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# Armada Hoffler Properties, Inc.

## Fourth Quarter 2014 Conference Call

## February 12, 2015

## CORPORATE PARTICIPANTS

**Louis Haddad,** *Chief Executive Officer*

**Michael P. O'Hara,** *Chief Financial Officer*

**Eric Smith,** *Vice President of Operations*

## CONFERENCE CALL PARTICIPANTS

**Dave Rodgers,** *Baird*

**John Guinee,** *Stifel*

**Paul Puryear,** *Raymond James*

**Craig Kucera,** *Wunderlich*

## PRESENTATION

# MANAGEMENT DISCUSSION SECTION

**Operator:** Welcome to Armada Hoffler's fourth quarter 2014 earnings conference call. At this time, all participants are in a listen-only mode. After management's prepared remarks, you'll be invited to participate in a question and answer session. At that time if you have a question, please press "star 1" on your telephone.

As a reminder, this conference call is being recorded today, Thursday, February 12, 2015.

I will now turn the conference call over to Julie Loftus Trudell, Vice President of Investor Relations, at Armada Hoffler.

Please go ahead.

## Julie Loftus Trudell
*Vice President of Investor Relations*

Good morning and thank you for joining Armada Hoffler's fourth quarter 2014 earnings conference call and webcast.

With me this morning are:

- Lou Haddad, CEO, and
- Mike O'Hara, CFO

In addition, Eric Smith, our Vice President of Operations, will be available for questions.

The press release announcing our fourth quarter earnings along with our quarterly supplemental package was distributed this morning.

A replay of this call will be available shortly after the conclusion of the call through March 12, 2015.
The numbers to access the replay are provided in the earnings press release.

For those who listen to the rebroadcast of this presentation, we remind you that the remarks made herein are as of today, February 12, 2015, will not be updated subsequent to this initial earnings call.

During this call, we will make forward-looking statements, including statements related to the future performance of our portfolio, our identified development pipeline and future pipeline, impact of acquisitions, our construction business, our portfolio performance and financing activities as well as comments on our outlook.
Listeners are cautioned that these statements are subject to certain risks and uncertainties, many of which are difficult to predict and generally beyond our control.
These risks and uncertainties can cause actual results to differ materially from our current expectations and we advise listeners to review the risk factors discussed in our press release this morning and in documents we have filed with or furnished to the SEC.

We also will discuss certain non-GAAP financial measures, including but not limited to FFO, Normalized FFO, Core FFO and Core EBITDA. Definitions of these non-GAAP measures, as well as reconciliations to the most comparable GAAP measures, are included in the quarterly supplemental package, which is available on our website at www.armadahoffler.com.

I would now like to turn the call over to our Chief Executive Officer, Lou Haddad…Lou . . .

## Louis S. Haddad
*President, Chief Executive Officer & Director*

Good morning and thank you for joining our call today.

We continue to be very pleased by the performance of our Company. This morning, we reported another solid quarter with FFO per share of $0.20 which was in line with our expectations. For the full-year we reported FFO of $0.80 per share.

This morning, I am going to start with a synopsis of the year. I'll then comment on new activity including pending acquisitions, a commitment for a new unsecured credit facility, and our recently announced dividend increase. I'll conclude my remarks with our long-term outlook.

Mike O'Hara will then provide details on the quarter as well as our 2015 guidance, which we introduced this morning.

This is a very exciting time for our company. We successfully executed on the goals we laid out at the beginning of last year and are poised to build on that success.

In 2014, we set out to maintain stable portfolio occupancy in the mid-nineties.

In fact, our occupancy reached 95.7% as of the end of the fourth quarter – up 60 basis points from the third quarter of 2014 and up 130 basis points compared to the end of last year.

Our retail occupancy is 96.4% as of the end of the fourth quarter – up 300 basis points compared to the end of last year.

Our office and multifamily occupancy figures are also strong at 95.2% and 95.7%, respectively.

Our success in leasing is evidenced by a quarter over quarter increase in Same Store NOI on both a GAAP and Cash basis. With occupancy at almost 96%, the opportunities to continue to grow same store NOI are somewhat limited. Remember, it is primarily the NOI from our development pipeline that we expect to drive our growth.

In 2014, our goal was to deliver the development projects on time.

