THOMSON REUTERS

EDITED TRANSCRIPT

Q3 2018 Alexander & Baldwin Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 01, 2018 / 9:00PM GMT

CORPORATE PARTICIPANTS

Christopher J. Benjamin *Alexander & Baldwin, Inc. - President, CEO & Director*
James E. Mead *Alexander & Baldwin, Inc. - Executive VP & CFO*
Kenneth Kan *Alexander & Baldwin, Inc. - VP, Capital Markets*
Lance K. Parker *A&B Properties, Inc. - President*

CONFERENCE CALL PARTICIPANTS

Sheila Kathleen McGrath *Evercore ISI Institutional Equities, Research Division - Senior MD*
Stephen Michael O'Hara *Sidoti & Company, LLC - Research Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to Alexander & Baldwin 2018 Third Quarter Earnings Conference Call. (Operator Instructions) As a reminder, today's conference is being recorded.

I would like to introduce your host for today's conference, Mr. Kenneth Kan, VP of Capital Markets. Sir, please go ahead.

Kenneth Kan ***Alexander & Baldwin, Inc. - VP, Capital Markets***

Thank you. Aloha, and welcome to our call to discuss Alexander & Baldwin's Third Quarter 2018 Earnings. With me today are our President and CEO, Chris Benjamin; and Jim Mead, our CFO. We are also joined by Lance Parker, our Chief Real Estate Officer; and Clayton Chun, our Chief Accounting Officer, who will participate in the Q&A portion of the call.

Before we commence, please note that statements in this call and presentation that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve a number of risks and uncertainties that could cause actual results to differ materially from those contemplated in the relevant forward-looking statements. These forward-looking statements include, but are not limited to, statements regarding possible or assumed future results of operations, business strategies, growth opportunities and competitive positions. Such forward-looking statements speak only as of the date of the statements were made and are not guarantees of future performance.

Future-looking statements are subject to a number of risks, uncertainties, assumptions and other factors that could cause actual results and the timing of certain events to differ materially from those expressed in or implied by the forward-looking statements. These factors include, but are not limited to, prevailing market conditions and other factors related to the company's REIT status and the company's business as well as the evaluation of alternatives by the company's joint venture related to the development of Kukui'ula, generally discussed in the company's most recent Form 10-K, Form 10-Q and other filings with the Securities and Exchange Commission. The information in this call and presentation should be evaluated in light of these important risk factors. We do not undertake any obligation to update the company's forward-looking statements.

Management will be referring to non-GAAP financial measures during the call today. Included in the appendix of today's presentation slides is a statement regarding our use of these non-GAAP measures and reconciliations. Slides from this presentation are also available for download at our website, alexanderbaldwin.com.

Chris will open up today's presentation with quarterly highlights and a strategic and operational update. He will then turn the presentation over to Jim, who will discuss financial matters and guidance. Chris will return for some closing remarks, and then we'll open it up for your questions.

With that, let me turn it over to Chris.

Christopher J. Benjamin ***Alexander & Baldwin, Inc. - President, CEO & Director***

Thanks, Kenny. While I want to welcome our listeners, I also want to welcome you to your first A&B earnings call in your role as VP of Capital Markets. Kenny, who already held the treasury role at A&B, has added the Investor Relations role following the departure of Suzy

Hollinger, who is now CFO of Hawaii Gas. Many of you have met Kenny over the past month or so, and he will be at REITworld with us next week. We're happy to have him in his new expanded role.

I'm very pleased by the continued strong performance of our Commercial Real Estate business, and I'm going to direct most of my comments there. But I'd like to start by recapping our continued progress with our strategic transformation. While there were many steps taken before 2017, the big step last year was, of course, our REIT conversion. So far in 2018, we've completed the special distribution and the migration of our assets to Hawaii, built out our property management, acquisitions, leasing and development teams and advanced our monetization efforts. But we're not done and we'll continue this fall and into next year, working on growing NOI, monetizing more non-Commercial Real Estate assets and charting the best path for our Materials & Construction business. I'll come back to Materials & Construction in a few moments, but suffice it to say, we were disappointed in its performance last quarter and recognize the challenges that creates, not only for our earnings, but for our broader acceptance as a REIT.

What the market is telling us is that our story remains complicated. While we want to be thoughtful about achieving optimal values for all components, we also recognize the importance of achieving greater simplicity and focus.

