Dave Rogers: Good morning everybody and thanks for joining us for the Armada Hoffler presentation here at NAREIT. I'm Dave Rogers with Baird. I'm really happy that you could join us. With me today Executive Management from Armada Hoffler directly to my right is Lou Haddad the CEO. Mike O'Hara CFO is also presenting this morning as well. I figure I would turn it over to Lou for some background on the company and some brief comments and then I'll pose some questions. We certainly like it to be interactive so please just raise your hand and I can either repeat the question or you can just to up to the mic in the middle of the room to ask any questions you might have. So with that Lou, over to you.

Lou Haddid: Thanks Dave. Thanks for coming this morning. I'd like to give you a little bit of history on our firm. I see a lot of new faces out there so some of you may not be familiar with our company. So Armada Hoffler became public three years ago last month, May of 2013, and that's when the REIT world learned about us, but I think it's important to tell you a little bit about our history.

Our company is now 37 years old going on 38. We were founded in 1979 and we were founded and remained through those first three decades as a vertically integrated real estate development company. As such we developed a tremendous amount of real estate over that span as a developer, a contractor, and a holder of properties. We were very successful during that span.

Our management group, our chairman and founder Dan Hoffler, myself, and our vice chairman have been together for over 33 years now. The rest of our executive management team, the presidents of our divisions average over 25 years with the company and in fact our entire group which is 140-odd strong averages over a decade of service with the company. So we've been a tremendously stable, successful company. We had our IPO in 2013. We had accumulated a fair amount of wealth in those first three decades and we rolled that wealth into the IPO and currently management owns over 20% of the outstanding stock of the company.

We came as a real estate company as opposed to a REIT in our opinion and from what our bankers and analysts have told us it's a little bit of a different model. We manufacture real estate at a wholesale level through our development and our construction company and then we put it in the service at a retail level in our portfolio. We also recycle capital regularly. Since we've been public we have done several dispositions. Since we've been public we've done several acquisitions, but those acquisitions are done either on a 1031 exchange or through our operating partnership.

We have acquired properties with nearly 50 million dollars worth of OP units as opposed to raising capital in the capital markets and therefore are operating partnership including our management is well over a third of the company which effectively gives a third of inside ownership.

We continue to do exactly what got us here. We started our IPO, we're going to continue doing exactly what made us successful in those years. We have a run rate of about one hundred fifty to two hundred million dollars worth of development every 18 to 24 months. We operate our construction company which helps us maintain the spread, that wholesale to retail spread, which we target 20% wholesale to retail.

Our construction Company also works for third parties on a negotiated basis and that company as a third-party business grosses some four to six million dollars year in and year out. Last year it hit six, we try to guide people more towards the four to five range. So we'll continue to operate in that manner. As I said we recycle capital regularly. We can talk a little bit about that later on, but Dave I think I'll send it back to you and try and get into some specifics.

Dave Rogers: Yeah that sounds good thanks for the recap Lou. I guess we'll dive in obviously as a big developer. Let's dive right into the development topic. You talked about 150-200 million in development every 12 to 24 months that's available to you. I guess lay out for us what that pipeline, how that shapes up today, what the opportunity for development is today, and I guess maybe the best way to dive into that is how do you guys go about development that might be a little bit different than what the REIT model and REIT market might be used to.

Lou Haddid: Sure, that's a great question. We've learned an awful lot over the years and people ask us all the time well how'd you maintain the same management, the same people, the same structure through four recessions? Since the late 70s, and it's a pretty simple formula, we don't speculate on land and we don't speculate on buildings and we don't fall in love with real estate. We do well-financed projects with high credit tenants behind them as either partners or as tenants.

We do a tremendous amount of public-private partnerships. We've been doing those for nearly three decades. We did the first one in 1987 before they were called public-private partnerships and these were cities around the Mid-Atlantic. Our first one was in Hampton, Virginia for downtown office building. Our latest one is a partnership with Johns Hopkins University in downtown Baltimore where we came together with them to build student housing, retail, and parking right outside their front gate.

That basically enables us, whether it's the Town Center of Virginia Beach or a partnership with a city and a state, Newport News Shipbuilding in Newport News, or with Duke University in Durham or Virginia Tech in Blacksburg, it enables us to get the A location with the A partner and the A tenants and that's the kind of real estate that we keep in our portfolio.

Dave Rogers: And how do those opportunities look today? Obviously those are projects that you've largely completed and some of them which you've cycled out of in terms of the Durham one, but talk about with that pipeline looks like today and is it as robust as ever?

