invest, may increase our exposure to interest rate risk, real estate market fluctuations and liquidity risk. Changes to our policies with regards to the foregoing could materially adversely affect our financial condition, results of operations and cash flow.

Our rights and the rights of our stockholders to take action against our directors and officers are limited.

Under Maryland law, generally, a director will not be liable if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. In addition, our charter limits the liability of our directors and officers to us and our stockholders for money damages, except for liability resulting from:

- i actual receipt of an improper benefit or profit in money, property or services; or
- ii active and deliberate dishonesty by the director or officer that was established by a final judgment as being material to the cause of action adjudicated.

Our charter authorizes us to indemnify our directors and officers for actions taken by them in those capacities to the maximum extent permitted by Maryland law. Our bylaws require us to indemnify each director and officer, to the maximum extent permitted by Maryland law, in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service to us. In addition, we may be obligated to advance the defense costs incurred by our directors and officers. We intend to enter into indemnification agreements with each of our executive officers and directors whereby we will indemnify our directors and executive officers to the fullest extent permitted by Maryland law against all expenses and liabilities incurred in their capacity as an officer or director, subject to limited exceptions. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist absent the current provisions in our charter and bylaws or that might exist with other companies.

We are a holding company with no direct operations and, as such, we will rely on funds received from our operating partnership to pay liabilities, and the interests of our stockholders will be structurally subordinated to all liabilities and obligations of our operating partnership and its subsidiaries.

We are a holding company and will conduct substantially all of our operations through our operating partnership. We do not have, apart from an interest in our operating partnership, any independent operations. As a result, we will rely on cash distributions from our operating partnership to pay any dividends we might declare on shares of our common stock. We will also rely on distributions from our operating partnership to meet any of our obligations, including any tax liability on taxable income allocated to us from our operating partnership. In addition, because we are a holding company, your claims as a stockholder will be structurally subordinated to all existing and future liabilities and obligations (whether or not for borrowed money) of our operating partnership and its subsidiaries. Therefore, in the event of our bankruptcy, liquidation or reorganization, our assets and those of our operating partnership and its subsidiaries will be available to satisfy the claims of our stockholders only after all of our and our operating partnership's and its subsidiaries' liabilities and obligations have been paid in full.

Our operating partnership may issue additional common units to third parties without the consent of our stockholders, which would reduce our ownership percentage in our operating partnership and could have a dilutive effect on the amount of distributions made to us by our operating partnership and, therefore, the amount of distributions we can make to our stockholders.

After giving effect to this offering, we will own 56.2% of the outstanding common units in our operating partnership. We may, in connection with our acquisition of properties or otherwise, issue additional common units to third parties. Such issuances would reduce our ownership percentage in our operating partnership and could affect the amount of distributions made to us by our operating partnership and, therefore, the amount of distributions we can make to our stockholders. Because you will not directly own common units, you will not have any voting rights with respect to any such issuances or other partnership level activities of our operating partnership.

Table of Contents

Risks Related to Our Status as a REIT

Failure to qualify as a REIT, or failure to remain qualified as a REIT, would cause us to be taxed as a regular corporation, which would substantially reduce funds available for distributions to our stockholders.

We believe that our organization and proposed method of operation will enable us to meet the requirements for qualification and taxation as a REIT commencing with our short taxable year ending December 31, 2013. However, we cannot assure you that we will qualify and remain qualified as a REIT. In connection with this offering, we will receive an opinion from Hunton & Williams LLP that, commencing with our short taxable year ending December 31, 2013, we will be organized in conformity with the requirements for qualification and taxation as a REIT under the U.S. federal income tax laws and our proposed method of operations will enable us to satisfy the requirements for qualification and taxation as a REIT under the U.S. federal income tax laws for our short taxable year ending December 31, 2013 and subsequent taxable years. Investors should be aware that Hunton & Williams LLP's opinion will be based upon customary assumptions, will be conditioned upon certain representations made by us as to factual matters, including representations regarding the nature of our assets and the conduct of our business, is not binding upon the Internal Revenue Service, or the IRS, or any court and speaks as of the date issued. In addition, Hunton & Williams LLP's opinion will be based on existing U.S. federal income tax law governing qualification as a REIT, which is subject to change either prospectively or retroactively. Moreover, our qualification and taxation as a REIT depend upon our ability to meet on a continuing basis, through actual annual operating results, certain qualification tests set forth in the federal tax laws. Hunton & Williams LLP will not review our compliance with those tests on a continuing basis. Accordingly, no assurance can be given that our actual results of operations for any particular taxable year will satisfy such requirements.

If we fail to qualify as a REIT in any taxable year, we will face serious tax consequences that will substantially reduce the funds available for distributions to our stockholders because:

- i we would not be allowed a deduction for dividends paid to stockholders in computing our taxable income and would be subject to U.S. federal income tax at regular corporate rates;
- i we could be subject to the federal alternative minimum tax and possibly increased state and local taxes; and
- i unless we are entitled to relief under certain U.S. federal income tax laws, we could not re-elect REIT status until the fifth calendar year after the year in which we failed to qualify as a REIT.

In addition, if we fail to qualify as a REIT, we will no longer be required to make distributions. As a result of all these factors, our failure to qualify as a REIT could impair our ability to expand our business and raise capital, and it would adversely affect the value of our common stock. See "Material U.S. Federal Income Tax Considerations" for a discussion of material U.S. federal income tax consequences relating to us and our common stock.

Even if we qualify as a REIT, we may face other tax liabilities that reduce our cash flows.

Even if we qualify for taxation as a REIT, we may be subject to certain federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes. In addition, our TRS will be subject to regular corporate federal, state and local taxes. Any of these taxes would decrease cash available for distributions to stockholders.

Failure to make required distributions would subject us to U.S. federal corporate income tax.

We intend to operate in a manner so as to qualify as a REIT for U.S. federal income tax purposes. In order to qualify as a REIT, we generally are required to distribute at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gain, each year to our stockholders. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our REIT taxable income, we will be subject to U.S. federal

Table of Contents

corporate income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under the Code.

Complying with REIT requirements may cause us to forego otherwise attractive opportunities or liquidate otherwise attractive investments.

To qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our capital stock. In order to meet these tests, we may be required to forego investments we might otherwise make. Thus, compliance with the REIT requirements may hinder our performance.

In particular, we must ensure that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified real estate assets. The remainder of our investment in securities (other than government securities, securities of TRSs and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities, securities of TRSs and qualified real estate assets) can consist of the securities of any one issuer, and no more than 25% of the value of our total assets can be represented by the securities of one or more TRSs. If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate otherwise attractive investments. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders.

The prohibited transactions tax may limit our ability to dispose of our properties.

A REIT's net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property other than foreclosure property, held primarily for sale to customers in the ordinary course of business. We may be subject to the prohibited transaction tax equal to 100% of net gain upon a disposition of real property. Although a safe harbor to the characterization of the sale of real property by a REIT as a prohibited transaction is available, we cannot assure you that we can comply with the safe harbor or that we will avoid owning property that may be characterized as held primarily for sale to customers in the ordinary course of business. Consequently, we may choose not to engage in certain sales of our properties or may conduct such sales through our TRS, which would be subject to federal and state income taxation.

We may pay taxable dividends in shares of our common stock and cash, in which case stockholders may sell shares of our common stock to pay tax on such dividends, placing downward pressure on the market price of our common stock.

We may distribute taxable dividends that are payable in cash and common stock at the election of each stockholder. The IRS has issued private letter rulings to other REITs treating certain distributions that are paid partly in cash and partly in stock as taxable dividends that would satisfy the REIT annual distribution requirement and qualify for the dividends paid deduction for U.S. federal income tax purposes. Those rulings may be relied upon only by taxpayers to whom they were issued, but we could request a similar ruling from the IRS. In addition, the IRS previously issued a revenue procedure authorizing publicly traded REITs to make elective cash/stock dividends, but that revenue procedure does not apply to our 2013 and future taxable years. Accordingly, it is unclear whether and to what extent we will be able to make taxable dividends payable in cash and common stock.

If we made a taxable dividend payable in cash and common stock, taxable stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income to the extent of our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. As a result, stockholders may be required to pay income tax with respect to such dividends in excess of the cash dividends received. If a U.S. stockholder sells the common stock that it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in

Table of Contents

income with respect to the dividend, depending on the market price of our common stock at the time of the sale. Furthermore, with respect to certain non-U.S. stockholders, we may be required to withhold U.S. federal income tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in common stock. If we made a taxable dividend payable in cash and our common stock and a significant number of our stockholders determine to sell shares of our common stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our common stock. We do not currently intend to pay taxable dividends of our common stock and cash, although we may choose to do so in the future.

The ability of our board of directors to revoke our REIT qualification without stockholder approval may cause adverse consequences to our stockholders.

Our charter provides that our board of directors may revoke or otherwise terminate our REIT election, without the approval of our stockholders, if it determines that it is no longer in our best interests to continue to qualify as a REIT. If we cease to qualify as a REIT, we would become subject to U.S. federal income tax on our taxable income and would no longer be required to distribute most of our taxable income to our stockholders, which may have adverse consequences on our total return to our stockholders.

Our ownership of our TRS will be subject to limitations and our transactions with our TRS will cause us to be subject to a 100% penalty tax on certain income or deductions if those transactions are not conducted on arm's-length terms.

Overall, no more than 25% of the value of a REIT's assets may consist of stock or securities of one or more TRS. In addition, the Code limits the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The Code also imposes a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis. Furthermore, we will monitor the value of our respective investments in our TRS for the purpose of ensuring compliance with TRS ownership limitations and will structure our transactions with our TRS on terms that we believe are arm's length to avoid incurring the 100% excise tax described above. There can be no assurance, however, that we will be able to comply with the 25% REIT subsidiaries limitation or to avoid application of the 100% excise tax.

You may be restricted from acquiring or transferring certain amounts of our common stock.

The restrictions on ownership and transfer in our charter may inhibit market activity in our capital stock and restrict our business combination opportunities.

In order to qualify as a REIT for each taxable year after 2013, five or fewer individuals, as defined in the Code, may not own, beneficially or constructively, more than 50% in value of our issued and outstanding stock at any time during the last half of a taxable year. Attribution rules in the Code determine if any individual or entity beneficially or constructively owns our capital stock under this requirement. Additionally, at least 100 persons must beneficially own our capital stock during at least 335 days of a taxable year for each taxable year after 2013. To help insure that we meet these tests, our charter restricts the acquisition and ownership of shares of our capital stock.

Our charter, with certain exceptions, authorizes our directors to take such actions as are necessary to preserve our qualification as a REIT. Unless exempted by our board of directors, our charter prohibits any person from beneficially or constructively owning more than 9.8% in value or number of shares, whichever is more restrictive, of the outstanding shares of any class or series of our capital stock. Our board of directors may not grant an exemption from this restriction to any proposed transferee whose ownership in excess of 9.8% of the value of our outstanding shares would result in our failing to qualify as a REIT. This as well as other restrictions on transferability and ownership will not apply, however, if our board of directors determines that it is no longer in our best interests to continue to qualify as a REIT.

Table of Contents

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

The maximum tax rate applicable to qualified dividend income payable to U.S. stockholders that are taxed at individual rates is 20%. Dividends payable by REITs, however, generally are not eligible for the reduced rates on qualified dividend income. The more favorable rates applicable to regular corporate qualified dividends could cause investors who taxed at individual rates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our common stock.

We may be subject to adverse legislative or regulatory tax changes that could reduce the market price of our common stock.

At any time, the U.S. federal income tax laws governing REITs or the administrative interpretations of those laws may be amended. We cannot predict when or if any new U.S. federal income tax law, regulation or administrative interpretation, or any amendment to any existing U.S. federal income tax law, regulation or administrative interpretation, will be adopted, promulgated or become effective and any such law, regulation, or interpretation may take effect retroactively. We and our stockholders could be adversely affected by any such change in the U.S. federal income tax laws, regulations or administrative interpretations.

If our operating partnership failed to qualify as a partnership for federal income tax purposes, we would cease to qualify as a REIT and suffer other adverse consequences.

We believe that our operating partnership will be treated as a partnership for federal income tax purposes. As a partnership, our operating partnership will not be subject to federal income tax on its income. Instead, each of its partners, including us, will be allocated, and may be required to pay tax with respect to, its share of our operating partnership's income. We cannot assure you, however, that the IRS will not challenge the status of our operating partnership or any other subsidiary partnership in which we own an interest as a partnership for federal income tax purposes, or that a court would not sustain such a challenge. If the IRS were successful in treating our operating partnership or any such other subsidiary partnership as an entity taxable as a corporation for federal income tax purposes, we would fail to meet the gross income tests and certain of the asset tests applicable to REITs and, accordingly, we would likely cease to qualify as a REIT. Also, the failure of our operating partnership or any subsidiary partnerships to qualify as a partnership could cause it to become subject to federal and state corporate income tax, which would reduce significantly the amount of cash available for debt service and for distribution to its partners, including us.

To maintain our REIT status, we may be forced to borrow funds during unfavorable market conditions, and the unavailability of such capital on favorable terms at the desired times, or at all, may cause us to curtail our investment activities or dispose of assets at inopportune times or on unfavorable terms, which could materially adversely affect our financial condition, results of operations and cash flow.

To qualify as a REIT, we generally must distribute to our stockholders at least 90% of our REIT taxable income each year, excluding net capital gains, and we will be subject to regular corporate income taxes to the extent that we distribute less than 100% of our REIT taxable income each year. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions paid by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years. In order to maintain our REIT status and avoid the payment of income and excise taxes, we may need to borrow funds to meet the REIT distribution requirements even if the then prevailing market conditions are not favorable for these borrowings. These borrowing needs could result from, among other things, differences in timing between the actual receipt of cash and inclusion of income for federal income tax purposes, or the effect of non-deductible capital expenditures, the creation of reserves or required principal or amortization payments. These sources, however, may not be available on favorable terms or at all. Our access to third-party sources of capital depends on a number of factors, including the market's perception of our growth potential, our current debt levels, the market price of our common stock, and our current and potential future earnings. We cannot assure you that we will have access to such capital on favorable terms at the desired times, or at all, which may cause us to curtail our investment activities or dispose of assets at inopportune times or on unfavorable terms, which could materially adversely affect our financial condition, results of operations and cash flows.

Table of Contents

Risks Related to this Offering

There has been no public market for our common stock prior to this offering and an active trading market for our common stock may not develop following this offering.

Prior to this offering, there has not been any public market for our common stock, and there can be no assurance that an active trading market will develop or be sustained or that shares of our common stock will be resold at or above the initial public offering price. The initial public offering price of our common stock will be determined by agreement among us and the underwriters, but there can be no assurance that our common stock will not trade below the initial public offering price following the completion of this offering. See **Underwriting**. The market value of our common stock could be substantially affected by general market conditions, including the extent to which a secondary market develops for our common stock following the completion of this offering, the extent of institutional investor interest in us, the general reputation of REITs and the attractiveness of their equity securities in comparison to other equity securities (including securities issued by other real estate-based companies), our financial performance and general stock and bond market conditions.

We may be unable to make distributions at expected levels, which could result in a decrease in the market price of our common stock.

Our estimated initial annual distributions represent 87.0% of our estimated initial cash available for distribution for the twelve months ending December 31, 2013 as calculated in **Distribution Policy**. Accordingly, we may be unable to pay our estimated initial annual distribution to stockholders out of cash available for distribution. If sufficient cash is not available for distribution from our operations, we may have to fund distributions from working capital, borrow to provide funds for such distributions, or reduce the amount of such distributions. To the extent we borrow to fund distributions, our future interest costs would increase, thereby reducing our earnings and cash available for distribution from what they otherwise would have been. If cash available for distribution generated by our assets is less than our current estimate, or if such cash available for distribution decreases in future periods from expected levels, our inability to make the expected distributions could result in a decrease in the market price of our common stock. In the event the underwriters' over-allotment option is exercised, pending investment of the proceeds therefrom, our ability to pay such distributions out of cash from our operations may be further materially adversely affected.

Our ability to make distributions may also be limited by our credit facility. We expect that under the terms of the credit facility we intend to enter into concurrently with or shortly after the completion of this offering, our ability to make distributions will be limited to the greater of (1) 100% of our FFO through the first anniversary of the closing date of the credit facility plus a portion of the net proceeds of this offering and 95% of our FFO thereafter or (2) the amount required for us to (x) qualify and maintain our REIT status and (y) avoid the payment of federal or state income or excise tax. We also expect that if a default or events of default exist or would result from a distribution, we may be precluded from making certain distributions other than those required to allow us to qualify and maintain our status as a REIT.

All distributions will be made at the discretion of our board of directors and will be based upon, among other factors, our historical and projected results of operations, financial condition, cash flows and liquidity, maintenance of our REIT qualification and other tax considerations, capital expenditure and other expense obligations, debt covenants, contractual prohibitions or other limitations and applicable law and such other matters as our board of directors may deem relevant from time to time. We may not be able to make distributions in the future, and our inability to make distributions, or to make distributions at expected levels, could result in a decrease in the market price of our common stock.

Messrs. Hoffer, Haddad, Kirk, Nero and Apperson and their affiliates will receive benefits in connection with this offering, which create a conflict of interest because they have interests in the successful completion of this offering that may influence their decisions affecting the terms and circumstances under which this offering and formation transactions are completed.

In connection with this offering and our formation transactions, Messrs. Hoffer, Haddad, Kirk, Nero and Apperson and their affiliates will receive an aggregate of 9,671,040 common units of our operating partnership, representing a 32.5% beneficial interest in our company on a fully diluted basis, and cash payments in the aggregate amount of approximately \$29.3 million. These transactions create a conflict of interest because Messrs. Hoffer, Haddad, Kirk, Nero and

Table of Contents

Apperson have interests in the successful completion of this offering. These interests may influence their decisions, affecting the terms and circumstances under which this offering and the formation transactions are completed. For more information concerning benefits to be received by Messrs. Hoffler, Haddad, Kirk, Nero and Apperson in connection with this offering, see Structure and Formation of Our Company Consequences of This Offering and the Formation Transactions and Certain Relationships and Related Transactions.

The market price and trading volume of our common stock may be volatile following this offering.

Even if an active trading market develops for our common stock, the per share trading price of our common stock may be volatile. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur, and investors in shares of our common stock may from time to time experience a decrease in the value of their shares, including decreases unrelated to our operating performance or prospects. If the per share trading price of our common stock declines significantly, you may be unable to resell your shares at or above the public offering price. We cannot assure you that the per share trading price of our common stock will not fluctuate or decline significantly in the future.

Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common stock include:

- i actual or anticipated variations in our quarterly operating results or dividends;
- i changes in our funds from operations or earnings estimates;
- i publication of research reports about us or the real estate industry;
- i increases in market interest rates that lead purchasers of our shares to demand a higher yield;
- i changes in market valuations of similar companies;
- i adverse market reaction to any additional debt we incur in the future;
- i additions or departures of key management personnel;
- i actions by institutional stockholders;
- i speculation in the press or investment community;
- i the realization of any of the other risk factors presented in this prospectus;
- i the extent of investor interest in our securities;

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- i the general reputation of REITs and the attractiveness of our equity securities in comparison to other equity securities, including securities issued by other real estate-based companies;

- i our underlying asset value;

- i investor confidence in the stock and bond markets generally;

- i changes in tax laws;

- i future equity issuances;

- i failure to meet earnings estimates;

- i failure to meet and maintain REIT qualifications;

Table of Contents

i changes in our credit ratings; and

j general market and economic conditions.

In the past, securities Class-Action litigation has often been instituted against companies following periods of volatility in the price of their common stock. This type of litigation could result in substantial costs and divert our management's attention and resources, which could have a material adverse effect on us, including our financial condition, results of operations, cash flow and the per share trading price of our common stock.

We may use a portion of the net proceeds from this offering to make distributions to our stockholders, which would, among other things, reduce our cash available to develop or acquire properties and may reduce the returns on your investment in our common stock.

Prior to the time we have fully invested the net proceeds of this offering, we may fund distributions to our stockholders out of the net proceeds of this offering, which would reduce the amount of cash we have available to acquire properties and may reduce the returns on your investment in our common stock. The use of these net proceeds for distributions to stockholders could adversely affect our financial results. In addition, funding distributions from the net proceeds of this offering may constitute a return of capital to our stockholders, which would have the effect of reducing each stockholder's tax basis in our common stock.

You will experience immediate and material dilution in connection with the purchase of our common stock in this offering.

As of December 31, 2012, the aggregate historical combined net tangible book value of our Predecessor was approximately \$(41.3) million, or \$(3.17) per share of our common stock held by the prior investors, assuming the exchange of common units into shares of our common stock on a one-for-one basis. As a result, the pro forma net tangible book value per share of our common stock after the completion of this offering and the formation transactions will be less than the initial public offering price. The purchasers of shares of our common stock offered hereby will experience immediate and substantial dilution of \$9.12 per share in the pro forma net tangible book value per share of our common stock. See Dilution.

The combined financial statements of our Predecessor and our unaudited pro forma financial statements may not be representative of our financial statements as an independent public company.

The combined financial statements of our Predecessor and our unaudited pro forma financial statements that are included in this prospectus do not necessarily reflect what our financial position, results of operations or cash flow would have been had we been an independent entity during the periods presented. Furthermore, this financial information is not necessarily indicative of what our results of operations, financial position or cash flow will be in the future. It is not possible for us to accurately estimate all adjustments that may reflect all the significant changes that will occur in our cost structure, funding and operations as a result of this offering and the formation transactions, including potential increased costs associated with reduced economies of scale and increased costs associated with being an independent publicly traded company. See Summary Selected Financial and Other Data and the combined financial statements of our predecessor and our unaudited pro forma financial statements, as well as Management's Discussion and Analysis of Financial Condition and Results of Operations, appearing elsewhere in this prospectus.

Increases in market interest rates may have an adverse effect on the trading prices of our common stock as prospective purchasers of our common stock may expect a higher dividend yield and as an increased cost of borrowing may decrease our funds available for distribution.

One of the factors that will influence the trading prices of our common stock will be the dividend yield on the common stock (as a percentage of the price of our common stock) relative to market interest rates. An increase in market interest rates, which are currently at low levels relative to historical rates, may lead prospective purchasers of our common

Table of Contents

stock to expect a higher dividend yield (with a resulting decline in the trading prices of our common stock) and higher interest rates would likely increase our borrowing costs and potentially decrease funds available for distribution. Thus, higher market interest rates could cause the market price of our common stock to decrease.

The number of shares of our common stock available for future issuance or sale could materially adversely affect the per share trading price of our common stock.

We are offering 16,525,000 shares of our common stock as described in this prospectus. Upon completion of this offering and the formation transactions, we will have outstanding approximately 16,698,913 shares of our common stock. Of these shares, the shares sold in this offering will be freely tradable, except for any shares purchased in this offering by our affiliates, as that term is defined by Rule 144 under the Securities Act, and for restrictions on ownership and transfer in our charter intended to preserve our status as a REIT. Upon completion of this offering and the formation transactions, Messrs. Hoffler, Haddad and Kirk and our other directors and officers and their affiliates, together with third-party prior investors, will beneficially own 13,039,996 common units which will be redeemable at the option of the holders beginning approximately one year following completion of this offering, for cash, or at our option, for shares of our common stock, on a one-for-one basis. We have agreed to register the shares issuable upon redemption of the common units so that such shares will be freely tradable under the securities laws.

We cannot predict whether future issuances or sales of shares of our common stock or the availability of shares for resale in the open market will decrease the per share trading price per share of our common stock. The per share trading price of our common stock may decline significantly when the restrictions on resale by certain of our stockholders lapse or upon the registration of additional shares of our common stock pursuant to registration rights granted in connection with this offering.

The issuance of substantial numbers of shares of equity securities, including common units, or the perception that such issuances might occur could materially adversely affect us, including the per share trading price of shares of our common stock.

The exercise of the underwriters' overallotment option, the redemption of common units for common stock, the vesting of any restricted stock granted to certain directors, executive officers and other employees under our 2013 Equity Incentive Plan, the issuance of our common stock or common units in connection with future property, portfolio or business acquisitions and other issuances of our common stock could have an adverse effect on the per share trading price of our common stock, and the existence of units, options or shares of our common stock issuable under our 2013 Equity Incentive Plan or upon redemption of common units may adversely affect the terms upon which we may be able to obtain additional capital through the sale of equity securities. In addition, future issuances of shares of our common stock may be dilutive to existing stockholders.

Future offerings of debt, which would be senior to our common stock upon liquidation, and preferred equity securities, which may be senior to our common stock for purposes of dividend distributions or upon liquidation, may materially adversely affect us, including the per share trading price of our common stock.

In the future, we may attempt to increase our capital resources by making additional offerings of debt or equity securities (or causing our operating partnership to issue debt securities), including medium-term notes, senior or subordinated notes and classes or series of preferred stock. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will be entitled to receive our available assets prior to distribution to the holders of our common stock. Additionally, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock and may result in dilution to owners of our common stock. Holders of our common stock are not entitled to preemptive rights or other protections against dilution. Our preferred stock, if issued, could have a preference on liquidating distributions or a preference on dividend payments that could limit our ability to pay dividends to the holders of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk that our future offerings could reduce the per share trading price of our common stock and dilute their interest in us.

Table of Contents

FORWARD-LOOKING STATEMENTS

We make statements in this prospectus that are forward-looking statements within the meaning of the federal securities laws. In particular, statements pertaining to our capital resources, property performance and results of operations contain forward-looking statements. Likewise, our pro forma financial statements and all of our statements regarding anticipated growth in our funds from operations and estimated general contracting and real estate services for the year ended December 31, 2013 and anticipated market conditions, demographics and results of operations 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, pro forma, estimates or anticipates or the negative 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:

- i adverse economic or real estate developments, either nationally or in the markets in which our properties are located;
- i our failure to develop the properties in our identified development pipeline successfully, on the anticipated timeline or at the anticipated costs;
- i our failure to generate sufficient cash flows to service our outstanding indebtedness;
- i defaults on, early terminations of or non-renewal of leases by tenants, including significant tenants;
- i bankruptcy or insolvency of a significant tenant or a substantial number of smaller tenants;
- i difficulties in identifying or completing development or acquisition opportunities, including our proposed acquisition of the Apprentice School Apartments;
- i our failure to successfully operate developed and acquired properties;
- i our failure to generate income in our general contracting and real estate sources segment in amounts that we anticipate;
- i fluctuations in interest rates and increased operating costs;
- i our failure to obtain necessary outside financing on favorable terms or at all, including our credit facility;
- i general economic conditions;

- i financial market fluctuations;
- i risks that affect the general retail environment or the market for office properties or multifamily units;
- i the competitive environment in which we operate;
- i decreased rental rates or increased vacancy rates;
- i conflicts of interests with our officers and directors;
- i lack or insufficient amounts of insurance;

Table of Contents

- i environmental uncertainties and risks related to adverse weather conditions and natural disasters;
- i other factors affecting the real estate industry generally;
- i our failure to qualify and maintain our qualification as a REIT for U.S. federal income tax purposes;
- i limitations imposed on our business and our ability to satisfy complex rules in order for us to qualify as a REIT for U.S. federal income tax purposes; and
- i changes in governmental regulations or interpretations thereof, such as real estate and zoning laws and increases in real property tax rates and taxation of REITs.

While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. We disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, of new information, data or methods, future events or other changes after the date of this prospectus, except as required by applicable law. You should not place undue reliance on any forward-looking statements that are based on information currently available to us or the third parties making the forward-looking statements. For a further discussion of these and other factors that could impact our future results, performance or transactions, see the section below titled Risk Factors.

Table of Contents**USE OF PROCEEDS**

After deducting the underwriting discount and commissions and estimated unpaid expenses of this offering of approximately \$3.0 million payable by us, we expect to receive net proceeds from this offering of approximately \$173.7 million, or approximately \$200.2 million if the underwriters' overallotment option is exercised in full.

We intend to contribute the net proceeds of this offering to our operating partnership in exchange for common units in our operating partnership, and our operating partnership intends use the net proceeds received from us as described below:

- i approximately \$112.8 million to repay anticipated outstanding indebtedness as described in the table below, including exit fees, defeasance costs and assumption costs of approximately \$2.2 million;
- i approximately \$44.0 million as partial consideration for the equity interests in the entities that own the properties in our initial portfolio and the construction, development and asset management business of Armada Hoffler that we will acquire from the prior investors in connection with the formation transactions; and
- i the remaining net proceeds for general corporate purposes, including working capital, development costs for our identified development pipeline, future acquisitions, transfer taxes and, potentially, paying distributions.

The following table sets forth information regarding the indebtedness that we intend to repay with the net proceeds of this offering and the properties to which the indebtedness relates:

Property	Amount to be Repaid ⁽¹⁾	Interest Rate ⁽²⁾	Maturity Date
Richmond Tower	\$ 46,523,410	LIBOR + 2.75%	12/18/2014
Armada Hoffler Tower	38,880,892	6.32%	10/1/2013
Sentara Williamsburg	10,915,162	5.66%	6/3/2013
Virginia Natural Gas	5,476,348	LIBOR + 2.50%	4/5/2017
Parkway Marketplace ⁽³⁾	1,750,000	4.25%	10/1/2018
Parkway Marketplace	750,000	4.25%	10/1/2018
Broad Creek Shopping Center ⁽³⁾	2,700,000	LIBOR + 2.75%	12/7/2016
Oyster Point ⁽⁴⁾	643,336	N/A ⁽⁴⁾	N/A
Two Columbus	2,913,465	LIBOR + 2.50%	7/5/2015
Total	\$ 110,552,613		

(1) Amounts based on projected debt balances as of May 6, 2013.

(2) LIBOR refers to the London Interbank Offered Rate.

(3) The proceeds of this loan have been used to pay certain expenses of this offering and the formation transactions.

(4) This is a participation note that bears interest annually in an amount equal to the greater of 10% of the outstanding principal balance of the loan or 50% of the annual cash flows from the property. Affiliates of Armada Hoffler, including certain of our directors and officers, will receive 12.5%, or approximately

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\$80,400, of the repayment amount of this loan.

We expect the total expenses of this offering and our formation transactions to be approximately \$7.5 million. As of the date of this prospectus, we have used approximately \$4.5 million of proceeds from loans secured by our Parkway Marketplace and Broad Creek Shopping Center, as described above, to pay certain expenses of this offering and our formation transactions and expect to pay the balance using a portion of the proceeds of this offering. Pending application of net proceeds of this offering, we intend to invest the net proceeds in interest-bearing accounts, money market accounts and interest-bearing securities in a manner that is consistent with our intention to qualify for taxation as a REIT. Such investments may include, for example, government and government agency certificates, government bonds, certificates of deposit, interest-bearing bank deposits, money market accounts and mortgage loan participations.

See our pro forma financial statements elsewhere in this prospectus for additional information regarding the use of proceeds.

Table of Contents

DISTRIBUTION POLICY

We intend to pay regular quarterly dividends to holders of shares of our common stock. Although we have not previously paid dividends, we intend to pay a pro rata initial dividend with respect to the period commencing on the completion of this offering and ending December 31, 2013, based on \$0.1575 per share for a full quarter. On an annualized basis, this would be \$0.63 per share, or an annual distribution rate of approximately 5.48% based on a value equal to \$11.50, which is the price to the public of common stock in this offering. We estimate that this initial annual distribution rate will represent approximately 87.0% of estimated cash available for distribution for the year ending December 31, 2013. Our intended initial annual distribution rate has been established based on our estimate of cash available for distribution for the year ending December 31, 2013, which we have calculated based on adjustments to our pro forma income before non-controlling interests for the year ended December 31, 2013 and our forecast of general contracting and real estate services cash flow for the year ending December 31, 2013. This estimate was based on our Predecessor's historical operating results and does not take into account our growth strategy. In estimating our cash available for distribution for the year ending December 31, 2013, we have made certain assumptions as reflected in the table and footnotes below, including that there will be no early lease terminations, that lease renewals will be based on our historical average retention rate for the three years ended December 31, 2012 and that no new leases were executed in our portfolio after December 31, 2012 (unless there has been an early lease termination or a new or renewal lease has been entered into prior to the date of this prospectus).

Our estimate of cash available for distribution does not include the effect of any changes in our working capital resulting from changes in our working capital accounts after December 31, 2012, other than the amount of cash estimated to be used for tenant improvement and leasing commission costs related to leases that may be entered into prior to the date of this prospectus. Our estimate also does not reflect the amount of cash estimated to be used for investing activities for acquisition, development and other activities, other than a reserve for recurring capital expenditures, and amounts estimated for leasing commissions and tenant improvements for renewing space. It also does not reflect the amount of cash estimated to be used for financing activities, other than scheduled loan principal payments on mortgage and other indebtedness that will be outstanding upon completion of this offering. Although we have included all material investing and financing activities that we have commitments to undertake as of December 31, 2012, we may undertake other investing and financing activities in the future, including in connection with the development of properties in our identified development pipeline. Any such investing and financing activities may have a material effect on our estimate of cash available for distribution. Because we have made the assumptions set forth above in estimating cash available for distribution, we do not intend this estimate to be a projection or forecast of our actual results of operations or our liquidity, and have estimated cash available for distribution for the sole purpose of determining the amount of our initial annual distribution rate. Our estimate of cash available for distribution should not be considered as an alternative to cash flow from operating activities (computed in accordance with GAAP) or as an indicator of our liquidity or our ability to pay dividends or make other distributions. In addition, the methodology upon which we made the adjustments described below is not necessarily intended to be a basis for determining future dividends or other distributions.

We intend to maintain our initial distribution rate for the 12-month period following completion of this offering unless actual results of operations, economic conditions or other factors differ materially from the assumptions used in our estimate. Dividends and other distributions made by us will be authorized and determined by our board of directors in its sole discretion out of funds legally available therefor and will be dependent upon a number of factors, including restrictions under applicable law and restrictive covenants in loan agreements in respect of our outstanding indebtedness, the capital requirements of our company, the distribution requirements necessary to maintain our qualification as a REIT and other factors described below. Although we have no current intention to do so, we may in the future also choose to pay dividends in shares of our own stock. See Material U.S. Federal Income Tax Considerations Distribution Requirements and Risk Factors Risks Related to Our Status as a REIT We may pay taxable dividends of our common stock and cash, in which case stockholders may sell shares of our common stock to pay tax on such dividends, placing downward pressure on the market price of our common stock. We believe that our estimate of cash available for distribution constitutes a reasonable basis for setting the initial distribution rate; however, we cannot assure you that the estimate will prove accurate, and actual distributions may therefore be significantly different from the expected distributions. We do not intend to reduce the expected dividends per share if the underwriters' overallotment option is exercised; however, this could require us to pay dividends from net offering proceeds.

Table of Contents

We anticipate that, at least initially, our distributions will exceed our then-current and accumulated earnings and profits as determined for U.S. federal income tax purposes due to the write-off of prepayment fees paid with offering proceeds and non-cash expenses, primarily depreciation and amortization charges that we expect to incur. Therefore, a portion of these distributions may represent a return of capital for federal income tax purposes. Distributions in excess of our current and accumulated earnings and profits and not treated by us as a distribution will not be taxable to a taxable U.S. stockholder under current U.S. federal income tax law to the extent those distributions do not exceed the stockholder's adjusted tax basis in his or her common stock, but rather will reduce the adjusted basis of the common stock. Therefore, the gain (or loss) recognized on the sale of that common stock or upon our liquidation will be increased (or decreased) accordingly. To the extent those distributions exceed a taxable U.S. stockholder's adjusted tax basis in his or her common stock, they generally will be treated as a capital gain realized from the taxable disposition of those shares. We expect to pay our first dividend for the partial quarterly period commencing on the date of completion of this offering and ending June 30, 2013. A portion of our dividend may represent a return of capital. The percentage of our stockholder distributions that exceeds our current and accumulated earnings and profits may vary substantially from year to year. For a more complete discussion of the tax treatment of distributions to holders of our common stock, see Material U.S. Federal Income Tax Considerations.

Actual distributions may be significantly different from expected distributions. We cannot assure you that our estimated dividends will be made or sustained or that our board of directors will not change our distribution policy in the future. Any dividends or other distributions we pay in the future will depend upon our actual results of operations, economic conditions, debt service requirements and other factors that could differ materially from our current expectations. Our actual results of operations will be affected by a number of factors, including the revenue we receive from our properties, our operating expenses, interest expense, the ability of our tenants to meet their obligations and unanticipated expenditures. For more information regarding risk factors that could materially adversely affect our actual results of operations, please see Risk Factors.

Federal income tax law requires that a REIT distribute annually at least 90% of its REIT taxable income excluding net capital gains, and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its REIT taxable income including capital gains. In addition, a REIT will be required to pay a 4% nondeductible excise tax on the amount, if any, by which the distributions it makes in a calendar year are less than the sum of 85% of its ordinary income, 95% of its capital gain net income and 100% of its undistributed income from prior years. For more information, please see Material U.S. Federal Income Tax Considerations. We anticipate that our estimated cash available for distribution will be sufficient to enable us to meet the annual distribution requirements applicable to REITs and to avoid or minimize the imposition of corporate and excise taxes. However, under some circumstances, we may be required to pay distributions in excess of cash available for distribution in order to meet these distribution requirements or to avoid or minimize the imposition of tax and we may need to borrow funds to make some distributions.