Our Commercial Real Estate segment produced same-store NOI growth of 5.4% in the third quarter and strong leasing spreads are expected to support continued same-store NOI growth in the final quarter of the year. While we sit at 3.9% year-to-date, this may moderate a bit in the fourth quarter, landing us around the midpoint of our full year 3% to 4% guidance range. Leasing activity in the quarter was robust, with 58 leases signed, covering 128,000 square feet of GLA. By September 30, we had completed 87% of our targeted leases for the year based on ABR at spreads of 8.4%. These numbers reflect the continued strong environment for our Commercial Real Estate portfolio and the excellent efforts of our team.

Given the strength of the Hawaii economy, we believe we can maintain solid leasing spreads over the balance of the year, finishing the year at the high end of our guidance range.

We talk often about the embedded value of our ground leases, and in the third quarter, we had a nice demonstration of that when the ground lease under an auto dealership in Windward Oahu was renewed 2 years prior to its expiration. The lease was extended for another 30 years at an initial 43% increase to base rent. While some of our ground leases present opportunities to get back the land and the improvements and potentially redevelop the site, this is an example of a lease that represented highest and best use, and where a sizable stepup was achievable through an extension.

Commercial Real Estate is, of course, our core business now, and we believe the continued strong performance of the portfolio is a testament to the validity of our strategy to focus on Hawaii. Thanks to our scale in Hawaii, we've been able to internalize all our key functions, from investments and development to leasing and property management. And we've built a great team, supplementing our internal talent with some key external hires.

The team is critical to our growth plans, and our third quarter and year-to-date results demonstrate the progress we continue to make in the effective management and leasing of our commercial portfolio. This is the first of the 5 levers of growth and value creation we often reference, with the other 4 being redevelopment and repositioning of existing assets, ground-up development of new assets, 1031 exchanges from land and property sales and acquisitions using our balance sheet or equity. As I said, the first lever, effective management of the existing portfolio, is helping drive our continued same-store NOI growth.

Moving on to the second and third levers that I referenced a moment ago, I'd like to summarize the Commercial Real Estate development and -- redevelopment and development projects we're advancing, which are increasingly going to be a source of NOI growth. They'll also deliver attractive financial returns in the coming quarters and years.

I'll start by recapping a success story, Pearl Highlands Center. The upgrades of the cinemas and the food court have not only generated the direct rent benefits we had underwritten, but they've enhanced the customer experience at the center, enabling us to attract other great tenants. ULTA is open and doing very well, while a Guitar Center will open in early 2019. We'll be 98% leased once Guitar Center is economic, and we have strong interest from a national tenant for the remaining 5,600 square-foot space. It's hard to quantify the broader uplift, but I can assure you our investments in Pearl Highlands is generating returns beyond the 10% return on cost of these specific improvements.

Our next success story will be Lau Hala Shops in Kailua, where we are currently 89% preleased, and 57% of this space is set to open this month. This asset, which reverted to the company in 2016 when Macy's chose not to exercise its option for a ground lease extension, will now provide an exciting blend of dining, fitness, grocery and other retail options for the Kailua community.

In the fourth quarter of 2018, UFC Gym, Maui Brewing Company and Goen Dining + Bar by Roy Yamaguchi will open and contribute to NOI growth. Based on our leasing timeline, we expect incremental stabilized cash NOI of about $2.5 million per year, which translates to a stabilized yield on project cost of roughly 11%, again without the consideration of the benefits to our adjacent assets.

Our next repositioning or redevelopment project will be Aikahi Park Shopping Center, a property that we acquired in 2 stages. First, the ground lease with the acquisition of the Kailua portfolio in 2013 and then the leasehold improvements in 2015 at a 25% cap rate. The improvements were in poor condition upon purchase and we've been prepping the center for redevelopment. We have an LOI with Safeway for a lease extension, and they plan to upgrade their store. Meanwhile, we're advancing discussions with a number of tenants to extend their leases in anticipation of a renovation. We're finalizing the renovation plans for the center, and we'll share more information with you as we complete the plans and after we roll them out to the local community.