Lou Haddid: It sure it. The opportunities continue to increase and we continue to cherry-pick cause we really don't wanna get out over our skis as they say. We wanna stick with our run rate. The good news about being, about having all of this experience under our belt is that we're invited to every city that's contemplating doing something like this. The bad news is it gets harder and harder to say no, but we are gonna continue to say no. The pipeline is robust right now if you look at our information from our last earnings call we have two projects that are delivering here later this summer. One is a shopping center anchored by Harris Teeter and Children's Hospital. The second is the Hopkins project that we mentioned which is a 60 some million dollar, so we have about a hundred million dollars worth of developments that's being delivered.

we've announced three new projects in the last several months. One at the Inner Harbor in Baltimore, which we believe is one of the best sites on the East Coast. We're at Inner Harbor East right on the water with nearly 300 units and 30,000 feet of retail and parking on the waterfront there. We've also recently announced another multi-family project in the shadow of Fort Meade in the Baltimore-Washington Corridor, which is a 400 unit or so multi-family project and then a new high-rise office building anchored by Duke University who is another partner in downtown Durham North Carolina that broke ground right around the first of the year.

Then the last...we're adding another phase to Town Center Virginia Beach. Those of you who may be familiar with the company know that our headquarters is in Virginia Beach, Virginia. If you're not familiar with Virginia Beach it's the largest city in Virginia, half-a-million people, it sits at the center of a 1.8 million person MSA and we effectively own their downtown. This is a public-private partnership that started in 1999 with the city. They contributed two hundred million dollars in the form of infrastructure, some 3,000 parking spaces, plazas, a Performing Arts Center and we own all the vertical real estate. It now houses nearly 110 tenants over 17 city blocks. We are initiating another block that'll break ground later on this year which is more retail, more apartments, more entertainment, more restaurants all on a vertical environment and that was just announced I think at our last earnings call. So the pipeline is full, our shadow pipeline, if you will, we've got a tremendous amount of conversations going on with folks across the Mid-Atlantic.

Dave Rogers: That's great to hear and I think before the IPO you really weren't big into acquisitions, really hadn't focused on them. It was a development-oriented company entirely. Acquisitions have become a better part of your vernacular I guess here over the last several years so talk about why that's become more important and what you focused on in the acquisitions that you have made to continue to grow the company.

Lou Haddid: Sure. Our acquisition might be a bit different than most in that we have no interest in the company simply getting bigger. When you own as much stock as we do you have to be really careful about dilution. So for us acquisitions are largely based on the opportunity to acquire good real estate in our markets with people that wanna buy into the company, hence those 50 some-odd million dollars worth of stock or OP units that we've issued in getting those acquisitions.

The other way we've acquired is through recycling capital. Mike and I have long held, it's a basic tenet of our business that all real estate has a peak value and a peak risk and that we are constantly scanning our portfolio for harvesting some of that capital, and so we've, like I said, we've had some six dispositions since we came public. We've typically 1031 into real estate that we would rather own. A great example of that is a fairly large transaction that we completed right around the first of the year, we sold two effectively single-tenant buildings that were some 300,000 square feet of, anchored by an oil services production firm and a regional law firm, we sold those two buildings cause we don't believe single-tenant buildings belong in our portfolio for any length of time.

We do a lot of them because we get those engagements, but then we try to recycle them pretty quickly. So we sold those for a 109 million dollars and we purchased a portfolio of what we really enjoy owning which is high volume, high credit, grocery-anchored shopping centers throughout the Southeast. This is out the I-85 Corridor in North and South Carolina, and so we 1031 that 109 million into that 170 million dollar acquisition and a few of those are being spun off to right-size the balance sheet once again.

Dave Rogers: Okay, and I guess one question that that might bring up for people not familiar with the story is what is the balance today of the portfolio in terms of the mix of asset type between retail, residential, and office which are the three key portions?

Mike O'Hara: Prior to this transaction we're 40% retail 40% office and 20% multi-family. After that transaction now including after we sell the four assets now that we have under contract will be now over 55%, we have close to 55% retail and office shrinking down to 20% range, the 25% range.

Dave Rogers: Okay, yeah that's very helpful. I think you talked a little bit about structuring transactions in your opening comments Lou, and I think there's a number of different transactions maybe worth talking about that show kind of the depth of your relationships and understanding of the markets you operate in. One would be the Inner Harbor project residential in Baltimore and I think the other would be the project in Durham that you just recently entered into as well, so if you could just go through that structure I think would be interesting.