The following table describes our pro forma net income for the year ended December 31, 2012 and the adjustments we have made thereto in order to estimate our initial cash available for distribution for the year ending December 31, 2013 (dollars in thousands, except per share amounts):

Pro forma net income (loss) before non-controlling interests for the year ended December 31, 2012	\$ 11,917
Add: Pro Forma real estate depreciation and amortization ⁽¹⁾	13,952
Add: Pro Forma lease commission amortization ⁽²⁾	1,308
Add: Amortization of debt issuance costs ⁽³⁾	1,103
Less: Net effects of straight-line rent adjustments to tenant leases ⁽⁴⁾	(2,163)
Add: Net effects of straight-line rent adjustments to ground leases expense ⁽⁵⁾	422
Add: Amortization of lease incentives and below market rents ⁽⁶⁾	642

Table of Contents

Add: Net increases in contractual rent income ⁽⁷⁾	2,278
Less: Net decreases in contractual rent income due to lease expirations, assuming historical retention rate ⁽⁸⁾	(126)
Less: General contracting and real estate services segment profit for the year ended December 31, 2012	(3,943)
Estimated cash flow from real estate operating activities for the year ending December 31, 2013	\$ 25,390
Forecasted cash flow from general contracting and real estate services operating activities for the year ending December 31, 2013⁽⁹⁾	\$ 3,278
Estimated cash flows from operating activities for the year ending December 31, 2013	\$ 28,668
Estimated cash flows used in investing activities:	
Less: Estimated provision for tenant improvements and leasing commission costs ⁽¹⁰⁾	(367)
Less: Estimated annual provision for general improvements ⁽¹¹⁾	(489)
Estimated cash flows used in investing activities for the year ending December 31, 2013	\$ (856)
Estimated cash flows used in financing activities:	
Less: Scheduled mortgage loan principal payments ⁽¹²⁾	(4,041)
Less: Scheduled loan maturities ⁽¹³⁾	(2,208)
Less: Net increase in long-term ground lease obligations ⁽¹⁴⁾	(37)
Estimated cash flows from financing activities for the year ending December 31, 2013	\$ (6,286)
Our share of estimated cash available for distribution to stockholders and common unit holders	\$ 21,526
Total estimated initial annual distributions to stockholders and common unit holders	\$ 18,735
Estimated initial annual distribution per share⁽¹⁵⁾	\$ 0.63
Payout ratio based on our share of estimated cash available for distribution⁽¹⁶⁾	87.0%

(1) Represents pro forma consolidated depreciation and amortization for the year ended December 31, 2012.

(2) Pro forma non-cash amortization of lease commissions for the year ended December 31, 2012.

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- (3) Pro forma non-cash amortization of debt issuance costs for the year ended December 31, 2012.

- (4) Represents the conversion of estimated rental revenues on in-place leases from GAAP basis to cash basis of recognition.

Table of Contents

- (5) Represents the conversion of estimated ground lease expense on in-place leases from GAAP basis to cash basis of recognition.
- (6) Represents the elimination of non-cash lease incentives and above market rents for the year ended December 31, 2012.
- (7) Represents increases in contractual rental income net of contractual or anticipated rent concessions from existing leases and from new leases and renewals that were not in effect for the entire year ended December 31, 2012 or that will go into effect during the year ending December 31, 2013 based on executed leases as of the date of this prospectus, as calculated in the following schedule:

Office Properties	(In Thousands)
Net increases in contractual rental income	\$ 1,729
Less: Impact of 2012 vacancies	(179)
Total net increase in contractual rent income	\$ 1,550
Retail Properties	
Net Increases in contractual rental income	\$ 830
Less: Impact of 2012 vacancies	(102)
Total net increase in contractual rent income	\$ 728
 Total net increase in office retail property contractual rent income	 \$ 2,278

- (8) For leases expiring after December 31, 2012, assumes renewal probability based on historical average retention rate, for the period commencing January 1, 2010 and ending on December 31, 2012, as calculated in the following schedule:

Office Properties	Year Ended December 31,			Total/Weighted Average 2010-2012
	2010	2011	2012	
	(In thousands)			
Annualized base rent expiring in year ^(a)	\$ 1,461	\$ 2,602	\$ 2,860	\$ 2,307
Annualized base rent renewed ^(b)	1,207	1,858	2,720	1,928
Retention rate ^(c)	82.6%	71.4%	95.1%	83.6%
Pro forma consolidated base rent expiring in 2013 ^(d)				\$ 608
Estimated retention rate				83.6%
Estimated rent retained				\$ 508
Estimated decrease in contractual rent income at office properties				\$ (100)
Retail Properties	Year Ended December 31,			Total/Weighted Average 2010-2012
	2010	2011	2012	
	(In thousands)			
Annualized base rent expiring in year ^(a)	\$ 480	\$ 1,088	\$ 1,213	\$ 927
Annualized base rent renewed ^(b)	414	865	1,174	818
Retention rate ^(c)	86.2%	79.5%	96.8%	88.2%

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Pro forma consolidated base rent expiring in 2013 ^(d)	\$	224
Estimated retention rate		88.2%
Estimated rent retained	\$	198
Estimated decrease in contractual rent income at retail properties	\$	(26)
Estimated decrease in contractual rent income at office and retail properties	\$	(126)

- (a) Represents monthly base rent earned by our combined predecessor on a cash basis for the month ending December 31 of the prior year multiplied by 12 for each respective year presented.

- (b) Represents annualized base rent, as defined in (a) above, which was renewed in the year.

- (c) Calculated as our combined predecessor annualized base rent renewed divided by annualized base rent expiring in each period.

- (d) Represents the amount of rent expiring in the year ending December 31, 2013 based on the month the lease expires.

Table of Contents

(9) Represents forecasted cash flows from general contracting and real estate services for the year ending December 31, 2013 as estimated below:
Forecasted operating cash flow

	Year ending December 31, 2013
Forecasted segment revenues	\$ 74,057
Forecasted segment expenses	70,929
Forecasted segment profit	\$ 3,128
Forecasted (increase) decrease in segment assets	6,055
Forecasted increase (decrease) in segment liabilities	(5,905)
Forecasted cash flow from general contracting and real estate services operating activities	\$ 3,278

Management's forecasted cash flow from general contracting and real estate services operating activities was prepared in accordance with the AICPA Guide for Prospective Financial Information. The accounting principles used to prepare management's forecast are consistent with those used to prepare our historical financial statements.

Summary of significant accounting principles

We forecast general contracting revenue on construction contracts using the percentage-of-completion method. Using this method, we forecast revenue and an estimated profit based on the proportion of forecasted costs as of the end of the forecasted period to total forecasted costs of completing the contract. Construction contract costs include all direct material, labor and subcontract costs as well as any indirect costs related to contract performance. Provisions for estimated losses on uncompleted contracts are recognized in the period in which such losses are forecasted. Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in revisions to costs and income and are recognized in the period in which they are forecasted. Profit incentives are included in forecasted revenues when their realization is probable and when they can be reasonably estimated.

We forecast revenue from property development and management services when realized and earned, generally as such real estate services are provided.

Segment assets refer primarily to (i) receivables and (ii) construction contract costs and estimated earnings in excess of billings. Construction contract costs and estimated earnings in excess of billings represent reimbursable costs and amounts earned under contracts in progress as of the end of the forecasted period. Such amounts become billable according to contract terms, which usually consider the passage of time, achievement of certain milestones or completion of the project.

Segment liabilities refer primarily to (i) payables and (ii) billings in excess of construction contract costs. Billings in excess of construction contract costs represent billings or collections on contracts made in advance of forecasted revenue as of the end of the forecasted period.

Construction receivables and payables include retentions—amounts that are generally withheld until the completion of the contract or the satisfaction of certain restrictive conditions such as fulfillment guarantees.

Forecasted segment revenues and expenses

We were engaged in 20 construction contracts as of December 31, 2012. As of the date of this prospectus, we were engaged in 25 construction contracts. Our forecasted general contracting revenues and expenses are based on the 23 construction contracts that we forecast will be completed and the two construction contracts that we forecast will be on-going as of December 31, 2013. As of the date of this prospectus, we will have completed 13 construction contracts for which approximately \$0.7 million remains unpaid. We expect to collect these amounts within 30 to 60 days. We forecast that we will have completed and fully collected upon 23 contracts as of December 31, 2013. Our forecasts are based primarily on management's estimated construction project schedules for the year ending December 31, 2013 and assume that we will complete our construction projects on our anticipated schedule, consistent with the projects' budgets and without significant changes to the scope of the projects. Our ability to complete our construction projects on time and on budget could be materially adversely affected by:

- i shortages of subcontractors, equipment, materials or skilled labor;
- j unscheduled delays in the delivery of ordered materials or equipment;

- i unanticipated increase in the cost of equipment, labor or raw materials;
- i unforeseen engineering, environmental or geological problems;
- i weather interferences;
- i difficulties in obtaining necessary permits or in meeting permit conditions;
- i client acceptance delays; or
- i work stoppages and other labor disputes.

Table of Contents

Four of our construction contracts are with related parties. Forecasted revenue and profit for these four construction contracts for the year ending December 31, 2013 is approximately \$16.7 million and \$1.6 million, respectively. Forecasted operating cash flow for these four construction contracts for the year ending December 31, 2013 is approximately \$0.3 million.

Our forecasts do not assume significant cost overruns or any provisions for estimated losses on uncompleted contracts based on our evaluation of incurred costs as of the date of this prospectus and estimated costs upon contract completion. If we experience significant cost overruns or losses during the year ending December 31, 2013, we may not be able to pay cash distributions on our common stock at the expected distribution rate or at all.

Forecasted revenues and expenses from asset management agreements were not significant for the forecasted period.

Forecasted changes in segment assets and liabilities

Our forecasted changes in segment assets and liabilities are based on:

- i estimated billings to and cash collections from clients under signed construction contracts and asset management agreements as of the date of this prospectus;
- i estimated cash payments to subcontractors; and
- i estimated cash outflows for other direct and indirect construction and asset management costs incurred by us.

Our construction contracts generally allow us to bill our clients monthly based on costs incurred and require payment within 30 days. The billing terms of our contracts do not require us to achieve milestones to allow us to bill our clients. Our contracts generally require 10% retainage but allow us to reduce retainage upon reaching certain completion milestones. Such completion milestones are calculated based on billings to date compared to total contract value. Our contracts allow us to bill the retainage balance upon contract completion with payment generally due in 30 days. Based on the terms of the contracts with our subcontractors, we are obligated to pay our subcontractors only after we have first received payment from our clients. Our forecasts reflect these contractual arrangements.

Forecasted cash flow from general contracting and real estate services investing activities

Our forecasted cash flow from general contracting and real estate services investing activities for the year ending December 31, 2013 assumes that we will not be required to purchase any equipment in order to meet our estimated construction project schedules. To the extent that we are required to purchase equipment, our ability to complete a construction project in a timely fashion or at a profit may be impaired and as a result, we may not be able to pay cash distributions on our common stock at the expected distribution rate or at all.

Forecasted cash flow from general contracting and real estate services financing activities

We currently do not have any outstanding long-term financing obligations with respect to our general contracting and real estate services segment. Our forecast of cash flow from general contracting and real estate services financing activities for the year ending December 31, 2013 assumes that we will not be required to obtain financing to fund our construction projects.

Our forecasts reflect management's judgment as of the date of this prospectus of conditions we expect to exist and the course of action we expect to take during the year ending December 31, 2013. We can give you no assurance that such forecasts will be achieved. There likely will be differences between our forecasted general contracting and real estate services cash flows for the year ending December 31, 2013 and our actual cash flows for such period and actual cash flows may differ materially from our forecasts. If we fail to achieve our forecasted general contracting and real estate services cash flows for the year ending December 31, 2013, we may not be able to pay cash distributions on our common stock at the expected distribution rate or at all.

We do not, as a matter of course, make public forecasts as to future operations, cash flows, earnings or other results. However, management has prepared the forecasts set forth above to support our belief that we will generate sufficient general contracting and real estate services cash flows that, together with cash flows from our other business, will provide a basis to make the anticipated distributions on our common stock for the twelve months ending December 31, 2013. This prospective financial information reflects the best estimates currently available to us and management's judgments and presents, to the best of management's knowledge and belief, reasonable assumptions on which to base our belief that we can generate sufficient cash available for distribution to support the anticipated distribution rate on our common stock for the twelve months ending December 31, 2013. However, this information is not historical fact and readers of this prospectus are cautioned not to place undue reliance on the prospective financial information. The prospective financial information included in this prospectus has been prepared by, and is the responsibility of, our management. Ernst & Young LLP has neither examined, compiled nor performed any procedures with respect to the accompanying prospective financial information, and, accordingly, Ernst & Young LLP does not express an opinion or any other form of assurance

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with respect thereto. The Ernst & Young LLP report included in this offering document relates to our historical financial information. It does not extend to the prospective financial information and should not be read to do so.

When considering the forecasted general contracting and real estate services cash flows you should keep in mind the risk factors and other cautionary statements under Risk Factors. Any of the risks discussed in this prospectus could cause our actual results of operations to vary significantly from the forecasts. Inclusion of the forecasts in this prospectus is not a representation by any person, including us or the underwriters, that the results in the forecast will be achieved.

Table of Contents

- (10) Estimated provision for tenant improvement and leasing commission costs that we are contractually obligated to provide and expect to incur in the year ending December 31, 2013, plus an estimate of tenant improvement and leasing commission cost for our estimated square feet expiring in 2013 which we expect to renew, as calculated in the following schedule:

Office Properties

	Year Ended December 31,			Total/Weighted Average
	2010	2011	2012	2010-2012
Square footage expiring ^(a)	65,091	118,765	130,563	104,806
Square footage renewed ^(a)	53,817	83,423	124,965	87,402
Retention rate ^(b)	82.7%	70.2%	95.7%	83.4%
Pro forma consolidated square footage expiring in 2013				67,898
Estimated retention rate				83.4%
Estimated 2013 square footage renewed				56,623
Estimated 2013 tenant improvement and leasing commission cost per square foot ^(c)				\$ 4.86
Estimated 2013 tenant improvement and leasing commission costs for renewals				275,191
Plus: Contractual obligated tenant improvement and leasing commission costs				771
Total estimated 2013 tenant improvement and leasing commission costs for office properties				\$ 275,962

(a) Based on our consolidated predecessor.

(b) Calculated as our consolidated predecessor square footage divided by square footage expiring in each period.

(c) Based on the average annual tenant improvement and leasing commission costs per square foot incurred during the years ended December 31, 2010, 2011 and 2012, calculated as follows:

	Year Ended December 31,			Total/Weighted Average
	2010	2011	2012	2010-2012
Consolidated predecessor square footage renewal during period	53,817	83,423	124,965	87,402
Tenant improvement and leasing commission costs for renewals	\$ 95,700	\$ 576,900	\$ 601,741	\$ 424,780
Tenant improvement and leasing commission costs per square foot	\$ 1.78	\$ 6.92	\$ 4.82	\$ 4.86

Retail Properties

	Year Ended December 31,			Total/Weighted Average
	2010	2011	2012	2010-2012
Square footage expiring ^(a)	34,637	66,928	56,882	52,816
Square footage renewed ^(a)	30,557	55,780	55,257	47,198
Retention rate ^(b)	88.2%	83.3%	97.1%	89.4%
Pro forma consolidated square footage expiring in 2013				31,254

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Estimated retention rate		89.4%
Estimated 2013 square footage renewed		27,930
Estimated 2013 tenant improvement and leasing commission cost per square foot ^(c)	\$	3.27
Estimated 2013 tenant improvement and leasing commission costs for renewals	\$	91,448
Plus: Contractual obligated tenant improvement and leasing commission costs		
Total estimated 2013 tenant improvement and leasing commission costs for retail properties	\$	91,448
Total estimated 2013 tenant improvement and leasing commission costs for office properties and retail properties	\$	367,410

(a) Based on our consolidated predecessor.

(b) Calculated as our consolidated predecessor square footage divided by square footage expiring in each period.

Table of Contents

- (c) Based on the average annual tenant improvement and leasing commission costs per square foot incurred during the years ended December 31, 2010, 2011 and 2012, calculated as follows:

	Year Ended December 31,			Total/Weighted
	2010	2011	2012	Average 2010-2012
Consolidated predecessor square footage renewal during period	30,557	55,780	55,257	47,198
Tenant improvement and leasing commission costs for renewals	\$ 28,502	\$ 303,065	\$ 132,045	\$ 154,537
Tenant improvement and leasing commission costs per square foot	\$ 0.93	\$ 5.43	\$ 2.39	\$ 3.27

- (11) Reflects estimated provision for general improvements (capital expenditures excluding tenant and leasing commission costs) for the year ending December 31, 2013, based on the average annual general improvement expenditures (capital expenditures excluding tenant and leasing commission costs) per square foot incurred during the years ended December 31, 2010, 2011 and 2012, multiplied by our portfolio's square footage for office and retail properties and units for multifamily properties, as calculated in the following schedule:

Office Properties

	Year Ended December 31,			Total/Weighted
	2010	2011	2012	Average 2010-2012
General improvements per square foot (excluding tenant and leasing commission costs) ^(a)	\$ 0.47	\$ 0.17	\$ 0.14	\$ 0.26
Predecessor office properties square footage ^(b)	954,440	954,440	954,656	954,512
General Improvements (excluding tenant and leasing commission costs) for office properties	\$ 449,018	\$ 158,713	\$ 136,512	\$ 248,089

Retail Properties

	Year Ended December 31,			Total/Weighted
	2010	2011	2012	Average 2010-2012
General improvements per square foot (excluding tenant and leasing commission costs) ^(a)	\$ 0.04	\$ 0.01	\$ 0.01	\$ 0.02
Predecessor retail properties square footage	1,092,323	1,102,596	1,091,496	1,095,472
General Improvements (excluding tenant and leasing commission costs) for retail properties	\$ 44,330	\$ 15,428	\$ 11,395	\$ 23,741

Multifamily Properties

	Year Ended December 31,			Total/Weighted
	2010	2011	2012	Average 2010-2012
General improvements per unit (excluding tenant and leasing commission costs) ^(a)	\$ 289	\$ 395	\$ 355	\$ 346
Predecessor multifamily properties units ^(b)	626	626	626	626
General Improvements (excluding tenant and leasing commission costs) for multifamily properties	\$ 180,676	\$ 247,470	\$ 221,963	\$ 216,703
Total general improvements (excluding tenant and leasing commission costs)				\$ 488,533

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- (a) Based on our Predecessor combined square footage for office and retail properties and units for multifamily properties. Excludes ground leases for retail properties.
 - (b) 100% of pro forma consolidated square footage for office and retail properties and units for multifamily properties.
- (12) Represents scheduled payments of mortgage loan principal due during the year ending December 31, 2013.
- (13) Represents scheduled loan maturities of mortgage loans due during the twelve months ending December 31, 2013.
- (14) Represents net increase in long-term ground lease obligations due during the year ending December 31, 2013.
- (15) Represents the aggregate amount of the initial annual distribution divided by the number of shares of our common stock and common units to be outstanding upon completion of this offering (excluding shares of our common stock that may be issued by us upon exercise of the underwriters' overallotment option).
- (16) Calculated as estimated initial annual distribution per share divided by our share of estimated cash available for distribution per share for the year ending December 31, 2013.

Table of Contents**CAPITALIZATION**

The following table sets forth (i) the historical combined capitalization of our Predecessor as of December 31, 2012, (ii) our unaudited pro forma capitalization, adjusted to give effect to our formation transactions, but before giving effect to this offering and (iii) our unaudited pro forma capitalization on an as adjusted basis to give effect to our formation transactions, this offering and the use of net proceeds as set forth in Use of Proceeds. You should read this table in conjunction with Use of Proceeds, Selected Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes appearing elsewhere in this prospectus.

	As of December 31, 2012		
	Predecessor Historical Combined	Pro Forma Pre-Offering	Pro Forma As Adjusted
	(In thousands, except share amounts)		
Mortgages and other secured loans ⁽¹⁾⁽²⁾	\$ 334,438	\$ 371,563	\$ 279,944
Stockholders' equity:			
Common stock, \$0.01 par value per share; 1,000 shares authorized, issued and outstanding on an historical basis; 500,000,000 shares authorized, 16,698,913 shares issued and outstanding on a pro forma pre-offering basis; and 500,000,000 shares authorized; _____ shares issued and outstanding on a pro forma as adjusted basis ⁽³⁾			167
Preferred stock, \$0.01 par value per share; no shares authorized, issued or outstanding on an historical basis; 100,000,000 shares authorized, none issued and outstanding on a pro forma pre-offering and as adjusted basis			
Distributions in excess of earnings			(75,587)
Total Armada Hoffler Properties, Inc. stockholders' equity			(75,420)
Non-controlling partnership interest			149,960
Total equity	(41,341)	(30,054)	74,540
Total capitalization	\$ 293,097	\$ 341,509	\$ 354,484

(1) We also will enter into a \$100 million secured credit facility, and we expect to draw approximately \$19.3 million under the credit facility to fund a portion of the cash consideration payable in connection with the completion of the formation transactions, to acquire the projects in our identified development pipeline and to repay existing lines of credit and certain debt relating to the project in our development pipeline.

(2) Amount represents debt as of December 31, 2012 and reflects fair value adjustments. Upon completion of this offering and the formation transactions, we expect to have approximately \$280 million of outstanding consolidated long-term secured debt.

(3) Pro forma common stock outstanding includes (a) 16,525,000 shares of our common stock to be issued in this offering, and (b) an aggregate of 173,913 shares of our restricted common stock to be granted to our directors and certain of our officers and other employees concurrently with the completion of this offering, but excludes (i) up to 2,478,750 shares of our common stock issuable upon exercise of the underwriters' overallotment option, (ii) 526,087 additional shares of common stock available for future issuance under our 2013 Equity Incentive Plan and (iii) 13,039,996 shares of our common stock that may be issued, at our option, upon redemption of common units to be issued in the formation transactions. The common units may, subject to limits in the operating partnership agreement, be redeemed at the option of the holder for cash or, at our option, for shares of our common stock on a one-for-one basis generally commencing 12 months after completion of the formation transactions.

Table of Contents**DILUTION**

Purchasers of shares of our common stock offered by this prospectus will experience an immediate and substantial dilution of the net tangible book value of our common stock from the initial public offering price. At December 31, 2012, we had a combined net tangible book value of approximately \$(41.3) million, or \$(3.17) per share of our common stock held by the prior investors, assuming the exchange of outstanding common units (other than common units held by us) into shares of our common stock on a one-for-one basis. After giving effect to the formation transactions and the sale of the shares of our common stock offered by this prospectus, including the expected use of the net proceeds of this offering as described under **Use of Proceeds**, and the deduction of underwriting discounts and commissions and estimated offering and formation transaction expenses, the pro forma net tangible book value at December 31, 2012 attributable to common stockholders would have been \$70.6 million, or \$2.38 per share of our common stock. This amount represents an immediate increase in net tangible book value of \$5.55 per share to the prior investors and an immediate dilution in pro forma net tangible book value of \$9.12 per share from the public offering price of \$11.50 per share of our common stock to new public investors. See **Risk Factors** **Risks Related to this Offering** **Differences between the book value of the assets to be acquired in the formation transactions and the price paid for our common stock will result in an immediate and material dilution of the book value of our common stock.** The following table illustrates this per share dilution:

Initial public offering price per share of common stock	\$ 11.50
Net tangible book value per share before the formation transactions and this offering ⁽¹⁾	(\$ 3.17)
Increase in pro forma net tangible book value per share attributable to the formation transactions, but before this offering ⁽²⁾	\$ 0.57
Increase in pro forma net tangible book value per share after the formation transactions and this offering ⁽³⁾	\$ 4.98
Pro forma net tangible book value per share after the formation transaction and this offering ⁽⁴⁾	\$ 2.38
Dilution in pro forma net tangible book value per share to new investors ⁽⁵⁾	\$ 9.12

- (1) Net tangible book value per share of our common stock before the formation transactions and this offering is determined by dividing the net tangible book value based on December 31, 2012 net book value of tangible assets (consisting of total assets less intangible assets, which are comprised of acquired above-market leases and acquired in-place lease value, net of liabilities to be assumed, excluding acquired below-market leases) of our Predecessor by the number of shares of our common stock held by prior investors after this offering, assuming the exchange for shares of our common stock on a one-for-one basis of the common units to be issued in connection with the formation transactions.
- (2) The decrease in pro forma net tangible book value per share of our common stock attributable to our formation transactions, but before this offering, is determined by dividing the difference between (a) the pro forma net tangible book value before our formation transactions and this offering and (b) the pro forma net tangible book value after our formation transactions and before this offering, by the number of shares of our common stock held by prior investors after this offering, assuming the exchange for shares of our common stock on a one-for-one basis of the common units to be issued in connection with the formation transactions.
- (3) The increase in pro forma net tangible book value per share attributable to this offering is determined by subtracting (a) the sum of (i) the net tangible book value per share before the formation transactions and this offering (see note (1) above) and (ii) the decrease in pro forma net tangible book value per share attributable to our formation transactions (see note (2) above) from (b) the pro forma net tangible book value per share after our formation transactions and this offering (see note (4) below).
- (4) Based on pro forma net tangible book value of approximately \$70.6 million divided by the sum of 29,738,909 shares of our common stock and common units to be outstanding after this offering (excluding units held by us), not including (a) 2,478,750 shares of common stock issuable upon the exercise of the underwriters' overallotment option and (b) 526,087 shares of our common stock available for issuance under our 2013 Equity Incentive Plan.

(5)

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Dilution is determined by subtracting pro forma net tangible book value per share of our common stock after giving effect to the formation transactions and this offering from the initial public offering price paid by a new investor for a share of our common stock.

The table below summarizes, as of December 31, 2012, on a pro forma basis after giving effect to the formation transactions and this offering, the differences between:

- i the number of common units to be received by the Armada Hoffler affiliates and the prior investors other than the Armada Hoffler affiliates in the formation transactions and the number of shares of common stock to be received by the new investors purchasing shares in this offering; and

Table of Contents

- i the total consideration paid and the average price per common unit paid by the Armada Hoffer affiliates and the prior investors (based on the net tangible book value of the assets and properties being acquired by our operating partnership in the formation transactions) and the total consideration paid and the average price per share paid by the new investors purchasing shares in this offering.

	Common Units/Shares Issued		Net Tangible Book Value of Contribution/Cash		Average Price per Share/Common Unit
	Number	Percentage ⁽¹⁾	Amount	Percentage	
Armada Hoffer affiliates and other prior investors	13,205,213 ⁽²⁾	44.4%	\$ (119,397,500) ⁽⁴⁾	(169.0)%	\$ (9.04)
Independent directors	8,696 ⁽⁵⁾	⁽³⁾			
New investors	16,525,000	55.6	190,037,500 ⁽⁶⁾	269.0	11.50
Total	29,738,909	100.0%	\$ 70,640,000	100.0%	

(1) Represents the percentage of the total number of shares of common stock to be outstanding upon completion of the formation transactions and this offering and assumes all of the 13,039,996 common units to be issued to the prior investors in the formation transactions are redeemed for shares of our common stock on a one-for-one basis.

(2) Assumes all of the 13,039,996 common units to be issued to the Armada Hoffer affiliates and the other prior investors in the formation transactions are redeemed for shares of our common stock on a one-for-one basis, and includes 165,217 shares of common stock to be issued to Messrs. Hoffer and Kirk and certain of our employees upon completion of this offering.

(3) Represents less than 0.01%

(4) Represents pro forma net tangible book value as of December 31, 2012 of the properties and assets being acquired by our operating partnership in the formation transactions.

(5) Represents shares of common stock to be granted to our independent directors pursuant to the 2013 Equity Incentive Plan upon completion of this offering.

(6) Represents the aggregate price of the shares to be sold in this offering.

Table of Contents

SELECTED FINANCIAL DATA

The following table sets forth summary selected financial and operating data on a historical combined basis for our Predecessor. Our Predecessor, which is not a legal entity, is comprised of certain entities and their consolidated subsidiaries that own directly or indirectly (i) controlling interests in 22 office, retail and multifamily properties, (ii) non-controlling, unconsolidated equity interests in one retail and one multifamily property, (iii) the property development and asset management business of Armada Hoffler and (iv) the general commercial construction business of Armada Hoffler. We refer to these entities and their subsidiaries as the ownership entities. Each of the ownership entities currently owns, directly or indirectly, one or more office, retail or multifamily properties. Upon completion of this offering and the formation transactions, we will acquire the 22 office, retail and multifamily properties owned directly or indirectly by our Predecessor, as well as our Predecessor's unconsolidated equity interests in one retail and one multifamily property, and assume the ownership and operation of its business. We have not presented historical information for Armada Hoffler Properties, Inc. because we have not had any corporate activity since our formation other than the issuance of 1,000 shares of common stock to Louis S. Haddad in connection with the initial capitalization of the company and activity in connection with this offering, and because we believe that a discussion of the results of Armada Hoffler Properties, Inc. would not be meaningful.

You should read the following summary selected financial data in conjunction with our historical combined financial statements and the related notes and with Management's Discussion and Analysis of Financial Condition and Results of Operations, which are included elsewhere in this prospectus.

The historical combined balance sheet information as of December 31, 2012 and 2011 of our Predecessor and the combined statements of operations and cash flow information for each of the years ended December 31, 2012, 2011 and 2010 of our Predecessor have been derived from the historical audited combined financial statements included elsewhere in this prospectus and includes all adjustments consisting of normal recurring adjustments, which management considers necessary for a fair presentation of the historical financial statements for such periods. The historical combined balance sheet information of our Predecessor as of December 31, 2010 has been derived from the historical audited combined financial statements not included in this prospectus.

Our unaudited selected pro forma consolidated financial statements and operating information as of and for the year ended December 31, 2012 assume completion of this offering and the formation transactions as of January 1, 2012 for the operating data and as of December 31, 2012 for the balance sheet data. Our pro forma financial information is not necessarily indicative of what our actual financial position and results of operations would have been as of the date and for the periods indicated, nor does it purport to represent our future financial position or results of operations.

Table of Contents**The Company (Pro Forma) and Our Predecessor (Historical)**

	Year Ended December 31,			
	Pro Forma Consolidated 2012	2012	Historical Combined 2011	2010
(In thousands, except per share data)				
Statement of Operations Data:				
Revenues:				
Rental revenues	\$ 60,075	\$ 54,436	\$ 52,578	\$ 47,847
General contractor and service revenues	54,046	54,046	77,602	87,279
Total revenues	114,121	108,482	130,180	135,126
Expenses:				
Rental expenses	14,192	12,682	12,568	11,734
Real estate taxes	5,256	4,865	4,781	4,463
General contractor expenses	50,103	50,103	72,138	82,127
General and administrative expenses	4,197	3,232	3,728	2,523
Depreciation and amortization	15,260	12,909	12,994	12,158
Total expenses	89,008	83,791	106,209	113,005
Operating income	25,113	24,691	23,971	22,121
Other income (expense)	138	777	258	168
Interest expense	(13,075)	(16,561)	(18,134)	(18,208)
Loss on extinguishment of Debt			(3,448)	
Income from continuing operations, before tax	12,176	8,907	2,647	4,081
Income tax provision	259			
Income from continuing operations	11,917	8,907	2,647	4,081
Discontinued operations:				
Loss from discontinued operations		(35)	(318)	(338)
Loss on sale of real estate		25	(63)	1
Results from discontinued operations		(10)	(381)	(337)
Net income	\$ 11,917	\$ 8,897	\$ 2,266	\$ 3,744
Net income attributable to noncontrolling interests in operating partnership	5,225			
Net income attributable to common stockholders	6,692			
Balance Sheet Data (at period end):				
Assets				
Real estate, at cost				
Operating real estate	\$ 401,278	\$ 350,814	\$ 345,412	\$ 340,131
Held for development	3,926	3,926	1,836	1,836
Construction in progress			2,685	1,660
	405,204	354,740	349,933	343,627
Accumulated depreciation	(92,454)	(92,454)	(80,923)	(69,532)
Net real estate investments	312,750	262,286	269,010	274,095
Real estate assets held-for-sale			473	3,162
Cash and cash equivalents	18,404	9,400	13,449	8,435
Restricted cash	3,025	3,725	4,335	6,156
Other assets	59,171	56,402	52,867	67,600
Total Assets	\$ 393,350	\$ 331,813	\$ 340,134	\$ 359,448
Liabilities and Equity				
Indebtedness:				
Secured debt	\$ 279,944	\$ 334,438	\$ 338,919	\$ 333,568
Participating note		643	643	643
Debt related to real estate assets held-for-sale				1,225
Construction payables including retention	17,369	17,369	20,375	27,079
Other liabilities	21,497	20,704	17,596	20,478
Total Liabilities	\$ 318,810	\$ 373,154	\$ 377,533	\$ 382,993
Equity	74,540	(41,341)	(37,399)	(23,545)
Total Liabilities and Equity	\$ 393,350	\$ 331,813	\$ 340,134	\$ 359,448
Per Share Data:				
Pro forma basic earnings per share	\$ 0.40			
Pro forma diluted earnings per share	\$ 0.40			

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Pro forma weighted average shares of common stock outstanding basic	16,699			
Pro forma weighted average shares of common stock outstanding diluted	16,699			
Other Data:				
Pro forma funds from operations ⁽¹⁾	\$ 27,177			
Cash flows from:				
Operating activities	\$ 25,094	\$ 22,326	\$ 23,183	\$ 6,090
Investing activities	(7,471)	(4,702)	(5,998)	(14,715)
Financing activities	(12,668)	(21,673)	(12,171)	5,566

Table of Contents

- (1) We calculate FFO in accordance with the standards established by NAREIT. FFO represents net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from sales of depreciable operating property, real estate related depreciation and amortization (excluding amortization of deferred financing costs) and after adjustments for unconsolidated partnerships and joint ventures. FFO is a supplemental non-GAAP financial measure. Management uses FFO as a supplemental performance measure because it believes that FFO is beneficial to investors as a starting point in measuring our operational performance. Specifically, in excluding real estate related depreciation and amortization and gains and losses from property dispositions, which do not relate to or are not indicative of operating performance, FFO provides a performance measure that, when compared year over year, captures trends in occupancy rates, rental rates and operating costs. We also believe that, as a widely recognized measure of the performance of REITs, FFO will be used by investors as a basis to compare our operating performance with that of other REITs. However, because FFO excludes real estate related 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. The following table sets forth a reconciliation of our pro forma FFO to net income, the nearest GAAP equivalent, for the periods presented:

	Pro Forma Year Ended December 31, 2012
	(In thousands)
Pro forma net income	\$ 11,917
Plus: pro forma real estate depreciation and amortization	15,260
Pro forma funds from operations	\$ 27,177

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with the audited historical combined financial statements of our Predecessor as of December 31, 2012 and 2011 and for each of the three years in the periods ended December 31, 2012, 2011 and 2010, and the related notes and financial schedule thereto, which are included elsewhere in this prospectus.

Our Predecessor, which is not a legal entity, is comprised of certain entities that develop, construct and manage real estate assets as well as own, directly or indirectly, interests in 24 office, retail and multifamily properties. As used in this section, unless the context otherwise requires, we, us, our, and our company mean our Predecessor for the periods presented and Armada Hoffler Properties, Inc., a Maryland corporation and its consolidated subsidiaries, upon completion of this offering and the formation transactions. Where appropriate, the following discussion includes analysis of the effects of the formation transactions, certain other transactions and this offering. These effects are reflected in the pro forma consolidated financial statements located elsewhere in this prospectus. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under Risk Factors or elsewhere in this prospectus. See Risk Factors and Forward-Looking Statements. We use the term related parties throughout the following discussion to describe certain relationships that exist currently or will exist between us and the owners of the entities that comprise our Predecessor upon completion of this offering and the formation transactions.

Overview

Our Company

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. In addition to developing and building properties for our own account, we also provide general construction and development services to both related parties and unrelated parties (with the unrelated parties often referred to as third-party clients in this prospectus) throughout the Southeastern and Mid-Atlantic United States and asset management services to assets owned by related parties. We were formed as a Maryland corporation in October 2012 to succeed to the business of Armada Hoffler, a privately held real estate business founded in 1979. We will not have any operating activity until the completion of this offering and the related formation transactions. Accordingly, we believe that a discussion of the results of operations of Armada Hoffler Properties, Inc. would not be meaningful, and we have therefore set forth below a discussion regarding the historical operations of our Predecessor only.

Upon the completion of this offering and the formation transactions, we expect our operations to be carried on through our operating partnership. We will be the sole general partner of our operating partnership and expect to own approximately 56.2% of, and will have control of, our operating partnership. Accordingly, we will consolidate the assets, liabilities and results of operations of our operating partnership.

Our Predecessor

Our Predecessor is not a single legal entity, but rather a combination of real estate and construction entities that are under common control by our Executive Chairman, Mr. Hoffler. These entities include (i) controlling interests in entities that own 22 office, retail and multifamily properties, (ii) non-controlling interests in entities that own one retail and one multifamily property, which we refer to as Bermuda Crossroads and Smith's Landing, respectively, (iii) the property development and asset management businesses of Armada Hoffler Holding Company, Inc., or AH Holding, and (iv) the general commercial construction businesses of Armada Hoffler Construction Company and Armada Hoffler Construction Company of Virginia, or collectively, AH Construction. We refer to our controlling interests in the 22 real estate properties, AH Holding and AH Construction collectively as our Controlled Entities. We refer to the two entities that control Bermuda Crossroads and Smith's Landing, in which we do not have a controlling interest, as our Non-controlled Entities.

Table of Contents

In connection with the formation transactions, we will acquire all of the equity interests in both of the Non-controlled Entities. Elsewhere in this prospectus, we have included the audited statements of revenues and expenses for the Non-controlled Entities for the years ended December 31, 2012, 2011 and 2010.

Formation Transactions

Concurrently with the completion of the offering, we will complete a series of formation transactions pursuant to which we will acquire, through a series of contribution transactions, 100% of the ownership interests in the seven office properties, 15 retail properties and two multifamily properties that will comprise our initial portfolio. In addition, (i) AH Construction will transfer to our services company, pursuant to an asset purchase agreement, certain assets, including construction contracts in progress, which we refer to as the construction business, in exchange for a cash payment and our assumption of the contract liabilities and (ii) AH Holding will transfer to our services company, pursuant to an asset purchase agreement, certain assets, including contracts, which we refer to as our development and asset management businesses, in exchange for a cash payment and our assumption of the contract liabilities. We will also succeed to the identified development pipeline of our Predecessor, which consists of two office properties, two retail properties and two multifamily properties in various stages of development. In addition to our identified development pipeline, we have entered into a contribution agreement to acquire the Apprentice School Apartments, a 197-unit multifamily property located in Newport News, Virginia, upon the satisfaction of certain conditions required by the development agreements, including the completion of the construction of all three components of the Apprentice School project, which we expect to occur in November 2013.

To acquire the ownership interests in the entities that own the properties to be included in our initial portfolio from the prior investors and to acquire the development, asset management and construction businesses, we will issue an aggregate of 13,039,996 common units of our operating partnership, having an aggregate value of approximately \$150.0 million, and paying approximately \$44.6 million in cash to the prior investors. Cash amounts will be paid out of the net proceeds of this offering. See Use of Proceeds. These formation transactions will be effected substantially concurrently with the completion of this offering.