Properties slated for completion in 2014 came in on budget and were delivered on time.

We delivered one office high-rise, three multi-family apartments and one shopping center.

On the leasing side, we made significant progress in leasing our development pipeline.

The initial delivery of 4525 Main, here in Town Center, occurred in early-June which was faster than the original timeline of late-July.

Retail occupancy at 4525 Main is 100% and the office occupancy is over 50% with ongoing activity across a number of prospects.

Let me reiterate that this building is positioned as the most expensive address in the region. It's completely state-of the-art - It’s the premier location in this market - and it’s designed to give us a couple years’ worth of office absorption within Town Center.

For the last several years - with essentially no vacancy here at Town Center - we’ve had to turn many prospects away. We now have the capacity to absorb tenant demand over the next few years as well as the opportunity to allow existing tenants to upgrade and or expand their office space.

As for multifamily, we delivered three projects in 2014 Encore, Whetstone and Liberty Apartments.

Overall, we are very pleased with our multi-family projects and continue to believe that our disciplined approach in selecting high barrier-to-entry sites will drive occupancy, stabilization, and value over the long-term.

In the fourth quarter, we also delivered Greentree Shopping Center - in Chesapeake, Virginia – with a shadow-anchored corporate-owned Walmart. This property is over 90% leased or under LOI, and we expect to reach stabilization long before our original projections.

In addition, we are set to open four more projects in the first quarter of 2015, including two build-to-suit office buildings for the Commonwealth of Virginia. In fact, these two properties have already been delivered and are 100% leased with 15-year leases for both locations.

This month we will also deliver a new office and manufacturing building for Oceaneering International, which is also 100% pre-leased.

And lastly, in March we will deliver Sandbridge Commons, a Harris Teeter anchored shopping center in Virginia Beach. Currently, this property is nearing 90% leased or under LOI, which is also ahead of expectations.

If you'll note in our supplemental on page 18, for the first time we have included information on the Johns Hopkins Project as part of our development pipeline.

This $65 million development project is adjacent to John Hopkins' Homewood main campus - in Baltimore, Maryland - and is part of the Charles Village redevelopment program. It will include student housing with some retail space, restaurants and parking. Currently, half of the retail space is pre-leased to CVS Health.

We anticipate that work will begin next month and expect completion by the third quarter of 2016 at which time, this property will be added to our portfolio.

In 2014, we continued our long-standing strategy of selling non-core and single tenant assets from time to time.
In the back-half of the year, we sold the Virginia Natural Gas office building for $8.9 million which represents a cap rate of 6.25%. The funds from this transaction were used to pay down debt.

Early this year, we closed on the previously announced sale of the Sentara Williamsburg office building for $15.4 million dollars, representing a cap rate of 6.3%.
We expect to use the proceeds from this sale in a 1031 tax free exchange.

To this end, we have entered into definitive agreements to acquire two grocery anchored retail centers located in Maryland.

These acquisitions will add over 185,000 square feet to our portfolio with a combined occupancy of approximately 90%. We will purchase these centers with a combination of common stock and cash - including the net proceeds from the sale of Sentara.

The combined cap rate of these two properties is approximately 7.0% on a cash basis and the assets should ultimately yield a cap rate in excess of 7.5% from the valued-added lease up opportunity.

By virtue of trading a 6.3 cap asset for 7-plus cap assets, the combined transaction results in an accretive exchange. Additionally, the issuance of common stock results in a transaction with expected leverage - consistent with our overall corporate metrics - thus not impacting our capital plans.

These properties will be outstanding additions to our portfolio and continue to provide diversification throughout the mid-Atlantic region. As always, both transactions are subject to customary closing conditions.

In 2014, we set out to execute contracts for third party construction work consistent with historic segment profit.

In the spring, we announced that we entered into a contract to build the first building in The Harbor Point project – a 20-story mixed-use tower for Exelon Corporation. Work on this project - located on Baltimore's waterfront adjacent to Harbor East – is underway with completion expected in the spring of 2016. We believe the size and scope of this project will help to drive our construction division's annual gross profit contribution in the coming years.

In 2014, we set out to manage the balance sheet to ensure appropriate leverage metrics and position the Company for continued FFO growth.