The last development I want to talk about is Ho'okele Shopping Center on Maui, which is an example of the third lever of growth, ground-up development. The center is 64% preleased, and we are in discussions with various potential tenants to fill the rest of the space. We broke ground in March, and construction is on schedule for a 2020 opening. I do want to acknowledge some challenges in filling mid box spaces on Maui. At Ho'okele, we have the ability to defer construction of the mid box spaces, so we'll evaluate that option. While at nearby Pu'unene Shopping Center, we conservatively underwrote the acquisition with an assumption that we would not fill our final box, a 25,500 square-foot space, until 2021. So we have some cushion there.

Redevelopment and new development continue to be a source of growth for us, and we expect more redevelopment opportunities to come from our improved properties and our ground lease portfolio. While we once felt that Lahaina Square on Maui presented a redevelopment opportunity, we decided instead to sell the property. We received an offer that exceeded the residual land value of our development models, and so we'll capitalize on the opportunity to exit the property and increase NOI through a reinvestment years earlier than if we had pursued redevelopment. We actually closed on the sale today, and I want to thank everyone on our team that made that possible.

As you can see, we're pulling several levers in our growth efforts -- in our efforts to grow NOI, with the only exception really being the use of our balance sheet or equity for acquisitions. For reasons we've discussed previously, those sources of growth will likely need to await the completion of our strategic transformation.

Wrapping up with a couple more slides on Commercial Real Estate, this slide shows the continued strength of our retail assets with our occupancy at nearly 93% and leasing spreads remaining favorable. Meanwhile, our industrial portfolio generally remains very strong as well, though we are continuing to show lower occupancy than we historically have because of one large vacancy at Komohana Industrial Park. That one vacancy accounts for 4.6% of our industrial portfolio space.

We're being patient in our re-leasing efforts as we seek to fill the space with the right tenant, especially in light of the strong 16.7% industrial re-leasing spreads we achieved for the quarter.

At Kaka'ako Commerce Center, 6 leases were executed in the third quarter of 2018 to bring occupancy to 91.1%, a 9.3% occupancy increase year-over-year. Additionally, Honokohau Industrial achieved 100% occupancy with the execution of 3 leases in the third quarter at an aggregate comparable leasing spread of 30%.

Moving beyond our Commercial Real Estate business, we're advancing efforts to improve the performance of and simplify the other parts of our business. Starting in land operations, we've advanced our monetization efforts with the sale of individual condos and homes, as well as land parcels and even our interest in one development joint venture.

For the third quarter, we closed 22 units at Kamalani and 24 units at Keala O Wailea on Maui. The latter of which produced an $8.6 million JV distribution. During the quarter, we also monetized our remaining interest in the Ka Milo joint venture project on the Big Island for $5.5 million. The cash proceeds from these 3 residential developments totaled $16.9 million for the quarter.

With the Ka Milo sale and the early October closing of the last units at Keala O Wailea, we have closed out 2 development projects in the last couple of months. For the rest of the year, we expect to continue selling through residential inventory. This includes closing the remaining 3 units at The Collection and 21 of the 67 remaining units at Kamalani Increment 1.

At Kukui'ula, we've seen a very nice increase in activity, closing 5 lots in the third quarter, totaling $5.9 million in revenue. And for the fourth quarter, we have 4 lots totaling more than $10 million in revenue either already closed or under binding contract to close before year-end.

Across the board, we are advancing our efforts to simplify the company as a REIT by deemphasizing capital investments required for development for sale projects. We're doing this by exploring JVs, recapitalization or even a sale for our Wailea, Kukui'ula and Kamalani projects. While we're working through the process of evaluating options with interested parties, we're not able to share any updates at this time.

Finally, in land operations, we continue to advance our diversified ag efforts on Maui, including the recent expansion of grass fed beef operations and good progress in identifying viable farming uses for the former sugar cane lands on Maui. We also continue to work on selling parcels of land where appropriate. We closed the sale of a 313-acre ag parcel on Maui to the state of Hawaii in the third quarter for $8.6 million. The potential sale of 219 acres to the County of Maui for the expansion of the Maui Ag park is working its way through the necessary approval steps, and we expect to make more progress on that soon.

As I mentioned, Materials & Construction earnings for the quarter were disappointing, and we clearly are not going to achieve our full year earnings goals. Adjusted EBITDA for the quarter was $5.6 million, a decline of 38% from last year. And for the full year, our adjusted EBITDA is trailing 2017 by more than 40%. We have been making some operational changes in recent months, and saw improved results from our paving operations, where revenue and margins increased in the quarter. Offsetting that, however, were poor results at our quarry operation where we've made some operational changes but aren't yet seeing the benefits. This is proving to be a more challenging process than we had appreciated, but I believe the right steps are in motion, including revamping our financial systems to better understand the economics of every component of the business and continuing to implement operational process improvements.