We estimate that the net proceeds from this offering will be approximately \$173.7 million, or approximately \$200.2 million if the underwriters overallotment option is exercised in full (in each case after deducting the underwriting discount and commissions and estimated expenses of this offering and the formation transactions payable by us). We will contribute the net proceeds of this offering to our operating partnership in exchange for common units. Our operating partnership will use the proceeds received from us to repay approximately \$112.8 million of outstanding indebtedness, including exit fees and debt assumption fees and defeasance costs of approximately \$2.2 million, and to pay approximately \$44.0 million in cash to prior investors in connection with the formation transactions, as described under Use of Proceeds. Any remaining net proceeds will be used for general corporate purposes, including working capital, future acquisitions, and, potentially, paying distributions.

Upon completion of the formation transactions, we expect our operations to be carried on through our operating partnership and wholly-owned subsidiaries of our operating partnership, including our taxable REIT subsidiaries. Consummation of the formation transactions will enable us to (i) consolidate ownership of our initial portfolio under our operating partnership; (ii) succeed to the construction, development and asset management businesses of AH Construction and AH Holding; (iii) facilitate this offering; and (iv) qualify as a REIT for U.S. federal income tax purposes commencing with the short taxable year ending December 31, 2013. As a result, upon completion of the formation transactions, we expect to be a vertically integrated and self-administered REIT with approximately 100 employees providing substantial in-house expertise in asset management, property management, property development, property construction, leasing, tenant improvement construction, acquisitions, repositioning, redevelopment and financing.

In connection with the formation transactions, we will acquire 100% ownership of the properties in our initial portfolio. Our acquisition of the Controlled Entities will represent a transaction between entities under common control because Mr. Hoffler, our Executive Chairman, owns a controlling interest in each of the Controlled Entities. As a result, our acquisition of the Controlled Entities will be recorded at our Predecessor's historical cost. Our acquisition of the equity

Table of Contents

interests in the Non-controlled Entities that were not controlled by Mr. Hoffler prior to consummation of the formation transactions will be accounted for as a purchase at fair value. The fair value of the assets acquired (consisting of physical assets and in-place leases) and liabilities assumed (consisting of long-term debt) will be estimated and recognized in accordance with GAAP. We will amortize the value of any above-market or below-market lease intangibles through rental revenues.

Segments

As of December 31, 2012, our Predecessor's business had four operating segments: office, retail, multifamily and general contracting and real estate services. Upon completion of the formation transactions, we will maintain these four operating segments in our business. The general contracting and real estate services segment of our business provides various real estate services, such as general contractor services, construction management, asset management, and development services to third-party property owners as well as to us for our own account. The operations of our general contracting and real estate services segment will be conducted through one or more taxable REIT subsidiaries.

Rental revenues in our office, retail and multifamily segments consist of scheduled rent charges, straight-line rent adjustments and the amortization of above-market and below-market lease intangibles acquired. We also derive revenue from tenant recoveries, through which tenants reimburse us for expenses paid by us such as utilities, janitorial, repairs and maintenance, security and alarm, parking lot and grounds, general and administrative, management fees, insurance and real estate taxes, and other property revenues, including parking income, lease termination fees, late fees, storage rents, and other miscellaneous property revenues. Our rental revenues are reduced by lease incentives on a straight-line basis over the applicable term of the lease. We discuss our office leases, retail leases, and multifamily leases in more detail below.

A majority of the general contracting portion of our general contracting and real estate services segment revenue has historically been earned from negotiated third party general contracting contracts rather than competitively bid contracts. The services provided under negotiated contracts typically are more expansive than the construction services provided under competitively bid contracts and include such additional services as pre-construction support, architect management, and value engineering. Our ability to perform these additional services is derived from the knowledge and experience our general contracting group gains from developing properties for our own account and the group's ability to leverage this knowledge and expertise for our third party clients.

The real estate services portion of our general contracting and real estate services segment provides asset management services to related party assets as well as to our own properties. In addition, our asset services also include property management and leasing services for some of our properties. Fees charged under our asset management contracts are generally at a market rate, but such fees may vary substantially based on the property type, location and level of service. We will recognize asset management and development services revenue when earned, generally as we provide such services. We do not currently expect asset management fee revenue to contribute significantly to our results of operations going forward as we believe that the most valuable use of our asset management team's resources is for the asset management of the properties in our own portfolio.

Additional information regarding our four operating segments, as well as the identified development pipeline and the multifamily property under contract, is provided below. Our discussion of occupancy throughout Management's Discussion and Analysis of Financial Condition and Results of Operations refers to physical occupancy of the space under lease.

Table of Contents**Office Segment Data**

	Year ended December 31,		
	2012	2011 (dollars in thousands)	2010
Square Footage ⁽¹⁾	953,442	953,309	953,241
Occupancy ⁽²⁾	94.1%	92.4% ⁽³⁾	96.0% ⁽³⁾
Segment Revenue	\$ 25,815	\$ 24,680	\$ 20,501
% Total Revenue	23.8%	19.0%	15.2%
Segment Profit	\$ 18,147	\$ 16,679	\$ 13,675
% Total Profit	44.4%	41.0%	37.2%

(1) Represents end of period square footage.

(2) Based on end of period square footage.

(3) Occupancy excludes 109,489 square feet at Two Columbus, which was in lease-up during these periods.

Office Segment Leases. Our Predecessor's office portfolio consisted of seven properties with a total of 953,442 rentable square feet as of December 31, 2012. Historically, we have leased office properties to tenants primarily on a full-service gross or a modified gross basis. We expect to continue these leasing structures in the future. A full-service gross or modified gross lease typically has a base year expense stop, whereby the tenant pays a stated amount of certain expenses as part of the rent payment, while future increases in property operating expenses (above the base year stop) are billed to the tenant based on such tenant's proportionate square footage of the property. The increased property operating expenses billed are reflected as rental expenses and amounts recovered from tenants are reflected as rental revenues in the statements of operations.

Office Same Store Analysis

The following table shows information for our same store office portfolio, which consists of properties that were owned throughout both of the periods presented, except for properties that were in lease-up, as noted below. We generally consider a property to be in lease-up until the earlier of (i) the quarter in which the property reaches 80% occupancy or (ii) the thirteenth quarter after the property receives its certificate of occupancy.

	Year Ended December 31,		% Change	Year Ended December 31,		% Change
	2012 ⁽¹⁾	2011 ⁽¹⁾		2011 ⁽²⁾	2010 ⁽²⁾	
Rental Revenue	\$ 23,274	\$ 22,422	3.8%	\$ 13,582	\$ 14,257	(4.7)%
Property Expense	6,938	7,270	(4.6)%	5,132	5,180	(0.9)%
Segment Profit	\$ 16,336	\$ 15,152	7.8%	\$ 8,450	\$ 9,077	(6.9)%

(1) Excludes Two Columbus, which was in lease-up during the period.

(2) Excludes Two Columbus, which was in lease-up during the period, and Virginia Natural Gas and Richmond Tower, which came online in 2011 and 2010, respectively, and which were in lease-up during the period.

Retail Segment Data⁽¹⁾

	Year ended December 31,		
	2012	2011	2010
	(dollars in thousands)		
Square Footage ⁽²⁾⁽³⁾	983,107	981,930	991,857
Occupancy ⁽²⁾⁽⁴⁾	93.9%	93.8%	93.2%
Segment Revenue	\$ 21,164	\$ 20,105	\$ 20,335
% Total Revenue	19.5%	15.4%	15.0%
Segment Profit	\$ 14,535	\$ 14,326	\$ 14,323
% Total Profit	35.6%	35.2%	38.9%

Table of Contents

(1) Excludes Bermuda Crossroads, which was a non-controlled entity as of December 31, 2012.

(2) Excludes ground leases for retail properties.

(3) Represents end of period square footage.

(4) Based on end of period square footage.

Retail Segment Leases. Our Predecessor's retail portfolio consisted of 14 properties with a total of 983,107 rentable square feet as of December 31, 2012 (which excludes Bermuda Crossroads). Historically, we have leased retail properties to tenants primarily on a triple-net lease basis, and we expect to continue to do so in the future. In a triple-net lease, the tenant is typically responsible for all property taxes, insurance and operating expenses. As such, the base rent payment does not include any operating expenses, but rather all such expenses, to the extent they are paid by us and reimbursable to us under the terms of the applicable leases, are billed to the tenant. The full amount of the expenses for this lease type, to the extent they are paid by us, are reflected in rental expenses, and the reimbursement is reflected in rental revenues in the statements of operations. Excluded from the table above is Bermuda Crossroads, in which our Predecessor holds a non-controlling interest and which we account for under the equity method of accounting.

Retail Same Store Analysis

The following table shows information from our same store retail portfolio, which consists of properties that were owned throughout both of the periods presented, except for properties that were in lease-up, as noted below. We consider a property to be in lease-up until the earlier of (i) the quarter in which the property reaches 80% occupancy or (ii) the thirteenth quarter after the property receives its certificate of occupancy.

	Year Ended December 31,		% Change	Year Ended December 31,		% Change
	2012 ⁽¹⁾	2011 ⁽¹⁾		2011 ⁽²⁾	2010 ⁽²⁾	
	(dollars in thousands)					
Rental Revenue	\$ 20,625	\$ 20,105	2.6%	\$ 19,505	\$ 20,006	(2.5)%
Property Expense	6,443	5,776	11.5	5,657	5,857	(3.4)
Segment Profit	\$ 14,182	\$ 14,329	(1.0)%	\$ 13,848	\$ 14,149	(2.1)%

(1) Excludes Bermuda Crossroads, Courthouse 7-Eleven and Tyre Neck, which were in lease-up during the period.

(2) Excludes Bermuda Crossroads, and Courthouse 7-Eleven, Tyre Neck and Commerce Street Retail, which came online in 2012, 2011 and 2010, respectively, and which were in lease-up during the period.

Multifamily Segment Data⁽¹⁾

	Year ended December 31,		
	2012	2011	2010
	(dollars in thousands)		
# of available apartment units	342	342	342
Occupancy ⁽²⁾	91.9%	91.5%	91.8%
Segment Revenue	\$ 7,457	\$ 7,793	\$ 7,011

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% Total Revenue	6.9%	6.0%	5.2%
Segment Profit	\$ 4,281	\$ 4,295	\$ 3,728
% Total Profit	10.5%	10.6%	10.1%

(1) Excludes Smith's Landing, which was a non-controlled entity as of December 31, 2012.

(2) End of period occupancy.

Multifamily Segment Leases. Our Predecessor's multifamily portfolio consisted of one apartment property with a total of 342 multifamily apartment units as of December 31, 2012 (which excludes Smith's Landing). Our multifamily leases generally have terms ranging from 7 to 15 months, with a majority having 12 month terms. Tenants typically pay a monthly base rental amount per apartment units. At both of the multifamily properties in our initial portfolio, tenants can opt to pay additional monthly amounts for services such as phone, cable,

Table of Contents

internet, storage units, pet fees and the rental of furniture and household goods. Phone, cable and internet services are only available to tenants through us and cannot be obtained directly from third-party service providers. Excluded from the table above is Smith's Landing, in which our Predecessor holds a non-controlling interest and which we account for under the equity method of accounting.

Multifamily Same Store Analysis

The following table shows information for our same store multifamily portfolio, which consists of The Cosmopolitan, the only multifamily property owned throughout both periods that was not in lease-up. We generally consider a property to be in lease-up until the earlier of (i) the quarter in which the property reaches 80% occupancy or (ii) the thirteenth quarter after the property receives its certificate of occupancy.

	Year Ended December 31,		% Change	Year Ended December 31,		% Change
	2012 ⁽¹⁾	2011 ⁽¹⁾		2011 ⁽¹⁾	2010 ⁽¹⁾	
				(dollars in thousands)		
Rental Revenue	\$ 7,457	\$ 7,793	(4.3)%	\$ 7,793	\$ 7,011	11.2%
Property Expense	3,176	3,498	(9.2)	3,498	3,283	6.5
Segment Profit	\$ 4,281	\$ 4,295	(0.3)%	\$ 4,295	\$ 3,728	15.2%

(1) Excludes Smith's Landing, which was in lease-up during the period.

General Contracting and Real Estate Services Segment Data

	Year ended December 31,		
	2012	2011	2010
	(dollars in thousands)		
Segment Revenue	\$ 54,046	\$ 77,602	\$ 87,279
% Total Revenue	49.8%	59.6%	64.6%
Segment Profit	\$ 3,943	\$ 5,464	\$ 5,152
% Total Profit	9.7%	13.4%	14.0%

General Contracting and Real Estate Services Segment

General Contracting Activities. Upon the completion of this offering and the formation transactions, we will succeed to Armada Hoffer's construction business, which was engaged in 20 construction contracts as of December 31, 2012. Of these 20 construction contracts, 17 construction contracts were with third-party clients and three were with related party clients. The 20 contracts have an estimated contract value of approximately \$90.1 million with approximately \$25.5 million of work in place and a balance to complete of approximately \$64.6 million as of December 31, 2012. As part of the formation transactions, we will acquire from Armada Hoffer all of the contracts in place upon the completion of the offering. Of the 20 construction projects in progress as of December 31, 2012, we currently expect that seven of these contracts will be on-going upon completion of this offering and the formation transactions.

Four of the seven contracts expected to be on-going upon the completion of this offering are with third parties, two of which have contract values in excess of \$1.0 million. One of these contracts is for the City of Suffolk Municipal Center, which has a total contract value of approximately \$23.4 million. This contract had work in place as of December 31, 2012 of approximately \$0.6 million and a balance to complete of approximately \$22.8 million with an estimated completion date of June 2014. The City of Suffolk Municipal Center is a two-story, design-build project that will consist of a 911 emergency call center, city council chambers, large public lobbies and office space for various departments within the municipal government. The other contract is a third-party contract for the Biomedical Research Laboratory at Hampton University, which has a total contract value of approximately \$10.5 million. This contract had work in place of approximately \$2.3 million and a balance to complete of approximately \$8.2 million as of December 31, 2012 with an estimated completion date of August 2013.

Table of Contents

Three of the seven contracts expected to be on-going upon the completion of this offering are related party contracts for the three components of the Apprentice School complex in Newport News, Virginia the Apprentice School Apartments, Apprentice School Garage and Apprentice School. We have entered into a contribution agreement to acquire the Apprentice School Apartments from this related party as discussed below under Property Under Contract. All three components of the Apprentice School project are being built on the same site. The Apprentice School is a state of the art educational facility and will feature eight computer labs, seven standard classrooms, an auditorium-style classroom, a physics lab and a gymnasium. The Apprentice School Garage is a four-story garage that will be operated by the Industrial Development Authority of the City of Newport News, Virginia. These three contracts have a total combined contract value of approximately \$48.0 million, a combined work in place of approximately \$17.1 million and a balance to complete of approximately \$30.9 million as of December 31, 2012. All three components of the Apprentice School project have an estimated completion date of November 2013.

At December 31, 2012, Armada Hoffler also had construction contracts in various stages of negotiations with both third parties and related parties, which we refer to as our construction pipeline. We cannot assure you that any or all of these contracts will be executed, or that once executed we will commence or complete construction on any or all of the projects. We currently estimate that the aggregate contract value of these contracts under negotiation will be approximately \$200 million, but the actual value of the construction contracts we enter into may be significantly less than this amount. Our construction pipeline includes a potential contract for the proposed 950-space Main Street Garage in the Virginia Beach Town Center, which will be developed by affiliates of Armada Hoffler for eventual sale to the Development Authority of the City of Virginia Beach, Virginia. The Main Street Garage is part of the same project as our Main Street Office Tower and Main Street Apartments development projects.

Third Party Asset Management Activities: As of December 31, 2012, AH Holding did not provide asset management or property management services to any third parties.

Related Party Asset Management Activities. AH Holding currently serves as asset manager for all of the properties in our initial portfolio. In addition, our asset management team also provides property management services or assists in the property management of, eight of the properties in our initial portfolio and as leasing representative for, or assists in the leasing of, four of the properties in our initial portfolio. Effective upon completion of the formation transactions, our asset management team will also serve as asset manager for six properties and ten vacant parcels of land owned by related parties. We will receive asset management fees for such activities, as summarized in the table below. Our asset management team may also serve as property manager for some of these related party properties. The total asset management fee income expected from the properties listed below is less than \$100,000 annually.

Property⁽¹⁾	Location	Asset Management Fee
Harbour Center	Hampton, VA	1.5% of base rents, paid monthly
Harbourside	Washington, D.C.	1.0% of gross office revenue paid annually in arrears
Ten Vacant Parcels of Land	Various	\$300 per quarter per parcel
Two Hotels	Various	0.5% of revenue paid monthly
Apprentice School	Newport News, VA	\$500 per quarter
Apprentice School Garage	Newport News, VA	\$500 per quarter per asset

(1) Certain of our directors and executive officers own interests in these properties. See Certain Relationships and Related Transactions. The terms of our asset management agreements for these properties vary greatly. Certain of our executive officers own equity interests in all of these assets. See Certain Relationships and Related Transactions.

Table of Contents**Identified Development Pipeline and Property Under Contract**

Identified Development Pipeline. Our Predecessor's development pipeline, to which we will succeed, consists of two office properties, two retail properties and two multifamily properties, as described in the table below (dollars in thousands).

Property	Location	Property Type	Estimated Square Footage ⁽¹⁾	Estimated Apartment Units ⁽¹⁾	Estimated Cost ⁽¹⁾	Cost Incurred through December 31, 2012	Estimated Date of Completion ⁽¹⁾	Estimated Ownership % ⁽¹⁾	Principal Tenants
Main Street Office ⁽²⁾	Virginia Beach, VA	Office	234,000 ⁽³⁾	N/A	\$ 50,863	\$ 750	July 2014	100%	Clark Nexsen, Development Authority of Virginia Beach ⁽⁴⁾
Main Street Apartments ⁽²⁾	Virginia Beach, VA	Multifamily	N/A	288	32,845	277	July 2014	100%	N/A
Jackson Street Apartments	Durham, NC	Multifamily	N/A	203	26,182	218	July 2014	80%	N/A
Sandbridge Commons	Virginia Beach, VA	Retail	75,000	N/A	13,675	266	September 2014	85%	Harris Teeter ⁽⁴⁾
Brooks Crossing	Newport News, VA	Office ⁽⁵⁾	60,000	N/A	12,793	476	February 2015	65%	Huntington Ingalls ⁽⁴⁾ , City of Newport News ⁽⁴⁾
Greentree Shopping Center ⁽⁶⁾	Chesapeake, VA	Retail	15,600	N/A	5,402	103	September 2014	100%	WaWa ⁽⁴⁾
Total			384,600	491	\$ 141,760	\$ 2,090			

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

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

(3) Approximately 83,600 square feet have been pre-leased by Clark Nexsen, an architectural firm. We expect approximately 23,300 square feet to be pre-leased by the Development Authority of Virginia Beach, although no lease has been signed as of the date of this prospectus.

(4) No lease agreement has been signed as of the date of this prospectus. We expect the lease agreement to be in place prior to the commencement of construction on this project.

(5) We expect that this property will include 28,200 square feet of retail space.

(6) We are currently negotiating to sell Wal-Mart a pad-ready site adjacent to Greentree Shopping Center.

In November 2012, Armada Hoffler was selected by Johns Hopkins University, after an extensive competitive selection process, to join with the University in the redevelopment of a 1.12 acre property adjacent to the University's Homewood campus in Baltimore, Maryland. The project is expected to include market-rate student housing, a hotel, retail space, restaurants and parking. The goal of the completed project will be to

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complement the Homewood campus and nearby Charles Village neighborhood and provide a catalyst for future development in the area. Upon completion of this offering and the formation transactions, we will succeed to Armada Hoffler's right to develop and build the Johns Hopkins project.

The commencement of construction on all of the projects identified in the table above and the John Hopkins project, are subject to, among other factors, regulatory approvals, the acquisition of financing and suitable market conditions. See **Business and Properties - Our Identified Development Pipeline** for more information regarding the projects in our identified development pipeline.

Property Under Contract. In addition to the properties in our identified development pipeline, we have entered into a contribution agreement to acquire the Apprentice School Apartments project, which is currently under construction, from affiliates of our Predecessor, including Messrs. Hoffler, Haddad and Kirk and certain of our officers. The

Table of Contents

Apprentice School Apartments are expected to have 197 apartment units and approximately 28,000 square feet of retail space when completed and are located in Newport News, Virginia adjacent to the Newport News Apprentice School of Shipbuilding, a state-of-the-art educational facility that we are building for a related-party construction client. Under the terms of the development agreement with the Development Authority of the City of Newport News, ownership of the Apprentice School Apartments cannot be transferred to us until certain other aspects of the overall development are completed, which we currently expect to occur in November 2013. Pursuant to the contribution agreement, we expect to acquire the Apprentice School Apartments project when certain conditions, including the completion of the project's overall construction, including the Apprentice School and Apprentice School Garage, have been met. We expect to acquire the Apprentice School Apartments for approximately \$31.9 million, which will be comprised of approximately \$8.0 million in common units, repayment of a \$3.0 million mezzanine loan, which affiliates of our Predecessor borrowed to fund the equity portion of the project, and the assumption of an approximately \$20.9 million mortgage loan, which has a 30-year term and 5.66% interest rate.

Factors That May Influence Future Results of Operations

Property Rental Revenues

Our future rental revenues from the properties in our initial portfolio will depend principally on our ability to renew expiring leases or re-lease space upon the scheduled or unscheduled termination of leases, lease currently available space (approximately 56,567 rentable square feet of office space, 59,566 rentable square feet of retail space and 28 multifamily apartment units as of December 31, 2012) and maintain or increase rental rates at our properties. Local, regional or national economic conditions; an oversupply of or a reduction in demand for office, retail or multifamily space; changes in market rental rates; our ability to provide adequate services and maintenance at our properties; and fluctuations in interest rates could adversely affect our rental revenues in future periods. Future economic or regional downturns affecting our submarkets or downturns in our tenants' industries that impair our ability to renew or re-lease space and the ability of our tenants to fulfill their lease commitments, as in the case of tenant bankruptcies, could adversely affect our ability to maintain or increase occupancy. In addition, growth in rental revenues also will partially depend on our ability to acquire additional properties that meet our acquisition criteria.

We seek to manage our exposure to tenant credit risk both prior to executing tenant leases as well as during the lease terms. Prior to executing tenant leases, we review tenants' financial information, including credit reports, financial statements and tax returns. We also review business plans for non-public companies and check references prior to lease execution. In addition to these due diligence activities, we also seek to secure, when appropriate, financial commitments from tenants or affiliated parties in the form of security deposits, personal guarantees and letters of credit. On an ongoing basis, we review accounts receivable and aging reports for both tenants and properties as a whole to identify any credit concerns as quickly as possible. In addition, we maintain close contact with our tenants in an effort to identify and help address negative changes in their businesses prior to such changes adversely affecting their ability to pay rent to us.

We are currently experiencing increased economic activity in all of our property segments. Although leasing activity in the office and retail segments has increased from the diminished levels during the recent recession, the amount of vacant space in the markets in which we own properties continues to limit our ability to raise rental rates on existing space. We believe that the desirable locations of our multifamily properties have helped us maintain occupancy through the recent recession. Although we offered rent concessions during the recessionary period, including free rent, consistent with many of our competitors, the need to provide such concessions to maintain occupancy has subsided somewhat as a result of the improving economy.

General Contracting and Real Estate Services Income

Our ability to perform our obligations under our construction contracts on time and on budget and to attract new development projects and third-party construction contracts will impact our results from operations. Our ability to perform our obligations under our construction contracts is dependent on third-party subcontractors, the availability of supplies, accurate architectural drawing and other factors discussed elsewhere in this prospectus. Upon completion of this offering and the formation transactions, we will succeed to Armada Hoffler's construction business, which was engaged in 20 construction contracts as of December 31, 2012. Of these 20 construction contracts, 17 were with third-party clients and three were with

Table of Contents

related party clients. Of these 20 construction projects, 19 and one are expected to be completed during the years ended December 31, 2013 and 2014, respectively.

The demand for new space and new buildings has increased over the recessionary levels, which is positively contributing to both our ability to source construction projects and our ability to enter into third party construction contracts. We expect that our general contracting and real estate services income will fluctuate depending on the value of the construction contracts to which we are a party and the number of construction contracts underway at any given time.

While our general contracting and real estate services segment comprised approximately 50.0% and 59.6% of our total revenues for the years ended December 31, 2012 and 2011, respectively, it comprised only 9.7% and 13.4% of our total segment profit for the same periods. Although the contract value of the third party construction contracts we enter into, which we refer to as construction volume, as well as the annual general contracting and real estate services segment revenue from these contracts, are important metrics when discussing historical financial results and providing forward looking financial guidance, these metrics do not provide a complete understanding of this business segment. In particular, we believe operating margin, defined as general contracting and real estate services segment net operating income divided by segment revenue, to be critical to an understanding of both the profitability and relative importance of our general contracting and real estate services segment. In addition, any discussion of construction volume or annual general contracting and real estate services segment revenues solely in relation to either total revenues or rental revenues generated from our operating property segments may overstate the impact or relative importance of the general contracting and real estate services segment to the overall financial condition and prospects of our company. As a result, we believe general contracting and real estate services net operating income and operating margin are better metrics than construction volume or segment revenue to evaluate this segment's impact on our overall business. The table below summarizes the operating margin for the general contracting and real estate services segment for the years ended December 31, 2012, 2011 and 2010.

	Year Ended December 31,		
	2012	2011	2010
	(dollars in thousands)		
<i>General Contracting and Real Estate Services</i>			
Segment Revenue	\$ 54,046	\$ 77,602	\$ 87,279
Segment Expenses	(50,103)	(72,138)	(82,127)
Net Operating Income	\$ 3,943	\$ 5,464	\$ 5,152
<i>Operating Margin</i>	<i>7.3%</i>	<i>7.0%</i>	<i>5.9%</i>

Our asset management team will serve as asset manager for six properties and 10 vacant parcels of land owned by related parties, and we will receive asset management fees with respect thereto. Certain of our executive officers own equity interests in all of these assets. See Certain Relationships and Related Transactions. Our ability to attract new asset management contracts will impact our results from operations. However, we do not currently anticipate significant growth in asset management fee revenue nor do we expect asset management fee revenue to contribute significantly to our results of operations as our management team believes that the most valuable use of our asset management team's resources is the asset management of the properties in our own portfolio.

Conditions in Target Markets

All of the properties in our initial portfolio are located in Virginia and North Carolina. Specifically, our initial portfolio and identified development pipeline consist predominately of properties located in the Hampton Roads and Richmond markets in Virginia and the Raleigh-Durham market in North Carolina. Positive or negative changes in conditions in these markets, such as changes in economic or other conditions, employment rates, natural hazards and other factors, will impact the overall performance of the assets in our portfolio.

Our development and construction activities are focused on the Mid-Atlantic region of the United States, including Washington, D.C. and Baltimore, Maryland. The operations of our services company are heavily influenced by the current state of the economy, developments initiated by us, the expansion of business operations by third parties, changes in economic or other conditions, employment rates, natural hazards and other factors in these markets.

Table of Contents

Expenses

Our expenses generally consist of rental expenses, real estate taxes, general contracting and real estate services expenses and general and administrative expenses. Increases in rental expenses and real estate taxes over tenants' base years generally are passed on to tenants that are a party to our full-service gross leases and paid in full by tenants that are a party to our triple-net leases. In some cases, our office tenants may be party to a modified gross lease or modified net lease. In both cases, the tenant may self-perform or directly source services that are typically included in our rental expenses. In addition, some of our leases provide for limitations on the amount of year-over-year increases for a particular rental expense. As a result, to the extent that property operating expenses increase at a rate faster than allowable year-over-year increases in rental expenses, we would not be able to pass certain costs on to our tenants, which could result in a reduction in property rental revenues.

As a publicly-traded REIT, we estimate that our annual general and administrative expenses will increase by approximately \$4.0 million, from approximately \$3.2 million in our Predecessor's operations for the year ended December 31, 2012 to approximately \$7.2 million after the completion of this offering, due to increased headcount, cash and equity based compensation, legal, insurance, accounting and other expenses related to corporate governance, SEC reporting, and other compliance matters. The projected increase of approximately \$4.0 million of general and administrative expenses includes approximately \$0.8 million in noncash stock-based compensation expense. General and administrative expenses consist of two components. The first component includes general corporate expenses and the second component includes indirect operating expenses not allocated to the development or operations of our wholly-owned properties or real estate services operations. Those indirect expenses not allocated to the operations are included in our estimate of general and administrative expenses.

Because most general contracting expenses are variable in nature, we expect that the general contracting expense portion of our general contracting and real estate services expenses will fluctuate depending on the value of the construction contracts to which we are a party and the number of construction contracts underway at any given time. The real estate services expense portion of our general contracting and real estate services expenses are generally fixed in the short term and fluctuate over longer time periods based on the number of properties in our portfolio, the number of tenants in our properties, and the total square footage of our properties.

Properties in our portfolio may be reassessed for property tax purposes from time to time after the completion of this offering. Therefore, the amount of property taxes we pay in the future may increase from what we have paid in the past. Given the uncertainty of the amounts involved, we have not included any increase or decrease in general contractor expenses or property taxes in our pro forma financial information included elsewhere in this prospectus. Our expenses also include the payment of property management fees to third parties with respect to 18 properties in our initial portfolio. We believe that all of our third-party property management contracts are at market rates.

Interest Rates

We expect that future changes in interest rates will impact our overall performance. While we may seek to manage our exposure to future changes in rates through interest rate swap agreements or interest rate caps, portions of our overall outstanding debt, including borrowings under our credit facility, will likely remain at floating rates.

Taxable REIT Subsidiaries

As part of the formation transactions, we formed AHP Holding, Inc., a corporation that is wholly owned by our operating partnership, which we refer to as our services company. We will elect with our services company to treat it as a taxable REIT subsidiary for federal income tax purposes. Our services company will conduct, through its wholly-owned subsidiaries, our third-party construction, development and asset management businesses. A taxable REIT subsidiary generally may provide non-customary and other services to our tenants and engage in activities that we may not engage in directly without adversely affecting our qualification as a REIT, provided a taxable REIT subsidiary may not operate or manage a lodging facility or provide rights to any brand name under which any lodging facility is operated. See Material U.S.

Table of Contents

Federal Income Tax Considerations Requirements for qualification Taxable REIT Subsidiaries. We may form additional taxable REIT subsidiaries in the future and our operating partnership may contribute some or all of its interests in certain wholly owned subsidiaries or their assets to our construction company. Any income earned by our taxable REIT subsidiaries will not be included in our taxable income for purposes of the 75% or 95% gross income tests, except to the extent such income is distributed to us as a dividend, in which case such dividend income will qualify under the 95%, but not the 75%, gross income test. See Material U.S. Federal Income Tax Considerations Gross Income Tests. Because a taxable REIT subsidiary is subject to federal income tax, and state and local income tax (where applicable) as a regular corporation, the income earned by our taxable REIT subsidiaries generally will be subject to an additional level of tax as compared to the income earned by our other subsidiaries.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our Predecessor's historical 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.

Our significant accounting policies are described in the notes to our Predecessor's combined financial statements included elsewhere in this prospectus. We believe the following accounting policies and estimates are the most critical to understanding our reported financial results as their effect on our financial condition and results of operations is material.

Revenue Recognition

Rental Revenues

We lease our properties under operating leases and recognize base rents on a straight-line basis over the lease term. We also recognize revenue from tenant recoveries, through which tenants reimburse us for expenses paid by us such as utilities, janitorial, repairs and maintenance, security and alarm, parking lot and grounds, general and administrative, management fees, insurance and real estate taxes, on an accrual basis. Our rental revenues are reduced by the amount of any lease incentives on a straight-line basis over the term of the applicable lease. We include a renewal period in the lease term only if it appears at lease inception that the renewal is reasonably assured. We begin recognizing rental revenue when the tenant has the right to take possession of or controls the physical use of the property under lease. We maintain control of the physical use of the property under lease if we serve as the general contractor for the tenant. Rental revenue is recognized subject to management's evaluation of tenant credit risk.

General Contracting and Real Estate Services Revenues

We recognize revenue on construction contracts using the percentage-of-completion method. Using this method, we recognize revenue and an estimated profit as construction contract costs are incurred based on the proportion of incurred costs to total estimated costs under the contract. Provisions for estimated losses on uncompleted contracts are recognized immediately in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in revisions to costs and income and are recognized in the period in which they are determined. We include profit incentives in revenues when their realization is probable and the amount can be reasonably estimated. General contracting and real estate services revenue is recognized subject to management's evaluation of customer credit risk.

Allowance for Doubtful Accounts

We are subject to tenant defaults and bankruptcies that could affect our collection of accounts receivable. We recognize a provision for losses on accounts receivable representing our best estimate of uncollectible amounts. Our evaluation of the collectability of accounts receivable and the adequacy of the allowance is based primarily upon evaluations

Table of Contents

of individual receivables, current economic conditions, historical experience and other relevant factors. As a matter of policy, we reserve all accounts receivable over 90 days outstanding. For any tenants with rents receivable over 90 days outstanding, we also reserve any related accrued straight-line rental revenue. We recognize additional reserves for more current amounts, as applicable, where we have determined that collectability is doubtful. The extended collection period for accrued straight-line rental revenue along with our evaluation of tenant credit risk may result in the non-recognition of all or a portion of straight-line rental revenue until the collection of such revenue is reasonably assured.

Real Estate Project Costs

We capitalize direct and certain indirect costs clearly associated with the development, construction, leasing or expansion of our real estate assets. Capitalized project costs include direct material, labor, subcontract costs, real estate taxes, insurance, utilities, ground rent, interest on borrowing obligations and salaries and related personnel costs.

We capitalize direct and indirect project costs associated with the initial construction of a property up to the time the property is substantially complete and ready for its intended use. We believe the completion of the building shell is the proper basis for determining substantial completion.

We also capitalize direct and indirect costs, including interest costs, on vacant space during extended lease-up periods after construction of the building shell has been completed if costs are being incurred to prepare the vacant space for its intended use. If costs and activities incurred to prepare the vacant space for its intended use cease, then cost capitalization is also discontinued until such activities are resumed. Once necessary work has been completed on a vacant space, project costs are no longer capitalized. In addition, all leasing commissions paid to third parties for new leases or lease renewals are capitalized.

We depreciate buildings on a straight-line basis over 39 years and tenant improvements over the shorter of their estimated useful lives or the term of the related lease.

Real Estate Impairment

We evaluate our real estate assets for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If such an evaluation is necessary, we compare the carrying amount of any such real estate asset with the undiscounted expected future cash flows that are directly associated with, and that are expected to arise as a direct result of, its use and eventual disposition. Our estimate of the expected future cash flows attributable to a real estate asset is based upon, among other things, our estimates regarding future market conditions, rental rates, occupancy levels, tenant improvements, leasing commissions, tenant concessions and assumptions regarding the residual value of our properties. If the carrying amount of a real estate asset exceeds its associated undiscounted expected future cash flows, we recognize an impairment loss to reduce the carrying amount of the real estate asset to its fair value based on marketplace participant assumptions.

Adoption of New or Revised Accounting Standards

As an emerging growth company under the JOBS Act, we can elect to adopt new or revised accounting standards as they are effective for private companies. However, we are electing to opt out of such of such extended transition period. Therefore, we will adopt new or revised accounting standards as they are effective for public companies. This election is irrevocable.

Table of Contents**Results of Operations**

Comparison of Year ended December 31, 2012 to Year ended December 31, 2011

The following table summarizes the historical results of operations of our Predecessor for the years ended December 31, 2012 and 2011. As of December 31, 2012, our Predecessor's operating portfolio was comprised of interests in 24 office, retail and multifamily properties with an aggregate of 953,442 rentable square feet of office space, 1,094,673 rentable square feet of retail space and 626 multifamily apartment units, compared to a portfolio that was comprised of interests in 24 properties with an aggregate of 953,309 rentable square feet of office, 1,093,496 million rentable square feet of retail space and 626 multifamily units as of December 31, 2011. Our Predecessor holds non-controlling interests in two of the 24 properties, Bermuda Crossroads and Smith's Landing, which we account for under the equity method of accounting. Under the equity method of accounting, we recognize our interest in the net earnings (losses) of these two properties within income from real estate joint ventures in the statements of operations. The following table sets forth selected data from our Predecessor's audited combined statements of operations for the years ended December 31, 2012 and 2011 (dollars in thousands):

	Year Ended December 31,		Change	%
	2012	2011		
Revenues				
Rental Revenues	\$ 54,436	\$ 52,578	\$ 1,858	3.5%
General Contracting and Real Estate Services Revenues	54,046	77,602	(23,556)	(30.4)
Total Revenues	108,482	130,180	(21,698)	(16.7)
Expenses				
Rental Expense	12,682	12,568	114	0.9
Real Estate Taxes	4,865	4,781	84	1.8
General Contracting and Real Estate Services Expenses	50,103	72,138	(22,035)	(30.5)
General and Administrative Expenses	3,232	3,728	(496)	(13.3)
Depreciation and Amortization	12,909	12,994	(85)	(0.7)
Total Expenses	83,791	106,209	(22,418)	(21.1)
Operating Income	24,691	23,971	720	3.0
Other Income (expense)	777	258	519	201.2
Interest Expense	(16,561)	(18,134)	1,573	(8.7)
Loss on Extinguishment of Debt		(3,448)	3,448	(100.0)
Income from Continuing Operations	8,907	2,647	6,260	236.5
Discontinued Operations				
Loss from Discontinued Operations	(35)	(318)	283	(89.0)
Gain (Loss) on Sale of Real Estate	25	(63)	88	(139.7)
Results from Discontinued Operations	(10)	(381)	371	(97.4)
Net Income	\$ 8,897	\$ 2,266	\$ 6,631	292.6%

Table of Contents*Revenue*

Total Revenues. Total revenues consist of property rental revenues and general contracting and real estate services revenues. Total revenues decreased approximately \$21.7 million, or 16.7%, to \$108.5 million for the year ended December 31, 2012, compared to approximately \$130.2 million for the year ended December 31, 2011 as shown below (dollars in thousands):

	Year Ended December 31,		Change	%
	2012	2011		
Office	\$ 25,815	\$ 24,680	\$ 1,135	4.6%
Retail	21,164	20,105	1,059	5.3
Multifamily	7,457	7,793	(336)	(4.3)
General Contracting and Real Estate Services	54,046	77,602	(23,556)	(30.4)
	\$ 108,482	\$ 130,180	\$ (21,698)	(16.7%)

The decrease in total revenues is attributable primarily to the factors discussed below.