In addition to dispositions, acquisitions with OP Units, and an equity raise in the Fall of 2014, in the coming weeks, we plan to close on a new, expanded and most importantly, unsecured credit facility, which Mike will discuss in greater detail.

Finally, I am excited that the Board of Directors has declared a cash dividend of 17 cents per share for the first quarter of 2015. This represents a 6.3% increase over the prior quarter's dividend.

We believe this reflects the Board's confidence in our long-term strategy - the successful execution and delivery of our development pipeline - and the Board's commitment to enhancing value and returning it to shareholders.

To reiterate, our long-term strategy remains unchanged and it is simple – continue to grow NOI.

- ✓ Through our development pipeline projects;
- ✓ Through organic growth in our stable portfolio;
- ✓ Through our third party construction gross profits; and
- ✓ Through strategic acquisitions.

As it relates to our development pipeline. We continue to execute at our targeted pace of commencing $150 to $175 million of development projects every 18 to 24 months.

We expect all current development activities – those announced and those in predevelopment – to result in an aggregate of approximately $25 million dollars of incremental annualized NOI.

As for the return on cost metrics of our development projects – we reiterate our corporate targets – 150-200 basis point spread between development cost and retail value. Because of this discipline, our spreads have continued to widen as we are maintaining our return on cost targets in our pipeline regardless of the continued aggressiveness in market cap rates.

We are focused on ensuring that our future NOI growth from development activities will translate into increased FFO and free cash flow on a per share basis.

With that, I turn the call over to Mike and then we will take your questions.

## Michael P. O'Hara
*Chief Financial Officer*

Thanks Lou and good morning.

Today I want to cover the highlights of the quarter, including a discussion of the commitment for a new unsecured credit facility, and I'll wrap up with our 2015 guidance.

This morning we reported fourth quarter FFO and Core FFO of $.20 per share, which were in-line with our expectations.

For the full-year, FFO was $0.80 and Core FFO was $0.84 per share.

For 2014 our core FFO was $29.4 million, which is an increase of over 10% versus 2013.

This is the last quarter in which we will report Core FFO. We introduced this metric shortly after the IPO as we believed it was a meaningful statistic in analyzing our business with the rollout, and related impact, from non-stabilized development projects.

Going forward we will report Normalized FFO, which will not be adjusted for non-stabilized development projects and non-cash compensation. Normalized FFO will exclude certain items including, but not limited to, debt extinguishment costs, property acquisition costs, and mark-to-market adjustments for interest rate derivatives and other non-comparable items.

For reference, Normalized FFO was $0.20 per share for the fourth quarter and $0.82 per share for the full-year 2014.

During the fourth quarter we executed over 50,000 sq. ft. of renewal and new leases.

Office re-leasing spreads for the quarter were lower by $0.15 per square foot on a GAAP basis and lower by $1.65 per square foot on a cash basis. This was primarily driven by a renewal at the Oyster Point office building. The office leasing activity in Newport News, VA where this building is located has been soft.

The retail re-leasing spreads were higher by $3.57 per square foot on a GAAP basis and higher by $1.71 per square foot on a cash basis. This was primarily driven by the renewal of a retail tenant at Town Center.

Same store NOI growth was positive for the quarter and for the full-year. Same store NOI growth for the quarter was positive 3.0% on both a GAAP and cash basis. For the year, same store NOI growth was positive 2.0% on a GAAP basis and 1.0% on a cash basis.

During the fourth quarter our portfolio occupancy increased from 95.1% at September 30th to 95.7 % at December 31st. Retail experienced the most dramatic jump from 94.7% at September 30th to 96.4% at year-end primarily reflecting the new tenants at Town Center.

On the construction front, we reported a segment gross profit, in the fourth quarter, of 1.1 million dollars on revenue of 32 million dollars. For the year, we reported a segment gross profit of 4.6 million dollars on revenue of 103 million dollars. This construction revenue does not include 85 million dollars of construction activity on our development projects which is eliminated under GAAP.

At the end of the fourth quarter, the Company had a total 3rd party construction backlog of $159 million dollars.

Now turning to our balance sheet.

We continue to execute on our balance sheet strategy to provide the flexibility to fund our growth objectives in the most efficient and cost-effective manner, while managing upcoming loan maturities.

In this past year, we have been methodical in our approach to ensuring a strong balance sheet.