Mike O'Hara: So a couple of different structures here, the first is the one in Inner Harbor and the other one is the Annapolis Junction multi-family project that had similar structures. These are two close to hundred million dollar developments, two years of development say six plus months before those start generating any positive NOI and we look at doing two hundred million dollars worth of development over that time span. That's a lot of capital that we would have to put out for a company our size with no return on that capital during that period of time, so we look for a structure to see how we can get those projects we love and not have to go out and raise equity and be destructive during that development process so we came up with this structure, and instead of taking the capital and contributing it into an LLC we're putting our equity basically in as a mezzanine loan and we're getting a return between eight and 10% on that capital during the construction process.

The other thing we're doing is now because it's not our project, it's done by our partners, it's not consolidated, we also get to recognize our construction fee so between those two projects is 140 million dollars worth of construction and we'll get to recognize a 3% or so construction fee on those projects, and now we have the option to buy these projects from one year after completion. So we now have a three-year runway here to right-size our balance sheet. If we want to acquire two we could sell one of our existing assets and do a 1031 into these or we could sell one of these upon completion so it gives a lot of flexibility in these projects.

The Durham project is a joint-venture. It's a multi-use building of office and retail which we’ll own and then there's multi-family and for sale condos in there which our partner will own. We are 37% of the joint-venture, we don't control it and upon completion we'll get the office and retail out of that development.

Dave Rogers: And maybe another interesting component of that to the extent that you can talk about it is managing the risk associated with having a partner of that size in a development like that.

Mike O'Hara: Yes, on that project one is we're the contractor so certainly when we're the contractor we feel a lot better in controlling the risk. Certainly we spent a lot of time in the development process and the drawings and getting the project basically bought out before we kick that off so we knew what this was gonna cost and we controlled the schedule.

We're also certainly comfortable within the operating agreement that if there is a default by our partner and we have to take over that the basis that we'll have in those units that we'll be really happy in owning those and from our standpoint it would actually be pretty good if you defaulted because we'd love to get those at the basis that we'd get at that point in time.

Lou Haddid: It's important to note that with these more exotic structures you wouldn't undertake these kinds of things unless you had a construction company. That's why we feel comfortable in going into partnership effectively with those developers is that we control a tremendous amount of the money, the risk, and the time frames through those construction contracts.

Dave Rogers: It's obviously good to hear from an investor perspective and so you talked about structuring transactions you can bring deals on later. You've talked about OP unit transactions and then you talked a little bit about asset sales with regard to the asset sales I think one larger asset you sold was Richmond Tower and that was an office building single-tenant that you mentioned earlier, but maybe go into that transaction and how you've been able to cycle that type of capital and continue in that view.

Lou Haddid: Sure, again, over our history we've recycled regularly our single-tenant office buildings. This was a downtown Richmond office building. We were effectively hired by that tenant, by that law firm, to develop this building on a long-term lease which is an engagement that we absolutely will always take advantage of, but looking at what we built, we built a beautiful jewel in the middle of the city that was far better than anything surrounding it, much newer than anything surrounding it, and much over the market surrounding it and so we built it on a 17-year lease and the tenant had some take downs at five years. It effectively would bring it to 100% leased and when we built it we recognized that, you know, right around year five was gonna be the best time to sell this thing and we effectively did. We constructed it at a 52 million dollar cost and we sold it for 78 million.

Mike O'Hara: One more thing to add on the Richmond Tower it was also the law firm including the other space they occupied in our other buildings were over 12% of our rent and we weren't comfortable having one tenant having that much exposure to one tenant and that's another reason we looked to sell that building.

Dave Rogers: Okay, I guess as you think about tenancy and you think about the location in which you operate, talk a little bit about how the environment in Southern Virginia has impacted you, has impacted the business, the defense orientation that often times investors think about with your portfolio being in that location or that geography.

Lou Haddid: Sure, Southeastern Virginia now basically Town Center accounts for a little over a third of our NOI so obviously it's near and dear to our hearts. We've operated there since our inception nearly four decades ago. The area is much more robust than what people see from afar. The underpinning of that MSA is basically a three-legged stool. There is the military and that's what people identify with, secondly the Port of Virginia which is the third largest port on the Eastern

Seaboard and the only port on the Eastern Seaboard that is ready for the post-panamax ships and so it continues to put a tremendous amount of dollars into the economy, and the third piece is tourism.

The crescent from Williamsburg, Virginia to Virginia Beach draws some eight million visitors a year, several hundred billion dollars worth of tourist dollars and so with those three legs of the stool it's made the area, again about 1.8 million people, extremely stable and that's the environment that we've developed and for a long, long time we've really never seen, it didn't boom in the Reagan defense build-up and it didn't swoon in the Barack wars either. The way the military works, you know, when it's expanding and expands out from Hampton Roads. Hampton Roads, Virginia is what we're talking about is the largest concentration of Naval fire power in the world and all the infrastructure is there so when the Navy shrinks they shrink back to where the infrastructure. That's how you save money, when it grows it grows elsewhere and so it's tremendously stable.