Rental Revenues. Rental revenues include minimum base rent, adjustments to recognize base rents on a straight-line basis, cost reimbursements, percentage rents and other rents. Rental revenues increased approximately \$1.9 million, or 3.5%, to approximately \$54.4 million for the year ended December 31, 2012, compared to approximately \$52.6 million for the year ended December 31, 2011.

The increase in office rental revenues was due to new tenant leases at Richmond Tower, One Columbus, Two Columbus and the Armada Hoffler Tower that commenced during the year ended December 31, 2012, or commenced in 2011 but were not in place for the full year ended December 31, 2011. Also contributing to the increase was the receipt of lease termination fees from a tenant at One Columbus Center and a tenant at Armada Hoffler Tower. This activity at Richmond Tower, One Columbus and Armada Hoffler Tower contributed to the increase in same store office rental revenues of 3.8% for the year ended December 31, 2012 as compared to the year ended December 31, 2011.

The increase in retail rental revenues was primarily due to the completed development and concurrent stabilization of Courthouse 7-Eleven in January 2012 and Tyre Neck Harris Teeter in May 2012 in addition to income derived from the commencement of new tenant leases at Commerce Street Retail during the fourth quarter of 2011 and Broad Creek Shopping Center during 2012. This activity at Commerce Street Retail and Broad Creek Shopping Center contributed to the increase in same store retail rental revenues of 2.6% for the year ended December 31, 2012, as compared to the year ended December 31, 2011.

Multifamily rental revenues were lower for the year ended December 31, 2012 due to rent concessions and higher vacancy during the year. Despite an increase in occupancy at the The Cosmopolitan as of December 31, 2012 compared to December 31, 2011, vacancy during 2012, as well as rent concessions, contributed to the decline in same store multifamily rental revenues for the year ended December 31, 2012 as compared to the year ended December 31, 2011.

General Contracting and Real Estate Services Revenues. General contracting and real estate services revenues decreased approximately \$23.6 million, or 30.4%, to approximately \$54.0 million for the year ended December 31, 2012, compared to approximately \$77.6 million for the year ended December 31, 2011. The decrease was due to lower construction volume during the year ended December 31, 2012 as a result of substantial completion of a number of construction projects during the year ended December 31, 2011. The decrease was partially offset by income associated with new projects commenced during the year ended December 31, 2011 and thereafter.

Table of Contents*Expenses*

Total Expenses. Total expenses consist of rental expense, real estate taxes, general contractor expenses, general and administrative expenses and depreciation and amortization. Total expenses decreased by approximately \$22.4 million, or 21.1%, to approximately \$83.8 million for the year ended December 31, 2012, compared to approximately \$106.2 million for the year ended December 31, 2011. This decrease in total expenses is attributable primarily to the factors discussed below (dollars in thousands).

	Year Ended December 31,		Change	%
	2012	2011		
Rental Expense	\$ 12,682	\$ 12,568	\$ 114	0.9%
Real Estate Taxes	4,865	4,781	84	1.8
General Contracting and Real Estate Services Expenses	50,103	72,138	(22,035)	(30.5)
General and Administrative Expenses	3,232	3,728	(496)	(13.3)
Depreciation and Amortization	12,909	12,994	(85)	(0.7)
Total Expenses	\$ 83,791	\$ 106,209	(\$ 22,418)	(21.1%)

Rental Expenses. Rental expenses increased approximately \$0.1 million, or 0.9% to approximately \$12.7 million for the year ended December 31, 2012, compared to approximately \$12.6 million for the year ended December 31, 2011. Rental expenses by segment were as follows (dollars in thousands):

	Year Ended December 31,		Change	%
	2012	2011		
Office	\$ 5,499	\$ 5,849	\$ (350)	(6.0%)
Retail	4,791	3,940	851	21.6
Multifamily	2,383	2,771	(388)	(14.0)
Other	9	8	1	12.5
	\$ 12,682	\$ 12,568	\$ 114	0.9%

Rental expenses include the following general categories: utilities, janitorial, repairs and maintenance, security and alarm, parking lot and grounds, general and administrative, management fees, and insurance. The decrease in office rental expenses resulted primarily from decreased utility expenses due to a successful challenge to the rate schedules and utilities were also lower in 2012 due to an unusually mild winter. These factors offset increases in expenses due to commencement of new tenant leases at Richmond Tower. The increase in retail rental expenses was primarily due to the completed development and concurrent stabilization of both Tyre Neck Harris Teeter and Courthouse 7-Eleven in May 2012 and January 2012, respectively, and the expenses associated with these properties. Multifamily rental expense is closely correlated with occupancy and thus multifamily rental expenses decreased due to the slight decrease in occupancy. Same store property expenses for the office segment decreased as a result of the decreased utility expenses discussed above. Same store property expenses increased for the retail segment and decreased for the multifamily segment as such expenses tend to be variable and correlated with changes in segment rental revenues, which increased in the retail segment and decreased in the multifamily segment during the year ended December 31, 2012 as compared to the year ended December 31, 2011.

Table of Contents

Real Estate Tax Expenses. Real estate tax expenses were relatively unchanged for the year ended December 31, 2012 as compared to the year ended December 31, 2011. Real estate tax expenses by segment were as follows (dollars in thousands):

	Year Ended December 31,			
	2012	2011	Change	%
Office	\$ 2,169	\$ 2,152	\$ 17	0.8%
Retail	1,838	1,839	(1)	(0.1)
Multifamily	793	727	66	9.1
Other	65	63	2	3.2
	\$ 4,865	\$ 4,781	\$ 84	1.8%

General Contracting and Real Estate Expenses. General contracting and real estate services expenses decreased approximately \$22.0 million, or 30.5%, to approximately \$50.1 million for the year ended December 31, 2012, compared to approximately \$72.1 million for the year ended December 31, 2011. The general contracting portion of general contracting and real estate services expenses are closely correlated to general contracting volume and this decrease is due to the decrease in construction volume for the year ended December 31, 2012, as compared to the year ended December 31, 2011. The decrease was due to a number of construction projects that were substantially completed during the year ended December 31, 2011 and prior. The reduction in volume was partially offset by income from new projects commenced during the year ended December 31, 2011 and thereafter.

General and Administrative Expenses. General and administrative expenses decreased approximately \$0.5 million, or 13.3%, to approximately \$3.2 million during the year ended December 31, 2012, compared to approximately \$3.7 million for the year ended December 31, 2011. The decrease was primarily due to lower health care expenses and state taxes.

Depreciation and Amortization. Depreciation and amortization expense decreased approximately \$0.1 million, or 0.7%, to approximately \$12.9 million for the year ended December 31, 2012, compared to approximately \$13.0 million for the year ended December 31, 2011. The decrease was attributable to certain tenant improvements becoming fully depreciated during the year ended December 31, 2011.

Table of Contents*Operating Income*

Operating income increased \$0.7 million, or 3.0%, to approximately \$24.7 million for the year ended December 31, 2012, compared to approximately \$24.0 million for the year ended December 31, 2011 as a result of the revenue and expense factors discussed above and the segment net operating income and operating margins described below. The operating margins for all four operating segments remained relatively stable for the year ended December 31, 2012 as compared to the year ended December 31, 2011 (dollars in thousands).

	Year Ended December 31,		Change	%
	2012	2011		
<i>Office real estate</i>				
Rental revenues	\$ 25,815	\$ 24,680	\$ 1,135	4.6%
Property expenses	(7,668)	(8,001)	333	(4.2)
Net operating income	\$ 18,147	\$ 16,679	\$ 1,468	8.8%
<i>Operating Margin</i>	70.3%	67.6%		
<i>Retail real estate</i>				
Rental revenues	\$ 21,164	\$ 20,105	\$ 1,059	5.3%
Property expenses	(6,629)	(5,779)	(850)	14.7
Net operating income	\$ 14,535	\$ 14,326	\$ 209	1.5%
<i>Operating Margin</i>	68.7%	71.3%		
<i>Multifamily real estate</i>				
Rental revenues	\$ 7,457	\$ 7,793	\$ (336)	(4.3)%
Property expenses	(3,176)	(3,498)	322	(9.2)
Net operating income	\$ 4,281	\$ 4,295	\$ (14)	(0.3)%
<i>Operating Margin</i>	57.4%	55.1%		
<i>General Contracting and Real Estate Services</i>				
Revenues	\$ 54,046	\$ 77,602	\$ (23,556)	(30.4)%
Expenses	(50,103)	(72,138)	22,035	(30.5)
Net operating income	\$ 3,943	\$ 5,464	\$ (1,521)	(27.8)%
<i>Operating Margin</i>	7.3%	7.0%		
<i>Other</i>				

Other Income. Other income increased approximately \$0.5 million, or 201.2%, to approximately \$0.8 million for the year ended December 31, 2012, compared to approximately \$0.3 million for the year ended December 31, 2011. The increase was due primarily to the change in the fair value of our interest rate swaps for which we have not elected hedge accounting.

Interest Expense. Interest expense decreased approximately \$1.6 million, or 8.7%, to approximately \$16.6 million for the year ended December 31, 2012 compared with approximately \$18.1 million for the year ended December 31, 2011. This decrease was primarily the result of refinancing four loans, which resulted in lower interest rates and a full year of interest savings from the lower interest rate on the 2011 Cosmopolitan debt refinancing, which reduced interest expenses. This was partially offset by interest on debt on two buildings placed into service during the year ended December 31, 2012 which increased interest expense.

Loss On Extinguishment of Debt. We did not extinguish any debt during the year ended December 31, 2012. We recognized an approximate \$3.4 million loss on the extinguishment of debt on The Cosmopolitan during the year ended December 31, 2011.

Table of Contents

Results From Discontinued Operations. Results from discontinued operations were \$0.0 and \$(0.4) million for the year ended December 31, 2012 and 2011, respectively. The losses were the result of the sale of three and ten residential condominiums properties during the year ended December 31, 2012 and 2011, respectively. There were no properties classified as discontinued operations as of December 31, 2012 and seven residential condominium properties were classified as discontinued operations at December 31, 2011.

Net Income

Net income. Net income increased approximately \$6.6 million, or 292.6%, to approximately \$8.9 million for the year ended December 31, 2012, compared to approximately \$2.3 million for the year ended December 31, 2011. Approximately \$3.4 million of this increase was due to a decrease in the loss on extinguishment of debt during the year ended December 31, 2012 as compared to the year ended December, 2011. Additional factors contributing to the increase are discussed above.

Comparison of the Year Ended December 31, 2011 to the Year Ended December 31, 2010

The following table summarizes the historical results of operations of our Predecessor for the years ended December 31, 2011 and 2010. As of December 31, 2011, our Predecessor's operating portfolio was comprised of 24 office, retail and multifamily properties with an aggregate of approximately 953,309 rentable square feet of office space, 1,093,496 rentable square feet of retail space and 626 multifamily units, compared to a portfolio that was comprised of 24 properties with an aggregate of approximately 953,241 rentable square feet of office space, 1,103,423 rentable square feet of retail space and 626 multifamily units as of December 31, 2010. Our Predecessor holds non-controlling interests in Bermuda Crossroads and Smith's Landing that we account for under the equity method of accounting. Under the equity method of accounting, we recognize our interest in the net earnings (losses) of these two properties within income from real estate joint ventures in the statements of operations. The following table sets forth selected data from our Predecessor's audited combined statements of operations for the years ended December 31, 2011 and 2010 (dollars in thousands):

	Year Ended December 31,		Change	%
	2011	2010		
Revenues				
Rental Revenues	\$ 52,578	\$ 47,847	\$ 4,731	9.9%
General Contracting and Real Estate Services Revenues	77,602	87,279	(9,677)	(11.1)
Total Revenues	130,180	135,126	(4,946)	(3.7)
Expenses				
Rental Expense	12,568	11,734	834	7.1
Real Estate Taxes	4,781	4,463	318	7.1
General Contracting Expenses	72,138	82,127	(9,989)	(12.2)
General and Administrative Expenses	3,728	2,523	1,205	47.8
Depreciation and Amortization	12,994	12,158	836	6.9
Total Expenses	106,209	113,005	(6,796)	(6.0)
Operating Income	23,971	22,121	1,850	8.4
Other Income (expense)	258	168	90	53.6
Interest Expense	(18,134)	(18,208)	74	(0.4)
Loss on Extinguishment of Debt	(3,448)		(3,448)	N/A
Income from Continuing Operations	2,647	4,081	(1,434)	(35.1)
Discontinued Operations				
Loss from Discontinued Operations	(318)	(338)	20	(5.9)
Loss on Sale of Real Estate	(63)	1	(64)	
Results from Discontinued Operations	(381)	(337)	(44)	13.1

Net Income	\$ 2,266	\$ 3,744	\$ (1,478)	(39.5%)
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Table of Contents*Revenue*

Total Revenues. Total revenues consist of rental revenues and general contracting and real estate services revenues. Total revenues decreased approximately \$4.9 million, or 3.7%, to approximately \$130.2 million for the year ended December 31, 2011 compared to approximately \$135.1 million for the year ended December 31, 2010 as shown below (dollars in thousands):

	Year ended December 31,		Change	%
	2011	2010		
Office	\$ 24,680	\$ 20,501	\$ 4,179	20.4%
Retail	20,105	20,335	(230)	(1.1)
Multifamily	7,793	7,011	782	11.2
General Contracting and Real Estate Services	77,602	87,279	(9,677)	(11.1)
	\$ 130,180	\$ 135,126	\$ (4,946)	(3.7%)

The decrease in total revenues is attributable primarily to the factors discussed below.

Rental Revenues. Rental revenues consist primarily of minimum base rent, adjustments to recognize base rents on a straight-line basis, cost reimbursements from tenants, percentage rent and other rents. Rental revenues increased approximately \$4.7 million, or 9.9%, to approximately \$52.6 million for the year ended December 31, 2011, compared to approximately \$47.8 million for the year ended December 31, 2010.

The increase in office rental revenues was due to the commencement of new tenant leases that commenced during the year ended December 31, 2010 but were not in place for all twelve months of the year ended December 31, 2010 at Two Columbus and at Richmond Tower. In addition, two tenants at Richmond Tower took occupancy during the year ended December 31, 2011 and we completed development and concurrent stabilization of Virginia Natural Gas in September 2010. The increases were offset partially by the termination of a lease at Oyster Point. While this activity at Two Columbus, Richmond Tower and Virginia Natural Gas contributed to an increase in office rental revenues, these properties are excluded from the same store office rental revenues analysis because they were in lease-up during one or both of the periods presented. As a result, same store office rental revenues decreased 4.7% for the year ended December 31, 2010 due to the expiration and non-renewal of two leases, each in excess of 10,000 square feet at Oyster Point and One Columbus.

The decrease in retail rental revenues was due to lower tenant recoveries at North Point Center and Broad Creek Shopping Center, as well as increased tenant credit risk associated with a certain tenant at Dick's at Town Center, which resulted in a downward adjustment to the amount of rental revenues recorded for this tenant during the year ended December 31, 2011. The decrease was partially offset by the commencement of two leases at Commerce Street Retail. These same factors contributed to a decrease in same store retail rental revenues of 2.5% for the year ended December 31, 2011 as compared to December 31, 2010.

Multifamily rental revenues and same store multifamily rental revenues increased primarily as a result of lower rental concessions and higher occupancy for the year ending December 31, 2011.

General Contracting and Real Estate Services Revenues. General contracting and real estate services revenues decreased approximately \$9.7 million, or 11.1%, to approximately \$77.6 million for the year ended December 31, 2011, compared to approximately \$87.3 million for the year ended December 31, 2010. The decrease in general contracting and real estate services revenues was due to lower construction volume in 2011 as a result of substantial completion of a number of construction projects during the year ended December 31, 2010, that was partially offset by three new projects that commenced in early 2010.

Table of Contents*Expenses*

Total Expenses. Total expenses consist of rental expenses, real estate taxes, general contractor expenses, general and administrative expenses, and depreciation and amortization. Total expenses decreased by approximately \$6.8 million, or 6.0%, to \$106.2 million for the year ended December 31, 2011, compared to approximately \$113.0 million for the year ended December 31, 2010. This decrease in total expenses is attributable primarily to the factors discussed below (dollars in thousands).

	Year ended December 31,			
	2011	2010	Change	%
Rental Expense	\$ 12,568	\$ 11,734	\$ 834	7.1%
Real Estate Taxes	4,781	4,463	318	7.1
General Contracting Expenses	72,138	82,127	(9,989)	(12.2)
General and Administrative Expenses	3,728	2,523	1,205	47.8
Depreciation and Amortization	12,994	12,158	836	6.9
Total Expenses	\$ 106,209	\$ 113,005	(\$ 6,796)	(6.0%)

Rental Expenses. Rental expenses increased approximately \$0.8 million, or 7.1%, to approximately \$12.5 million for the year ended December 31, 2011, compared to approximately \$11.7 million for the year ended December 31, 2010. Rental expense by segment was as follows (dollars in thousands):

	Year ended December 31,			
	2011	2010	Change	%
Office	\$ 5,849	\$ 5,051	\$ 798	15.8%
Retail	3,940	4,157	(217)	(5.2)
Multifamily	2,771	2,513	258	10.3
Other	8	13	(5)	(38.5)
	\$ 12,568	\$ 11,734	\$ 834	7.1%

Rental expenses include the following general categories: utilities, janitorial, repairs and maintenance, security and alarm, parking lot and grounds, general and administrative, management fees, and insurance. The increase in office rental expenses was due primarily to the commencement of new tenant leases at Two Columbus and at Richmond Tower as well as the completed development and concurrent stabilization of Virginia Natural Gas in September 2010. In addition, office rental expense increased as a result of non-recurring repairs and maintenance at Armada Hoffler Tower and Oyster Point for the year ended December 31, 2010. The decrease in retail rental expenses was due primarily to lower bad debt expenses associated with a certain tenant at Dick's at Town Center. The increase in multifamily rental expenses was due to higher occupancy levels, requiring an increase in staff and associated expenses as a result of turnover of units. Same store property expenses for the office segment decreased as a result of the decreased utility expenses discussed above. Same store property expenses decreased for the retail segment and increased for the multifamily segment as such expenses tend to be variable and correlated with changes in segment rental revenues, which increased in the retail segment and decreased in the multifamily segment during the year ended December 31, 2011 as compared to the year ended December 31, 2010.

Table of Contents

Real Estate Tax Expenses. Real estate tax expenses increased approximately \$0.3 million, or 7.1%, to approximately \$4.8 million for the year ended December 31, 2011, compared to approximately \$4.5 million for the year ended December 31, 2010. The increase in real estate tax expenses was due primarily to real estate tax expenses within the office segment, and in particular, the completed development of Richmond Tower as well as the reassessment of the Armada Hoffer Tower. Real estate tax expenses by segment were as follows (dollars in thousands):

	Year ended December 31,		Change	%
	2011	2010		
Office	\$ 2,152	\$ 1,775	\$ 377	21.2%
Retail	1,839	1,855	(16)	(0.9)
Multifamily	727	770	(43)	(5.6)
Other	63	63	0	N/A
	\$ 4,781	\$ 4,463	\$ 318	7.1%

General Contracting and Real Estate Services Expenses. General contracting and real estate services expenses decreased approximately \$10.0 million, or 12.2%, to approximately \$72.1 million for the year ended December 31, 2011, compared to approximately \$82.1 million for the year ended December 31, 2010. The general contracting portion of general contracting and real estate services expenses are closely correlated to general contracting volume and this decrease was due to the decrease in construction volume for the year ended December 31, 2011 as compared to the year ended December 31, 2010. The decrease in general contracting and real estate services volume was due to a number of construction projects that were substantially completed during the year ending December 31, 2010 or shortly thereafter. The reduction in volume was partially offset by three new projects that commenced in early 2011.

General and Administrative Expenses. General and Administrative expenses increased approximately \$1.2 million, or 47.8%, to approximately \$3.7 million for the year ended December 31, 2011 compared to approximately \$2.5 million for the year ended December 31, 2010. The increase resulted from more development costs allocated to general and administrative expenses, primarily as a result of lower development activities during the year ended December 31, 2011 as compared to the year ended December 31, 2010 as well as higher labor and benefits cost, mostly related to health care expenses.

Depreciation and Amortization. Depreciation and amortization expense increased approximately \$0.8 million, or 6.9%, to approximately \$13.0 million for the year ended December 31, 2011 compared to approximately \$12.2 million for the year ended December 31, 2010. The increase was attributable to approximately \$6.2 million of additional real estate assets being placed into service during the year ended December 31, 2011 and the full year impact of approximately \$50.5 million of real estate assets placed into service during the year ended December 31, 2010.

Table of Contents*Operating Income*

Operating income increased \$1.9 million, or 8.4%, to approximately \$24.0 million for the year ended December 31, 2011, compared to approximately \$22.1 million for the year ended December 31, 2010, due primarily to the factors discussed above and the segment net operating income and operating margins described below. The operating margins for the retail, office and multifamily segments remained relatively stable for the year ended December 31, 2011 as compared to the year ended December 31, 2010. The operating margin for the general contracting and real estate services segment increased from 5.9% for the year ended December 31, 2010 to 7.0% for the year ended December 31, 2011 due to a shift in the average size of third party construction contracts. The average size of construction contracts was smaller in the year ended December 31, 2011 as compared to the year ended December 31, 2010 and smaller construction contracts typically have higher operating margins (dollars in thousands).

	Year Ended December 31,		Change	%
	2011	2010		
<i>Office real estate</i>				
Rental revenues	\$ 24,680	\$ 20,501	\$ 4,179	20.4%
Property expenses	(8,001)	(6,826)	(1,175)	17.2
Net operating income	\$ 16,679	\$ 13,675	\$ 3,004	22.0%
<i>Operating Margin</i>	67.6%	66.7%		
<i>Retail real estate</i>				
Rental revenues	\$ 20,105	\$ 20,335	(\$ 230)	(1.1%)
Property expenses	(5,779)	(6,012)	233	(3.9)
Net operating income	\$ 14,326	\$ 14,323	\$ 3	0.0%
<i>Operating Margin</i>	71.3%	70.4%		
<i>Multifamily real estate</i>				
Rental revenues	\$ 7,793	\$ 7,011	\$ 782	11.2%
Property expenses	(3,498)	(3,283)	(215)	6.5
Net operating income	\$ 4,295	\$ 3,728	\$ 567	15.2%
<i>Operating Margin</i>	55.1%	53.2%		
<i>General Contracting and Real Estate Services</i>				
Revenues	\$ 77,602	\$ 87,279	(\$ 9,677)	(11.1%)
Expenses	(72,138)	(82,127)	9,989	(12.2)
Net operating income	\$ 5,464	\$ 5,152	\$ 312	6.1%
<i>Operating Margin</i>	7.0%	5.9%		
<i>Other</i>				

Other Income. The approximate \$0.1 million decrease in other income during the period was due primarily to the change in the fair value of our interest rate swaps for which we have not elected hedge accounting.

Interest Expense. Interest expense decreased approximately \$0.1 million, or 0.4%, to approximately \$18.1 million for the year ended December 31, 2011 compared with approximately \$18.2 million for the year ended December 31, 2010. The negligible decrease in interest expense for the year ended December 31, 2011 as compared to the year ended December 31, 2010 was the net result of refinancing three loans at lower interest rates, which reduced interest expense, offset partially by two buildings being placed into service during the year ended December 31, 2010, which increased interest expense.

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Loss On Extinguishment of Debt. An approximate \$3.4 million loss was recognized on the extinguishment of the debt on The Cosmopolitan during the year ended December 31, 2011. No debt was extinguished during the year ended December 31, 2010.

Table of Contents

Results From Discontinued Operations. Results from discontinued operations were approximately \$(0.4) million and approximately \$(0.3) million for the years ended December 31, 2011 and 2010, respectively. The losses were the result of the sale of 14 and two residential condominium properties during the years ended December 31, 2011 and 2010, respectively. Three residential condominium properties were classified as discontinued operations at December 31, 2011, and 17 residential condominium properties were classified as discontinued operations at December 31, 2010.

Net Income

Net income decreased approximately \$1.4 million, or 39.5%, to approximately \$2.3 million during the year ended December 31, 2011, compared to approximately \$3.7 million during the year ended December 31, 2010. This increase in net income is explained by the factors discussed above.

Liquidity and Capital Resources

Overview

We believe that the completion of this offering and the formation transactions will improve our financial position by reducing our leverage, increasing our portfolio of unencumbered assets and providing us with enhanced access to capital. Concurrently with or shortly following completion of this offering, we will enter into an agreement for a \$100 million secured credit facility, which we expect to contain an accordion feature that will allow us to increase the borrowing capacity under the facility up to \$250 million, subject to our satisfaction of certain conditions. We expect to draw approximately \$19.3 million on the credit facility upon completion of this offering to fund a portion of the cash consideration payable in connection with the completion of the formation transactions and to repay existing lines of credit and repay certain debt relating to the projects in our development pipeline. Longer term, we intend to use the credit facility for, among other things, general corporate purposes, including completion of the projects in our identified development pipeline, selective acquisitions and development and redevelopment of properties, working capital and the payment of capital expenses.

Our short-term liquidity requirements consist primarily of general contractor expenses, operating expenses and other expenditures associated with our properties, dividend payments to our stockholders required to maintain our REIT status, capital expenditures, funding of development projects and, potentially, acquisitions. We expect to meet our short-term liquidity requirements through net cash provided by operations, reserves established from existing cash, the net proceeds of this offering and, if necessary, borrowings available under our credit facility.

Our properties require periodic investments of capital for tenant-related capital expenditures and for general capital improvements. For the years ended December 31, 2012, 2011 and 2010, our weighted average annual tenant improvement and leasing commission costs were \$4.86 per square foot of leased office space and \$3.27 per square foot of leased retail space. As of December 31, 2012, we had commitments under leases in effect for \$4.1 million of tenant improvements and leasing commissions.

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

As of December 31, 2012, on a pro forma basis to give effect to the use of proceeds of this offering, three loans are scheduled to mature prior to December 31, 2013.

The loan secured by Gainsborough Square, which was originally scheduled to mature December 28, 2013, has been extended and is now scheduled to mature on January 28, 2014.

Table of Contents

The loan secured by the Smith's Landing property, which was originally scheduled to mature on July 17, 2013, has been extended and is now scheduled to mature on January 31, 2014. On March 29, 2013, we submitted an application to HUD to refinance this loan.

The loan secured by Main Street Land originally was scheduled to mature on January 5, 2013. The maturity date has been extended to July 2013. This loan will be paid off when a construction loan is secured for the Main Street Office and Main Street Apartment development pipeline projects. We are currently working with several lenders to finance the Main Street Office and Apartments projects.

As of December 31, 2012, the entity that owns Two Columbus, which we will acquire in connection with the formation transactions, was in violation of a financial covenant in the loan agreement for the loan secured by Two Columbus, which required that entity to, among other things, maintain a minimum cash flow to debt service coverage ratio for the fiscal year ended December 31, 2012 and for each fiscal year thereafter. The lender has waived the covenant default with regard to the fiscal year ended December 31, 2012 and through December 31, 2013.

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

We believe that, upon the completion of this offering, and as a publicly traded REIT, we will have access to multiple sources of capital to fund our long-term liquidity requirements, including the incurrence of additional debt and the issuance of additional equity securities. However, as a new public company, we cannot assure you that we will have access to all these sources of capital. Our ability to incur additional debt will depend on a number of factors, including our degree of leverage, the value of our unencumbered assets and borrowing restrictions that may be imposed by lenders. Our ability to access the equity capital markets will depend on a number of factors as well, including general market conditions for REITs and market perceptions about our company.

Table of Contents*Consolidated Indebtedness*

We expect to use approximately \$110.6 million of net proceeds from this offering to repay certain indebtedness, as described in Use of Proceeds. Upon completion of this offering and the formation transactions and the application of the net proceeds of this offering, we expect to have approximately \$260.6 million of consolidated long-term secured debt (exclusive of approximately \$19.3 million expected to be outstanding under our credit facility upon completion of the formation transactions), of which approximately \$103.2 million, or approximately 39.6%, is variable rate debt. The following table sets forth information as of December 31, 2012 (on a pro forma basis to give effect to the application of the net proceeds from this offering) with respect to indebtedness that we expect will be outstanding upon completion of this offering and the formation transactions other than amounts expected to be outstanding under our credit facility (dollars in thousands):

	Pro Forma Amount Outstanding	Interest Rate⁽¹⁾	Effective Rate as of December 31, 2012	Maturity Date⁽²⁾	Balance at Maturity
Oyster Point	\$ 6,648	5.41%		December 1, 2015	\$ 6,089
One Columbus	14,095	5.31		December 11, 2014	13,542
Two Columbus ⁽³⁾	15,941	LIBOR+2.50	2.71%	July 5, 2015	14,046
Broad Creek Shopping Center					
Note 1	4,553	LIBOR+3.00	3.21	November 29, 2014	4,454
Note 2	8,360	LIBOR+2.75	2.96	December 7, 2016	7,947
Note 3	3,500	LIBOR+2.75	2.96	December 7, 2016	3,327
Courthouse Marketplace					
7-Eleven	1,505	LIBOR+3.00	3.25	August 19, 2016	1,361
Gainsborough Square	9,771	LIBOR+3.00	3.21	January 28, 2014	9,664
Hanbury Village					
Note 1	21,666	6.67		November 11, 2017	20,499
Note 2	4,332	LIBOR+2.75	2.96	March 1, 2015	4,226
Harrisonburg Regal	4,057	6.06		June 8, 2017	3,165
North Point Center					
Note 1	10,478	6.45		February 5, 2019	9,333
Note 2	2,910	7.25		September 15, 2015	1,344
Note 3	9,356	LIBOR+2.85	3.10 ⁽⁵⁾	May 31, 2015	8,785
Note 4	1,053	5.59		December 1, 2014	1,007
Note 5	724	LIBOR+2.00	3.57 ⁽⁴⁾	February 1, 2017	641
Parkway Marketplace	3,247	4.25		October 1, 2018	2,584
Tyre Neck Harris Teeter	2,650	LIBOR+2.75	2.96	June 10, 2014	2,650
249 Central Park Retail	16,068	5.99		September 8, 2016	15,084
South Retail	7,097	5.99		September 8, 2016	6,655
Studio 56 Retail	2,760	3.75		May 7, 2015	2,592
Commerce Street Retail	6,800	LIBOR+3.00	3.21	August 18, 2014	6,694
Fountain Plaza Retail	8,043	5.99		September 8, 2016	7,542
Dick's at Town Center	8,413	LIBOR+2.75	2.96	October 31, 2017	7,929
The Cosmopolitan	48,291	3.75		July 1, 2051	
Bermuda Crossroads	10,956	6.01		January 1, 2014	10,710
Smith's Landing	25,095	LIBOR+2.15	2.36	January 31, 2014	24,970
Main Street Land	2,208	LIBOR+2.50	4.00 ⁽⁶⁾	July 3, 2013	2,208
Total	\$ 260,596⁽⁷⁾				\$ 199,048

(1) LIBOR rate is determined by individual lenders.

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(2) Maturity date at December 31, 2012, except for Gainsborough Square, Smith's Landing and Main Street Land, which were extended after December 31, 2012.

Table of Contents

- (3) The lender has waived a financial covenant default on this loan through December 31, 2013.
- (4) Subject to an interest rate swap lock.
- (5) Subject to a LIBOR interest rate cap of 1.09%.
- (6) Subject to an interest rate floor.
- (7) Does not include approximately \$19.3 million we expect to borrow from the \$100 million secured credit facility that we will enter into concurrently with or shortly following completion of this offering to fund a portion of the consideration payable in connection with the formation transactions and to repay existing lines of credit and certain debt relating to the projects in our development pipeline.

Annual maturities of notes payable as of December 31, 2012 (on a pro forma basis) are due during the following years:

Year	Amount Due (In thousands)	Percentage of Total
2013	\$ 36,843	18%
2014	39,056	20
2015	37,081	19
2016	41,916	21
2017 and thereafter	44,151	22
	\$ 199,047	100%

Description of Certain Debt

The following is a summary of the material provisions of the loan agreements evidencing our material debt expecting to be outstanding upon the closing of this offering and the consummation of the formation transactions.

Mortgage Loan Secured by The Cosmopolitan

The Cosmopolitan is subject to senior mortgage debt with an original principal amount of \$49.1 million. The debt is currently held by M&T Realty Capital Corporation.

Maturity and Interest. The loan has a maturity date of July 1, 2051 and bears interest at a fixed rate per annum of 3.75%. Pursuant to the National Housing Act regulations, an annual mortgage insurance premium is due equal to 0.45% of the principal amount of the insured mortgage. This loan requires regular payments of principal and interest.

Security. The loan was made to a single borrower subsidiary, and is secured by a first-priority of trust lien on The Cosmopolitan, a security interest in all personal property used in connection with The Cosmopolitan and an assignment of all leases, rents and security deposits relating to the property.

Prepayment . As of August 1, 2012, we may prepay the loan at any time subject to the following prepayment penalties:

1. Nine percent (9%) of such prepayment amount paid from August 1, 2012 through July 31, 2013;

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2. Eight percent (8%) of such prepayment amount paid from August 1, 2013 through July 31, 2014;
3. Seven percent (7%) of such prepayment amount paid from August 1, 2014 through July 31, 2015;
4. Six percent (6%) of such prepayment amount paid from August 1, 2015 through July 31, 2016;
5. Five percent (5%) of such prepayment amount paid from August 1, 2016 through July 31, 2017;
6. Four percent (4%) of such prepayment amount paid from August 1, 2017 through July 31, 2018;

Table of Contents

7. Three percent (3%) of such prepayment amount paid from August 1, 2018 through July 31, 2019;
8. Two percent (2%) of such prepayment amount paid from August 1, 2019 through July 31, 2020;
9. One percent (1%) of such prepayment amount paid from August 1, 2020 through July 31, 2021;
10. Prepayment without penalty after July 31, 2021.

Events of Default. The loan agreement contains customary events of defaults in the payment of principal or interest, defaults in compliance with the covenants contained in the documents evidencing the loan and bankruptcy or other insolvency events.

Contractual Obligations

The following table outlines the timing of required payments related to our commitments as of December 31, 2012 (in thousands).

Contractual Obligations	Total	Payments by period						More than 5 years
		Within 1 year	2 years	3 years	4 years	5 years		
Principal payments of long-term indebtedness	\$ 334,438	\$ 69,394	\$ 77,946	\$ 42,025	\$ 44,434	\$ 38,663	\$ 61,976	
Long-term Debt Fixed interest	70,237	9,842	7,649	6,675	5,749	3,984	36,338	
Long-term Debt Variable interest	10,386	4,267	3,591	1,356	875	297		
Operating leases and other commitments	741	347	296	77	21			
Tenant-related commitments	4,092	771	30	793	30	30	2,438	
Ground leases	56,503	1,226	1,293	1,299	1,299	1,318	50,068	
Total	\$ 476,397	\$ 85,847	\$ 90,805	\$ 52,225	\$ 52,408	\$ 44,292	\$ 150,820	

The information in the table above reflects our projected interest rate obligations for the floating rate payments based on one-month LIBOR of 0.3275%.

Credit Facility

We have obtained a commitment letter from Bank of America, N.A. and Merrill Lynch, Pierce, Fenner & Smith Incorporated to arrange a \$100 million senior secured credit facility with an accordion feature that will allow us to increase the borrowing capacity under the facility up to \$250 million, subject to our satisfaction of certain conditions and obtaining additional commitments from lenders. We expect that the lenders under the credit facility will be a syndicate of several banks. We anticipate that we will borrow approximately \$19.3 million under this credit facility to fund a portion of the consideration payable in connection with the completion of the formation transactions and to repay existing lines of credit and certain debt relating to the projects in our development pipeline. Longer term, we expect to use borrowings under the proposed credit facility to fund acquisitions and development and redevelopment of properties in our portfolio and for working capital.

We expect that we and certain of our subsidiaries will guarantee the obligations under the credit facility and that the Armada Hoffler Tower, Richmond Tower, Virginia Natural Gas and Sentara Williamsburg properties will be used as collateral for the credit facility obligations.

We expect that the term of the credit facility will mature three years after closing of the credit facility and will have an optional one-year extension (assuming our compliance with applicable covenants and conditions and the payment of a fee equal to 0.25% of the then applicable maximum amount of the credit facility).

We expect that the credit facility will bear interest, at our option, at a rate equal to either (i) the Eurodollar rate (at our option either one, two, three or six month Eurodollar rate) plus a spread ranging from 1.60% to 2.20% based on our total leverage ratio value ranging from less than 40% to more than 55% or (ii) a base rate plus a spread ranging from 0.60% to

Table of Contents

1.20% based on a ratio of total indebtedness to total asset value ranging from less than 40% to more than 55%, where the base rate will fluctuate each day and will equal the highest of (a) the prime rate, (b) the Federal Funds Rate plus 0.5% and (iii) the one month Eurodollar rate plus 1.0%.

In addition to interest owed under the credit facility, we will be obligated to pay an annual fee based on the average unused portion of the credit facility. This fee will be payable quarterly in arrears and will be 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.

The amount available for us to borrow under the credit facility will be subject to limitations governed by calculations based on the appraised value and debt yield supported by our properties that will form the borrowing base of the credit facility. The credit agreement requires us to comply with various financial covenants, including:

- i a maximum leverage ratio of 65% as of the last day of each fiscal quarter through December 31, 2014 and 60% as of the last day of each fiscal quarter thereafter;

- i a minimum fixed charge coverage ratio (defined as the ratio of consolidated earnings before interest, taxes, depreciation and amortization for the most recently ended period of four fiscal quarters less the aggregate annual capital expenditure adjustment to consolidated fixed charges) of 1.75x;

- i a 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 75.0% of the net proceeds of any additional equity issuances;

- i a maximum amount of variable rate indebtedness that will not exceed 30% of our total asset value; and

- i a maximum amount of secured recourse indebtedness of 35% of our total asset value.

Our activities will be limited to acquiring income producing real estate properties and investments incidental thereto. The negative covenant restricting investments will permit stock acquisitions subject to customary parameters, and will include baskets that permit 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 aggregate amount not exceeding 5% of our total asset value. Investments in these types of assets will not exceed 30% of our total asset value.

In addition to these financial covenants, the credit agreement 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.