We executed on a planned disposition and a measured capital raise in the fall. We managed our balance sheet so we had could: 1. Have the flexibility to sell properties debt free thus maximizing value and 2. Work towards obtaining an unsecured credit facility.

Today I'm pleased to announce that we have a commitment from a syndicate of banks, co-led by Bank of America and Regions Bank, for a new 200 million dollar unsecured credit facility with an accordion feature to $350 million. The credit facility includes a 50 million dollar, five year term loan. We expect to close on the credit facility later this month.

The term of the 150 million dollar revolver is expected to be four years and the interest rate is expected to be 20 basis points lower than our current facility.

Simultaneous with closing, we will paying off approximately 39 million of secured debt, which is 100% of our pre-payable debt on stabilized properties, except for Smith Landing which I'll discuss in a moment. After closing on the credit facility and the Smith's Landing refinancing, the maturity of over 120 million dollars of our debt is extended until 2019 or later.

At the end of the fourth quarter, we had total outstanding debt of 359 million dollars, including 59 million dollars outstanding on our existing credit facility.

Our core debt to core EBITDA as of December 31 was 6.1 times. Our goal is to maintain core debt to core EBITDA in the 6 times range, where it now resides, and total debt to EBITDA in the 8 times range as we borrow to fund development projects.

As I mentioned during last quarter's call, we are evaluating additional fixed rate debt vs interest rate caps. We are in the process of refinancing the Smith's Landing loan with a 20 year fixed rate loan. In addition to Smith Landing's loan, we expect to fix the rate on the 50 million dollar term loan.

On a pro-forma basis, after taking these two transactions in account, our fixed rate debt as of yearend would have been 60% of our total debt and including interest rate caps, 93% of our debt would have been fixed or hedged.

Now, let me walk you through the full-year 2015 guidance that we introduced this morning.

We expect 2015 Normalized FFO in the range of $0.85 to $0.90 per share. In comparison to $.82 per share in 2014.

Our 2015 estimates are predicated on the following:

- Total GAAP NOI in the 52.3 million to 53.3 million dollar range, which includes in excess of 8.5 million dollars from development pipeline projects.
- Our 3rd party construction company annual segment gross profit of 4.5 million to 5.0 million dollars.
- General and administrative expenses in the 8.3 million to 8.6 million dollar range.
- Interest expense in the 14.0 million to 15.0 million dollar range. The mid-point of the range reflects the assumption factors in the LIBOR yield curve which anticipates increasing LIBOR during the year.
- And, 40.2 million weighted average shares and OP units outstanding, which includes the shares that are expect to be issued for the pending acquisition.

To be clear, the Company's guidance does include the impact of the two pending acquisitions that we discuss today.

However, this guidance excludes any impact from future acquisitions, dispositions, or other capital market activity.

Before we turn to Q&A, I would like to make a few comments about the current quarter.

The first quarter is expected to be negatively impacted by our typically higher first quarter G&A expenses and the timing of the Sentara like kind exchange. We closed on the Sentara sale on January 5th and we expect to close on the two acquisitions late in the first quarter.

In addition, the development pipeline NOI and FFO growth is back-end weighted reflecting tenant occupancy and leasing. This is also consistent with the gradual increase in the development pipeline NOI during the year.

Taking these into account, we expected the first quarter Normalized FFO could be as low as $0.17 per share.

In addition, the first quarter FFO is expected to be impacted by Debt Extinguishment Costs relating to the new anticipated unsecured credit facility transactions and costs related to the acquisition of the two grocery anchored centers.

I'll now turn the call back to Lou.

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## Louis S. Haddad
*President, Chief Executive Officer & Director*

Thank you Mike.
Thank you for your time this morning, and your interest in Armada Hoffler. Operator, we would like to begin the question and answer session.

# QUESTION AND ANSWER SECTION

**Operator:** Thank you. Ladies and gentlemen, if you have a question at this time, please press "star 1" on your telephone. If your question has been answered and you wish to withdraw it, you may do so by pressing "#". If you're using a speakerphone today please pick up your hand set before entering your request.

Thank you. Our first question this morning is coming from the line of Dave Rodgers with Robert W. Baird. Please proceed with your question.