Looking forward, we've won some favorable new contracts over the past couple of months, and we expect various operational changes to bear fruit in future quarters, but some operational improvements may bring additional short-term pain, so we're not prepared to provide an outlook for the balance of the year.

As we finalize our plans for next year, we will share both more details of the steps we're taking and how they will position us for 2019. With that strategic and operational context, let me turn the call over to Jim to discuss third quarter earnings drivers, our outlook and our balance sheet.

James E. Mead ***Alexander & Baldwin, Inc. - Executive VP & CFO***

Great. Thanks, Chris, and good afternoon. Total company earnings improved year-over-year, driven mostly by results in our Commercial Real Estate portfolio and a modest increase in monetization activities during the quarter versus last year. Diluted earnings increased to $0.20 per share for the quarter.

Chris reviewed the continued outperformance of our Commercial Real Estate portfolio. I wanted to point out that not only is our total NOI and same-store NOI growing, the quality of our NOI is also increasing. Last year, at this time, we owned an assortment of commercial properties on the Mainland. As you will recall, we sold those properties early this year and reinvested into 3 high-quality retail assets in Hawaii. So our Hawaii NOI, which is more highly valued than the Mainland NOI we traded out of, is almost 20% larger now than it was a year ago.

This is a table recapping where we are on our land operations activities. Our Keala O Wailea for sale development project has sold out, with the final closings having occurred in October. The Kamalani affordable housing project is almost through its first phase, and we are expecting to close out sales of The Collection during the next couple of quarters. We're also working to accelerate the remaining Kahala lots sales.

During the quarter, we sold our joint venture interest in the Ka Milo development on the Big Island of Hawaii and monetized 313 acres of land on Maui and a sale to the state for expansion of their airport. Chris referred to the for sale residential projects, which are undergoing reviews, the Kukui'ula project on Kauai, our remaining Wailea lands in Maui and our remaining 2 development increments of our Kamalani affordable housing development. We will give you updates on our progress in future quarters.

Turning to Materials & Construction. On prior earnings calls, we spoke about headwinds in the market, with a pause in federal, state and local contracting. Nevertheless, during the third quarter, we had a year-over-year improvement in revenues as a result of both building from our backlog and an unexpected contract on the Big Island. However, the improved top line was weighed down by increasing unit costs in our quarry. We lowered our production levels to reduce inventories, and because it is a high fixed cost business, unit costs increased with a decrease in our production. We do not expect to meet our EBITDA goals for the year, but from a market side, an early read of next year's Hawaii paving market makes us increasingly confident that the total market opportunity is returning to the levels we saw in years prior to this year.

We are on track for the guidance metrics we provided at the beginning of the year, as shown on this slide. On the Commercial Real Estate side, we are projecting leasing spreads towards the top end of our 6.5% to 7.5% range, and same-store NOI growth in the middle or at about 3.5% for the year. I've added to guidance a goal to reduce the company's total debt by $100 million from the end of Q1. You will recall, we made a dividend in Q1 for our REIT conversion of which $156 million was cash. We said at the beginning of the year that our balance sheet goal is to reduce our indebtedness and make a substantial repayment of that distribution during the year. Since March, we've reduced $61 million in the company's total debt and have a $100 million debt reduction goal for the year end 2018.

Finally, we remain well capitalized with low corporate leverage and healthy credits statistics. So now, let me turn the call back to Chris for closing remarks.

Christopher J. Benjamin ***Alexander & Baldwin, Inc. - President, CEO & Director***

Thanks a lot, Jim. Before I share my closing remarks, let me thank Jim for his contributions to A&B. Jim arrived at a critical time for the company when we were in the midst of our REIT conversion and he brought deep knowledge of the REIT industry, helping us reshape everything from our financial reporting and credit facilities, to our information systems and investment strategies. He's helped us immensely in our REIT journey. Meanwhile, Diana Laing is now on board and has had the opportunity to work with Jim and the team over the past few weeks, facilitating a smooth transition. Not only will Diana add great value in her interim CFO role here, but she gives us the luxury of time in conducting a thorough national search for our next CFO. I want to thank both Jim and Diana for their leadership, and thank the outstanding finance team supporting both of them and me.