Notwithstanding the restriction on our ability to make distributions, we expect the credit facility to allow us to make distributions to the extent that such distributions do not exceed the greater of (1) 100% of our funds from operations through the first anniversary of the closing date of the credit facility plus a portion of the net proceeds of this offering and 95% of funds from operations thereafter or (2) the amount required for us to (a) qualify and maintain our REIT status and (b) avoid the payment of federal or state income or excise tax. If certain events of default exist or would result from a distribution, or if our obligations under the credit facility are accelerated, we may be limited or precluded from making distributions.

Off-Balance Sheet Arrangements

Other than the items disclosed above under the headings Consolidated Indebtedness and Contractual Obligations, upon the completion of this offering we will have no off-balance sheet arrangements that are reasonably likely to have a current or future material effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Table of Contents**Cash Flows**

Comparison of the year ended December 31, 2012 to the year ended December 31, 2011

	Year Ended December 31,		Change	%
	2012	2011		
	(dollar in thousands)			
Operating Activities	\$ 22,326	\$ 23,183	\$ (857)	(3.7%)
Investing Activities	(4,702)	(5,998)	1,296	(21.6)
Financing Activities	(21,673)	(12,171)	(9,502)	78.1
Net Increase/(Decrease)	\$ (4,049)	\$ 5,014	\$ (9,063)	(180.8)

Cash and Cash Equivalents, Beginning of Period	\$ 13,449	\$ 8,435
Cash and Cash Equivalents, End of Period	\$ 9,400	\$ 13,449

Net cash provided by operating activities was approximately \$22.3 million and approximately \$23.2 million for the year ended December 31, 2012 and 2011, respectively. The approximate \$0.9 million decrease in net cash provided by operating activities was due to cash outflows from property and construction assets offset by cash inflows from property and construction liabilities. Net income adjusted for non-cash items increased approximately \$4.8 million, which also offset the cash outflows from property and construction assets.

Net cash used for investing activities was approximately \$(4.7) million and \$(6.0) million for the year ended December 31, 2012 and 2011, respectively. The approximate \$1.3 million change in net cash used for investing activities resulted principally from lower real estate investments and payments for leasing commissions and leasing incentives during the year ended December 31, 2012.

Net cash used for financing activities was \$(21.7) million and \$(12.2) million for the year ended December 31, 2012 and 2011, respectively. The approximate \$9.5 million change in net cash used in financing activities resulted from net debt repayments of secured notes payable of approximately \$4.5 million during the year ended December 31, 2012 compared with net debt issuances of approximately \$5.4 million during the year ended December 31, 2011. Cash used for financing activities for the year ended December 31, 2012 also includes approximately \$3.1 million of offering costs.

Comparison of the year ended December 31, 2011 to the year ended December 31, 2010

	Year ended December 31,		Change	%
	2011	2010		
	(dollar in thousands)			
Operating Activities	\$ 23,183	\$ 6,090	\$ 17,093	280.7%
Investing Activities	(5,998)	(14,715)	8,717	(59.2)
Financing Activities	(12,171)	5,566	(17,737)	(318.7)
Net increase (decrease)	\$ 5,014	\$ (3,059)	\$ 8,073	(263.9%)

Cash and cash equivalents, beginning of period	\$ 8,435	\$ 11,494
Cash and cash equivalents, end of period	\$ 13,449	\$ 8,435

Net cash provided by operating activities was approximately \$23.2 million and \$6.1 million for the years ended December 31, 2011 and 2010, respectively. The approximate \$17.1 million increase was due to cash inflows from accounts receivables, related party receivables and construction receivables, partially offset by cash outflows for accounts payable and other liabilities.

Net cash used for investing activities was approximately \$(6.0) million and \$(14.7) million for the years ended December 31, 2011 and 2010, respectively. The approximate \$8.7 million decrease was driven by lower capital expenditures, partially offset by an increase in lease incentives paid at Commerce Street Retail.

Table of Contents

Net cash (used for) provided by financing activities was approximately \$(12.2) million and \$5.6 million for the years ended December 31, 2011 and 2010, respectively. The approximate \$17.8 million net change resulted from net issuances of secured notes payable of approximately \$5.4 million during 2011 compared with approximately \$22.7 million during 2010, partially offset by lower net distributions during 2011.

Non-GAAP Financial Measures

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

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

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

The following table sets forth a reconciliation of FFO for the years ended December 31, 2012, 2011 and 2010 to net income, the most directly comparable GAAP equivalent (in thousands):

	Year ended December 31,		
	2012	2011	2010
Net income	\$ 8,897	\$ 2,266	\$ 3,744
Depreciation and amortization	12,909	12,994	12,158
Loss on disposal of real estate assets		569	
Income from real estate joint ventures	(261)	(309)	(88)
Depreciation of real estate joint ventures	341	341	336
Funds from operations	\$ 21,886	\$ 15,861	\$ 16,150

FFO for the year ended December 31, 2011 includes a \$1.1 million noncash charge related to the extinguishment of debt.

Quantitative and Qualitative Disclosures about Market Risk

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market-sensitive instruments. In pursuing our business strategies, the primary market risk to which we are exposed is interest rate risk. Our primary interest rate exposure is daily LIBOR. We primarily use fixed interest rate financing to manage our exposure to fluctuations in interest rates. On a limited basis, we also use derivative financial instruments to manage interest rate risk. We do not use these derivatives for trading or other

Table of Contents

speculative purposes. We have not designated any of our derivatives as hedges for accounting purposes. As a result, we account for our derivative instruments under FASB ASC 815, *Derivatives and Hedging*. Under FASB ASC 815, the resulting assets and liabilities associated with derivative financial instruments are carried on our balance sheet at estimated fair value at the end of each reporting period.

At December 31 2012, we were party to three interest rate derivatives, with a total notional amount of \$21.1 million. At December 31, 2012, after giving effect to our interest rate swap derivatives, approximately \$209.2 million, or 62.6%, of our debt had fixed interest rates and approximately \$125.2 million, or 37.4%, had variable interest rates. Assuming no increase in the level of our variable rate debt, if interest rates increased by 1.0% our cash flow would decrease by approximately \$1.25 million per year. At December 31, 2012, LIBOR was approximately 21 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.

Inflation

Substantially all of our office and retail leases provide for the recovery of increases in real estate taxes and operating expenses. In addition, substantially all of the leases provide for annual rent increases. We believe that inflationary increases may be offset in part by the contractual rent increases and expense escalations described above. In addition, our multifamily leases generally have lease terms ranging from 7 to 15 months with a majority having 12-month lease terms allowing negotiation of rental rates at term end which we believe reduces our exposure to the effects of inflation.

Recently Issued Accounting Literature

In May 2011, the FASB issued guidance that clarifies the application of certain existing fair value measurement guidance and expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This guidance was effective for annual and interim reporting periods beginning on or after December 15, 2011. The new guidance did not have a significant impact on our financial position, results of operations or cash flows.

In June 2011, the FASB issued guidance that eliminates the option to present components of other comprehensive income as part of the statement of changes in equity and requires that all non-owner changes in equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance requires retrospective application and was effective for interim and annual reporting periods beginning after December 15, 2011. The adoption of this guidance did not have a significant impact on us because we do not have other comprehensive income.

Pursuant to the JOBS Act, the Company will qualify as an emerging growth company and can elect to opt out of the extended transition period for any new or revised accounting standards that may be issued by the FASB or the SEC. The Company has elected to opt out of such extended transition period. This election is irrevocable.

Table of Contents

INDUSTRY AND MARKET OPPORTUNITY

The following information is based upon the report prepared for us by RCG.

Our Markets

We primarily target markets in the Mid-Atlantic region of the United States that exhibit attractive long-term supply and demand characteristics as well as favorable competitive dynamics. Specifically, properties in our initial portfolio and identified development pipeline are concentrated in the Hampton Roads and Richmond markets in Virginia and the Raleigh-Durham market in North Carolina.

Hampton Roads

The Hampton Roads metropolitan area, synonymous with the Virginia Beach-Norfolk-Newport News, Virginia-North Carolina MSA defined by the U.S. Census Bureau, encompasses six counties and nine independent cities clustered in southeastern Virginia, along with Currituck County of northeastern North Carolina. The region's annual economic output was measured at \$80.5 billion in nominal terms according to the latest available data in 2010, or 19.2% of the gross state product of Virginia. The area is well-known as a center of military activity and is among the most highly concentrated regions of military operations in the country. Its deep-water and year-round ice-free harbor anchors one of the busiest ports in North America.

The Hampton Roads metropolitan area was home to approximately 1.68 million residents as of 2011, which represented 21% of the total population of Virginia. However, because the U.S. Census Bureau counts deployed military personnel as living overseas, this estimate likely understated actual population. The high concentration of military activity including active-duty personnel, civilian government employees, contractors and ancillary support industries has a positive but difficult to measure impact on the economic profile of the region due to the high percentage of non-monetary compensation to military personnel, such as housing allowances and health care, which are not reflected in wage estimates.

Our initial portfolio includes six office properties, 12 retail properties and one multifamily property in the Hampton Roads metropolitan area, which generated 31.0%, 30.6% and 11.9%, respectively, of our initial portfolio's total annualized base rent as of December 31, 2012.

The Hampton Roads Economy

Economic activity in the Hampton Roads region is driven by several key sectors, including military and government activity; shipping, shipbuilding and related industries; higher education and health services; business and professional services; and tourism and hospitality.

The region benefits from a large military and civilian government presence, which both anchors and stabilizes the economy. The Hampton Roads MSA region, in which properties providing 73.5% of the annualized rent from our initial portfolio are located, had an unemployment rate of 6.4% as of August 2012, as compared to unemployment rates of 8.3%, 8.2% and 8.1% in the top 10, top 25 and top 50 MSAs, respectively and the U.S. national rate of 7.8%. Several major military operations and headquarters are located in Hampton Roads: NATO Allied Command Transformation, U.S. Fleet Forces Command, U.S. Air Force Air Combat Command, U.S. Marine Corps Forces Command, U.S. Army Training and Doctrine Command and at least 13 other military bases and installations. Civilian government activities in the region include research and development at NASA Langley Research Center and the Thomas Jefferson National Accelerator Facility. Government workers totaled approximately 162,800 as of August 2012, or approximately 22.0% of the total employment base approximately 133% of the national average. In addition to direct economic output and employment, locally based private contractors, universities and ancillary support industries are integral to the various military and civilian government operations, with employees dispersed across several industry sectors. Furthermore, because such a large portion of the regional economy is driven by military and associated activity, which is less sensitive to broader economic cycles, the military presence in the Hampton Roads metropolitan area works as a stabilizer to mitigate volatility elsewhere in the regional economy.

Table of Contents

The naturally deep-water, ice-free harbor also drives a large portion of economic activity in the area. The Port of Virginia operates several facilities, including three marine terminals, an inland intermodal facility with rail service by Norfolk Southern and CSX, and the Virginia Inland Port. Containerized shipments through the Port of Virginia totaled approximately 1.9 million twenty-foot equivalent units (TEUs) in 2011 and approximately 347,600 short tons of breakbulk cargo, or 15.6 million combined short tons. Containerized traffic TEUs, which represented approximately 12.1% of the total U.S. East Coast container shipments, ranking the Port of Virginia as the third largest for containerized shipments on the Eastern Seaboard, behind New York/New Jersey and Savannah, and the eighth largest nationally. According to RCG, the port is expected to be a major beneficiary of the Panama Canal expansion, which is expected to be completed in 2015 and which the U.S. Army Corps of Engineers expects will double the canal's traffic capacity. According to RCG, the Port Authority of Virginia expects that 20% to 25% of existing West Coast U.S. containerized cargo operation will be shifted to East Coast ports upon completion of the expansion of the Panama Canal. Port Authority of Virginia officials expect 20% of this additional East Coast U.S. traffic will be routed to the Port of Virginia facilities. According to RCG, this would result in containerized cargo shipments through the Port of Virginia increasing between 43% and 54% compared to 2011, substantially increasing the Port of Virginia's market share among competing U.S. ports. Additionally, the high concentrations of shipping and military activity support a large shipbuilding industry in Hampton Roads, including Huntington Ingalls Industries, a spin-off of two shipbuilding units of Northrop Grumman, which operates the world's largest shipyard servicing, among others, U.S. Navy ships.

The Hampton Roads region is home to a significant number of higher-education institutions, including the College of William and Mary, Old Dominion University, Eastern Virginia Medical School and the National Institute of Aerospace, a consortium of eight member universities that conducts aerospace and atmospheric research in support of NASA's mission. In addition, several of the area's largest employers are health-care services providers, including Sentara Healthcare, Riverside Health System, Bon Secours Hampton Roads Health System and Chesapeake Regional Medical Center.

The professional and business services sector, which accounts for the largest share of office-using employment in Hampton Roads, includes legal services, consulting, accounting, as well as several subsectors of technology industries. Professional services firms are attracted to Hampton Roads based on the cluster of large corporate firms that are headquartered or maintain bases of operations in the region, including Amerigroup, Canon Virginia, Dollar Tree, Geico, Northrop Grumman, Norfolk Southern, Smithfield Foods and STIHL. Defense contractors involved in high-tech research and development, like those in the emerging modeling and simulation cluster, are also categorized within the professional and business services sector.

Hampton Roads also has a thriving tourism industry. Drawn by a variety of outdoor, historical and cultural attractions, approximately 5.5 million people visit Virginia Beach for overnight trips each year, and annual visitor spending totaled approximately \$1.13 billion in 2010, according to the Virginia Beach Convention and Visitors Bureau. The area contains approximately 12,000 hotel rooms in addition to other lodging options, such as campsites and vacation rental homes.

Table of Contents

RCG forecasts continuing recovery for the Hampton Roads economy in the near term. Following two years of flat-to-slow growth, RCG projects overall employment growth of approximately 1.4% in 2012 compared to approximately 0.2% in 2011, followed by approximately 1.2% growth in 2013. In addition, RCG projects net job creation in the Hampton Roads metropolitan area of approximately 50,100 jobs through 2016, an average annual growth rate of approximately 1.3% with unemployment decreasing to approximately 4.8%, compared to national estimates of approximately 6.8%, as shown in the tables below.

Hampton Roads Office Market

The Hampton Roads office market contains approximately 47.6 million square feet of multi-tenant office space spread throughout the metropolitan area (including approximately 42.4 million square feet located outside the Norfolk central business district, or CBD), which is comparable to the Charlotte, North Carolina market in terms of total square footage. Low labor costs and a favorable regulatory environment, including business-friendly tax code and labor laws, attract traditional office-using industries (finance, insurance and professional services), corporate firms, as well as military and government agencies. More than 30 Fortune 500 companies maintain a presence in the Hampton Roads metropolitan area, according to the Hampton Roads Economic Development Alliance, including four that selected the region for their corporate headquarters.

Table of Contents

RCG projects cumulative office employment growth of approximately 9.4% from August 2012 through 2016, representing an expected net creation of approximately 13,000 office-using positions. In addition to the cyclical bounce-back in demand in traditional office-using industries, the large military and government presence — much of which is mission-critical operations and training and research facilities — creates a significant and stable source of demand in the market. The mission-critical nature of the government and military operations are expected to insulate the economy and office market in Hampton Roads from demand shocks.

RCG believes that significantly less new construction will be delivered through the five-year period ending December 31, 2016 relative to the five-year period ended December 31, 2011. Including 2012, RCG forecasts a total of approximately 1.2 million square feet of new space to come online through 2016, of which approximately 317,700 square feet are currently under construction. By comparison, approximately 3.4 million square feet of office space was delivered during the five years ended December 31, 2011.

Table of Contents

Based on a favorable supply and demand outlook, RCG projects the vacancy rate of the region's office space to decrease approximately 3.5 percentage points to approximately 8.6% by the end of 2016 with suburban office space decreasing approximately 3.3 percentage points to approximately 8.1% by 2016. During the forecast period, RCG anticipates that Class-A asking rents will steadily increase as a result of stronger demand and tightening supply.

Hampton Roads Retail Market

The Hampton Roads retail market consists of approximately 101.5 million square feet of space. In the short term, RCG predicts that an expected bounce-back in job growth and rising home values will fuel an increase in consumer spending and retail demand. Through 2016, RCG projects a cumulative population growth of approximately 3.6%, payroll growth of approximately 6.8% and a per capita income growth of approximately 15.0%. The pace of new supply coming online in the Hampton Roads retail market slowed considerably following 2009, with approximately 253,000 square feet and approximately 552,000 square feet of new space delivered in 2010 and 2011, respectively, down from an average of approximately 1.5 million square feet per year from 2007 to 2009. According to RCG, growth in demand for retail space is expected to continue to outpace new supply of retail space through 2016, as shown in the chart below.

Table of Contents

Based on a favorable supply and demand outlook, RCG projects the retail vacancy rate to decrease 1.4 percentage points to 5.2% by year-end 2016, which is comparable to 2006 and 2007 vacancy rates. RCG projects an approximately 11.1% cumulative increase in rent per square foot from 2012 through 2016.

Hampton Roads Apartment Market

The Hampton Roads metropolitan area contained approximately 234,000 renter households at year-end 2011, which represented a larger proportion of total households than the Commonwealth of Virginia and the United States as a whole, likely attributable to its heavy concentration of military activity.

Population growth and household creation, particularly among the prime renting age group of 15 to 34, were and continue to be fundamental drivers of apartment demand. According to RCG, the Hampton Roads population aged 15 to 34 grew at a compound annual growth rate of approximately 0.6% in the nine years ended December 31, 2011, compared with an annual decline of approximately 0.2% nationally.

Approximately 37.7% of Hampton Roads households were renters as in 2011, up from approximately 20.3% in 2003, a level that exceeds that of both the Commonwealth of Virginia and the United States as shown in the table below.

Table of Contents

RCG expects favorable supply and demand drivers to strengthen operating conditions in the Hampton Roads rental apartment market through the near- and medium-term. Expected expansion in the local economy and structural demographic trends such as the maturation of the echo boom population, combined with the large military presence in Hampton Roads, are expected to continue to have a net positive impact on overall apartment demand. Although new development and construction is likely to accelerate through the near term in response to growing demand and tighter supply conditions, RCG projects that new supply will not outpace demand through 2016.

RCG forecasts that the multifamily vacancy rate in Hampton Roads will decrease from approximately 5.8% at year-end 2011 to approximately 4.4% by year-end 2016. Tightening supply and growing demand through the forecasted period is expected to provide landlords with improved pricing power on rents, through scaling back of concessions and increases in asking rents. Average monthly rent increased by approximately 0.8% during the first half of 2012 and RCG forecasts vacancy rates to decline and rents to grow through the end of 2016, as shown in the charts below.

Raleigh-Durham

Raleigh-Durham spans two metropolitan statistical areas, the Raleigh-Cary, North Carolina MSA and the Durham-Chapel Hill, North Carolina MSA, and encompasses seven counties, including two anchor cities – Raleigh and Durham – and two primary towns – Cary and Chapel Hill. Combined, the MSAs are known as the Triangle or the Research Triangle Park (RTP), an internationally renowned center for life sciences and technology, research and development. Based on data compiled by RCG, the region’s annual economic output was measured at approximately \$95.3 billion in nominal terms in 2010, or approximately 22.4% of the gross state product of North Carolina for that year. Along with the local life sciences and technology clusters, preeminent research universities educate young professional talent, attracting employers to the area.

Together, the Raleigh and Durham MSAs were home to approximately 1.69 million residents as of year-end 2011, which represented 17.5% of the population of the state of North Carolina. However, because of the considerable number of

Table of Contents

college students in Raleigh-Durham, an appreciable number of whom are dependents of people living outside of the region, the population figure likely understates the local population. The Triangle Business Journal estimates that college students accounted for approximately 11% of the Triangle's population in 2011.

Our initial portfolio includes one retail property in the Raleigh-Durham metropolitan area, which generated 6.3% of our initial portfolio's total annualized base rent, as of December 31, 2012.

The Raleigh-Durham Economy

Economic activity in the Raleigh-Durham region is driven by several key sectors, including professional and business services primarily comprised of life sciences and high technology, educational and health services, leisure and hospitality and retail. Raleigh is the capital of North Carolina.

Created in 1959 by a group of state and local governments, universities and business interests, the RTP currently comprises nearly 7,000 acres and features state-of-the-art research facilities and well-developed infrastructure. Integrating private firms and local universities, the RTP has become a primary source of economic activity in the Raleigh-Durham region. More than 170 firms from a broad spectrum of life sciences, technology and engineering industries have a presence in the RTP, including IBM, Cisco, SAS, NetApp and GlaxoSmithKline.

The Raleigh-Durham region is home to a number of prominent higher-education institutions, including Duke University, University of North Carolina-Chapel Hill and North Carolina State University. The educational and health services sector employment base includes payroll employees working at the private colleges and universities in the region, and includes private-sector health-care providers. In addition, with several prominent hospitals and health-care facilities, Raleigh-Durham attracts patients from throughout the region and elsewhere in the United States. According to RCG, demand for both education and health-care services should increase rapidly through the medium-term, driving an expansion in payrolls in the educational and health services sector at a rate that exceeds overall employment growth.

RCG forecasts a continuing recovery for the Raleigh-Durham economy in the near-term with employment growth steadily expanding. Following two years of slow to moderate growth, RCG projects employment growth of approximately 3.0% in 2012, followed by approximately 1.9% average annual growth between 2013 and 2016.

Table of Contents

The Raleigh-Durham unemployment rate historically has been lower than the national average, and RCG projects employment growth of approximately 72,200 jobs through year-end 2016, an average annual rate of approximately 1.9%, with unemployment decreasing to approximately 5.3%, compared to national estimates of approximately 6.8%, as shown in the table below.

Table of Contents

Raleigh-Durham Office Market

The Raleigh-Durham office market contains approximately 45.0 million square feet of multi-tenant office space spread throughout the metropolitan area (including approximately 41.0 million square feet located outside the Raleigh CBD). The Raleigh-Durham office tenant base is comprised of diverse industries, including government and the financial, insurance, real estate and legal industries. Additionally, life sciences and technology firms require a mix of specialized research and development space as well as conventional office space, and the recent discovery of high-quality natural gas reserves in the area has also contributed to demand for office space. Several multi-national firms have a large presence in Raleigh-Durham, including IBM Corporation, which maintains its second-largest operations center in the region, GlaxoSmithKline, which maintains its U.S. headquarters in the RTP, and Cisco Systems, which employs more than 3,800 people in the region. RCG projects a cumulative office employment growth of 10.5% from August 2012 through 2016, representing an expected net creation of approximately 20,000 office-using positions.

According to RCG, significantly less new office construction will be delivered through the five-year period ending 2016 relative to the five-year period ended December 31, 2011. Including 2012 deliveries, RCG forecasts a total of approximately 2.8 million square feet of new office supply to come online through year-end 2016. Notably, between 2013 and 2016, the cumulative volume of projected new office space should be on par with the amount of space delivered in 2008 alone, according to RCG.

Table of Contents

Based on a favorable supply and demand outlook, RCG projects the vacancy rate of the region's office space to decrease approximately 2.4 percentage points to approximately 15.0% by year-end 2016 with the average Class-A rent projected to increase by an annual average of approximately 2.9%. Along with expected growth in traditional office-using industries, strong growth in the life sciences and technology industries and further expansion of the burgeoning regional energy industry is expected to drive demand for quality space, reduce concessions and boost asking rents.

Raleigh-Durham Retail Market

The Raleigh-Durham retail market consists of approximately 40.9 million square feet of space. In the short term, RCG predicts that strong job creation, income growth and an improving for-sale housing market will fuel increased consumer spending and demand for retail space. Through 2016, RCG projects average annual population growth of approximately 3.3%, an aggregate of approximately 72,000 new jobs created and per capita income growth of 12.0%

RCG expects growth in the supply of retail space to be restrained through 2016 as many regional banks, historically the primary underwriters of construction loans, are expected to maintain conservative underwriting standards through the medium term. Although RCG predicts that deliveries of new retail space will increase in each year through 2016, annual deliveries are expected to average approximately 600,000 square feet per year from 2012 through 2016, significantly less than the pre-recession average of approximately 1.5 million square feet per year between 2001 and 2009.

Table of Contents

Based on favorable projected supply and demand and demographic factors, RCG projects the vacancy rate will decrease by 1.2 percentage points to approximately 6.7%, on par with the historical average of approximately 7.0% between 2001 and 2011. RCG projects that demand for retail space and a falling vacancy rate should enable retail landlords to increase rents through the medium term, which is forecast to result in an approximately 14.9% cumulative increase in rent per square foot from 2012 through 2016.

Raleigh-Durham Apartment Market

Together, the Raleigh and Durham MSAs contained approximately 221,000 renter households at year-end 2011. The proportion of renter households to total households in Raleigh-Durham slightly exceeded that of the state of North Carolina, likely due to the higher concentration in Raleigh-Durham of residents between the ages of 15 and 34 years, a demographic that historically has accounted for a significant portion of demand for rental housing.

The high concentration of college students in the region, and the preference for rental housing among that demographic group, contributes to the high proportion of renter households in Raleigh-Durham and drives demand for local apartments. Job creation and population growth, particularly among the prime renter demographic group, also were and continue to be fundamental drivers of apartment demand. The Raleigh-Durham population aged 15 to 34 grew at a compound annual growth rate of approximately 2.1% in the eight-year period ended 2011, compared with an annual decline of approximately 0.2% at the national level during that period.

Approximately 33.3% of Raleigh-Durham households were renters as of year-end 2011, up from 28.6% in 2005 but down from approximately 34.3% in 2009. The rentership rate for the region was in-line with that of the overall United States and slightly exceeds the approximately 31.7% rentership rate in the State of North Carolina.

Table of Contents

According to RCG, the Raleigh-Durham apartment market is improving along with the recovery of the local economy, and robust job creation has increased demand for apartments. Following the recessionary period from 2007 to 2009, the supply of new rental housing was constrained, with the volume of new building permits approaching historical lows in 2009 and 2010 but rebounding sharply in 2012. RCG predicts that permit filings should decrease substantially in 2013 before increasing to an average of approximately 3,600 per year between 2014 and 2016. Moreover, RCG forecasts that annual permit filings during the five-year period ending 2016 will remain significantly less than the pre-recession peak of approximately 6,900 filings in 1999, and will be on par with the historical, pre-recession average of approximately 3,700 filings per year between 1990 and 2008.

With expected increased demand for apartments and new supply expected to slightly lag demand, RCG forecasts the vacancy rate to decrease from approximately 4.5% during the second quarter of 2012 to approximately 3.9% at year-end 2016. A dwindling supply of available units and increasing demand in the forecasted period is expected to allow landlords to command higher rents. In addition, RCG forecasts the average monthly rent to grow at year-over-year rates of approximately 4.3% and 4.5% in 2013 and 2014, respectively, as shown in the charts below.

Richmond

The Richmond, Virginia metropolitan statistical area is located in the central Virginia and is made up of sixteen counties as well as the four independent cities of Richmond, Colonial Heights, Hopewell and Petersburg. The Richmond MSA straddles the James River and is located approximately 100 miles south of Washington, D.C. and 90 miles northwest of the Hampton Roads metropolitan area. According to RCG, in 2010 the region's annual nominal economic output totaled approximately \$64.3 billion, or approximately 15.3% of the gross state product of Virginia. Richmond is the capital of Virginia and is home to the United States Court of Appeals for the Fourth Circuit and the Federal Reserve Bank of Richmond, causing the area to have a high concentration of federal, state and local government agencies as well as a large number of firms in the legal and finance industries.

Table of Contents

The Richmond MSA was home to approximately 1.27 million residents as of year-end 2011, which comprised approximately 15.7% of the total population of Virginia. Richmond avoided severe job losses during the recent recessionary period due to the concentration of jobs in the government, education and technology sectors.

Our initial portfolio includes one office property in the Richmond metropolitan area, which generated 12.8% of our initial portfolio's total annualized base rent as of December 31, 2012.

The Richmond Economy

Economic activity in the Richmond region is driven by several key sectors, including government, financial and legal services, healthcare and higher education.

Government. As the capital of the Commonwealth of Virginia and the location of the United States Court of Appeals for the Fourth Circuit and the Federal Reserve Bank of Richmond, the Richmond region has a high concentration of federal, state and local government employees. As of August 2012, government was the largest employment sector and accounted for approximately 18.4% of the region's total labor force.

Legal and financial services. The presence of the Federal Reserve and the Fourth Circuit Court of Appeals has contributed to Richmond being a legal and financial center serving Maryland, Virginia, West Virginia, North Carolina, South Carolina and the District of Columbia. The Richmond region is home to four of the largest law firms in the United States, and Fortune 500 Financial Services companies headquartered in Richmond include Genworth Financial and Markel. Richmond's largest employers include financial services companies, such as CapitalOne, Suntrust Bank, Wells Fargo and Bank of America.

Health care. The Richmond area has been designated a Prime Medical Center by the American Medical Association, a designation reserved for areas where residents have local access to nearly all of the services available in modern medicine. The region is home to 21 hospitals, comprising approximately 5,600 patient beds and more than 3,500 physicians. The Virginia Commonwealth University (VCU) Medical Center in downtown Richmond is the fourth-largest medical center in the United States and a leader in research and education. The prominence of Richmond's health-care system is expected to continue to attract health-care workers and students to the educational institutions that train individuals for these careers and further feed the health-care services employment base.

Higher education. Richmond is home to several universities, the largest being VCU with 31,900 students enrolled as of the fall of 2011, followed by Virginia State University and the University of Richmond with 5,890 and 4,349 students, respectively. The region's 30 colleges, universities, and technical and vocational schools provide education and training for the business, engineering, law and medical industries, as well as numerous other fields.

According to RCG, Richmond's economy is expected to continue to recover at a relatively strong pace. Of the jobs that were lost in Richmond during the recessionary period from 2007 to 2009, approximately 60% were regained through August 2012, compared with the approximately 46% regained by the United States overall. RCG projects that overall employment growth will continue strengthening through year-end 2012, with a year-over-year payroll increase of approximately 1.9%.

Table of Contents

RCG projects net job creation of approximately 47,000 jobs through 2016, an average annual growth rate of approximately 1.5% with unemployment decreasing to approximately 4.6%, compared to national estimates of approximately 6.8% , as shown in the tables below . New job growth is expected to be concentrated in three sectors educational and health services, professional and business services and trade.

Richmond Office Market

The Richmond metropolitan area s office market currently totals approximately 58.7 million square feet (including approximately 47.9 million square feet located outside the Richmond CBD), which is larger than other markets in the region, such as Hampton Roads, Raleigh-Durham and Charlotte. Richmond s local business incentives, steady supply of a well-educated workforce provided by its institutions of higher education and low labor costs make the area an attractive destination for employers from diverse industries. Ten Fortune 1000 companies, five of which are Fortune 500 companies, were headquartered in Richmond, ranking the metro area 17th among U.S. metro areas. The Fortune 500 companies headquartered in Richmond span a diverse range of industries and include Altria Group, Dominion Resources, Genworth Financial, CarMax, Owens and Minor, and MeadWestvaco.

Table of Contents

RCG projects cumulative office employment growth of 7.9% from August 2012 through 2016, representing the net creation of approximately 11,800 office-using positions. The ongoing rebound and strengthening of Richmond's economy is expected to increase the demand from traditional office-using industries. While year-to-date leasing activity in the third quarter of 2012 was less than the level recorded during the same period in 2011, growth was still positive due to strong projected employment growth and low levels of new office construction in the near term. Although proposed government budget cuts pose a potential risk to government jobs, RCG predicts that most job cuts will likely not be in the agencies with a strong presence in Richmond.

According to RCG, significantly less new office construction will be delivered through the five-year period ending 2016 relative to the five-year period ended 2011. RCG projects a total of approximately 880,000 square feet of new office space to come online in the four years ending in 2016, which collectively represents less than the amount of new office space delivered in 2007 alone.

Table of Contents

Based on a favorable supply and demand outlook, RCG projects the vacancy rate of the region's office space will decrease approximately 1.8 percentage points to approximately 8.4% by year-end 2016, with the greatest reduction in vacant space forecasted to be in Richmond's CBD. RCG projects the vacancy rate in downtown Richmond to decrease by a total of approximately 3.2 percentage points to approximately 11.5% by year-end 2016, with the average Class-A market rent projected to increase by an annual average of approximately 2.8%. As market conditions continue to improve and concessions are scaled back, RCG believes growth in effective rents may exceed average market rent growth.

Richmond Retail Market

Richmond's retail market consists of approximately 80 million square feet of space. RCG expects Richmond's retail market to improve as a result of employment growth, rising home values and increasing population, which RCG expects will bolster consumer spending and retail demand. Through 2016, RCG projects cumulative population growth of 6.0%, net job creation resulting in a payroll growth of 7.7%, and a per capita income growth of approximately 14.7%.

The Richmond retail market is also expected to benefit from a favorable supply and demand profile. Just under 263,000 square feet of retail space was delivered in 2010, but construction levels began increasing in 2011. Deliveries are forecasted by RCG to reach 1.2 million square feet in 2016, which represents a significant increase from the current level of construction, but less than the levels of new retail space delivered during 2008 and 2009 as shown in the chart below.

Table of Contents

Based on a positive supply and demand outlook, RCG projects the vacancy rate to decrease by 0.9 percentage points to approximately 5.9% by year-end 2016. In addition, in response to the tightening market and dwindling available supply, RCG projects an approximately 14.4% cumulative increase in rent per square foot from the third quarter of 2012 through 2016.

Richmond Apartment Market

The Richmond metropolitan area contained approximately 166,600 renter households at year-end 2011, which accounted for a larger portion of the total households than in the Commonwealth of Virginia and in the United States as a whole. During the recessionary period from 2007 to 2009, many residents in the prime renting age group of 15 to 34 moved in with family or friends resulting in a decline in the rentership rate from 2007 to 2009.

According to RCG, as the economy recovered and hiring picked up, the rentership rate increased in 2010 and 2011 as households uncoupled. As of year-end 2011, approximately 34.7% percent of Richmond households were renters, up from approximately 27.8% in 2009. Additionally, between 1995 and 2011, the growth of Richmond's total population, as well as the population aged 15 to 34 years, outpaced that of the rest of the nation, contributing to this higher proportion of renters.

Table of Contents

RCG expects favorable supply and demand drivers to strengthen operating conditions in the Richmond apartment rental market through near and medium term. On the demand side, employment growth and positive demographic trends should sustain demand for rental units throughout the forecast period. New supply of apartment units, which is gauged by the level of permitting activity, is expected to accelerate in the near term in response to strong rental-market fundamentals and the limited availability of units.

RCG forecasts the vacancy rate to decrease from approximately 6.0% at year-end 2011 to approximately 4.5% by year-end 2016 as demand outpaces increases in supply. The average monthly rent increased by approximately 1.8% during the first half of 2012, and RCG forecasts rents to grow at year-over-year rates of approximately 3.9% and approximately 3.7% in 2013 and 2014, respectively.

Table of Contents

BUSINESS AND PROPERTIES

Overview

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. Upon completion of this offering and the formation transactions, we intend to elect to be taxed as a real estate investment trust, or REIT, for U.S. federal income tax purposes. Our initial portfolio consists of properties in various markets in Virginia and North Carolina. We intend to develop office, retail and multifamily properties in the broader Mid-Atlantic region, including, among other cities, Washington, D.C. and Baltimore, Maryland. In this prospectus, we refer to cities in the Mid-Atlantic region as our target markets. We believe our experience, strategic focus on the Mid-Atlantic region and multi-sector portfolio strategy positions us to compete as a leading commercial real estate owner, operator and developer in our target markets. In addition to developing and building properties for our own account, we also provide general construction and development services to third-party clients throughout the Southeastern and Mid-Atlantic regions of the United States.

We were formed as a Maryland corporation in October 2012 to succeed to the business of Armada Hoffler, a privately owned real estate business founded in 1979. Upon completion of this offering and the related formation transactions, our initial portfolio will consist of the following properties:

- i **Office:** Seven properties consisting of approximately 1.0 million net rentable square feet, which were approximately 94.1% leased and constituted approximately 43.8% of the total annualized base rent of our initial portfolio as of December 31, 2012.

- i **Retail:** Fifteen properties consisting of approximately 1.1 million net rentable square feet, which were approximately 93.9% leased and constituted approximately 38.2% of the total annualized base rent of our initial portfolio as of December 31, 2012.

- i **Multifamily:** Two properties consisting of 626 apartment units, which were approximately 94.9% leased and constituted approximately 18.0% of the total annualized base rent of our initial portfolio as of December 31, 2012.

In addition to our initial portfolio described above, on May 1, 2013, we entered into a contribution agreement to acquire the Apprentice School Apartments, a 197-unit multifamily property located in Newport News, Virginia upon satisfaction of certain conditions, including completion of construction of all three components of the Apprentice School project, which is currently expected to occur in November 2013. Upon completion of this offering and the formation transactions, we also will succeed to Armada Hoffler's development pipeline, which consists of two office properties, two retail properties and two multifamily properties in various stages of development, which we refer to in this prospectus as our identified development pipeline. Based on current development plans and agreements, we expect that the projects in our identified development pipeline will consist of a total of approximately 290,000 square feet of office space, 90,000 square feet of retail space and 491 apartment units. We have also entered into agreements providing us options to purchase eight parcels of developable land from certain of our executive officers and their affiliates.

We develop and build properties for our own account and through joint ventures between us and unaffiliated partners. We also provide general contracting services to third parties. Our construction and development experience includes mid- and high-rise office buildings, retail strip malls and retail power centers, multifamily apartment communities, hotels and conference centers, single- and multi-tenant industrial, distribution and manufacturing facilities, educational, medical and special purpose facilities, government projects, parking garages and mixed-use town centers. Our third-party construction contracts have included signature properties across the Mid-Atlantic states, including the Inner Harbor East development in Baltimore, Maryland, the Mandarin Oriental Hotel in Washington, D.C., and a \$50 million proton therapy institute for Hampton University in Hampton, Virginia. Our construction company historically has been ranked among the Top 400 General Contractors nationwide by Engineering News Record and has been ranked among the Top 50 Retail Contractors by Shopping Center World. As part of our formation transactions, we expect to acquire construction contracts from Armada Hoffler for seven on-going projects and will assume all of Armada Hoffler's ongoing obligations under those contracts.