Dave B. Rodgers
*Analyst, Robert W. Baird & Co. Equity Capital Markets*

Q

Yes, Good morning. Lou wanted to ask little bit about acquisitions if we could, I'm curious about how these two Maryland grocery-anchored centers kind of came to you, if this was a marketed transaction, if this was something you have identified specifically for the 1031. Then I guess more broadly, what does that pipeline look for you this year in terms of overall acquisitions, is that something you want to do more of?

Louis S. Haddad
*President, Chief Executive Officer & Director*

A

Thanks Dave and good morning. I am going to let Eric Smith answer that question specifically, but before I turn the call over to him to make sure that everybody does understand our acquisition strategy and that is one of growth through accretion with people that want to be partners with our firm and this is much like the Dimmock Square acquisition, which was done off market, this is also done off market that came to us through a related party with a group that is well known to us and that will continue to be our strategy for the most part in terms of acquisition. Eric (inaudible) specifically.

Eric Smith
*Vice President of Operations*

A

Sure. Thank you Lou and good morning, Dave. As Lou said, he, I think he answered the first part of your question, these are off market opportunities to expand upon that to our overall strategy and Lou started down this road. We are going to continue to look at off market opportunities and selected marketing opportunities keeping in mind that we feel we have a growth platform from the development pipeline which is robust in nature. So the acquisition platform is in our mind intended to support that and so we're going to be prudent and cautious as we look at opportunities. We are looking at many opportunities and the main criteria among a long list that we're looking at our obviously beginning with the quality of the real estate. We obviously are looking for accretive opportunities, opportunities to geographically expand in areas where we may want to put a foothold because we're looking at other business opportunities in those areas. Then of course selected value add opportunities either because there is lease up opportunity or development opportunity getting along with a stable asset. So we hope that over the coming year and into the future we will have more acquisitions to share with you and to announce, but I want to emphasize it's going to be a very methodical approach to making sure we're doing acquisitions that makes sense from an income point of view, from a balance sheet point of view and most importantly looking for opportunity that we think complement our portfolio.

Dave B. Rodgers
*Analyst, Robert W. Baird & Co. Equity Capital Markets*

Q

Okay, that's helpful. May be shifting a little bit to apartments and this is probably going to be a multiple prong question but I guess, I'm curious about Liberty, Whetstone and Encore and the progress there and particularly in the supplement I think you have 3Q 2014 is kind of the completion date but NA as the occupancy for each of those are the pre-leased percentage of those. So one is, can you give us an update on the progress of those assets and I guess the other side would be from an financial side Mike can you talk about—are you capitalizing op ex or interest cost with regard to those assets still or is that done and is that what kind of drag would that be if not?

Louis S. Haddad
*President, Chief Executive Officer & Director*

A

Okay, that's a lot of questions Dave

Eric Smith
*Vice President of Operations*

A

It's under the umbrella of multi-family.

Louis S. Haddad
*President, Chief Executive Officer & Director*

A

Let me see if I can hit those points and actually I appreciate the question. Maybe we can clarify a little bit more on our multi-family status. As we said in our comments earlier, we pride ourselves on putting multi-family in high barrier entry location and that's where we're going to stick to our netting. We always put in an 18 month window to reach stabilization. That's not because we believe that every project is going to stabilize in 18 months, but it has been doing average. It's a good average, because during the process, we often manipulate it one way or another that could lengthen or shorten that opportunity and I'll go through each of our three right now.

Encore, which is here in Town Center, which was delivered in the third quarter is leasing far ahead of expectations. Right now its sitting about 50% leased and its only three or four months in. So therefore we're looking at raising our rates, getting rid of incentives, which obviously would impact the rates of occupancy, but ultimately given the long term much better stabilized value. In the case of Whetstone it's pretty much on target. We're sitting at about 20% lease through again activities from our Silverstone and it's about on track for that 18 months. We do not anticipate a lot of adjustments there and we don't expect a big push until the school year starts really in July, so the leasing season there.

The Liberty apartments we've hit a plateau. We're again sitting around 70% leased and we won't get another big flood of leasing until the Apprentice School has their fall semester. Which again won't be until July or August of next year. So what we're looking at there is reducing rent and adding incentives that we think it will be better to build it sooner rather than later rather wait six to seven months for those students. In each case we feel very good about these long-term values, like I said these three assets cannot be out positioned. So it's the matter of actively managing to get to that NOI stabilization as quickly as we can without comprising the ultimate value.