In closing, I'm very proud of what we've accomplished as a company, but it's no secret that we're not yet realizing the benefit of these successes in our stock price. There are many forces at play in the market right now, but we have to focus on those that we can control, and foremost among them is the size and complexity of our non-Commercial Real Estate businesses. As we've demonstrated, we're working to monetize assets and we have more such efforts in the queue. We absolutely value simplification, but are not in fire sale mode. We'll be thoughtful about each asset. And while I fully expect more progress and simplification over the next 6 months, we'll be disciplined about the process.

Most importantly, I can assure you that these simplification efforts will not detract from our focus on growing our core commercial portfolio where I expect to continue to see great results. That concludes our prepared remarks. And we're happy to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Steve O'Hara with Sidoti & Company.

Stephen Michael O'Hara ***Sidoti & Company, LLC - Research Analyst***

Just a question about the -- you've mentioned the highlights in the press release about the development for hold. Have you talked about the expected impact on NOI for 2019 -- I assume 2019 openings. Is there -- have you given any guidance on that? Or do you plan to?

Christopher J. Benjamin ***Alexander & Baldwin, Inc. - President, CEO & Director***

We haven't given exact timing guidance beyond the fact that we did talk a little bit about the fact that Pearl Highlands is pretty much stabilized now, and that Lau Hala will be stabilizing over the course of -- well, starting in the fourth quarter, but probably by mid-2019. So that gives you a sense of how those will come into earnings. The impact of Aikahi and Ho'okele would be beyond 2019. So I think that's probably the best I can do. I can't give you a precise NOI number for Lau Hala in 2019. It's going to depend on exactly when tenants go economic.

Stephen Michael O'Hara ***Sidoti & Company, LLC - Research Analyst***

Okay. And then just -- I mean, it seemed like you had a lot of good activity in the quarter on the sales side. I mean, in terms of the -- I mean, it sounded like you had some things in the queue, you said. I mean, do you think you're at a stage now where you have better visibility of the sales and maybe you see more of a consistent flow to sales? Or is it still probably going to be more choppy and things like that?

Christopher J. Benjamin ***Alexander & Baldwin, Inc. - President, CEO & Director***

I think we always caveat, Steve, the fact that sales are difficult to predict and project, especially the timing of sales, but even whether or not the sales will happen. And let me give comments on both sort of the retail sales, where we're reselling existing residential inventory versus project sales, where we might be selling out of a project or selling a builder parcel. The former, we feel very good about the pace at which things are going. The pace has picked up at Kukui'ula, we've now sold out of Keala O Wailea, Kamalani, we only have a few unsold units that we expect to contract for this year. So that's going very well, and I think that's relatively predictable and we gave some guidance on the timing and pace of those. With respect to developments and builder parcels, those are harder to predict. I would say that the positive activity that we have in the quarter and the discussions we've been having have overall been relatively encouraging. But we're very cautious about predicting what else we'll be able to get across the finish line. So we're going to be cautious, I think as Jim said, we do have a goal of some continued deleveraging this year and I feel pretty good that we will hit that goal. But these things are never over until they're over. And so unless, Lance, you want to add more color on market or timing, that's about it.

Lance K. Parker ***A&B Properties, Inc. - President***

Yes. I think that's really kind of all we can say in terms of an outlook. But overall, things seem relatively favorable.

Stephen Michael O'Hara ***Sidoti & Company, LLC - Research Analyst***

Okay. And maybe just one last one. In terms of the Lau Hala Shops, just maybe I've got the wrong name, but that's the Macy's redevelopment, right, the box which you redeveloped and...

Christopher J. Benjamin ***Alexander & Baldwin, Inc. - President, CEO & Director***

That's right.

Stephen Michael O'Hara ***Sidoti & Company, LLC - Research Analyst***

Okay. And just -- I mean, in terms of the -- you talked about the return on cost or the incremental NOI coming from the investments made in redevelopment. What's the increase in the base rent that used to get on that property? Is that material?

Christopher J. Benjamin ***Alexander & Baldwin, Inc. - President, CEO & Director***

It is.