Table of Contents

In addition to our general expertise and extensive experience in developing, building and owning high-quality commercial properties, we believe that we have particular expertise and a well-established track record forming partnerships between and among public and private entities to develop, construct and own high-quality, institutional-grade properties. Daniel A. Hoffler, our Executive Chairman, has over 33 years of experience in the commercial real estate industry in our target markets. In addition to Mr. Hoffler, our highly experienced management team includes, among others:

Name	Title
Louis S. Haddad	President and Chief Executive Officer
Anthony P. Nero	President of Development
Eric E. Apperson	President of Construction
Shelly R. Hampton	President of Asset Management
Michael P. O Hara	Chief Financial Officer and Treasurer
John C. Davis	Executive Vice President of Construction
Alan R. Hunt	Executive Vice President of Construction
W. Christopher Harvey	Executive Vice President of Construction/Business Development
Eric L. Smith	Vice President of Operations and Secretary

Our Competitive Strengths

We believe the following competitive strengths distinguish us from many of our competitors:

i **Seasoned, Committed and Aligned Senior Management Team with a Proven Track Record.** Our senior management team, led by Daniel Hoffler, Louis Haddad and Russell Kirk, has extensive experience developing, constructing, owning, operating, renovating and financing institutional-grade office, retail, multifamily and hotel properties in the Mid-Atlantic region. Our senior management team and our other real estate professionals have in-depth knowledge of our properties and target markets, as well as substantial expertise in all aspects of asset and property management, marketing, redevelopment, leasing, facility engineering and financing. Since inception, Armada Hoffler has developed in excess of \$1.4 billion of properties, including all but one of the properties in our initial portfolio. Upon completion of this offering and the related formation transactions, our executive officers, directors and their respective affiliates collectively will own approximately 36.8% of our company on a fully diluted basis, which we believe will align their interests with those of our stockholders.

i **High-Quality, Diversified Portfolio.** Our initial portfolio consists of institutional-grade, premier office, retail and multifamily properties located in Virginia and North Carolina. Our properties are generally in the top tier of commercial properties in their markets and offer Class-A amenities and finishes. Our properties have an average age of 11.4 years, and were, with one exception, built by us. We believe that we have maintained our properties to the highest standards and that the quality and location of our properties, together with our active asset management strategies, have resulted in our properties achieving and maintaining competitive rents and occupancy levels relative to competitive properties, including during the recent recessionary period of 2007 to 2009 and subsequent weak recovery. For example, when occupancy rates on our stabilized office and retail portfolios reached post-2007 lows of 92.4% in 2011 and 93.4% in 2010, respectively, the U.S. occupancy rates were 83.3% and 91.2%, respectively, for the comparable periods, according to RCG. Additionally, in 2010, when the U.S. office and retail occupancy rates reached post-2007 lows of 82.1% and 91.2%, respectively, the comparable occupancy rates on our stabilized office and retail portfolios were 96.0% and 93.4%, respectively. For example, the Armada Hoffler Tower in Virginia Beach, Virginia and the Richmond Tower in Richmond, Virginia were built in 2002 and 2010, respectively, and have average annualized base rents per leased square foot of \$26.90 and \$34.08, respectively, which we believe represents 29.7% and 36.6% premiums to the average annualized base rents in their respective markets, based on data from RCG. Similarly, the retail properties located in the Virginia Beach Town Center, which represent 30.9% of the total annualized base rent of our

Table of Contents

retail portfolio as of December 31, 2012, were built from 2002 to 2008 and have an average annualized base rent per leased square foot of \$21.94, collectively, which represents an approximate premium of 64.2% to the average annualized base rent in the market, based on data from RCG.

i **Strategic Focus on Attractive Mid-Atlantic Markets.** We focus our activities in our target markets in the Mid-Atlantic region of the United States that demonstrate attractive fundamentals driven by favorable supply and demand characteristics and limited competition from other large, well-capitalized operators. Our properties in the Hampton Roads, Raleigh-Durham and Richmond MSAs comprised 73.5%, 6.3% and 12.8%, respectively, of our total annualized base rent as of December 31. The Hampton Roads, Raleigh-Durham and Richmond MSAs are the 37th, 48th, and 45th largest metropolitan areas in the United States, respectively. The Hampton Roads MSA region, in which properties providing 73.5% of the annualized rent from our initial portfolio are located, had an unemployment rate of 6.4% as of August, 2012 as compared to unemployment rates of 8.3%, 8.2% and 8.1% in the top 10, top 25 and top 50 MSAs, respectively and the U.S. national rate of 7.8%. Additionally, RCG forecasts that Hampton Roads, Raleigh-Durham and Richmond will experience a reduction in their unemployment rates by 2016 to 4.8%, 5.3% and 4.6%, respectively, compared to the forecasted national average of 6.8%. According to RCG, many of our target markets enjoy high concentrations of employers in industry sectors that historically have been resistant to recession, including military, state government, higher education and healthcare. Furthermore, RCG projects steady population growth in all of the markets in which the properties in our initial portfolio are located. We believe that our longstanding presence in our target markets provides us with significant advantages in sourcing and executing development opportunities, identifying and mitigating potential risks and negotiating attractive pricing.

i **Extensive Experience with Construction and Development.** Since 1982, Armada Hoffler has provided third-party general contracting services through both design/build and design/bid/build delivery methods with a commitment to delivering a quality project on schedule and within the established budget. Most of our third-party construction work is pursuant to negotiated contracts, many of which result from long term relationships. A majority of our construction and development projects for third parties are undertaken pursuant to negotiated contracts rather than through a hard bid process. A substantial portion of our third-party construction work is repeat business or referrals, which we believe demonstrates the quality of our construction work and our commitment to building long-term relationships with our third-party clients. Our development, design and construction experience includes office buildings; retail strip and power centers; multifamily apartment communities; hotels and conference centers; single- and multi-tenant housing; industrial, distribution and manufacturing properties; educational, medical and special purpose facilities; government projects; parking garages and mixed-use town centers. Our platform consists of development, construction and asset management capabilities, which comprise an integrated delivery system for every project that we build for our own account or for third-party clients. This integrated approach provides a single source of accountability for design and construction, simplifies coordination and communication among the relevant stakeholders in each project and provides us valuable insight from an operational perspective. In addition to building 23 of the 24 properties in our initial portfolio, we have had a lead role in the following construction and development projects for third party clients:

i *Inner Harbor East, Baltimore MD:* Harbor East is a \$1.7 billion, mixed-use waterfront project covering more than eight blocks adjacent to Baltimore's Inner Harbor and Little Italy. Harbor East is anchored by luxury hotels, including a Four Seasons Hotel & Residences and a Marriott, the Legg Mason office tower and other Class-A office space, entertainment venues, multiple upscale residential properties and a marina. In the aggregate, Harbor East consists of approximately 160,000 square feet of retail space, 1,275,000 square feet of office space, 596 multifamily units and 1,354 hotel rooms. We served as general contractor on all aspects of the project other than the marina.

Table of Contents

- i *The Mandarin Oriental Hotel, Washington, D.C.:* The Washington, D.C. Mandarin Oriental is a five-star, 400-room luxury hotel overlooking the Potomac River Tidal Basin, Washington Monument and Jefferson Memorial, which was completed in 2004 for approximately \$144 million. The hotel's amenities include fifty luxury suites and a fully-appointed Presidential Suite, approximately 38,000 square feet of conference/banquet space, three dining facilities, a private concierge lounge, health spa and fitness center and an approximately 96,000 square foot parking structure.

- i *The Embassy of Sweden/Harbourside, Washington, D.C.:* The Embassy of Sweden and Harbourside comprise a two-building Class-A office and residential complex along the Potomac River and Rock Creek Park in Washington, D.C., which was completed in 2004 for a total cost of approximately \$100 million. Harbourside consists of approximately 130,000 square feet of office space and six ultra high-end condominium units. House of Sweden comprises approximately 72,000 square feet and is home to the Embassy of Sweden and the Embassy of Iceland.

- i *Hampton University Projects, Hampton, VA:* Since the late 1980s, we have been the preferred construction and development partner for Hampton University and have built several facilities for a total cost of approximately \$170 million. Significant projects for Hampton University include the Proton Therapy Institute, an approximately \$50 million, 99,000 square foot, state-of-the art cancer treatment and research facility which is the largest freestanding proton facility in the world and one of only eight in the U.S.; Hampton University Student Center, an approximately \$15 million, 109,000 square foot student center and Hampton University Convocation Center, an approximately \$13 million facility.

In addition to the revenue that we generate from our third-party construction and development clients, we believe that being regularly engaged in construction and development projects provides us significant and distinct advantages, including the following:

- i *Enhanced Market Intelligence:* ongoing, real-time insight into real estate conditions and fundamentals across markets, which allows us to better advise and serve our third-party clients as well as to make better informed investment decisions for our own business.

- i *Greater Operational Insight:* the opportunity to stay current with best practices and improvements in technology, which we believe translates to higher fees and repeat business from our third-party clients and improves our returns on the projects we undertake for our own account.

- i *Enhanced Operating Leverage:* increased operating leverage with regard to certain fixed costs and overhead, which reduces our proportionate share of operating overhead costs associated with the development of our own projects.

- i *First Look Access to Development and Ownership Opportunities:* unique access to opportunities to acquire ownership interests in attractive commercial real estate developments through relationships with our third-party construction clients.

- i **Longstanding Public and Private Relationships.** We have extensive experience with public/private real estate development projects dating back to 1984, having worked with the Commonwealth of Virginia, the State of Georgia and the Kingdom of Sweden, as well as various municipalities, including the City of Virginia Beach and the City of Richmond, the District of Columbia and the City of Baltimore. Our ability to work with governmental authorities to structure new and unique public/private development and financing partnerships has led to our successful completion of 20 public/private development projects in the

Table of Contents

Mid-Atlantic region. We believe that, in the current environment of constrained municipal budgets, public/private partnerships are a cost-effective method of creating superior value in what have typically been public projects. Through our experience and longstanding relationships with governmental entities such as these, we have learned to successfully navigate the often complex and time-consuming government approval process, which has given us the ability to capture opportunities that we believe many of our competitors are unable to pursue. In addition, we believe that the unique nature of public/private partnerships can create significant barriers to entry to competing properties.

Our Business and Growth Strategies

Our primary business objectives are to (i) continue to develop, build and own institutional-grade office, retail and multifamily properties in our target markets, (ii) finance and operate our portfolio in a manner that increases cash flow and property values, (iii) increase the size and volume of our third-party construction business and (iv) pursue selective acquisition opportunities, particularly when the acquisition involves a significant redevelopment aspect. We will seek to achieve our objectives through the following strategies:

- i **Complete the Development of our Identified Development Pipeline.** We intend to complete the development of our identified development pipeline of high-quality projects, consisting of two office, two retail and two multifamily projects representing a total of approximately 290,000 square feet of office space, 90,000 square feet of retail space and 491 apartment units. We also have entered into an agreement to acquire the Apprentice School Apartments, a 197-unit multifamily property currently under construction in Newport News, Virginia, upon the satisfaction of certain conditions, including completion of construction of all three components of the Apprentice School project, which is currently expected to occur in November 2013. For a summary of our identified development pipeline, see Our Identified Development Pipeline, below.

- i **Growth-Oriented Capital Structure.** We intend to use a portion of the net proceeds of this offering to repay approximately \$112.8 million of mortgage debt secured by certain properties in our initial portfolio. Going forward, we intend to target a debt to gross total assets ratio of approximately 45.0%, which we believe is in line with that of similar publicly traded REITs. Upon completion of this offering and the formation transactions, we will have four properties that will be unencumbered by mortgages, which we will use as collateral for a \$100 million credit facility, which will contain an accordion feature that will allow us to increase the borrowing capacity under the facility up to \$250 million, subject to our satisfaction of certain conditions that we intend to enter into concurrently with or shortly after completion of this offering. We intend to use borrowings initially to fund a portion of the cash consideration payable in connection with the completion of the formation transactions and to repay existing lines of credit and repay certain debt relating to the projects in our development pipeline. Longer term, we intend to use borrowings under our credit facility to fund a portion of the completion of our identified development pipeline, for future development and for selective acquisitions. Furthermore, we believe our ability to issue common units in our operating partnership to equity holders of potential acquisition properties will provide us a significant advantage over many of our competitors.

- i **Pursue a Disciplined, Opportunistic Development and Acquisition Strategy Focused on Office, Retail and Multifamily Properties.** We intend to grow our asset base through continued strategic development of office, retail and multifamily properties, including the projects in our identified development pipeline, and the selective acquisition of high-quality properties that are well-located in their submarkets. In evaluating property investment opportunities, we intend to focus on supply and demand characteristics, management of property specific risks and diversification opportunities to meet our investment objectives and provide attractive risk-adjusted returns. Generally, we expect to commence the construction phase of an office or retail project for our own account only after a substantial portion of the commercial space is pre-leased, and we often undertake development projects with a strategic partner to mitigate risk. Our underwriting process leverages our extensive knowledge of our target markets and includes comprehensive research of submarkets and competing properties, in-depth asset-level and tenant

Table of Contents

evaluations and extensive quantitative analysis to assess long term growth potential rather than focusing only on near term cash returns. We believe that our relationships with real estate developers, governmental entities, brokers, national and regional lenders, high-quality financially stable tenants and other market participants in our target markets will provide us with access to development and acquisition opportunities before they become known to other real estate investors and developers. We seek to create value by developing properties with a minimum expected market capitalization rate approximately 150 basis points higher than the market capitalization rate we could expect to achieve through acquisition. Furthermore, we believe our construction and development expertise provides a high level of quality control while ensuring that the projects we construct and develop are completed more quickly and at a lower cost than if we engaged a third-party general contractor.

i **Pursue New, and Expand Existing, Public/Private Relationships.** We intend to leverage our extensive experience in completing large, complex, mixed-use, public/private projects to establish relationships with new public partners while expanding our relationships with existing public partners. For our own account, we worked with the City of Virginia Beach to develop and construct the transformative Virginia Beach Town Center, which is an on-going project. We are currently working with public and private partners to construct the Newport News Apprentice School of Shipbuilding, a state of the art educational facility. In the current environment of constrained municipal budgets, we believe that public/private partnerships are the most cost-effective method of creating value in what historically have been public projects. We believe our experience and expertise in executing these types of projects provide us with a significant competitive advantage in pursuing these often highly complex transactions, and our continuing success with these projects has resulted in repeat business with our public partners.

i **Leverage our Development and Construction Platform.** We believe that we have a unique advantage over many of our competitors due to our integrated construction and development business that provides expertise, oversight and a broad array of client-focused services. We intend to continue to conduct and grow our construction business and other third-party services by pursuing new clients and expanding our relationships with existing clients.

i **Engage in Disciplined Capital Recycling.** Although we do not have any current plans to dispose of any of the properties in our initial portfolio, we intend to opportunistically divest properties when we believe returns have been maximized and to redeploy the capital into new development, acquisition, repositioning or redevelopment projects that are expected to generate higher potential risk-adjusted returns.

Our Initial Portfolio

Upon completion of this offering and the formation transactions, we will own 24 properties located predominantly in the Hampton Roads, Richmond and Raleigh-Durham markets, consisting of a total of approximately 1.0 million net rentable square feet of office space, 1.1 million net rentable square feet of retail space and 626 multifamily units, which we refer to in this prospectus as our initial portfolio. We built and developed 23 of the 24 properties in our initial portfolio. Our initial portfolio includes ten properties within the Virginia Beach Town Center, a \$500 million central business district mixed-use project that we developed in partnership with the City of Virginia Beach, Virginia. In addition, two properties in our identified development pipeline are located within the Virginia Beach Town Center. The Virginia Beach Town Center is a 17-block, on-going, multi-phase development. To date, the City of Virginia Beach has invested nearly \$150 million in the Virginia Beach Town Center, which has created a vibrant downtown central business district for Virginia Beach and attracted new tenants both to the city and larger MSA, with 51.0% of tenants being new to Virginia Beach and 34.4% of tenants being new to the larger Hampton Roads market.

Table of Contents

The following table presents an overview of our initial portfolio as of December 31, 2012. As described in the notes to the table below, we occupy space in the Armada Hoffer Tower, Oyster Point and the 249 Central Park Retail properties. The rent and square footage for such space are reflected in the table below, but the rent paid by us is eliminated in consolidation in the financial statements and other financial statement information herein.

Property	Location	Year Built	Net Rentable Square Feet ⁽¹⁾	% Leased ⁽²⁾	Annualized Base Rent ⁽³⁾	Annualized Base Rent per Leased Square Foot ⁽³⁾	Average Net Effective Annual Base Rent per Leased Square Foot ⁽⁴⁾
Office Properties							
Armada Hoffer Tower ⁽⁵⁾	Virginia Beach, VA	2002	327,123	98.3%	\$ 8,652,192	\$ 26.90	\$ 27.73
One Columbus	Virginia Beach, VA	1984	129,424	94.7	2,697,265	22.01	24.61
Two Columbus	Virginia Beach, VA	2009	109,512	80.3	2,134,392	24.26	24.60
Virginia Natural Gas ⁽⁶⁾	Virginia Beach, VA	2010	31,000	100.0	568,230	18.33	20.17
Richmond Tower	Richmond, VA	2010	206,969	98.0	6,911,970	34.08	41.84
Oyster Point ⁽⁷⁾	Newport News, VA	1989	100,214	81.5	1,700,444	20.81	20.73
Sentara Williamsburg ⁽⁶⁾	Williamsburg, VA	2008	49,200	100.0	914,628	18.59	20.50
Subtotal/Weighted Average Office Properties⁽⁸⁾			953,442	94.1%	\$ 23,579,121	\$ 26.29	\$ 28.89
Retail Properties Not Subject to Ground Lease							
Bermuda Crossroads	Chester, VA	2001	111,566	93.6%	\$ 1,442,692	\$ 13.81	\$ 12.92
Broad Creek Shopping Center	Norfolk, VA	1997-2001	227,750	95.5	2,895,024	13.31	11.81
Courthouse 7-Eleven	Virginia Beach, VA	2011	3,177	100.0	125,000	39.35	43.81
Gainsborough Square	Chesapeake, VA	1999	88,862	93.0	1,280,905	15.50	15.36
Hanbury Village	Chesapeake, VA	2006-2009	61,049	84.7	1,332,563	25.76	25.60
North Point Center	Durham, NC	1997-2009	215,699	91.1	2,324,762	11.84	11.30
Parkway Marketplace	Virginia Beach, VA	1998	37,804	100.0	753,568	19.93	19.97
Harrisonburg Regal	Harrisonburg, VA	1999	49,000	100.0	683,550	13.95	13.95
Dicks at Town Center	Virginia Beach, VA	2002	100,804	91.4	908,460	9.86	8.30
249 Central Park Retail ⁽⁹⁾	Virginia Beach, VA	2004	92,515	98.7	2,511,180	27.50	27.09
Studio 56 Retail	Virginia Beach, VA	2007	11,600	84.8	333,400	33.91	37.15
Commerce Street Retail	Virginia Beach, VA	2008	20,123	100.0	779,835	38.75 ⁽¹⁰⁾	39.99
Fountain Plaza Retail	Virginia Beach, VA	2004	35,961	100.0	972,426	27.04	26.26
South Retail	Virginia Beach, VA	2002	38,763	92.5	825,363	23.02	26.54
Subtotal/Weighted Average Retail Properties Not Subject to Ground Lease⁽¹¹⁾			1,094,673	93.9%	\$ 17,168,728	\$ 16.70	\$ 16.16
Retail Properties Subject to Ground Lease							
Bermuda Crossroads ⁽¹²⁾	Chester, VA	2001	(14)	100.0%	\$ 155,100		
Broad Creek Shopping Center ⁽¹³⁾	Norfolk, VA	1997-2001	(15)	100.0	572,291		
Hanbury Village ⁽¹⁰⁾	Chesapeake, VA	2006-2009	(16)	100.0	1,067,598		
North Point Center ⁽¹²⁾	Durham, NC	1998-2009	(17)	100.0	1,048,135		
Tyre Neck Harris Teeter ⁽¹²⁾	Portsmouth, VA	2011	(18)	100.0	507,603		
Subtotal/Weighted Average Retail Properties Subject to Ground Lease				100.0%	\$ 3,350,727		
Total/Weighted Average Retail Properties			1,094,673⁽¹⁹⁾		\$ 20,519,455	\$	

Property	Location	Year Built	Apartment Units ⁽²⁰⁾	% Leased ⁽²⁾	Annualized Base Rent ⁽²¹⁾	Average Monthly Base Rent per
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						Leased Unit ⁽²²⁾
<u>Multifamily</u>						
Smith's Landing ⁽²³⁾	Blacksburg, VA	2009	284	98.6%	\$ 3,305,046	\$ 983.64
The Cosmopolitan	Virginia Beach, VA	2006	342	91.9%	6,389,254 ⁽²⁴⁾	1,494.50
Total/Weighted Average Multifamily Properties			626	94.9%	\$ 9,694,300	\$ 1,253.81
Total Portfolio					\$ 53,792,876	

- (1) The net rentable square footage for each of our office properties is the sum of (a) the square footages of existing leases, plus (b) for available space, management's estimate of net rentable square footage based, in part, on past leases. The net rentable square footage included in office leases is generally determined consistently with the Building Owners and Managers Association, or BOMA, 1996 measurement guidelines. The net rentable square footage for each of our retail properties is the sum of (a) the square footages of existing leases, plus (b) for available space, the field verified square footage.

Table of Contents

- (2) Percentage leased for each of our office and retail properties is calculated as (a) square footage under commenced leases as of December 31, 2012, divided by (b) net rentable square feet, expressed as a percentage. Percentage leased for our multifamily properties is calculated as (a) total units rented as of December 31, 2012, divided by (b) total units available, expressed as a percentage.
- (3) For the properties in our office and retail portfolios, annualized base rent is calculated by multiplying (a) base rental payments (defined as cash base rents (before abatements) excluding tenant reimbursements for expenses paid by the landlord) for the month ended December 31, 2012, by (b) 12. Annualized base rent per leased square foot is calculated by dividing (a) annualized base rent, by (b) square footage under commenced leases as of December 31, 2012. In the case of triple net or modified gross leases, annualized base rent does not include tenant reimbursements for real estate taxes, insurance, common area or other operating expenses.
- (4) Average net effective annual base rent per leased square foot represents (a) the contractual base rent for leases in place as of December 31, 2012, calculated on a straight-line basis to amortize free rent periods and abatements, but without regard to tenant improvement allowances and leasing commissions, divided by (b) square footage under commenced leases as of December 31, 2012.
- (5) As of December 31, 2012, we occupied 16,151 square feet at this property at an annualized base rent of \$484,853, or \$30.02 per leased square foot, which amounts are reflected in the % leased, annualized base rent and annualized base rent per square foot columns in the table above. In the combined financial statements of our Predecessor and following completion of this offering and the formation transactions, the rent paid by us is eliminated from our revenues in consolidation. In addition, effective March 1, 2013, we sublease approximately 5,000 square feet of space from a tenant at this property.
- (6) This property is subject to a triple net lease pursuant to which the tenant pays operating expenses, insurance and real estate taxes.
- (7) As of December 31, 2012, we occupied 1,718 square feet at this property on which we do not pay rent.
- (8) Reflects square footage and annualized base rent pursuant to leases for space occupied by us. If the space occupied by us were excluded from the table, net rentable square feet, % leased, annualized base rent and annualized base rent per leased square foot for our office portfolio would be 935,573, 94.0%, \$23,094,269 and \$26.27, respectively.
- (9) As of December 31, 2012, we occupied 13,839 square feet at this property at an annualized base rent of \$299,338, or \$21.63 per leased square foot, which amounts are reflected in the % leased, annualized base rent and annualized base rent per square foot columns in the table above. In the combined financial statements of our Predecessor and following completion of this offering and the formation transactions, the rent paid by us is eliminated from our revenues in consolidation.
- (10) Includes \$25,200 of annualized base rent pursuant to a rooftop lease.
- (11) Reflects square footage and annualized base rent pursuant to leases for space occupied by us. If the space occupied by us were excluded from the table, net rentable square feet, % leased, annualized base rent and annualized base rent per leased square foot for our retail properties not subject to ground lease portfolio would be 1,080,843, 93.8%, \$16,869,391 and \$16.63, respectively.
- (12) For this ground lease, we own the land and the tenant owns the improvements thereto. We will succeed to the ownership of the improvements to the land upon the termination of the ground lease.
- (13) We lease the land underlying this property from the owner of the land pursuant to a ground lease. We re-lease the land to our tenant under a separate ground lease pursuant to which our tenant owns the improvements on the land.

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- (14) Tenants collectively lease approximately 139,355 square feet of land from us pursuant to ground leases.
- (15) Tenants collectively lease approximately 299,170 square feet of land from us pursuant to ground leases.
- (16) Tenants collectively lease approximately 105,988 square feet of land from us pursuant to ground leases.
- (17) Tenants collectively lease approximately 1,443,985 square feet of land from us pursuant to ground leases.
- (18) Tenant leases approximately 200,073 square feet of land from us pursuant to a ground lease.
- (19) The total square footage of our retail portfolio excludes the square footage of land subject to ground leases.
- (20) Units represent the total number of apartment units available for rent as of December 31, 2012.
- (21) For the properties in our multifamily portfolio, annualized base rent is calculated by multiplying (a) base rental payments for the month ended December 31, 2012 by (b) 12.
- (22) Average monthly base rent per leased unit represents the average monthly rent for all leased units for the month ended December 31, 2012.
- (23) We lease the land underlying this property from the owner of the land pursuant to a ground lease.
- (24) The annualized base rent for The Cosmopolitan includes \$752,604 of annualized rent from 14 retail leases at the property.

Table of Contents

The historical occupancy for the office, retail and multifamily properties in our initial portfolio as of December 31 for each of the years 2006 through 2012 are shown below.

	As of December 31,						
	2012	2011	2010	2009	2008	2007	2006
Office Occupancy	94.1%	92.4% ⁽¹⁾	96.0% ⁽¹⁾	98.0% ⁽²⁾	98.2% ⁽³⁾	98.8%	98.3%
Retail Occupancy ⁽⁴⁾	93.9%	93.5%	93.4%	94.6% ⁽⁵⁾	95.6% ⁽⁵⁾	97.6% ⁽⁶⁾	97.6%
Multifamily Occupancy	94.9%	93.3%	95.5%	85.9%	88.9% ⁽⁷⁾	85.7%	N/A

(1) Excludes 109,489 square feet at Two Columbus, which was in lease-up.

(2) Excludes 109,555 square feet at Two Columbus, which was in lease-up.

(3) Excludes 109,350 square feet at Two Columbus, which was in lease-up.

(4) Excludes ground leases for retail properties.

(5) Excludes 20,950 square feet at Commerce Street Retail, which was in lease-up.

(6) Excludes 30,954 square feet at Broad Creek Shopping Center, which was in lease-up.

(7) Excludes 284 units at Smith's Landing, which was in lease-up.

Lease Expirations

The following table sets forth a summary of the lease expirations for leases in place as of December 31, 2012 for each of the ten full calendar years beginning January 1, 2013 at the retail and office properties in our initial portfolio. The lease expirations for the multifamily portfolio are excluded from this table because multifamily unit leases generally have lease terms ranging from seven to 15 months, with a majority having 12-month lease terms. The information set forth in the table assumes that tenants exercise no renewal options and no early termination rights.

Year of Lease Expiration	Number of Leases Expiring	Annualized Base Rent ⁽¹⁾	% of Portfolio Annualized Base Rent
2013	31	\$ 2,453,577	5.6%
2014	30	3,146,693	7.1
2015	30	4,276,445	9.7
2016	30	2,473,427	5.6
2017	28	4,090,110	9.3
2018	21	4,266,706	9.7
2019	15	4,846,846	11.0
2020	8	2,093,434	4.7
2021	7	1,363,189	3.1
2022	10	2,590,872	5.9
2023	8	2,550,401	5.8
Thereafter	14	9,946,877	22.5

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Total/Weighted Average	232	\$ 44,098,577	100.0%
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- (1) Annualized base rent is calculated by multiplying (a) base rental payments (defined as cash base rents (before abatements)) for the month ended December 31, 2012, by (b) 12. Annualized base rent per leased square foot is calculated by dividing (a) annualized base rent, by (b) square footage under commenced leases as of December 31, 2012. In the case of triple net or modified gross leases, annualized base rent does not include tenant reimbursements for real estate taxes, insurance, common area or other operating expenses.

Table of Contents

Thirty one leases, representing \$2,453,577 of base rent at December 31, 2012, or 5.6% of total office and retail portfolio annualized base rent at December 31, 2012, are scheduled to expire during the year ending December 31, 2013. Based on management’s review of the affected space and the current tenants in such space, management believes that a substantial portion of the space can be re-leased to the current tenants, or to new tenants, on terms that provide us effective rents comparable to then-current effective market rents in each of the respective markets in which the affected properties are located and, as shown in the table below under the heading Business and Properties Historical Office Lease Retention and Tenant Improvement and Leasing Commission Costs and Historical Retail Lease Retention and Tenant Improvement and Leasing Commission Costs, in recent years, the Company has renewed leases at effective rent rates at or above the effective rent rate on expiring leases. However, the determination of market rents varies by property, market and sub-market and effective rents may vary from publicly quoted market rents for any particular space due to a number of factors, including (i) leasing costs, such as tenant improvements, leasing commissions or leasing incentives, such as free rent for a defined period, (ii) length of the lease, (iii) the size of the space leased, (iv) the quality and location of the space and (v) other factors. For example, we might renew a lease with an existing tenant at a reduced stated rental rate if there are no tenant improvements or if we are not required to pay leasing commissions for an existing lease renewal, as is the case in most of our non-Virginia Beach Town Center retail properties, while achieving the same, or possibly higher, effective rent terms than the existing lease or market rents.

In addition to approximately 28 rentable units in our multifamily portfolio available for lease as of December 31, 2012, 100% of our multifamily units currently under lease are scheduled to expire before December 31, 2014.

Office Portfolio

Our office portfolio contains seven office properties comprising an aggregate of approximately 1.0 million net rentable square feet. As of December 31, 2012, our office properties were approximately 94.1% leased to 80 tenants. As of December 31, 2012, the weighted average remaining lease term for our office portfolio was 92 months.

Tenant Diversification of Office Portfolio

As of December 31, 2012, our office portfolio was leased to 80 tenants in a variety of industries. The following table sets forth information regarding the ten largest tenants in our office portfolio based on annualized base rent as of December 31, 2012:

Tenant	Principal Nature of Business	Number of Leases	Number of Properties	Property(ies)	Lease Expiration ⁽¹⁾	Annualized Base Rent ⁽²⁾	% of Office Portfolio Annualized Base Rent	% of Total Portfolio Annualized Base Rent
Williams Mullen	Law Firm	3	2	Armada Hoffler Tower, Richmond Tower	3/21/2026	\$ 7,635,606	32.4%	14.2%
Troutman Sanders LLP	Law Firm	1	1	Armada Hoffler Tower	1/31/2015	1,026,938	4.4	1.9
Pender & Coward	Law Firm	1	1	Armada Hoffler Tower	1/31/2015	943,888	4.0	1.8
Cherry, Bekaert & Holland, LLP	Accounting	3	3	Armada Hoffler Tower, Richmond Tower, Oyster Point	9/21/2022	925,943	3.9	1.7
Sentara Medical Group	Healthcare	1	1	Sentara Williamsburg	3/31/2023	914,628	3.9	1.7
General Services Administration US Air Force	Government	1	1	Oyster Point	4/26/2017	850,695	3.6	1.6
The Art Institute	Arts	1	1	Two Columbus	12/31/2019	747,136	3.2	1.4
Virginia Natural Gas	Energy	1	1	Virginia Natural Gas	9/30/2025	568,230	2.4	1.1
Hankins & Anderson	Consulting	1	1	Armada Hoffler Tower	4/30/2022	562,363	2.4	1.0
Kimley Horn	Consulting	1	1	Two Columbus	12/31/2018	534,660	2.3	1.0
Total						\$ 14,710,087	62.5%	27.3%

(1) For tenants with leases at more than one property, the lease expiration represents the weighted average lease expiration by annualized base rent.

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- (2) Annualized base rent is calculated by multiplying (i) base rental payments (defined as cash base rents (before abatements)) for the month ended December 31, 2012 by (ii) 12.

Table of Contents**Lease Distributions of Office Portfolio**

The following table sets forth information relating to the distribution of leases not subject to ground leases in our office portfolio, based on net rentable square feet under lease as of December 31, 2012:

Square Feet Under Lease	Number of Leases	Percentage of Office Leases	Total Leased Square Feet	Percentage of Office Portfolio Leased Square Feet	Annualized Base Rent ⁽¹⁾	Percentage of Office Portfolio Annualized Base Rent
2,500 or less	30	37.5%	29,365	3.3%	\$ 753,485	3.2%
2,501-10,000	22	27.5	135,368	15.1	3,186,128	13.5
10,001-20,000	17	21.3	232,274	25.9	5,620,710	23.8
20,001-40,000	8	10.0	239,641	26.7	5,833,444	24.7
40,001-100,000	2	2.5	100,422	11.2	2,322,721	9.9
Greater than 100,000	1	1.2	159,805	17.8	5,862,634	24.9
Office Portfolio Total	80	100.0%	896,875	100.0%	\$ 23,579,122	100.0%

(1) Annualized base rent is calculated by multiplying (i) base rental payments (defined as cash base rents (before abatements)) for the month ended December 31, 2012 by (ii) 12.

Lease Expirations of Office Portfolio

The following table sets forth a summary schedule of the lease expirations for leases in place as of December 31, 2012 plus available space, for each of the ten full calendar years beginning January 1, 2012 at the properties in our office portfolio. The information set forth in the table assumes that tenants exercise no renewal options and no early termination rights.

Year of Lease Expiration	Number of Leases Expiring	Square Footage of Leases Expiring	% Portfolio Net Rentable Square Feet	Annualized Base Rent ⁽¹⁾	% of Portfolio Annualized Base Rent	Annualized Base Rent per Leased Square Foot ⁽²⁾
Available		56,567	5.9%			
2013	14	67,898	7.1	\$ 1,806,238	7.7%	\$ 26.60
2014	13	74,730	7.8	1,856,059	7.9	24.84
2015	10	98,295	10.3	2,556,946	10.8	26.01
2016	8	32,361	3.4	717,976	3.0	22.19
2017	6	79,693	8.4	1,907,857	8.1	23.94
2018	9	114,530	12.0	2,871,406	12.2	25.07
2019	3	52,408	5.5	1,177,424	5.0	22.47
2020	3	25,283	2.7	749,571	3.2	29.65
2021	4	41,363	4.3	912,138	3.9	22.05
2022	3	48,117	5.0	1,258,877	5.3	26.16
2023	4	71,392	7.5	1,333,766	5.7	18.68
Thereafter	3	190,805	20.1	6,430,864	27.2	33.70
Total/Weighted Average	80	953,442	100.0%	\$ 23,579,121	100.0%	\$ 26.29

(1) Annualized base rent is calculated by multiplying (i) base rental payments (defined as cash base rents (before abatements)) for the month ended December 31, 2012 for the leases expiring during the applicable period by (ii) 12.

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- (2) Annualized base rent per leased square foot is calculated by dividing (i) annualized base rent under the applicable leases by (ii) square footage under such lease.

Table of Contents**Historical Office Lease Retention and Tenant Improvement and Leasing Commission Costs**

The following table sets forth certain historical information regarding tenant improvement and leasing commission costs per square foot, in addition to net effective renewal rents, where applicable, on expiring leases, at the properties in our office portfolio for the years ended December 31, 2012, 2011 and 2010.

	Year Ended December 31,		
	2012	2011	2010
Expirations			
Number of leases expired during the period	14	14	13
Aggregate net rentable square footage of expiring leases ⁽¹⁾	130,563	118,765	65,091
Renewals			
Number of leases renewed during the period ⁽²⁾	13	9	6
Aggregate net rentable square footage of renewed leases ⁽¹⁾	124,965	83,423	53,817
Retention percentage by square feet	95.7%	70.2%	82.7%
Tenant improvement costs	\$ 350,786	\$ 239,566	\$ 13,614
Leasing commission costs	250,955	337,334	82,086
Total tenant improvements and leasing commission costs	\$ 601,741	\$ 576,900	\$ 95,700
Tenant improvement costs per square foot	\$ 2.81	\$ 2.87	\$ 0.25
Leasing commission costs per square foot	\$ 2.01	\$ 4.04	\$ 1.53
Total tenant improvements and leasing commission costs per square foot	\$ 4.82	\$ 6.91	\$ 1.78
Weighted average net effective rent for expiring leases ⁽³⁾	\$ 21.81	\$ 22.27	\$ 22.14
Weighted average net effective rent for renewed leases ⁽³⁾	\$ 24.03	\$ 22.83	\$ 21.86
Percentage increase (decrease)	10.2%	2.5%	(1.3)%
New Leases			
Number of new leases	11	8	3
Square feet	72,333	47,872	3,615
Tenant improvement costs	\$ 535,477	\$ 1,255,315	\$ 10,450
Leasing commission costs	412,606	730,317	1,460
Total tenant improvements and leasing commission costs	\$ 948,083	\$ 1,985,632	\$ 11,910
Tenant improvement costs per square foot	\$ 7.40	\$ 26.22	\$ 2.89
Leasing commission costs per square foot	\$ 5.70	\$ 15.26	\$ 0.40
Total tenant improvements and leasing commission costs per square foot	\$ 13.10	\$ 41.48	\$ 3.29
Total Tenant Improvements and Leasing Commissions			
Square feet	197,298	131,295	57,432
Tenant improvement costs ⁽²⁾	\$ 886,262	\$ 1,494,880	\$ 24,064
Leasing commission costs ⁽²⁾	663,561	1,067,651	83,546
Total tenant improvement and leasing commission costs ⁽²⁾	\$ 1,549,823	\$ 2,562,531	\$ 107,610
Tenant improvement costs per square foot ⁽²⁾	\$ 4.49	\$ 11.39	\$ 0.42
Leasing commission costs per square foot ⁽²⁾	\$ 3.36	\$ 8.13	\$ 1.45
Total tenant improvement and leasing commission costs per square foot	\$ 7.85	\$ 19.52	\$ 1.87

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- (1) Excludes properties subject to ground lease.
- (2) Reflects tenant improvement and leasing commissions incurred during the calendar year, which may be different than the year in which the lease commenced.
- (3) Excludes a renewal in 2010 for 1,316 square feet, for which rents were not calculated.