Michael P. O'Hara
*Chief Financial Officer*

A

Good morning Dave, just to answer your question on capitalized interest take the three of them separately. Liberty, we have not been capitalizing interest on that one that was an acquisition so therefore we couldn't do the capitalization on that one under GAAP. Both Encore and Whetstone we've been capitalizing interest on the unit that were not turned over. For our 2015, we anticipate all units to being delivered in the first quarter of 2015. So there is not much capitalized interest on those two properties in '15.

Dave B. Rodgers
*Analyst, Robert W. Baird & Co. Equity Capital Markets*

Great thanks for all the color.

Louis S. Haddad
*President, Chief Executive Officer & Director*

Absolutely.

**Operator:** The next question is from John Guinee of Stifel. Please go ahead.

John W. Guinee
*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Great thank you. Nice job guys. Question for you Lou or Eric when you are buying at a seven cap for neighborhood centers that's a awfully high cap rate and what that does that, that either tells me that you are really, really good at what you do or you are buying stabilized assets with not much upside and maybe a little bit of just assort of second here in nature, can you elaborate on that?

Louis S. Haddad
*President, Chief Executive Officer & Director*

A

Sure I'll be happy to John. Again, when we're assessing an asset as I went through there is a handful of metrics that we're trying to check the box on and the quality of the real estate is obviously the primary driver of our acquisition strategy. We think that Maryland is obviously a core market for us and these particular markets, once we have the opportunity to get through the customary closing conditions and talk a little bit more about the detail of the centers and the market, I think that will bear out and this is a good example of the upside potential we talked about. We think that for reasons we're very comfortable with it hasn't had the leasing focused from the previous owners so we being the upside potential from the leasing will add meaningful value to the acquisition.

John W. Guinee
*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Okay and then, second I was looking at your picture, I noticed all the boats out in the top of the picture, could you tell me what's going on with the Port in Norfolk?

Louis S. Haddad
*President, Chief Executive Officer & Director*

A

Sure. As a matter of fact there was a great report that came out about two weeks ago John. The total impact from the Port of Virginia at over $60 billion, the activity is up about 7% year-over-year as most of you heard me allude to before. We are ready for the Panamax ships here and there is only one other port on East Coast that is similarly ready and everybody else is struggling to catch up. So, we feel very strong—very good about the growth in the port and that leads me to something else that you might have seen in the paper or online or wherever you get your news from.

The President's budget was very good to the military. You folks have told–we told you how this market is underpinned by three legs on a stool right and one is the port, one is the military, which again full funding for a new carrier as well as partial funding for a carrier after that as well as a $30 billion increase in the overall defense budget predominately will be spent here as the Navy got the biggest chunk of that and thirdly, the multibillion dollar impact from tourism. All those things are kind of tangential to our business but they serve to be a great underpinning for the market and right now, we are hitting on all cylinders with regard to that underpinning.

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John W. Guinee
*Analyst, Stifel, Nicolaus & Co., Inc.*

Great, thank you.

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Louis S. Haddad
*President, Chief Executive Officer & Director*

A

John, back to your other question, I want to take a second here and talk a little bit more about these acquisitions, and maybe this is part of the difference in running a real estate company versus running a REIT. We are looking at long term partnerships with people to do business with over the next decade. People we're buying this tender from as well as the person we bought Dimmock Square from have long, long pipeline of assets and opportunities that we want them in the fold, so that's part of the criteria we look at when we are looking at acquisition.

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Michael P. O'Hara
*Chief Financial Officer*

A

John, I want to add one other thing on these two acquisitions, the other is this is the candidate for the 1031 the Sentara proceeds, so from cost to capital and cap rates we sold something at a 6.3 cap that we're 1031ing into a 7 plus cap asset.

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John W. Guinee
*Analyst, Stifel, Nicolaus & Co., Inc.*

Great, thank you.

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**Operator:** Thank you. The next question is from Paul Puryear of Raymond James. Please go ahead.

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Paul Puryear
*Raymond James & Associates, Inc.*

Hey, Good morning. Nice quarter guys.

Louis S. Haddad
*President, Chief Executive Officer & Director*

Thanks.