The port, again, while Ebson Flows with what our trade Wars are doing it also is the number one port in the world for transporting of coal, which like it or not is here to stay or at least for the foreseeable future. So underlying everything is this basic stability that enables the area to have an unemployment rate that typically is 100 basis points better than the average in the country and so we've taken advantage of that stability by dealing with the top of the market.

It's not a high-growth market and again when you look at Virginia Beach Town Center, the rents at that Town Center, those 110 tenants pay rents that are about 20% above anything else in the entire market and that basically means there's room for one. There isn't another city in that market that could put 200 million dollars into a public-private partnership and there isn't another developer that would be crazy enough to do it without that kind of subsidy so it's gonna be that A player for a generation and we take advantage of that.

Dave Rogers: Just over 5 minutes left I just wanna make sure if anyone has any questions feel free to raise your hand so we can address those.

Speaker 4: Was it another REIT that purchased the building in Richmond?

Lou Haddid: Question is was it another REIT that purchased the building in Richmond and no it was family money, foreign family money, and I think they'll probably do pretty well. It's a great cash flowing facility. I think they're going to leverage it with very low leverage and take a tremendous amount of cash over the next 15 years.

Speaker 5: What was the cap rate that it was sold at?

Mike O'Hara: Sold out at a seven-nine cap...

Lou Haddid: That's another good point, I'm glad your raised that. We sold that building at seven-nine and we bought the shopping centers in the low sevens which was destructive in part to our earnings by some three or four cents. It was absolutely the right thing to do. Our portfolio is extremely stable, it's extremely stable because we don't take a lot of risk in it. It stays right around 95%. In the depths of the Great Recession towards the end of 2008 our portfolio went all the way down to 92% occupied. Sometimes it gets as high as 97 or 98 and the trade-off is you don't take much risk and that's why you get rid of those kinds of properties.

Mike O'Hara: Just to add on to that so we like to do is always have, as Lou was talking about, a portfolio like this that has high occupancy, we don't take a lot of risk of one's particular tenant and that gives us great underpinning of cash flow for dividend and to obviously support the balance sheet because on top of this we run a development company and we're gonna have to, during the development process, we have to borrow money obviously that gets no return so we're gonna have higher leverage during the development process, but we make sure the underlying cash flow and portfolio is strong so that if anything happens in the economy we've got the cash flow.

Dave Rogers: One more question...

Speaker 6: [inaudible 00:26:07]

Mike O'Hara: [inaudible 00:26:15] we look at debt from debt to ebitda, we look at it in two ways the first is core debt to core ebitda which is the ebitda from our operating portfolio. The debt associated with those properties and any monies borrowed under our credit facility and we are comfortable with that in the six times something range we have maintained that the six times something range for the last two years and we'll continue to manage to that. The other is total debt to total ebitda which takes into account monies borrowed under construction loans during the development process. We don't wanna see that anything higher than an eight times something range and we've been in the low seven times range here for the last year or so.

Speaker 7: [inaudible 00:27:12]

Lou Haddid: The question was that of that 170 million dollar portfolio that we purchased there were several that are kinda outside of our geographic influence, it's really kind of a two-part question number one we're selling those and four of those are under contract that'll close I think this quarter...

Mike O'Hara: I think we're expecting three to close at the end of quarter and one close in the third quarter.

Lou Haddid: The second part of that is how far will we go? We operate best, you always kinda wanna do what you do best right, from Charlotte to Baltimore. So from Charlotte, Raleigh, through the Carolinas [inaudible 00:28:07] Southern Virginia, Richmond, Northern Virginia, and the Baltimore-Washington Corridor that's really where we have a tremendous amount of relationships and experience both in construction and development and asset management. We've done a number of things outside of that sphere and if one of our clients asks us to go we'll go. We've gone to Texas, Michigan, Pennsylvania, New Jersey, but we typically don't stay. We do that engagement and come back. We're looking at some contiguous markets, but I think we're best thought of as a Mid-Atlantic company there's plenty, for what we want to do, there's plenty of opportunities within those five states.

Dave Rogers: I think we're just about out of time, but I think that the stock is doing very well here in the last year to two years reacting to probably your lack of financial services, energy, technology exposure that the rest of the market seems to be trying to avoid, but I think also due to some really solid execution since the IPO and really proving out the strategy, reducing risk finding creative ways to structure transactions, so I'm sure Mike and Lou would be happy to take any questions afterwards up here, but I wanna thank everybody for coming. Thank Lou and Mike for the presentation today and have a great NAREIT.