Lance K. Parker ***A&B Properties, Inc. - President***

Steve, this is Lance. It's significant. Macy's, when they were there, operated under a ground lease. They were somewhere in the range of about $300,000 annually in terms of rent paid. So the ability, one, to convert it to a space lease and then reinvest additional proceeds or capital into that project is really what's going to drive a substantial lift in NOI once that becomes economic and fully occupied.

Stephen Michael O'Hara ***Sidoti & Company, LLC - Research Analyst***

Okay. Okay. And so it's kind of the 2 pieces coming together? The investments, NOI from the investments and then the base rent on that as well?

Lance K. Parker ***A&B Properties, Inc. - President***

Correct.

Christopher J. Benjamin ***Alexander & Baldwin, Inc. - President, CEO & Director***

And then -- yes, Steve, you jump back in the queue. But just a couple more things I want to add. One thing is that when we talked about these incremental returns on Lau Hala, this is not just incremental to the previous rent, but it's really incremental to what we thought we could achieve if we just did a space lease of the existing building, which should have been at relatively low rent given the big box nature of it. And so the uplift here is really from the repositioning and the ability to command higher rents for smaller more specialized spaces. The other thing that I should add to my earlier comment about the timing of uplift in NOI is that what I was focused on was primarily the incremental NOI just from these specific spaces. But as I also alluded to in my prepared remarks, we expect nice uplift in the centers more broadly. At Pearl Highlands, for example, the fact that we've been able to get ULTA in there and then we got the Guitar Center, those are both deals that give us nice rent uplift beyond just the $600,000 NOI from the investment itself.

Operator

(Operator Instructions) Our next question comes from the line of Sheila McGrath with Evercore.

Sheila Kathleen McGrath ***Evercore ISI Institutional Equities, Research Division - Senior MD***

I was wondering on the lot sales that you highlighted, the 22 units at Kamalani. And were those just individual sales or did you -- are those bulk sales to one owner to accelerate activity? Just curious.

Lance K. Parker ***A&B Properties, Inc. - President***

Those -- Sheila, it's Lance. Those were individual sales to individual buyers. So we -- as we saw going back now over a year, really strong activity that has continued for those of 170 units in the Increment 1. And as Chris indicated, as of the end of the quarter, we had just a few left. And as of this week, we're down to just 1 unit that is unsold. So we expect to close out that project later next year as we complete construction and then we'll be able to turnover these units to the buyers.

Sheila Kathleen McGrath ***Evercore ISI Institutional Equities, Research Division - Senior MD***

Okay, great. And then I know you can't get into detail, Chris. But I missed the 3 projects that you're considering like options for Kukui'ula, Wailea and I missed the third, which one that was. But I'm just curious looking at different options for whatever hypothetical for sale residential project. Just wondering how you can structure that with after converting to a REIT, can you structure it as a 1031? Or are you able to somehow retain most of the proceeds from a sale? Or are there frictional tax things that we should consider?

James E. Mead ***Alexander & Baldwin, Inc. - Executive VP & CFO***

Sheila , it's Jim. So the third project that we had talked about were the second -- the last 2 phases, we call it Increment 2 and 3 of the Kamalani development that Lance was just talking about. So Kukui'ula, Kamalani and the remaining land in Wailea are all in the TRS. So they're not REIT assets, they're TRS assets. And I would say that we're looking at any and all options in order to monetize those investments earlier than later and also, to keep to a strategy of not having to put our own capital into those developments. And I would say that from a tax perspective, tax planning is something that kind of like is ongoing. I would not, well from what I know, would not assume much in the way of frictional tax costs in the execution of those sales. But again, I can't -- it depends on the order and the amounts and the structure. So at this point, though, we're not looking at a significant tax burden on those activities.

Sheila Kathleen McGrath ***Evercore ISI Institutional Equities, Research Division - Senior MD***

Okay, great. And then just on the Maui shopping center sale. Is that a good comparable that you could share us the cap rate? Just curious what that traded at.

Lance K. Parker ***A&B Properties, Inc. - President***

We closed at $11.3 million. We can look at the supplement for the cap rate. But I would say, it's probably not an appropriate metric. We had purposefully looked at repositioning that asset, potentially redeveloping it. And so the rents, I would say, were not necessarily market, neither were the terms. That all said, I would say, that the buyer is looking at just holding the asset and putting some improvements in it. But no real long-term plans beyond that.

