

Armada Hoffler Properties, Inc.
Form 10-K
March 02, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015

or

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

For the transition period from _____ to _____

Commission file number 001-35908

ARMADA HOFFLER PROPERTIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Maryland
(State or Other Jurisdiction of

46-1214914
(IRS Employer)

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Incorporation or Organization) Identification No.)

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

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

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

Title of Each Class	Name Of Each Exchange On Which Registered
Common Stock, \$0.01 par value per share	New York Stock Exchange

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of June 30, 2015, the last business day of the registrant’s most recently completed second fiscal quarter, the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was approximately \$253.6 million, based on the closing sales price of \$9.99 per share as reported on the New York Stock Exchange. (For purposes of this calculation all of the registrant’s directors and executive officers are deemed affiliates of the registrant.)

As of February 29, 2016, the registrant had 30,076,359 shares of common stock outstanding.

Documents Incorporated by Reference

Portions of the registrant’s Definitive Proxy Statement relating to its 2016 Annual Meeting of Stockholders are incorporated by reference into Part III of this report. The registrant expects to file its Definitive Proxy Statement with the Securities and Exchange Commission within 120 days after December 31, 2015.

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Form 10-K

For the Fiscal Year Ended December 31, 2015

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

- adverse economic or real estate developments, either nationally or in the markets in which our properties are located;
- our failure to develop the properties in our development pipeline successfully, on the anticipated timeline or at the anticipated costs;
- our failure to generate sufficient cash flows to service our outstanding indebtedness;
- defaults on, early terminations of or non-renewal of leases by tenants, including significant tenants;
- bankruptcy or insolvency of a significant tenant or a substantial number of smaller tenants;
- difficulties in identifying or completing development, acquisition or disposition opportunities;

- our failure to successfully operate developed and acquired properties;
- our failure to generate income in our general contracting and real estate services segment in amounts that we anticipate;
- fluctuations in interest rates and increased operating costs;
- our failure to obtain necessary outside financing on favorable terms or at all;
- our inability to extend the maturity of or refinance existing debt or comply with the financial covenants in the agreements that govern our existing debt;
- financial market fluctuations;
- risks that affect the general retail environment or the market for office properties or multifamily units;

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- the competitive environment in which we operate;

- decreased rental rates or increased vacancy rates;

- conflicts of interests with our officers and directors;
 - lack or insufficient amounts of insurance;

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

- other factors affecting the real estate industry generally;

- our failure to maintain our qualification as a real estate investment trust (“REIT”) for U.S. federal income tax purposes;

- limitations imposed on our business and our ability to satisfy complex rules in order for us to maintain our qualification as a REIT for U.S. federal income tax purposes; and
 - changes in governmental regulations or interpretations thereof, such as real estate and zoning laws and increases in real property tax rates and taxation of REITs.

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 Annual Report on Form 10-K, 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 risk factors described in Item 1A herein and in other documents that we file from time to time with the Securities and Exchange Commission (the “SEC”).

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PART I

Item 1. Business.

Our Company

References to “we,” “our,” “us” and “our company” refer to Armada Hoffler Properties, Inc., a Maryland corporation, together with our consolidated subsidiaries, including Armada Hoffler, L.P., a Virginia limited partnership (the “Operating Partnership”), of which we are the sole general partner.

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 the ownership of our operating property portfolio, 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.

We were formed on October 12, 2012 under the laws of the State of Maryland and are headquartered in Virginia Beach, Virginia. We elected to be taxed as a REIT for U.S. federal income tax purposes commencing with the taxable year ended December 31, 2013. Substantially all of our assets are held by, and all of our operations are conducted through, our Operating Partnership. As of December 31, 2015, we owned, through a combination of direct and indirect interests, 65.6% of the units of limited partnership interest in our Operating Partnership (“OP Units”).

2015 Highlights

The following highlights our results of operations and significant transactions for the year ended December 31, 2015:

- Net income of \$31.2 million, or \$0.75 per diluted share, compared to \$12.8 million, or \$0.36 per diluted share, for the year ended December 31, 2014.
- Funds from operations (“FFO”) of \$35.9 million, or \$0.87 per diluted share, compared to \$28.1 million, or \$0.80 per diluted share, for the year ended December 31, 2014.
- Normalized FFO of \$38.7 million, or \$0.93 per diluted share, compared to \$28.6 million, or \$0.82 per diluted share, for the year ended December 31, 2014.
- Property segment net operating income (“NOI”) of \$54.2 million compared to \$42.3 million for the year ended December 31, 2014:
 - Office NOI of \$21.6 million compared to \$19.1 million
 - Retail NOI of \$23.2 million compared to \$16.8 million
 - Multifamily NOI of \$9.3 million compared to \$6.4 million
- Same store NOI of \$40.2 million compared to \$39.0 million for the year ended December 31, 2014:
 - Office same store NOI of \$16.5 million compared to \$16.5 million

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- Retail same store NOI of \$16.8 million compared to \$16.0 million
- Multifamily same store NOI of \$6.9 million compared to \$6.5 million
- Core stabilized portfolio occupancy by segment as of December 31, 2015 compared to December 31, 2014:
 - Office occupancy at 95.8% compared to 95.2%
 - Retail occupancy at 95.5% compared to 96.4%
 - Multifamily occupancy at 94.2% compared to 95.7%
- Delivered four new development projects in Hampton Roads, Virginia – two office buildings for the Commonwealth of Virginia, the Oceaneering International build-to-suit building and Sandbridge Commons shopping center.
- Completed the dispositions of:
 - the Sentara Williamsburg medical office building for \$15.4 million at a gain of \$6.2 million
 - Whetstone Apartments for \$35.6 million at a gain of \$7.2 million
 - the Oceaneering International building for \$30.0 million at a gain of \$5.0 million
 - Agreed to sell the Richmond Tower office building for \$78.0 million, which closed on January 8, 2016.
- Completed the acquisitions of:
 - Perry Hall Marketplace in Perry Hall, Maryland and Stone House Square in Hagerstown, Maryland for total consideration of \$39.8 million
 - Socastee Commons in Myrtle Beach, South Carolina for total consideration of \$8.7 million

- Columbus Village in Virginia Beach, Virginia for total consideration of \$19.2 million