Table of Contents**Description of Our Office Properties****Armada Hoffler Tower**

The Armada Hoffler Tower is the largest office property in our initial portfolio. The property contains 327,123 square feet of leasable office space and is situated within the Virginia Beach Town Center complex surrounded by upscale retail stores, restaurants and high-end apartment complexes. The Armada Hoffler Tower was completed in 2002 and as of December 31, 2012 was approximately 98.3% occupied, with major tenants including Williams Mullen, Troutman Sanders, LLP, Pender & Coward, Hankins & Anderson and Cherry, Bekaert & Holland, LLP. In addition to these tenants, we occupy 16,151 square feet in the Armada Hoffler Tower.

Other than recurring capital expenditures, we have no immediate plans with respect to major renovation or redevelopment of the Armada Hoffler Tower Property. The 2012 annual property taxes for the Armada Hoffler Tower were \$888,577 based on a tax rate of \$1.34 per \$100 of assessed value.

Armada Hoffler Tower Primary Tenants

The following table summarizes information regarding the top five tenants, by annualized base rent, of Armada Hoffler Tower as of December 31, 2012. We occupy space in this property as described in the notes to the tables below:

Tenant	Principal Nature of Business	Lease Expiration	Total Leased Square Feet	% Property Net Rentable Square Feet ⁽⁵⁾	Annualized Base Rent ⁽¹⁾	% of Property Annualized Base Rent ⁽⁵⁾	Annualized Base Rent per Leased Square Foot ⁽²⁾	Renewal Option
Williams Mullen	Law Firm	5/31/2018 ⁽³⁾	51,222	15.7%	\$ 1,408,093	16.3%	\$ 27.49	⁽⁶⁾
Troutman Sanders LLP	Law Firm	1/31/2015	35,109	10.7	1,026,938	11.9	29.25	⁽⁶⁾
Pender & Coward	Law Firm	1/31/2015	31,449	9.6	923,343	10.7	29.36	
Cherry, Bekaert & Holland, LLP	Accounting	11/30/2022 ⁽⁴⁾	23,177	7.1	660,545	7.6	28.50	
Hankins & Anderson	Architecture	4/30/2022	23,267	7.1	562,363	6.5	24.17	
Top 5 Total/Weighted Average			164,224	50.2%	\$ 4,581,282	53.0%	\$ 27.90	

(1) Annualized base rent is calculated by multiplying (i) base rental payments (defined as cash base rents (before abatements)) for the month ended December 31, 2012 by (ii) 12.

(2) Annualized base rent per leased square foot is calculated by dividing (i) annualized base rent under the applicable leases by (ii) square footage under such lease.

(3) Effective March 1, 2013, we sub-lease approximately 5,000 square of space from this tenant.

(4) This lease contains an early termination right that allows the tenant a one-time right to terminate the lease effective as of the last day of the seventh year of the lease (November 30, 2019) with nine months prior written notice if the tenant is no longer our primary accounting firm. Such termination would result in a \$150,000 penalty payable by the tenant.

(5) As of December 31, 2012, we occupied 16,151 square feet at this property at an annualized base rent of \$484,853, or \$30.02 per leased square foot, which amounts are reflected in the % property net rentable square feet and % of property annualized base rent columns in the table above. In the combined financial statements of our Predecessor and following completion of this offering and the formation transactions, the rent paid by us will be eliminated from our

revenues in consolidation.

- (6) This lease provides for two renewal terms of five years each.

Table of Contents

Armada Hoffer Tower Lease Expirations

The following table sets forth the lease expirations for leases in place at Armada Hoffer Tower as of December 31, 2012 for each of the ten full calendar years beginning January 1, 2013, plus available space as of December 31, 2012. The information set forth in the table assumes that tenants exercise no renewal options and no early termination rights.

Year of Lease Expiration	Number of Leases Expiring	Square Footage of Leases Expiring	% Property Net Rentable Square Feet	Annualized Base Rent ⁽¹⁾	% of Property Annualized Base Rent	Annualized Base Rent per Leased Square Foot ⁽²⁾
Available		5,459	1.7%			
2013 ⁽³⁾⁽⁴⁾	9	59,375	18.2	\$ 1,575,475	18.2%	\$ 26.53
2014 ⁽⁵⁾	5	25,749	7.9	742,151	8.6	28.82
2015	4	67,855	20.7	1,977,142	22.9	29.14
2016	2	10,552	3.2	255,203	2.9	24.19
2017	3	22,109	6.8	587,676	6.8	26.58
2018	3	66,861	20.4	1,801,169	20.8	26.94
2019	1	9,336	2.9	256,740	3.0	27.50
2020						
2021						
2022	3	48,117	14.7	1,258,877	14.5	26.16
2023	2	11,710	3.5	197,759	2.3	16.89
Thereafter						
Total/Weighted Average	32	327,123	100.0%	\$ 8,652,192	100.0%	\$ 26.90

(1) Annualized base rent is calculated by multiplying (i) base rental payments (defined as cash base rents (before abatements)) for the month ended December 31, 2012 for the leases expiring during the applicable period by (ii) 12.

(2) Annualized base rent per leased square foot is calculated by dividing (i) annualized base rent under the applicable leases by (ii) square footage under such leases.

(3) Includes \$33,708 of annualized base rent for rooftop leases.

(4) As of December 31, 2012, we occupied 16,151 square feet at this property at an annualized base rent of \$484,853, or \$30.02 per leased square foot, which amounts are included in the table above.

(5) Includes \$1,200 of annualized base rent for a drop box lease.

Armada Hoffer Tower Percentage Leased and Base Rent

The following table sets forth the percentage leased, annualized base rent per leased square foot and average net effective annual base rent per leased square foot for Armada Hoffer Tower as of the dates indicated below:

Date	Percentage Leased ⁽¹⁾	Annualized Base Rent Per Leased Square Foot ⁽²⁾⁽³⁾	Average Net Effective Annual Base Rent Per
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				Leased Square Foot ⁽⁴⁾
December 31, 2012	98.3%	\$	26.90	\$ 27.73
December 31, 2011	97.1		27.03	24.84
December 31, 2010	98.0		26.98	23.85
December 31, 2009	99.7		26.43	25.54
December 31, 2008	98.5		25.71	25.52

- (1) Percentage leased is calculated as (i) square footage under commenced leases as of the date indicated, divided by (ii) net rentable square feet, expressed as a percentage.
- (2) Annualized base rent per leased square foot is calculated by dividing (i) base rental payments (defined as cash base rent (before abatements)) for the month ended as of the date indicated multiplied by 12, by (ii) square footage under commenced leases as of the date indicated.
- (3) As of December 31, 2012, we occupied 16,151 square feet at this property at an annualized base rent of \$484,853, or \$30.02 per leased square foot, which amounts are reflected in the table above. In the combined financial statements of our Predecessor and following completion of this offering and the formation transactions, the rent paid by us is eliminated from our revenues in consolidation
- (4) Average net effective annual base rent per leased square foot represents (a) contractual base rent for leases in place as of December 31, 2012, calculated on a straight-line basis to amortize free rent periods and abatements, but without regard to tenant improvement allowances and leasing commissions, divided by (b) square footage under commenced leases as of December 31, 2012.

Table of Contents

Armada Hoffler Tower Tax Basis and Depreciation

	Tax Basis	Net Value	Life in Years	Method (all under Modified Accelerated Cost Recovery System (MACRS))
Armada Hoffler Tower				
Land	1,976,387	1,976,387	N/A	N/A
Building	34,687,178	26,561,141	39	Straight line-mid year convention
FF&E	6,245,396	6,497	5	Double declining balance- mid year convention
Site Work	12,072	1,618	15	150% declining balance- mid year convention
Improvements	341,123	303,941	39	Straight line- mid month convention
Improvements	10,726	2,574	5	Double declining balance- mid year convention
Tenant Improvements	1,856,726	873,946	39	Straight line- mid month convention
Tenant Improvements	2,221,145	386,885	15	150% declining balance- mid year convention
Total	47,350,753	30,112,989		
Virginia Natural Gas				

The Virginia Natural Gas property is a two-story brick and glass Class-A office building with 31,000 leasable square feet located in the Lakeview Office Park adjacent to Interstate 264 in Virginia Beach, Virginia. The property qualified for LEED certification in 2010. The property has been 100% occupied by Virginia Natural Gas pursuant to a triple net lease since it was completed in 2010. Virginia Natural Gas serves more than 275,000 residential, commercial and industrial customers in southeastern Virginia.

As of December 31, 2012, Virginia Natural Gas generated approximately \$568,200 of annualized base rent or \$18.33 per leased square foot. The lease with Virginia Natural Gas terminates on September 30, 2025, subject to four renewal options available to the tenant.

Other than recurring capital expenditures, we have no immediate plans with respect to major renovation or redevelopment of Virginia Natural Gas.

Virginia Natural Gas Percentage Leased and Base Rent

The following table sets forth the percentage leased and annualized base rent per leased square foot for Virginia Natural Gas as of the dates indicated below:

Date	Percentage Leased⁽¹⁾	Annualized Base Rent Per Leased Square Foot⁽²⁾
December 31, 2012	100.0%	\$ 18.33
December 31, 2011	100.0	18.33
December 31, 2010	100.0	18.33

(1) Percentage leased is calculated as (i) square footage under commenced leases as of the date indicated, divided by (ii) net rentable square feet, expressed as a percentage.

(2) Annualized base rent per leased square foot is calculated by dividing (i) base rental payments (defined as cash base rent (before abatements)) for the month ended as of the date indicated multiplied by 12, by (ii) square footage under commenced leases as of the date indicated.

Richmond Tower

The Richmond Tower property is a 15-story Class-A office building with 206,969 leasable square feet located on South 10th Street in downtown Richmond, Virginia. The property was completed in 2010 and, at the time of construction, was the first new office tower built in downtown Richmond in the previous two decades. The property contains 5,500 square feet of first floor retail space. The property is positioned in close proximity to the Downtown Expressway, which feeds into Interstate 95. As of December 31, 2012, the property was approximately 98%

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occupied, with major tenants including Williams Mullen, one of the Mid-Atlantic's most prominent law firms, which occupies over 82% of the available space, Capital One, Cherry, Bekaert & Holland, LLP and Agincort.

Table of Contents

Other than recurring capital expenditures, we have no immediate plans with respect to major renovation or redevelopment of Richmond Tower. The 2012 annual property taxes for Richmond Tower was \$685,400 based on a tax rate of \$1.20 per \$100 of assessed value.

Richmond Tower Primary Tenants

The following table summarizes information regarding the top five tenants, by annualized base rent, of Richmond Tower as of December 31, 2012:

Tenant	Principal Nature of Business	Lease Expiration	Total Leased Square Feet	% Property Net Rentable Square Feet	Annualized Base Rent ⁽¹⁾	% of Property Annualized Base Rent	Annualized Base Rent per Leased Square Foot ⁽²⁾	Renewal Option
Williams Mullen	Law Firm	12/25/2027 ⁽³⁾	170,287	82.3%	\$ 6,227,513	90.1%	\$ 36.57	⁽⁴⁾
Capital One	Bank	6/30/2017	13,063	6.3	270,796	3.9	20.73	
Cherry, Bekaert & Holland, LLP	Accounting	1/30/2023	10,482	5.1	221,380	3.2	21.12	
Agincort	Investments	4/16/2016	6,630	3.2	146,456	2.1	22.09	
LaParisienne	Restaurant	7/24/2021	2,350	1.1	45,825	0.7	19.50	
Top 5 Total/Weighted Average			202,812	98.0%	\$ 6,911,970	100.0%	\$ 34.08	

(1) Annualized base rent is calculated by multiplying (i) base rental payments (defined as cash base rents (before abatements)) for the month ended December 31, 2012 by (ii) 12.

(2) Annualized base rent per leased square foot is calculated by dividing (i) annualized base rent under the applicable leases by (ii) square footage under such lease.

(3) Represents the weighted average lease expirations of two leases, one of which expires June 13, 2028 and one of which expires June 30, 2020.

(4) This lease provides for two renewal terms of five years each.

Richmond Tower Lease Expirations

The following table sets forth the lease expirations for leases in place at Richmond Tower as of December 31, 2012 for each of the ten full calendar years beginning January 1, 2013, plus available space as of December 31, 2012. The information set forth in the table assumes that tenants exercise no renewal options and no early termination rights.

Year of Lease Expiration	Number of Leases Expiring	Square Footage of Leases Expiring	% Property Net Rentable Square Feet	Annualized Base Rent ⁽¹⁾	% of Property Annualized Base Rent	Annualized Base Rent Per Leased Square Foot ⁽²⁾
Available		4,157	2.0%			
2013						
2014						
2015						
2016	1	6,630	3.2	\$ 146,457	2.1%	\$ 22.09
2017	1	13,063	6.3	270,796	3.9	20.73

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2018						
2019						
2020	1	10,482	5.1	364,878	5.3	34.81
2021	1	2,350	1.1	45,825	0.7	19.50
2022						
2023	1	10,482	5.1	221,380	3.2	21.12
Thereafter	1	159,805	77.2	5,862,634	84.8	36.69
Total/Weighted Average	6	206,969	100.0%	\$ 6,911,970	100.0%	\$ 34.08

(1) Annualized base rent is calculated by multiplying (i) base rental payments (defined as cash base rents (before abatements)) for the month ended December 31, 2012 for the leases expiring during the applicable period by (ii) 12.

(2) Annualized base rent per leased square foot is calculated by dividing (i) annualized base rent under the applicable lease by (ii) square footage under such lease.

Table of Contents

Richmond Tower Percentage Leased and Base Rent

The following table sets forth the percentage leased and annualized base rent per leased square foot for Richmond Tower as of the dates indicated below:

Date	Percentage Leased ⁽¹⁾	Annualized Base Rent Per Leased Square Foot ⁽²⁾	Average Net Effective Annual Base Rent per Leased Square Foot ⁽³⁾
December 31, 2012	98.0%	\$ 34.08	41.84
December 31, 2011	98.6	33.20	39.96
December 31, 2010	91.7	33.34	39.49
December 31, 2009	N/A	N/A	N/A
December 31, 2008	N/A	N/A	N/A

- (1) Percentage leased is calculated as (i) square footage under commenced leases as of the date indicated, divided by (ii) net rentable square feet, expressed as a percentage.
- (2) Annualized base rent per leased square foot is calculated by dividing (i) base rental payments (defined as cash base rent (before abatements)) for the month ended as of the date indicated multiplied by 12, by (ii) square footage under commenced leases as of the date indicated.
- (3) Average net effective annual base rent per leased square foot represents (a) the contractual base rent of leases in place as of December 31 for each applicable period, calculated on a straight-line basis to amortize free rent periods and abatements, but without regard to tenant improvement allowances and leasing commissions, divided by (b) square footage under commenced leases as of December 31 for each applicable period.

Richmond Tower Tax Basis and Depreciation

	Tax Basis	Net Value	Life in Years	Method (all under Modified Accelerated Cost Recovery System (MACRS))
Richmond Tower				
Land	\$ 2,628,905	\$ 2,628,905	N/A	
Building	24,797,797	24,442,082	39	Straight line- mid month convention
FF&E	54,595	11,794	5	Double declining balance- mid year convention
Tenant Improvement	11,133,099	10,722,541	39	Straight line- mid month convention
Total	\$ 38,614,396	\$ 37,805,322		

Oyster Point

The Oyster Point building is a 6-story, full service office building with 100,214 leasable square feet located on Canon Boulevard in Newport News, Virginia. The building is located in a multi-use development situated between Canon Boulevard and Thimble Shoals Boulevard, in close proximity to Interstate 64. The mixed-use development has extensive public spaces in addition to office, retail, multifamily and hotel properties. The Oyster Point building was completed in 1989. As of December 31, 2012, the building was over 81% occupied with major tenants, including the United States Air Force, SunTrust Bank, Wells Fargo, TEC, Inc. and Odyssey Systems Consulting Group. The United States Air Force has renewed its lease at each instance when the option to renew has arisen since the original term expired in 1997. In addition to these tenants, we occupy 1,718 square feet in the Oyster Point building for which we do not pay rent.

Other than recurring capital expenditures, we have no immediate plans with respect to major renovation or redevelopment of the Oyster Point building.

Table of Contents

Oyster Point Primary Tenants

The following table summarizes information regarding the top five tenants, by annualized base rent, of Oyster Point as of December 31, 2012:

Tenant	Principal Nature of Business	Lease Expiration	Total Leased Square Feet	% Property Net Rentable Square Feet	Annualized Base Rent ⁽¹⁾	% of Property Annualized Base Rent	Annualized Base Rent per Leased Square Foot ⁽²⁾
General Services Administration US Air Force	Government	4/26/2017 ⁽³⁾	36,649	36.6%	\$ 850,695	50.0%	\$ 23.21
Sun Trust Bank	Bank	7/31/2015	19,800	19.8	404,712	23.8	20.44
Wells Fargo	Bank	3/31/2016 ⁽⁴⁾	7,099	7.1	139,566	8.2	19.66
TEC, Inc.	Manufacturing	10/31/2014	3,500	3.5	69,755	4.1	19.93
Odyssey Systems Consulting Group	Consulting	5/14/2015	3,406	3.4	62,296	3.7	18.29
Top 5 Total/Weighted Average			70,454	70.4%	\$ 1,527,024	89.8%	\$ 21.67

(1) Annualized base rent is calculated by multiplying (i) base rental payments (defined as cash base rents (before abatements)) for the month ended December 31, 2012 by (ii) 12.

(2) Annualized base rent per leased square foot is calculated by dividing (i) annualized base rent under the applicable lease by (ii) square footage under such lease.

(3) This lease contains an early termination right that allows the tenant to terminate its lease at any time after October 24, 2013 with 180 days written notice. Such termination will not result in any penalty.

(4) This lease contains an early termination right that allows the tenant to terminate its lease at the end of the 36th month (August 31, 2013) with prior written notice no later than March 31, 2013. As of the date of this prospectus, this tenant has not provided written notice of termination.

Oyster Point Lease Expirations

The following table sets forth the lease expirations for leases in place at Oyster Point as of December 31, 2012 for each of the ten full calendar years beginning January 1, 2012, plus available space as of December 31, 2012. The information set forth in the table assumes that tenants exercise no renewal options and no early termination rights.

Year of Lease Expiration	Number of Leases Expiring	Square Footage of Leases Expiring ⁽³⁾	% Property Net Rentable Square Feet	Annualized Base Rent ⁽¹⁾⁽³⁾	% of Property Annualized Base Rent	Annualized Base Rent per Leased Square Foot ⁽²⁾⁽³⁾
Available		18,518	18.5%			
2013	1	1,120	1.1	\$ 24,326	1.5%	\$ 21.72
2014	2	4,606	4.6	89,022	5.2	19.33
2015	5	28,482	28.4	531,832	31.3	18.67
2016	2	8,211	8.2	160,550	9.4	19.55
2017	1	36,649	36.6	850,695	50.0	23.21
2018	1	2,628	2.6	44,019	2.6	16.75
2019						
2020						
2021						

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2022							
2023							
Thereafter	1						
Total/Weighted Average	13	100,214	100.0%	\$ 1,700,444	100.0%	\$ 20.81	

- (1) Annualized base rent is calculated by multiplying (i) base rental payments (defined as cash base rents (before abatements)) for the month ended December 31, 2012 for the leases expiring during the applicable period by (ii) 12.

- (2) Annualized base rent per leased square foot is calculated by dividing (i) annualized base rent under the applicable lease by (ii) square footage under such lease.

- (3) As of December 31, 2012, we occupied 1,718 square feet at this property for which we do not pay rent.

Table of Contents

Oyster Point Percentage Leased and Base Rent

The following table sets forth the percentage leased and annualized base rent per leased square foot for Oyster Point as of the dates indicated below:

Date	Percentage Leased ⁽¹⁾	Annualized Base Rent Per Leased Square Foot ⁽²⁾
December 31, 2012	81.5%	\$ 20.81
December 31, 2011	78.8	20.22
December 31, 2010	89.9	20.13

(1) Percentage leased is calculated as (i) square footage under commenced leases as of the date indicated, divided by (ii) net rentable square feet, expressed as a percentage.

(2) Annualized base rent per leased square foot is calculated by dividing (i) base rental payments (defined as cash base rent (before abatements)) for the month ended as of the date indicated multiplied by 12, by (ii) square footage under commenced leases as of the date indicated.

One Columbus

One Columbus is a 11-story office building with 129,424 leasable square feet located in Virginia Beach, Virginia within the Virginia Beach Town Center development. The building was completed in 1984 and acquired by Armada Hoffer in 2000. The acquisition provided Armada Hoffer with the development rights for the Virginia Beach Town Center. As of December 31, 2012, the building was approximately 95.0% occupied, with major tenants including BB&T, Columbus Executive Suites, Divaris Real Estate, Inc. and Lincoln Financial Advisors.

Other than recurring capital expenditures, we have no immediate plans with respect to major renovation or redevelopment of the One Columbus building.

One Columbus Primary Tenants

The following table summarizes information regarding the top five tenants, by annualized base rent, of One Columbus as of December 31, 2012:

Tenant	Principal Nature of Business	Lease Expiration	Total Leased Square Feet	% Property Net Rentable Square Feet	Annualized Base Rent ⁽¹⁾	% of Property Annualized Base Rent	Annualized Base Rent Per Leased Square Foot ⁽²⁾
BB&T	Bank	5/23/2021	23,990	18.5%	\$ 494,194	18.3%	\$ 20.60
Hargrove, Brockwell & Associates	Architecture	1/31/2014	16,624	12.8	388,170	14.4	23.35
Divaris Real Estate, Inc.	Real Estate	4/30/2014 ⁽³⁾	10,372	8.0	256,292	9.5	24.71
Columbus Executive Suites	Office Services	3/31/2014 ⁽⁴⁾	11,995	9.3	249,016	9.2	20.76
Lincoln Financial Advisors	Financial Advisor	1/31/2018 ⁽⁵⁾	9,894	7.6	224,198	8.3	22.66
Top 5 Total/Weighted Average			72,875	56.2%	\$ 1,611,870	59.7%	\$ 22.12

(1) Annualized base rent is calculated by multiplying (i) base rental payments (defined as cash base rents (before abatements)) for the month ended December 31, 2012 by (ii) 12.

(2)

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Annualized base rent per leased square foot is calculated by dividing (i) annualized base rent under the applicable lease by (ii) square footage under such lease.

- (3) This lease contains an early termination right, which allows the tenant to terminate by providing written notice within 90 days after receiving notice of the termination of Divaris Real Estate, Inc. as manager or leasing agent with respect to the property from the landlord. Such termination will be effective 180 days after the tenant provides notice, and tenant will receive unamortized tenant improvements and lease commissions.
- (4) This lease contains an early termination right that allows tenant to terminate upon 365 days advance written notice at any time after Divaris Real Estate, Inc. is no longer the manager or leasing representative for the property. Such termination will not result in any penalty.
- (5) This lease contains an early termination right that allows the tenant a one-time termination right on September 30, 2014 by providing written notice no later than December 31, 2013. Such termination will result in a penalty consisting of an approximately \$60,000 cash payment and various other components.

Table of Contents

One Columbus Lease Expirations

The following table sets forth the lease expirations for leases in place at One Columbus as of December 31, 2012, for each of the ten full calendar years beginning January 1, 2013, plus available space as of December 31, 2012. The information set forth in the table assumes that tenants exercise no renewal options and no early termination rights.

Year of Lease Expiration	Number of Leases Expiring	Square Footage of Leases Expiring	% Property Net Rentable Square Feet	Annualized Base Rent ⁽¹⁾	% of Property Annualized Base Rent	Annualized Base Rent per Leased Square Foot ⁽²⁾
Available		6,897	5.3%			
2013 ⁽³⁾	4	7,403	5.7	\$ 206,436	7.7%	\$ 27.89
2014	6	44,375	34.3	1,024,866	38.0	23.10
2015	1	1,958	1.5	47,971	1.8	24.50
2016 ⁽⁴⁾	3	6,968	5.4	155,766	5.8	22.35
2017	1	7,872	6.1	198,689	7.4	25.24
2018 ⁽⁵⁾	3	21,889	16.9	395,024	14.6	18.05
2019	1	8,072	6.2	173,548	6.4	21.50
2020						
2021 ⁽⁶⁾	2	23,990	18.6	494,945	18.3	20.63
2022						
Thereafter						
Total / Weighted Average	21	129,424	100.0%	\$ 2,697,265	100.0%	\$ 22.01

(1) Annualized base rent is calculated by multiplying (i) base rental payments (defined as cash base rents (before abatements)) for the month ended December 31, 2012 for the leases expiring during the applicable period by (ii) 12.

(2) Annualized base rent per leased square foot is calculated by dividing (i) annualized base rent under the applicable leases by (ii) square footage under such lease.

(3) Includes \$24,744 of annualized base rent for a rooftop lease.

(4) Includes \$18,000 of annualized base rent for a rooftop lease.

(5) Includes \$41,880 of annualized base rent for a rooftop lease.

(6) Includes \$750 of annualized base rent for an ATM lease.

One Columbus Percentage Leased and Base Rent

The following table sets forth the percentage leased and annualized base rent per leased square foot for One Columbus as of the dates indicated below:

Date	Percentage Leased ⁽¹⁾	Annualized Base Rent Per Leased Square Foot ⁽²⁾
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December 31, 2012	94.7%	\$	22.01
December 31, 2011	76.2		22.56
December 31, 2010	100.0		23.60

(1) Percentage leased is calculated as (i) square footage under commenced leases as of the dates indicated, divided by (ii) net rentable square feet, expressed as a percentage.

(2) Annualized base rent per leased square foot is calculated by dividing (i) base rental payments (defined as cash base rent (before abatements)) for the month ended as of the date indicated multiplied by 12, by (ii) square footage under commenced leases as of the date indicated.

Two Columbus

Two Columbus is a six-story office building with 109,512 leasable square feet located in Virginia Beach, Virginia within the Virginia Beach Town Center development. The building was completed in 2009 and as of December 31, 2012 was approximately 80% occupied, with major tenants including The Art Institute, Kimley Horn, Vanasse Hangen Brustlin, Inc. and Communication Consultants.

Table of Contents

Other than recurring capital expenditures, we have no immediate plans with respect to major renovation or redevelopment of the Two Columbus building.

Two Columbus Primary Tenants

The following table summarizes information regarding the top five tenants, by annualized base rent, of Two Columbus as of December 31, 2012:

Tenant	Principal Nature of Business	Lease Expiration	Total Leased Square Feet	% Property Net Rentable Square Feet	Annualized Base Rent ⁽¹⁾	% of Property Annualized Base Rent	Annualized Base Rent per Leased Square Foot ⁽²⁾
The Art Institute	Arts	12/31/2019 ⁽³⁾	35,000	32.0%	\$ 747,136	35.0%	\$ 21.35
Kimley Horn	Consulting	12/31/2018 ⁽⁴⁾	19,000	17.3	534,660	25.0	28.14
Vanasse Hangen Brustlin, Inc.	Consulting	4/30/2021 ⁽⁵⁾	15,023	13.7	371,369	17.4	24.72
Communication Consultants	Consulting	8/31/2020 ⁽⁶⁾	13,316	12.2	346,083	16.2	25.99
MOI, Inc.	Furniture	2/28/2018	4,152	3.8	96,534 ⁽⁷⁾	4.5	23.25
Top 5 Total / Weighted Average			86,491	79.0%	\$ 2,095,782	98.1%	\$ 24.23

(1) Annualized base rent is calculated by multiplying (i) base rental payments (defined as cash base rents (before abatements)) for the month ended December 31, 2012 by (ii) 12.

(2) Annualized base rent per leased square foot is calculated by dividing (i) annualized base rent under the applicable lease by (ii) square footage under such lease.

(3) This lease contains an early termination right, which provides the tenant a one-time right to terminate as of the end of the sixth year of the lease (December 31, 2015) by providing notice 12 months in advance.

(4) This lease contains an early termination right that provides the tenant a one-time right to terminate as of the end of the seventh year of the lease (December 31, 2015) by providing notice nine months in advance.

(5) This lease contains an early termination right that provides the tenant a one-time right to terminate as of the end of the seventh year of the lease (April 30, 2018) by providing notice 12 months in advance.

(6) This lease contains an early termination right that provides the tenant a one-time right to terminate as of the end of the seventh year of the lease (April 30, 2017) by providing notice nine months in advance.

(7) Lease commencement date was March 1, 2013.

Two Columbus Lease Expirations

The following table sets forth the lease expirations for leases in place at Two Columbus as of December 31, 2012 for each of the ten full calendar years beginning January 1, 2013, plus available space as of December 31, 2012. The information set forth in the table assumes that tenants exercise no renewal options and no early termination rights.

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Year of Lease Expiration	Number of Leases Expiring	Square Footage of Leases Expiring	% Property Net Rentable Square Feet	Annualized Base Rent ⁽¹⁾	% of Property Annualized Base Rent Per Leased Square Foot ⁽²⁾	Annualized Base Rent
Available		21,536	19.7%			
2013						
2014						
2015						
2016						
2017						
2018	2	23,152	21.1	\$ 631,194	29.6%	\$ 27.26
2019	1	35,000	32.0	747,136	35.0	21.35
2020	2	14,801	13.5	384,693	18.0	25.99
2021	1	15,023	13.7	371,369	17.4	24.72
2022						
2023						
Thereafter						
Total/Weighted Average	6	109,512	100.0%	\$ 2,134,392	100.0%	\$ 24.26

(1) Annualized base rent is calculated by multiplying (i) base rental payments (defined as cash base rents (before abatements)) for the month ended December 31, 2012 for the leases expiring during the applicable period by (ii) 12.

Table of Contents

(2) Annualized base rent per leased square foot is calculated by dividing (i) annualized base rent under the applicable lease by (ii) square footage under such lease.

Two Columbus Percentage Leased and Base Rent

The following table sets forth the percentage leased and annualized base rent per leased square foot for Two Columbus as of the dates indicated below:

Date	Percentage Leased⁽¹⁾	Annualized Base Rent Per Leased Square Foot⁽²⁾
December 31, 2012	80.3%	\$ 24.26
December 31, 2011 ⁽³⁾	76.5	23.70
December 31, 2010 ⁽³⁾	76.5	23.23

(1) Percentage leased column is calculated as (i) square footage under commenced leases as of the date indicated, divided by (ii) net rentable square feet, expressed as a percentage.

(2) Annualized base rent per leased square foot is calculated by dividing (i) base rental payments (defined as cash base rent (before abatements)) for the month ended as of the date indicated multiplied by 12, by (ii) square footage under commenced leases as of the date indicated.

(3) Property in lease up during these periods.

Sentara Williamsburg

The Sentara Williamsburg property is a two-story, brick building with 49,200 square feet of build-to-suit medical office space. The building is located in the New Town section of Williamsburg, Virginia within close proximity to Interstate 64. The building was completed in 2008 and has been 100% occupied by the Sentara Medical Group, a division of Sentara Healthcare, on a triple net lease basis since opening. The Sentara Medical Group brings together more than 380 primary care physicians and specialized internal medicine physicians servicing southeastern Virginia and northeastern North Carolina.

As of December 31, 2012, Sentara Williamsburg generated approximately \$914,600 of annualized base rent or \$18.59 per leased square foot. Assuming no renewal options, Sentara Medical Group's lease will expire on March 31, 2023.

Other than recurring capital expenditures, we have no immediate plans with respect to major renovation or redevelopment of the Sentara Williamsburg property.

Sentara Williamsburg Percentage Leased and Base Rent

The following table sets forth the percentage leased and annualized base rent per leased square foot for Sentara Williamsburg as of the dates indicated below:

Date	Percentage Leased⁽¹⁾	Annualized Base Rent Per Leased Square Foot⁽²⁾
December 31, 2012	100.0%	\$ 18.59
December 31, 2011	100.0	18.59
December 31, 2010	100.0	18.59

(1) Percentage leased is calculated as (i) square footage under commenced leases as of the date indicated, divided by (ii) net rentable square feet, expressed as a percentage.

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- (2) Annualized base rent per leased square foot is calculated by dividing (i) base rental payments (defined as cash base rent (before abatements)) for the month ended as of the date indicated multiplied by 12, by (ii) square footage under commenced leases as of the date indicated.

Retail Portfolio

Our initial portfolio contains 15 retail properties comprising an aggregate of approximately 1.1 million net rentable square feet. As of December 31, 2012, our retail properties were approximately 93.9% leased to 152 tenants. As of December 31, 2012, the weighted average remaining lease term for our retail portfolio, excluding ground leases, was 89 months.

Table of Contents**Tenant Diversification of Retail Portfolio**

As of December 31, 2012, our retail portfolio was leased to 152 tenants in a variety of industries. The following table sets forth information regarding the ten largest retail tenants in our retail portfolio based on annualized base rent as of December 31, 2012:

Tenant	Number of Leases	Number of Properties	Property(ies)	Lease Expiration ⁽¹⁾	Annualized Base Rent ⁽²⁾	% of Retail Portfolio Annualized Base Rent	% of Total Portfolio Annualized Base Rent
Home Depot	2	2	Broad Creek Shopping Center, North Point Center	12/27/2019	\$ 2,032,600	9.9%	3.8%
Harris Teeter	2	2	Tyre Neck Harris Teeter, Hanbury Village	10/15/2028	1,430,001	7.0	2.7
Food Lion	3	3	Broad Creek Shopping Center, Bermuda Crossroads, Gainsborough Square	3/19/2020	1,282,568	6.3	2.4
Dick's Sporting Goods	1	1	Dick's at Town Center	1/31/2020	798,000	3.9	1.5
Regal Cinemas	1	1	Harrisonburg Regal	4/23/2019	683,550	3.3	1.3
PetsMart	2	2	Broad Creek Shopping Center, North Point Center	2/7/2016	618,704	3.0	1.2
Kroger	1	1	North Point Center	8/31/2018	552,864	2.7	1.0
Yard House	1	1	Commerce Street Retail	11/30/2023	538,000	2.6	1.0
Rite Aid	2	2	Gainsborough Square, Parkway Marketplace	5/29/2019	484,193	2.4	0.9
Walgreens	1	1	Hanbury Village	12/31/2083	447,564	2.2	0.8
Total					\$ 8,868,044	43.3%	16.6%

(1) For tenants with leases at more than one property, the lease expiration represents the weighted average lease expiration by annualized base rent.

(2) Annualized base rent is calculated by multiplying (i) base rental payments (defined as cash base rents (before abatements)) for the month ended December 31, 2012 by (ii) 12.

Lease Distribution of Retail Portfolio

The following table sets forth information relating to the distribution of leases in our retail portfolio, based on net rentable square feet under lease as of December 31, 2012:

Square Feet Under Lease	Number of Leases	Percentage of Retail Leases	Total Leased Square Feet	Percentage of Retail Portfolio Leased Square Feet	Annualized Base Rent ⁽¹⁾	Percentage of Retail Portfolio Annualized Base Rent
2,500 or less	69	50.4%	\$ 100,591	9.8%	\$ 2,007,906	11.7%
2,501-10,000	45	32.8	231,420	22.5	5,255,888	30.6
10,001-20,000	12	8.8	153,122	14.9	3,771,738	21.9
20,001-40,000	6	4.4	177,410	17.3	2,019,155	11.8
40,001-100,000	4	2.9	235,464	22.9	2,541,041	14.8
Greater than 100,000	1	0.7	130,000	12.6	1,573,000	9.2

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Retail Portfolio Total	137	100.0%	\$ 1,028,007	100.0%	\$ 17,168,728	100.0%
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- (1) Annualized base rent is calculated by multiplying (i) base rental payments (defined as cash base rents (before abatements)) for the month ended December 31, 2012 by (ii) 12. Excludes \$3,350,728 of annualized base rent from 15 retail ground leases described below.

Table of Contents**Lease Expirations of Retail Portfolio**

The following table sets forth a summary schedule of the lease expirations for leases not subject to ground leases and in place as of December 31, 2012 for each of the ten full calendar years beginning January 1, 2013, plus available space as of December 31, 2012 at the properties in our retail portfolio. The information set forth in the table assumes that tenants exercise no renewal options and no early termination rights.

Year of Lease Expiration	Number of Leases Expiring	Square Footage of Leases Expiring	% Portfolio Net Rentable Square Feet	Annualized Base Rent ⁽¹⁾	% of Portfolio Annualized Base Rent	Annualized Base Rent Per Leased Square Foot ⁽²⁾
Available		66,666	6.1%			
2013	17	34,054	3.1	\$ 647,339	3.8%	\$ 19.01
2014	17	55,170	5.0	1,290,634	7.5	23.39
2015	20	95,161	8.7	1,719,499	10.0	18.07
2016	21	72,245	6.6	1,660,285	9.7	22.98
2017	21	151,605	13.8	2,103,054	12.2	13.87
2018	10	88,986	8.1	1,243,830	7.3	13.98
2019	10	260,229	23.8	3,503,042	20.4	13.46
2020	5	105,946	9.7	1,343,863	7.8	12.68
2021	3	15,068	1.4	451,051	2.6	29.93
2022	6	84,588	7.7	1,186,794	6.9	14.03
2023	3	24,944	2.3	757,036	4.4	30.35
Thereafter	4	40,011	3.7	1,262,301	7.4	31.55
Total/Weighted Average	137	1,094,673	100.0%	\$ 17,168,728	100.0%	\$ 16.70

(1) Annualized base rent is calculated by multiplying (i) base rental payments (defined as cash base rents (before abatements)) for the month ended December 31, 2012 for the leases expiring during the applicable period, by (ii) 12.

(2) Annualized base rent per leased square foot is calculated by dividing (i) annualized base rent for leases expiring during the applicable period, by (ii) square footage under such expiring leases.

Table of Contents**Ground Leases of Retail Portfolio**

The following table sets forth certain information relating to the ground leases in place at certain of the properties in our retail portfolio as of December 31, 2012. We are the lessor under each of these ground leases. As a result, upon termination of each of these ground leases, whether due to expiration or default by the tenant, we have the right to take possession of all buildings and improvements to the land underlying the ground lease.