James E. Mead ***Alexander & Baldwin, Inc. - Executive VP & CFO***

So I'd just add, Sheila, again, when we're looking at the portfolio in total, this was an outlier in terms of a requirement for capital. Without a redevelopment, it was going to require a significant amount of capital for re-leasing. And with a redevelopment, obviously, would require a lot of capital. And when we looked at the economics of doing either scenario, the NPV for us, it didn't seem attractive in comparison to the sale price that we could get for the properties. So it just didn't seem to fit with our overall strategy of wanting to nurture a higher growth rate for our portfolio. So it made a good candidate for spending out of the portfolio.

Sheila Kathleen McGrath ***Evercore ISI Institutional Equities, Research Division - Senior MD***

Okay, great. And then on the Lau Hala development, the 11% yield on cost, I know that was a decent uptick from the prior. Was that on better rents? Better costs? Or how were you able to boost that yield on that project?

Lance K. Parker ***A&B Properties, Inc. - President***

It's really coming down to better rents. And so we stated 89% preleased. We do have the remaining base in various levels of discussions and negotiations. So we're starting to fine tune our guidance on that, just being able to see where we end up or expect to end up.

Sheila Kathleen McGrath ***Evercore ISI Institutional Equities, Research Division - Senior MD***

Okay. And one last one. On ground lease, that was a significant reset. Can you remind us or maybe it's in the supplemental, when -- how many resets are coming over the next couple of years? Is this like a good window for ground lease resets for the company?

Lance K. Parker ***A&B Properties, Inc. - President***

In our supplement in the table, Sheila, we do layout our top 20 ground leases by ABR. And then we do have the next either step or expiration schedule in there. It's a nice highlight to show whether it's embedded value in our portfolio. But as Chris had indicated in his comments, there's always the opportunity to look either at recapturing the space, re-leasing the space or doing something like we did at Lau Hala. So I'm not -- it's a little difficult on an aggregated basis to just apply this kind of increase, and think that that's appropriate.

Operator

And our next question is a follow-up question from the line of Steve O'Hara with Sidoti & Company.

Stephen Michael O'Hara ***Sidoti & Company, LLC - Research Analyst***

Just -- I was curious, was there any -- I didn't see it in the press release, maybe I missed it. Was there any impact from weather or hurricanes or anything like that in the quarter for Grace potentially or maybe in any other areas?

James E. Mead ***Alexander & Baldwin, Inc. - Executive VP & CFO***

No. We didn't have -- the weather channel, weather didn't really impact our portfolio. It was more on, I think, the Big Island was impacted. We don't have much real estate on the Big Island.

Christopher J. Benjamin ***Alexander & Baldwin, Inc. - President, CEO & Director***

The question was about Grace, and I do think that there -- Grace did lose some operating days because of the weather. But I don't think it was -- it wasn't a primary cause of performance.

Stephen Michael O'Hara ***Sidoti & Company, LLC - Research Analyst***

Okay. And then maybe there was a -- the price for the acreage on Maui, is that within the taxable REIT subsidiary or is that within the REIT itself? And then also on the pending 4Q sale, can you just talk about what type of a value that is, if you can? Or is it irrelevant?

Christopher J. Benjamin ***Alexander & Baldwin, Inc. - President, CEO & Director***

I'll let Lance comment on values with respect to the sale that closed and whether that's reflective of what we might see going forward. I will say that the -- those lands are all within the REIT, and they actually would qualify for exchange. These would be 1033 exchanges as opposed to 1031 exchanges because these were friendly. Well, one was and the other is set up as a friendly condemnation with a government agency. So it's a little bit more flexible in terms of the reinvestment timeline.

Lance K. Parker ***A&B Properties, Inc. - President***

And then the only other thing that I would add is because they were, in the case of the airport lands that we closed, it was a governmental agency in the state and in the prospect of deals, a governmental agency in the county. A material part of the valuation process is actually done by an appraisal. So it really is sort of a third party valuation process that we build through to arrive at the valuation. That said, I'd say it's relatively indicative of expectations for the next deal.

Operator

(Operator Instructions) And we have another follow-up question from the line of Sheila McGrath with Evercore.