Paul Puryear
*Raymond James & Associates, Inc.*

Q

So, Lou, as you think about buying assets and issuing your stock, how do you think about the value of your stock here?

Louis S. Haddad
*President, Chief Executive Officer & Director*

A

Again, we think it's way undervalued Paul? Again, I am going to let Eric add some color to this, but it's all part of the same equation. Like I said we are wanting to encourage people to rather than take just money, be partners with us. We want that relationship, we want that pipeline, we want more opportunities coming our way. So, potentially we'll give somebody a little bit of a discount on OP units in order to get that done. But, Eric has been heading up these acquisitions for us and has a pretty nice pipeline and some good experience with it now.

Eric Smith
*Vice President of Operations*

A

Yes, I would echo what Lou just said and add a couple of additional thoughts. We are interested in these long-term relationships, so in a normal course of business we would find an opportunity for a win-win profile on both pricing the stock or the operating partnership unit and obviously the cap rate that would get into the asset for and the future opportunity to do business with those folks and all that is often in negotiation. By way of the example of the two Maryland acquisitions, the one piece of information I can share, is that when we negotiated those acquisitions and in a particular the operating partnership units, what has turned into actually common stock, that they are taking back, we negotiated a $10 price on those shares. Now keep in mind that that was at a time when our stock was trading below $9.50. So we have, we have gained some meaningful traction in talking to folks on these off market opportunities who were interested is taking back an ownership interest in our Company and walking them through the growth from the development pipeline both the current one as well as the annual pace that Lou mentioned in his earlier remarks and explaining to them again that we are a real estate Company within an embedded growth trajectory from that pipeline.

I think it's meaningful to know that these folks bought into a higher value of both units meaningfully above where the stock price was trading at the time we negotiated these. We're obviously building in protections, collars so that we don't end up in a situation where the cost to capital gets way out of line with whether the stock is trading by the time it closes because there can be meaningful time between negotiation and closing it, as every one on the phone well knows. But even now we're still comfortable with that price because again with our current stock price and where it's trading, adding transaction or friction cost to any type of raise (ph) and we're still issuing at whatever we could issue common equity until we think it a good deal, an accretive deal obviously as we previously mentioned. So hopefully that provides some color and how we think about the value those units and doing deals that involve units.

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Paul Puryear
*Raymond James & Associates, Inc.*

Q

Well, I don't know how you get to it's accretive, $10 bucks of share, I mean, your stock's trading at a 7, 8 implied cap rate right now so you just bought an asset at 7, at 10 it must be well over an 8 implied cap rate that doesn't make any sense?

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Eric Smith
*Vice President of Operations*

A

From an FFO, when we accretive we are referring to accretive FFO per share standpoint and so again…

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Paul Puryear
*Raymond James & Associates, Inc.*

Q

That's irrelevant, I mean I think you should be issuing your stock above net asset value, I get it when you the need to issue stock to fund the development pipeline that's yielding high returns but to issue your stock—at 10 bucks a share for an asset that's paying you a 7 when your stock's worth much more than that, anyway that was my point. One more question for you. When you're thinking about your portfolio and the EBITDA flow from your portfolio spread across three asset classes, how much does that enter in here, Lou, as you're thinking about adding shopping centers as opposed to say office buildings?

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Louis S. Haddad
*President, Chief Executive Officer & Director*

A

Well, I think you might have heard my thoughts before on office but we feel a lot better about neighborhood centers than we do suburban office. We have seen too much trade with no barrier to entry, no real locational advantage and extremely high tenant improvement refitting on a rollover in markets that we play in. So I don't—I think you're going to have to see a pretty special case in order for us to buy office space. On the other hand, well positioned, well located retail stays full particularly with the kind of tenants that we're talking with. But back to your previous question, Paul, again I want to reiterate there is—and again maybe this is different kind of Real Estate Company and REIT. We see a very large opportunity with the owners that we've talked to—that were buying these two shopping centers from.

So therefore that comes into our thinking. We can't run this business for this quarter or this half or this year. We've got to run it for long-term growth and we see opportunities, we're going to seize them. As Eric said, it maybe accretive on an FFO basis, it's not accretive on a NAV basis, but I'll tell you on a real estate basis anybody would take this bet and so I'll ask you to bear with us until that—until that comes, the rest of that comes out.