Property	Tenant	Ground Lease Square Footage ⁽¹⁾	Initial Expiration	Annualized Base Rent ⁽²⁾
Bermuda Crossroads	O Charley s	91,140	4/30/2018	\$ 82,500
Bermuda Crossroads	IHOP	48,216	12/31/2027	72,600
Subtotal Bermuda Crossroads		139,356		\$ 155,100
Broad Creek Shopping Center	7-Eleven	51,836	11/30/2022	\$ 145,200
Broad Creek Shopping Center	Ruby Tuesdays	51,401	1/31/2016	95,166
Broad Creek Shopping Center	IHOP	66,995	11/30/2025	94,380
Broad Creek Shopping Center	Kentucky Fried Chicken	43,560	10/7/2019	89,375
Broad Creek Shopping Center	Wendy s	44,649	12/31/2017	79,200
Broad Creek Shopping Center	Chick-Fil-A	40,729	10/31/2018	68,970
Subtotal Broad Creek Shopping Center		299,170		\$ 572,291
Hanbury Village	7-Eleven	53,579	3/31/2027	145,200
Hanbury Village	Harris Teeter	52,409	10/31/2026	922,398
Subtotal Hanbury Village		105,988		\$ 1,067,598
North Point Center	Costco	787,129	9/30/2025	\$ 441,529
North Point Center	Home Depot	537,269	1/31/2023	459,600
North Point Center	Texas Roadhouse Holdings	64,266	4/25/2019	77,004
North Point Center	IHOP	55,321	5/31/2028	70,002
Subtotal North Point Center		1,443,985		\$ 1,048,135
Tyre Neck Harris Teeter	Harris Teeter	200,073	5/8/2032	507,603
Subtotal Tyre Neck Harris Teeter		200,073		\$ 507,603
Total		2,188,572		\$ 3,550,727

(1) Represents approximate land square footage, not the square footage of buildings on the land.

(2) Annualized base rent is calculated by multiplying (i) base rental payments (defined as cash base rents (before abatements)) for the month ended December 31, 2012 by (ii) 12.

Table of Contents**Historical Retail Lease Retention and Tenant Improvement and Leasing Commission Costs**

The following table sets forth certain historical information regarding tenant improvement and leasing commission costs per square foot, in addition to net effective renewal rents, where applicable, on expiring leases, at the properties in our retail portfolio for the years ended December 31, 2012, 2011 and 2010.

	Year Ended December 31,		
	2012	2011	2010
Expirations			
Number of leases expired during the period	17	21	11
Aggregate net rentable square footage of expiring leases ⁽¹⁾	56,882	66,928	34,637
Renewals			
Number of leases renewed during the period ⁽²⁾	16	16	8
Aggregate net rentable square footage of renewed leases ⁽¹⁾	55,257	55,780	30,557
Retention percentage by square feet	97.1%	83.3%	88.2%
Tenant improvement costs	\$ 58,892	\$ 281,328	\$ 19,008
Leasing commission costs	73,153	21,737	9,494
Total tenant improvements and leasing commission costs	\$ 132,045	\$ 303,065	\$ 28,502
Tenant improvement costs per square foot	\$ 1.07	\$ 5.04	\$ 0.62
Leasing commission costs per square foot	\$ 1.32	\$ 0.39	\$ 0.31
Total tenant improvements and leasing commission costs per square foot	\$ 2.39	\$ 5.43	\$ 0.93
Weighted average net effective rent for expiring leases ⁽³⁾	\$ 20.92	\$ 15.18	\$ 19.43
Weighted average net effective rent for renewed leases ⁽³⁾	\$ 22.01	\$ 14.86	\$ 21.12
Percentage increase (decrease)	5.2%	(2.1)%	8.7%
New Leases			
Number of new leases	5	9	5
Square feet	9,090	36,569	8,914
Tenant improvement costs	\$ 109,789	\$ 784,433	\$ 27,049
Leasing commission costs	52,866	300,623	33,286
Total tenant improvements and leasing commission costs	\$ 162,655	\$ 1,085,056	\$ 60,335
Tenant improvement costs per square foot	\$ 12.08	\$ 21.45	\$ 3.03
Leasing commission costs per square foot	\$ 5.82	\$ 8.22	\$ 3.73
Total tenant improvements and leasing commission costs per square foot	\$ 17.90	\$ 29.67	\$ 6.76
Total Tenant Improvements and Leasing Commissions			
Square feet	64,347	92,349	39,471
Tenant improvement costs ⁽²⁾	\$ 168,681	\$ 1,065,761	\$ 46,057
Leasing commission costs ⁽²⁾	126,019	322,360	42,780
Total tenant improvement and leasing commission costs ⁽²⁾	\$ 294,700	\$ 1,388,121	\$ 88,837
Tenant improvement costs per square foot ⁽²⁾	\$ 2.62	\$ 11.54	\$ 1.17
Leasing commission costs per square foot ⁽²⁾	\$ 1.96	\$ 3.49	\$ 1.08
Total tenant improvement and leasing commission costs per square foot	\$ 4.58	\$ 15.03	\$ 2.25

(1) Excludes properties subject to ground lease.

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- (2) Reflects tenant improvement and leasing commissions incurred during the calendar year, which may be different than the year in which the lease commenced.
- (3) Excludes certain renewals in 2010, 2011 and 2012 totaling 6,000, 7,686 and 2,800 square feet, respectively, for which net effective rents were not calculated.

Table of Contents**Description of our Retail Properties****Bermuda Crossroads**

Bermuda Crossroads is a retail center with 111,566 square feet of rentable space situated on 19-acres in Chester, Virginia, approximately 21 miles south of Richmond. Bermuda Crossroads was completed in 2001 and is conveniently located off Jefferson Davis Highway in a high traffic retail area just off Interstate 95. As of December 31, 2012, the retail center was approximately 94% occupied and is anchored by Food Lion, which has approximately 38,000 square feet under lease. Other tenants include Office Max, Dollar General, smaller retail shops and two outparcel spaces, which are under ground lease.

Other than recurring capital expenditures, we have no immediate plans with respect to major renovation or redevelopment of the Bermuda Crossroads property.

Bermuda Crossroads Primary Tenants

The following table summarizes information regarding the top five tenants, by annualized base rent, of Bermuda Crossroads as of December 31, 2012:

Tenant	Principal Nature of Business	Lease Expiration	Total Leased SquareFeet	% Property Net Rentable Square Feet	Annualized Base Rent ⁽¹⁾	% of Property Annualized Base Rent	Annualized Base
							Rent Per Leased Square Foot ⁽²⁾
Food Lion	Grocery	7/23/2022	37,961	34.0%	\$ 437,690	27.4%	\$ 11.53
Office Max	Office Supplies	7/31/2017 ⁽³⁾	19,950	17.9	270,000	16.9	13.53
Buffalo Wild Wings	Restaurant	6/30/2023	6,032	5.4	108,576	6.8	18.00
Aaron Rents	Dept. Store	6/30/2013	6,000	5.4	90,000	5.6	15.00
Fitness Together	Fitness Center	11/30/2017	4,868	4.4	85,190	5.3	17.50
Top 5 Total/Weighted Average			74,811	67.1%	\$ 991,456	62.0%	\$ 13.25

(1) Annualized base rent is calculated by multiplying (i) base rental payments (defined as cash base rents (before abatements)) for the month ended December 31, 2012 for the leases expiring during the applicable period, by (ii) 12.

(2) Annualized base rent per leased square foot is calculated by dividing (i) annualized base rent under the applicable lease by (ii) square footage under such lease. Excludes annualized base rent associated with ground leases.

(3) This lease contains an early termination right that provides the tenant the right to terminate upon 90 days prior written notice if the co-tenancy clause in its lease is not met for 12 consecutive months.

Table of Contents*Bermuda Crossroads Lease Expirations*

The following table sets forth the lease expirations for leases not subject to ground leases and in place at Bermuda Crossroads for each of the ten full calendar years beginning January 1, 2013, plus available space as of December 31, 2012. The information set forth in the table assumes that tenants exercise no renewal options and no early termination rights.

Year of Lease Expiration	Number of Leases Expiring	Square Footage of Leases Expiring	% Property Net Rentable Square Feet ⁽¹⁾	Annualized Base Rent ⁽²⁾	% of Property Annualized Base Rent	Annualized Base Rent per Leased Square Foot ⁽³⁾
Available		7,100	6.4%			
2013	3	10,569	9.5	\$ 171,559	11.9%	\$ 16.23
2014	1	2,000	1.8	41,520	2.9	20.76
2015	1	7,686	6.9	71,249	4.9	9.27
2016						
2017	6	33,618	30.1	506,798	35.2	15.08
2018	1	1,600	1.4	28,800	2.0	18.00
2019						
2020						
2021						
2022	2	42,961	38.5	514,190	35.6	11.97
2023	1	6,032	5.4	108,576	7.5	18.00
Thereafter						
Total / Weighted Average	15	111,566	100.0%	\$ 1,442,692	100.0%	\$ 13.81

(1) Percentage of property net rentable square feet excludes an aggregate of 139,356 square feet of building space subject to two ground leases to O Charley's and IHOP. The 91,140 square foot ground lease to O Charley's will expire on April 30, 2018, and the 48,216 square foot ground lease to IHOP will expire on December 31, 2027.

(2) Annualized base rent is calculated by multiplying (i) base rental payments (defined as cash base rents (before abatements)) for the month ended December 31, 2012 for the leases expiring during the applicable period, by (ii) 12. Annualized base rent excludes an aggregate of \$155,100 of rent pursuant to the two ground leases described in Note 1 above.

(3) Annualized base rent per leased square foot is calculated by dividing (i) annualized base rent under the applicable lease by (ii) square footage under such lease.

Bermuda Crossroads Percentage Leased and Base Rent

The following table sets forth the percentage leased and annualized base rent per leased square foot for Bermuda Crossroads as of the dates indicated below:

Date	Percentage Leased ⁽¹⁾	Annualized Base Rent Per Leased Square Foot ⁽²⁾
December 31, 2012	93.6%	\$ 13.81
December 31, 2011	90.3	12.61
December 31, 2010	95.3	12.69

(1)

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Percentage leased is calculated as (i) square footage under commenced leases as of the date indicated, divided by (ii) net rentable square feet, expressed as a percentage. Percentage of property net rentable square feet excludes square feet leased pursuant to two ground leases to O Charley's and IHOP. See Ground Leases of Retail Portfolio .

- (2) Annualized base rent per leased square foot is calculated by dividing (i) base rental payments (defined as cash base rent (before abatements)) for the month ended as of the date indicated multiplied by 12, by (ii) square footage under commenced leases as of the date indicated. Annualized base rent excludes rent pursuant to the two ground leases described above.

Table of Contents**Broad Creek Shopping Center**

Broad Creek Shopping Center is a 43 acre retail center. We own improvements on this land that contain 227,750 square feet of rentable retail space in Norfolk, Virginia. We also lease land in this retail center to third parties pursuant to six ground leases. The center was built in three phases starting in 1997, with the final phase completed six years later in 2001. The property is located off the Military Highway in one of Norfolk's busiest shopping districts that is easily accessible by Interstate 64. As of December 31, 2012, the retail center was approximately 95.5% occupied and anchored by Home Depot, which leases 130,000 square feet. Other major tenants include Food Lion, PetsMart, Party City and Salon Plaza.

Other than recurring capital expenditures, we have no immediate plans with respect to major renovation or redevelopment of the Broad Creek Shopping Center.

Broad Creek Shopping Center Primary Tenants

The following table summarizes information regarding the top five tenants, by annualized base rent, of Broad Creek Shopping Center as of December 31, 2012:

Tenant	Principal Nature of Business	Lease Expiration	Total Leased Square Feet	Square Foot Leased Pursuant to Ground Leases	% Property Net Rentable Square Feet	Annualized Base Rent ⁽¹⁾	% of Property Annualized Base Rent	Annualized Base Rent Per Leased Square Foot ⁽²⁾
Home Depot	Lumber & Supplies	1/31/2019	130,000	N/A	57.1%	\$ 1,573,000	45.4%	\$ 12.10
Food Lion	Grocery	8/12/2017 ⁽³⁾	33,000	N/A	14.5	338,250	9.8	10.25
PetsMart	Pet Supplies	1/31/2017	20,114	N/A	8.8	315,388	9.1	15.68
Party City	Dept. Store	1/31/2019	11,708	N/A	5.1	194,353	5.6	16.60
7-Eleven	Convenience Store	11/30/2022	Ground	51,836	N/A	145,200	4.2	N/A
Top 5 Total/ Weighted Average			194,822	51,836	85.5%	\$ 2,566,191	74.1%	\$ 12.43

(1) Annualized base rent is calculated by multiplying (i) base rental payments (defined as cash base rents (before abatements)) for the month ended December 31, 2012 by (ii) 12.

(2) Annualized base rent per leased square foot is calculated by dividing (i) annualized base rent under the applicable lease by (ii) square footage under such lease. Excludes annualized base rent associated with ground leases.

(3) This lease contains an early termination right that allows the tenant to terminate at any time during the term of the lease if zoning or other restrictions prevent the tenant from using the leased premises to conduct its business.

Table of Contents

Broad Creek Shopping Center Lease Expirations

The following table sets forth the lease expirations for leases not subject to ground leases and in place at Broad Creek Shopping Center as of December 31, 2012 for each of the ten full calendar years beginning January 1, 2013, plus available space as of December 31, 2012. The information set forth in the table assumes that tenants exercise no renewal options and no early termination rights.

Year of Lease Expiration	Number of Leases Expiring	Square Footage of Leases Expiring	% Property Net Rentable Square Feet ⁽¹⁾	Annualized Base Rent ⁽²⁾	% of Property Annualized Base Rent	Annualized Base Rent per Leased Square Foot ⁽³⁾
Available		10,174	4.5%			
2013 ⁽⁴⁾	3	3,120	1.4	\$ 81,619	2.8%	\$ 26.16
2014	1	2,000	0.9	44,000	1.5	22.00
2015	1	1,492	0.6	24,588	0.8	16.48
2016	4	5,040	2.2	100,195	3.5	19.88
2017	4	56,364	24.7	714,524	24.7	12.68
2018 ⁽⁵⁾	3	6,360	2.8	138,874	4.8	21.84
2019	2	141,708	62.2	1,767,353	61.0	12.47
2020	1	1,492	0.7	23,871	0.9	16.00
2021						
2022						
2023						
Thereafter						
Total/Weighted Average	19	227,750	100.0%	\$ 2,895,024	100.0%	\$ 13.31

(1) Percentage leased is calculated as (i) square footage under commenced leases as of the date indicated, divided by (ii) net rentable square feet, expressed as a percentage. Percentage of property net rentable square feet excludes an aggregate of 299,170 square feet leased pursuant to six ground leases to 7-Eleven, Ruby Tuesdays, IHOP, Kentucky Fried Chicken, Wendy's and Chick-Fil-A. The 51,836 square foot ground lease to 7-Eleven will expire on November 30, 2022. The 51,401 square foot ground lease to Ruby Tuesdays will expire on January 31, 2016. The 66,995 square foot ground lease to IHOP will expire on November 30, 2025. The 43,560 square foot ground lease to Kentucky Fried Chicken will expire on October 7, 2019. The 44,649 square foot ground lease to Wendy's will expire on December 31, 2017. The 40,729 square foot ground lease to Chick-Fil-A will expire on October 31, 2018. See Ground Leases of Retail Portfolio.

(2) Annualized base rent is calculated by multiplying (i) base rental payments (defined as cash base rents (before abatements)) for the month ended December 31, 2012 for the leases expiring during the applicable period by (ii) 12. Annualized base rent excludes an aggregate of \$572,291 of rent pursuant to the six ground leases described in the preceding footnote.

(3) Annualized base rent per leased square foot is calculated by dividing (i) annualized base rent under the applicable lease by (ii) square footage under such lease.

(4) Includes \$18,000 of annualized base rent for billboard lease to Adams Outdoor Advertising.

(5) Includes \$11,880 of annualized base rent for ATM lease to Wachovia.

Broad Creek Shopping Center Percentage Leased and Base Rent

The following table sets forth the percentage leased, annualized base rent per leased square foot and average net effective annual base rent per leased square foot for Broad Creek Shopping Center as of the dates indicated below:

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Date	Percentage Leased ⁽¹⁾	Annualized Base Rent Per Leased Square Foot ⁽²⁾
December 31, 2012	95.5%	\$ 13.31
December 31, 2011	96.5	13.87
December 31, 2010	96.4	13.14

- (1) Percentage leased is calculated as (i) square footage under commenced leases as of the date indicated, divided by (ii) net rentable square feet, expressed as a percentage. Percentage of property net rentable square feet excludes square feet leased pursuant to six ground leases to 7-Eleven, Ruby Tuesdays, IHOP, Kentucky Fried Chicken, Wendy's, Chick-Fil-A.
- (2) Annualized base rent per leased square foot is calculated by dividing (i) base rental payments (defined as cash base rent (before abatements)) for the month ended as of the date indicated multiplied by 12, by (ii) square footage under commenced leases as of the date indicated. Annualized base rent excludes rent pursuant to the six ground leases described in Note 1 above.

Table of Contents

Broad Creek Shopping Center Ground Leases

We lease the land upon which the property is located from the third-party land owner pursuant to two ground leases. One of the ground leases expires on May 31, 2047. This ground lease permits us to renew or extend the ground lease for four successive ten-year terms, subject to certain conditions. As of December 31, 2012, we were required to pay \$28,284 per month under this ground lease, and such rent will increase to \$31,112 on June 1, 2017 and will increase at the beginning of each five year period that follows by 10% of the prior rent. The other ground lease expires on August 31, 2048. This ground lease permits us to renew or extend the ground lease for four successive ten-year terms, subject to certain conditions. As of December 31, 2012, we are required to pay \$57,147 per month under this ground lease. The rent will increase on September 1, 2013 to \$62,862 per month for the following five years and will increase at the beginning of each five year period that follows by 10% of the prior rent.

Courthouse 7-Eleven

Courthouse 7-Eleven is a convenience store property that has 3,177 square feet of leasable space located in Virginia Beach, Virginia. The property is located at the intersection of Nimmo Parkway and Princess Anne Road, driving high volumes of traffic to the location. The property was built in 2011.

As of December 31, 2012, Courthouse 7-Eleven was 100% occupied by a 7-Eleven convenience store and generated annualized base rent of approximately \$125,000 or \$39.35 per leased square foot. Assuming no renewal options and no early termination rights, the lease will expire on December 31, 2026.

Other than recurring capital expenditures, we have no immediate plans with respect to major renovation or redevelopment to Courthouse 7-Eleven.

Courthouse 7-Eleven Percentage Leased and Base Rent

The following table sets forth the percentage leased and annualized base rent per leased square foot for Courthouse 7-Eleven as of the date indicated below:

Date	Percentage Leased⁽¹⁾	Annualized Base Rent Per Leased Square Foot⁽²⁾
December 31, 2012	100.0%	\$ 39.35

(1) Percentage leased column is calculated as (i) square footage under commenced leases as of the date indicated, divided by (ii) net rentable square feet, expressed as a percentage.

(2) Annualized base rent per leased square foot is calculated by dividing (i) base rental payments (defined as cash base rent (before abatements)) for the month ended as of the date indicated multiplied by 12, by (ii) square footage under commenced leases as of the date indicated.

Tyre Neck Harris Teeter

We lease the land underlying the Tyre Neck Harris Teeter to a third party pursuant to a ground lease pertaining to 200,073 square feet of land located on Tyre Neck Road in Portsmouth, Virginia. This property was completed in 2012. Harris Teeter is the sole tenant of the space pursuant to a long-term ground lease on the property and has been the anchor tenant since 2012.

As of December 31, 2012, Tyre Neck Harris Teeter generated an annualized base rent of approximately \$507,600. Assuming no renewal options and no early termination rights, Harris Teeter's lease will expire on May 8, 2032.

Other than recurring capital expenditures, we have no immediate plans with respect to major renovation or redevelopment of Tyre Neck Harris Teeter.

Table of Contents*Tyre Neck Harris Teeter Percentage Leased and Base Rent*

The following table sets forth the percentage leased, annualized base rent per leased square foot and average net effective annual base rent per leased square foot for Tyre Neck Harris Teeter as of the dates indicated below:

Date	Percentage Leased ⁽¹⁾
December 31, 2012	100.0%
December 31, 2011	100.0
December 31, 2010	68.5

(1) Percentage leased is calculated as (i) square footage under commenced leases as of the date indicated, divided by (ii) net rentable square feet, expressed as a percentage.

Tyre Neck Ground Lease

We lease the land upon which the property is located from the third-party landowner pursuant to a ground lease that expires on May 31, 2032. As of December 31, 2012, this property is currently in the fourth year of the ground lease. The ground lease will automatically be extended for ten successive extension periods of five years each following the initial term, subject to certain conditions. As of December 31, 2012, our monthly payments pursuant to the lease were \$16,250. The rent payments will increase by 5% on July 1, 2014 to \$17,062 per month and will increase by 5% every five years thereafter during the remaining term of the lease.

Gainsborough Square

Gainsborough Square is an 88,862 square foot retail center situated on 10 acres in central Chesapeake, Virginia. The property is located on North Battlefield Boulevard, one of the major thoroughfares in the region, which brings traffic from local residential communities and the Chesapeake Regional Medical Center. Gainsborough Square was completed in 1999. As of December 31, 2012, Gainsborough Square was approximately 93% occupied with Food Lion as the major tenant leasing approximately 44,900 square feet. Other tenants include Rite-Aid, Navy Federal Credit Union, Pirate s Cove Restaurant, Nagoya Sushi and Lucky Star Chinese Restaurant along with several other small retailers.

Other than recurring capital expenditures, we have no immediate plans with respect to major renovation or redevelopment of Gainsborough Square.

Gainsborough Square Primary Tenants

The following table summarizes information regarding the top five tenants, by annualized base rent, of Gainsborough Square as of December 31, 2012:

Tenant	Principal Nature of Business	Lease Expiration	% Property Net		Annualized Base Rent ⁽¹⁾	% of Property Annualized Base Rent	Annualized Base Rent per Leased Square Foot ⁽²⁾
			Total Leased Square Feet	Rentable Square Feet			
Food Lion	Grocery	12/7/2019	44,874	50.5%	\$ 506,627	39.6%	\$ 11.29
Rite Aid	Pharmacy	1/24/2020	10,908	12.3	254,811	19.9	23.36
Navy Federal Credit Union	Bank	3/31/2015	6,400	7.2	131,008	10.2	20.47
Pirate s Cove Restaurant	Restaurant	10/31/2019	4,800	5.4	84,048	6.6	17.51
Subway	Restaurant	1/18/2015	1,600	1.8	41,056	3.2	25.66
Top 5 Total/Weighted Average			68,582	77.2%	\$ 1,017,550	79.5%	\$ 14.84

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- (1) Annualized base rent is calculated by multiplying (i) base rental payments (defined as cash base rents (before abatements)) for the month ended December 31, 2012 by (ii) 12.

- (2) Annualized base rent per leased square foot is calculated by dividing (i) annualized base rent under the applicable lease by (ii) square footage under such lease.

Table of Contents

Gainsborough Square Lease Expirations

The following table sets forth the lease expirations for leases in place at Gainsborough Square as of December 31, 2012 for each of the ten full calendar years beginning January 1, 2013, plus available space as of December 31, 2012. The information set forth in the table assumes that tenants exercise no renewal options and no early termination rights.

Year of Lease Expiration	Number of Leases Expiring	Square Footage of Leases Expiring	% Property Net		Annualized Base Rent ⁽¹⁾	% of Property Annualized Base Rent	Annualized Base Rent per Leased Square Foot ⁽²⁾
			Rentable Square Feet				
Available		6,240	7.0%				
2013	1	1,200	1.4		\$ 22,920	1.8%	\$ 19.10
2014							
2015	7	16,040	18.1		324,946	25.4	20.26
2016							
2017	2	3,200	3.6		58,752	4.6	18.36
2018							
2019	2	49,674	55.9		590,675	46.1	11.89
2020	2	12,508	14.0		283,612	22.1	22.67
2021							
2022							
2023							
Thereafter							
Total / Weighted Average	14	88,862	100.0%		\$ 1,280,905	100.0%	\$ 15.50

(1) Annualized base rent is calculated by multiplying (i) base rental payments (defined as cash base rents (before abatements)) for the month ended December 31, 2012 for the leases expiring during the applicable period by (ii) 12.

(2) Annualized base rent per leased square foot is calculated by dividing (i) annualized base rent under the applicable leases by (ii) square footage under such lease.

Gainsborough Square Percentage Leased and Base Rent

The following table sets forth the percentage leased and annualized base rent per leased square foot for Gainsborough Square as of the dates indicated below:

Date	Percentage Leased ⁽¹⁾	Annualized Base Rent per Leased Square Foot ⁽²⁾
December 31, 2012	93.0%	\$ 15.50
December 31, 2011	91.2	15.38
December 31, 2010	91.2	15.41

(1) Percentage leased column is calculated as (i) square footage under commenced leases as of the date indicated, divided by (ii) net rentable square feet, expressed as a percentage.

(2) Annualized base rent per leased square foot is calculated by dividing (i) base rental payments (defined as cash base rent (before abatements)) for the month ended as of the date indicated multiplied by 12, by (ii) square footage under commenced leases as of the date indicated.

Hanbury Village

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Hanbury Village is a 17-acre retail center with 61,049 net rentable square feet located in Chesapeake, Virginia. Construction on Hanbury Village was completed in 2009. The property is situated just off the Chesapeake Expressway in close proximity to the residential communities in the area. As of December 31, 2012, Hanbury Village was approximately 85% occupied. Tenants include Bon Secours, The Little Gym, Walgreens and other small shop retail tenants. Hanbury Village has an outparcel of 53,579 square feet of land that is ground leased by 7-Eleven and an outparcel of 52,409 square feet of land that is ground leased by Harris Teeter.

Other than recurring capital expenditures, we have no immediate plans with respect to major renovation or redevelopment of Hanbury Village.

Table of Contents

Hanbury Village Primary Tenants

The following table summarizes information regarding the top five tenants, by annualized base rent, of Hanbury Village as of December 31, 2012:

Tenant	Principal Nature of Business	Lease Expiration	Total Leased Square Feet	Square Foot Leased Pursuant to Ground Leases	% Property Net Rentable Square Feet	Annualized Base Rent ⁽¹⁾	% of Property Annualized Base Rent	Annualized Base Rent Per Leased Square Foot ⁽²⁾
Harris Teeter	Grocery	10/31/2026	Ground	52,409	N/A	\$ 922,398	38.4%	N/A
Walgreens	Dept. Store	12/31/2083	14,820	N/A	24.3%	447,564	18.6	\$ 30.20
7-Eleven	Convenience Store	3/31/2027	N/A	53,579	N/A	145,200	6.0	N/A
Costa Azul Mexican Restaurant	Restaurant	2/2/2014	3,600	N/A	5.9	94,608	3.9	26.28
The Little Gym	Children s Gym	1/31/2017	3,916	N/A	6.4	89,441	3.7	22.84
Top 5 Total / Weighted Average			22,336	105,988	36.6%	\$ 1,699,211	70.6%	\$ 28.28

(1) Annualized base rent is calculated by multiplying (i) base rental payments (defined as cash base rents (before abatements)) for the month ended December 31, 2012 for the leases expiring during the applicable period by (ii) 12.

(2) Annualized base rent per leased square foot is calculated by dividing (i) annualized base rent under the applicable leases by (ii) square footage under such lease. Excludes annualized base rent associated with ground leases.

Hanbury Village Lease Expirations

The following table sets forth the lease expirations for leases in place at Hanbury Village as of December 31, 2012 for each of the ten full calendar years beginning January 1, 2013, plus available space as of December 31, 2012. The information set forth in the table assumes that tenants exercise no renewal options and no early termination rights.

Year of Lease Expiration	Number of Leases Expiring	Square Footage of Leases Expiring	% Property Net Rentable Square Feet ⁽¹⁾	Annualized Base Rent ⁽²⁾	% of Property Annualized Base Rent	Annualized Base Rent per Leased Square Foot ⁽³⁾
Available		9,325	15.3%			
2013	2	6,160	10.1	\$ 156,178	11.7%	\$ 25.35
2014	2	5,000	8.2	124,176	9.3	24.84
2015	2	2,850	4.7	61,431	4.6	21.55
2016	4	5,728	9.4	149,849	11.2	26.16
2017	5	11,976	19.6	280,775	21.1	23.44
2018						
2019	1	3,990	6.5	83,790	6.3	21.00
2020						
2021	1	1,200	2.0	28,800	2.2	24.00
2022						
2023						
Thereafter	1	14,820	24.2	447,564	33.6	30.20
Total / Weighted Average	18	61,049	100.0%	\$ 1,332,563	100.0%	\$ 25.76

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- (1) Percentage of property net rentable square feet and excludes a 53,579 square foot ground lease to 7-Eleven that will expire on March 31, 2027 and a 52,409 square foot ground lease to Harris Teeter that will expire on October 31, 2026.
- (2) Annualized base rent is calculated by multiplying (i) base rental payments (defined as cash base rents (before abatements)) for the month ended December 31, 2012 for the leases expiring during the applicable period by (ii) 12. Annualized base rent excludes an aggregate of \$1,067,598 of rent pursuant to the two ground leases described in Note 1 above.
- (3) Annualized base rent per leased square foot is calculated by dividing (i) annualized base rent under the applicable lease by (ii) square footage under such lease.

Table of Contents

Hanbury Village Percentage Leased and Base Rent

The following table sets forth the percentage leased and annualized base rent per leased square foot for Hanbury Village as of the dates indicated below:

Date	Percentage Leased ⁽¹⁾	Annualized Base Rent Per Leased Square Foot ⁽²⁾
December 31, 2012	84.7%	\$ 25.76
December 31, 2011	91.3	25.80
December 31, 2010	93.5	26.20

(1) Percentage leased is calculated as (i) square footage under commenced leases as of the date indicated, divided by (ii) net rentable square feet, expressed as a percentage. Percentage of property net rentable square feet excludes ground lease to 7-Eleven and Harris Teeter.

(2) Annualized base rent per leased square foot is calculated by dividing (i) base rental payments (defined as cash base rent (before abatements)) for the month ended as of the date indicated multiplied by 12, by (ii) square footage under commenced leases as of the date indicated. Annualized base rent excludes rent pursuant to the ground lease described in Note 1 above.

North Point Center

North Point Center is a 62 acre retail center with 215,699 square feet of leasable space across six parcels in northwest Durham, North Carolina. North Point Center also includes 1,443,985 square feet of land ground leased to multiple tenants. North Point Center is located on North Point Drive approximately two miles from Duke University. Construction on the North Point Center began in 1997 and was completed in four phases, with construction of the final phase completed in 2009. The retail center is occupied by multiple triple net and ground lease tenants. As of December 31, 2012, North Point Center was approximately 91% occupied with anchor tenants including Home Depot, Costco and Kroger. The retail center has other well-known national retail tenants such as Bed, Bath & Beyond, Ross, PetsMart, IHOP, Texas Roadhouse, Verizon and GNC.

Other than recurring capital expenditures, we have no immediate plans with respect to major renovation or redevelopment of North Point Center.

North Point Center Primary Tenants

The following table summarizes information regarding the top five tenants, by annualized base rent, of North Point Center as of December 31, 2012:

Tenant	Principal Nature of Business	Lease Expiration	Total Leased Square Feet	Square Foot Leased Pursuant to Ground Leases	% Property Net Rentable Square Feet	Annualized Base Rent ⁽¹⁾	% of Property Annualized Base Rent	Annualized Base Rent per Leased Square Foot ⁽²⁾
Kroger	Grocery Store	8/31/2018	57,590	N/A	26.7%	\$ 552,864	16.4%	\$ 9.60
Home Depot	Lumber & Supplies	1/31/2023	Ground	537,269	N/A	459,600	13.6	N/A
Costco	Wholesale	9/30/2025	Ground	787,129	N/A	441,529	13.1	N/A
Ross	Dept. Store	1/31/2017	30,187	N/A	14.0	324,510	9.6	10.75
PetsMart	Pet Supplies	1/31/2015 ⁽³⁾	26,148	N/A	12.1	303,317	9.0	11.60
Top 5 Total / Weighted Average			113,925	1,324,398	52.8%	\$ 2,081,820	61.7%	\$ 10.36

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- (1) Annualized base rent is calculated by multiplying (i) base rental payments (defined as cash base rents (before abatements)) for the month ended December 31, 2012 by (ii) 12.

- (2) Annualized base rent per leased square foot is calculated by dividing (i) annualized base rent under the applicable leases by (ii) square footage under such lease. Excludes annualized base rent associated with ground leases.

- (3) This lease contains an early termination right that allows the tenant to terminate the lease if at least two of three specified tenants fail to maintain leases at the property for 12 consecutive months.

Table of Contents

North Point Center Lease Expirations

The following table sets forth the lease expirations for leases not subject to ground leases and in place at North Point Center as of December 31, 2012 for each of the ten full calendar years beginning January 1, 2013, plus available space as of December 31, 2012. The information set forth in the table assumes that tenants exercise no renewal options and no early termination rights.

Year of Lease Expiration	Number of Leases Expiring	Square Footage of Leases Expiring	% Property Net Rentable Square Feet ⁽¹⁾	Annualized Base Rent ⁽²⁾	% of Property Annualized Base Rent	Annualized Base Rent per Leased Square Foot ⁽³⁾
Available		19,300	8.9%			
2013	1	2,247	1.0	\$ 31,458	1.4%	\$ 14.00
2014	5	14,505	6.7	203,672	8.8	14.04
2015	3	31,298	14.6	366,760	15.7	11.72
2016	2	7,485	3.5	130,124	5.6	17.38
2017	2	42,247	19.6	469,230	20.2	11.11
2018	2	62,590	29.0	614,114	26.4	9.81
2019	1	4,500	2.1	171,000	7.3	38.00
2020						
2021						
2022	2	31,527	14.6	338,404	14.6	10.73
2023						
Thereafter						
Total / Weighted Average	18	215,699	100.0%	\$ 2,324,762	100.0%	\$ 11.84

(1) Percentage of property net rentable square feet excludes approximately 1,443,985 square feet pursuant to four ground leases to Costco, Home Depot, Texas Roadhouse and IHOP.

(2) Annualized base rent is calculated by multiplying (i) base rental payments (defined as cash base rents (before abatements)) for the month ended December 31, 2012 for the leases expiring during the applicable period by (ii) 12. Annualized base rent excludes an aggregate of \$1,048,135 of rent pursuant to the four ground leases described in Note 1 above. See Ground Leases of Retail Portfolio.

(3) Annualized base rent per leased square foot is calculated by dividing (i) annualized base rent under the applicable lease by (ii) square footage under such lease.

North Point Center Percentage Leased and Base Rent

The following table sets forth the percentage leased, annualized base rent per leased square foot and average net effective annual base rent per leased square foot for North Point Center as of the dates indicated below:

Date	Percentage Leased ⁽¹⁾	Annualized Base Rent Per Leased Square Foot ⁽²⁾
December 31, 2012	91.1%	\$ 11.84
December 31, 2011	88.7	11.67
December 31, 2010	88.1	11.86

(1) Percentage leased is calculated as (i) square footage under commenced leases as of the date indicated, divided by (ii) net rentable square feet, expressed as a percentage. Percentage of property net rentable square feet excludes an aggregate of approximately 1,443,985 square feet of land leased pursuant to four ground leases to Costco, Home Depot, Texas Roadhouse and IHOP.

- (2) Annualized base rent per leased square foot is calculated by dividing (i) base rental payments (defined as cash base rent (before abatements)) for the month ended as of the date indicated multiplied by 12, by (ii) square footage under commenced leases as of the date indicated. Annualized base rent excludes rent pursuant to the four ground leases described in Note 1 above.

Parkway Marketplace

Parkway Marketplace is a four acre shopping center with 37,804 square feet of leasable space located in close proximity to Interstate 64 in Virginia Beach, Virginia. Parkway Marketplace was built in 1998. As of December 31, 2012, Parkway Marketplace was 100% occupied. The retail center is anchored by a corporate-owned Food Lion and a Rite-Aid.

Table of Contents

Other than recurring capital expenditures, we have no immediate plans with respect to major renovation or redevelopment of Parkway Marketplace.

Parkway Marketplace Primary Tenants

The following table summarizes information regarding the top five tenants, by annualized base rent, of Parkway Marketplace as of December 31, 2012:

Tenant	Principal Nature of Business	Lease Expiration	Total Leased Square Feet	% Property Net Rentable Square Feet	Annualized Base Rent ⁽¹⁾	% of Property Annualized Base Rent	Annualized Base Rent per Leased Square Foot ⁽²⁾
Rite Aid	Pharmacy	9/5/2018	11,202	29.6%	\$ 229,382	30.4%	\$ 20.48
Chartway FCU	Bank	8/31/2016	3,200	8.5	\$ 77,024	10.2	24.07
Radio Shack	Electronic Goods	3/31/2017	2,700	7.1	46,575	6.2	17.25
Pizza Express, Inc.	Restaurant	9/30/2022	2,100	5.6	46,200	6.1	22.00
ABC Store	Liquor Store	6/30/2015 ⁽³⁾	2,335	6.2	40,442	5.4	17.32
Top 5 Total/Weighted Average			21,537	57.0%	\$ 439,623	58.3%	\$ 20.41

(1) Annualized base rent is calculated by multiplying (i) base rental payments (defined as cash base rents (before abatements)) for the month ended December 31, 2012 by (ii) 12.

(2) Annualized base rent per leased square foot is calculated by dividing (i) annualized base rent under the applicable lease by (ii) square footage under such lease.

(3) This lease contains an early termination right that allows the tenant to terminate if the primary anchor store vacates or ceases operations by providing notice within 18 months after the primary tenant vacates or ceases operations.

Parkway Marketplace Lease Expirations

The following table sets forth the lease expirations for leases in place at Parkway Marketplace for each of the ten full calendar years beginning January 1, 2013, plus available space as of December 31, 2012. The information set forth in the table assumes that tenants exercise no renewal options and no early termination rights.

Year of Lease Expiration Available	Number of Leases Expiring	Square Footage of Leases Expiring	% Property Net Rentable Square Feet	Annualized Base Rent ⁽¹⁾	% of Property Annualized Base Rent	Annualized Base Rent Per Leased Square Foot ⁽²⁾
2013	5	8,800	23.3%	\$ 170,880	22.7%	\$ 19.42
2014	1	1,600	4.2	37,584	5.0	23.49
2015	1	2,335	6.2	40,442	5.4	17.32
2016	3	5,367	14.2	116,373	15.4	21.68
2017						