Sheila Kathleen McGrath ***Evercore ISI Institutional Equities, Research Division - Senior MD***

Chris, I was just wondering if you could remind us how, now that we're closer to year end, how you're thinking about the dividend next year? I realized this year's dividend was wrapped up in the E&P, and it's -- when people look at it, it just doesn't scream like a typical REIT with no yield. And so I just want to hear your thoughts about the dividend for next year.

James E. Mead ***Alexander & Baldwin, Inc. - Executive VP & CFO***

Sure. So we had a fulsome discussion about this just a week ago. And Sheila, as we go into next year, the REIT needs to pay dividend at least at 100% of its taxable income. And just as a reminder, that taxable income this year was about $0.57 a share, which, of course, we paid in the -- we accumulated that dividend and paid it in the first quarter along with our -- the distribution E&P to become a REIT. So that's why we didn't see a current dividend this year. Next year, we're going to have to pay a current dividend based on at least 100% of our taxable income. And so, again, I can't talk for the board. The board has to decide on these things. But in January, we'll have a pretty good estimate for our full year and we will begin to have a routine dividend, I think, very similar in terms of schedule to other REITs. That would be the goal so that there are no surprises going forward. We'll set it at a level which is something that we can maintain and grow it over time with the growth of our commercial estate portfolio. So I think that begins in the early part of next year, sort of the same way you see any other REIT doing it.

Christopher J. Benjamin ***Alexander & Baldwin, Inc. - President, CEO & Director***

Yes. And Sheila, I would just add that at $0.57 or thereabouts, yield will be relatively modest compared to a lot of other REITs. But we always like to remind people that, currently, only about 55% of our assets are in Commercial Real Estate and generating REIT taxable income. So as we're successful in continuing our strategic transformation and shifting more of our assets from the non-Commercial Real Estate side into Commercial Real Estate, we should have disproportionate dividend growth in the next few years.

Sheila Kathleen McGrath ***Evercore ISI Institutional Equities, Research Division - Senior MD***

Chris, are you -- we didn't touch on like any acquisitions. If you do have a number of land sales or non-core asset sales teed up, I would think that you would be in the market looking -- or are there things that are of interest that you're looking at in industrial or retail?

Christopher J. Benjamin ***Alexander & Baldwin, Inc. - President, CEO & Director***

There are. There are a number of things that we're interested in. As I've said before, we've -- once we completed the migration of the portfolio, we shifted our focus this year a little bit more to the disposition side and trying to monetize some of our -- not so much on the

Commercial Real Estate side, but on the for-sale development side. We've been trying to accelerate monetization. So we've been a little bit less focused on the Commercial Real Estate acquisition side. But as we have proceeds from land sales, we certainly have a list of assets that we're interested in, in Hawaii, and we maintained dialogue with potential sellers for those opportunities.

Operator

And I have another follow-up question from the line of Steve O'Hara with Sidoti & Company.

Stephen Michael O'Hara ***Sidoti & Company, LLC - Research Analyst***

Just you said, I think, about 55% of your assets are in income paying or commercial real estate. And just based on those assets, I mean, I would think that a number of those assets are on the balance sheet for maybe significantly less than what they're worth. And so, I guess, my take on it is part of the opportunity is converting those to market value over time and then, obviously, you have to increase the size of the taxable part of the REIT portfolio. I mean, can you just kind of remind me how much of that 45% is within the TRS versus the REIT? I mean, I guess, it's all based on book -- balance sheet value so much or how valuable that is, but if you could talk about that just a little bit.

Christopher J. Benjamin ***Alexander & Baldwin, Inc. - President, CEO & Director***

Yes, Steve. I'll say the vast majority is in the TRS. The primary asset that is not Commercial Real Estate but that sits within the REIT is our agricultural lands. But from a book standpoint, those are on our books at relatively low values, about $150 an acre. So if you're just looking at a book asset split between the REIT and the TRS, the vast majority of the book assets in the REIT are Commercial Real Estate assets with the balance -- most of the balance being agricultural land and a little bit of urban land that we would hope to develop into for-hold projects over time. So most of the balance of our assets would be in the TRS.

Operator

And I'm showing no further questions at this time. And I'd like to turn the conference back over to Mr. Kenneth Kan for any further remarks.

Kenneth Kan ***Alexander & Baldwin, Inc. - VP, Capital Markets***

Thanks, everyone, for being on the call. If you have any further questions, please feel free to call me at area code (808) 525-8475. Aloha.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you can all disconnect. Everyone, have a great day.