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Paul Puryear
*Raymond James & Associates, Inc.*

Q

Okay fine and just for the record at 10 bucks a share—that's a heck of a price?

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Eric Smith
*Vice President of Operations*

A

We understand the math. Thank you.

Paul Puryear
*Raymond James & Associates, Inc.*

Thanks.

**Operator:** Thank you. Our next question is from Craig Kucera of Wunderlich. Please go ahead.

Craig Kucera
*Analyst, Wunderlich Securities*

Q

Hi good morning. Getting back to the acquisition that you do have coming forward, I just want to double check some of the metrics. It looks to me based on your outlook for average weighted shares. Is it about roughly 5 million of OP units and then is the rest, is the rest cash or is it only debt you are assuming. Could you just give us sort of breakdown of how that looks?

Eric Smith
*Vice President of Operations*

A

As we've said in the call and again we reiterate your math from the share account, is on the issuance of common stock, is approximately 435,000 shares the rest of it, as Mike said in his comments being cash and the use of the proceeds from the Sentara sale.

Craig Kucera
*Analyst, Wunderlich Securities*

Q

Got it. I think Lou, you hit on this earlier but just to sort of double check, it sounds to me like over time just given where what you can sell off is that (ph) and buy retail that the Company may kind of grow more into—you may recycle capital more into retail maybe (inaudible) north of a seven?

Louis S. Haddad
*President, Chief Executive Officer & Director*

A

I don't want to draw that broad of a conclusion, I think you certainly can steer in that direction and I think with what evident right now, we would head that way but we're also—we're working on a couple of pipeline projects that would be substantial on the office side that's going to bring, skew it back. So it's hard to say, I guess what I, the best place for us to be if you're trying to figure where this portfolio is headed, is that we're going to continue to develop core office space. Much like Town Center that is best in class, best in location and typically fairly heavily subsidized from a partner city and those kinds of opportunities on the acquisition side just really don't exist.

Craig Kucera
*Analyst, Wunderlich Securities*

Right.

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Louis S. Haddad
*President, Chief Executive Officer & Director*

A

So I think you'll see is the office NOI grow more organically as opposed to acquisitions. Never say never, right.

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Craig Kucera
*Analyst, Wunderlich Securities*

Q

Right, that makes sense and when you look at your development, I think in the past you've said that you were targeting sort of an 8.25 yield on cost, is that still where you see projects today and sort of in the future pipeline being or have those come in a bit?

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Louis S. Haddad
*President, Chief Executive Officer & Director*

A

I really appreciate you asking that question. We tried to allude to that in our comment. That's why our spreads are continuing to widen. We're maintaining that, when we were talking about our pipeline at the IPO we talked about, I think it was like 8.13 or 8.25. That metric is holding up. It skewed a little bit downwards by virtue of the three build to suits that we're bringing on line. Obviously it's not quite the spread that the others did. But now with what we see in the pipeline we're going to be back into that range and of course cap rates have fallen, we don't know how long they're going to stay down there, and that's really kind of immaterial to us but the spread has gotten even wider.

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Craig Kucera
*Analyst, Wunderlich Securities*

Q

Got it and then finally there was a pretty big lift in your tenant improvements this quarter that looking at last quarter, there wasn't that much space. It was rolling over and I can't really seem to pick it from the schedules that are in the supplements, but could you comment on sort of–was that concentrated on any one project and is there any color there that you can give us on the increase?

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Louis S. Haddad
*President, Chief Executive Officer & Director*

A

Yes the big number is we're here at Town Center. It really revolves around the retailers that we put in—what is this Free People and Lululemon. Those were some pretty massive lists in terms of tenant improvement and now those tenants are in and operating.

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Michael P. O'Hara
*Chief Financial Officer*

A

Yes just one other was one of the law firms renewed and that was the (inaudible).

Craig Kucera
*Analyst, Wunderlich Securities*

Okay. Thank you.

**Operator:** Thank you. We have no further questions in queue at this time. I would like to turn it back over Management for any closing remarks.

Louis S. Haddad
*President, Chief Executive Officer & Director*

Thanks very much for your interest in the Company. We appreciate you time this morning. I look forward to talking to you soon. Take care.

**Operator:** Thank you. Ladies and gentleman this concludes today's teleconference. You may disconnect your lines at this time and thank you for your participation.