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CORPORATE PARTICIPANTS

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

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

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

Suzy Hollinger *Alexander & Baldwin, Inc. - Director, Investor Relations*

PRESENTATION

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

Good morning, everybody. Thank you so much for coming. We are very pleased to have such a big group here in the room. And we also thank everybody who is listening in on the web, or listening to the replay. We are very pleased with the turnout today. I've been pleased to get a number of favorable remarks from several of you about what we've been doing lately. But of course, we all know that it's about what we are going to do next. And I am hoping that what we can convey to you today is a little bit about how and why we've done what we've done in the past, and how it may signal where we're going in the future and give you confidence that we can accomplish it. We're a unique story and I do think that a full understanding of our story comes best from meeting with the management team, hearing how we think, hearing how we allocate capital, hearing how we try to capitalize on our knowledge of the Hawaii market. Of course, it's even better if you could come visit us in Hawaii, and we welcome you to do that. But we hope that today will be helpful in helping you understand the way that we leverage our Hawaii assets, our history, our relationships there, to create value both for our shareholders but also for our local community because ultimately that's extremely important to what we do. We've got to be adding value to our communities or in the long term we won't be successful. Let's see here, trying to get the -- trying to advance the slide. Okay, there we go.

So today's an opportunity to bring you up to speed on the strategic evolution that we've been going through; what we have done over the last few years to evolve and how that has created value and what we intend to do going forward to create value and continue that evolution. Perhaps the most important thing that we've done in recent years is refocus our operations in Hawaii. While we ventured outside Hawaii in the past, we truly believe that a management team should focus on what it knows best, and in our case that's absolutely Hawaii. And so we've fundamentally committed to repatriating capital from the U.S. mainland back to Hawaii, and focusing our growth activities in Hawaii. And you can see on this slide that we've been in Hawaii for almost 150 years. We have a very deep knowledge of the local market. Importantly, given our history, our reputation, and our size in Hawaii, we probably see virtually every commercial real estate transaction that takes place. We don't do all of them. In fact, we probably do a fairly small percentage of the opportunities that we see. But that deal flow and that exposure is incredibly important to our ability to be selective in where we pursue deals and try to create value. We've very actively been transitioning towards a greater focus on commercial real estate, and we'll talk a lot about that today -- why we believe that is the right focus for us. But we also have significant assets with tremendous embedded value and how we go about realizing that value over time is a very important additional component of our story, and so we'll be talking about that as well.

One unique thing about A&B and especially now that we're in the REIT space, a unique aspect of A&B as a REIT is that we also have a tremendous ability over time to generate internally sourced capital from some of our other non-REIT assets. And again, that's a theme that we'll talk about today because it's going to be an important source of capital for our continued growth.

So we're a Hawaii play and the investment thesis is very clear with Alexander and Baldwin. We're the best public company -- in our opinion, the best public company vehicle to gain exposure to the Hawaii real estate market. There are some great companies with significant assets in Hawaii and you probably know many of them. There's no doubt about that. But none of them have the concentration or the deep roots in Hawaii that we have. If you follow any of those companies, General Growth, American Assets, Douglas Emmett, Select Income, Taubman, et cetera, you know that the Hawaii economy is very strong. It's been doing extremely well in recent years. You can see the growth trajectory here on the right-hand side. In my view, that is not just a post-recession recovery. That's an indication of the benefits of some fundamental characteristics of the Hawaii market that I believe are quite sustainable. And I think a lot of it has to do with shifting domestic travel patterns because Hawaii -- I'm sorry, tourism is of course a very important part of Hawaii's economy. We're a safe yet exotic destination. We are a domestic yet tropical destination. And I think what we are seeing is more and more people are opting for Hawaii over other foreign and more uncertain destinations. And I think that, that has benefited us greatly. That's driven a lot of the improvement that you see on this slide. But while we are not directly exposed to the tourist market, except in a couple of assets, the rising tide of tourism has really lifted all boats in Hawaii and that's certainly true of ours as well. And so it's -- the economy is really firing on all cylinders and we benefit from that.

But in addition to the very strong performance of the economy, and what I believe is going to be continued strong performance going forward, there are some other aspects to Hawaii that make Hawaii very attractive, and those are the barriers to entry to Hawaii. And we are on the right side of those barriers. Given our history in Hawaii, given our presence in Hawaii, relationships, we believe we're on the right side of those barriers. One of them has to do with geography. Just the fact that we are 2,400 miles away from the U.S. mainland creates a lot of benefits in terms of limiting penetration of outside influences in Hawaii, and Lance will talk about this in more detail in his presentation.

Another and potentially more important element of the barriers to entry that we experience are the challenges of doing business in Hawaii, not the least of which is the zoning and entitlement process. It's a very cumbersome process. I'm not going to explain the chart on the left-hand side here, but I am going to say that we understand it probably as well as anyone. That doesn't mean that it's easy for us, but we do understand it. We have had success historically in getting entitlements and navigating through that process. And one of the things, one of the realities of that fairly cumbersome process is the left-hand -- I'm sorry, the right-hand side of the chart, which shows that only 5% of our land in Hawaii is urbanized. And that number is probably not going to change. Not only are we not making more land, but they are not entitling a whole lot of it. So we can expect that there is going to continue to be significant supply constraints in terms of developable land, and therefore, commercial assets.

This slide shows some of the very strong market fundamentals that result from those previous couple of slides, where I talked about the barriers. Lance is going to dive into more detail on these numbers. But just quickly, our ABRs are very high relative to our peer groups, both in retail and industrial. Grocer performance as one metric is extremely strong in Hawaii. And so again, Lance will elaborate on that, but it's part of what makes our commercial real estate portfolio in Hawaii so attractive.

In addition to the strong performance of our existing assets, we are in the process of growing the portfolio through redevelopment opportunities, repositioning of existing assets, and new development of commercial real estate. I think many of you know, and Lance will talk about this further, we are a long-term real estate developer of for-sale product, but we're increasingly focusing our development resources and efforts people on development for hold. So these are just 3 examples, again, Lance will provide more insights on them later and some numbers to go with this slide. But just briefly, let me describe what these are. On the left-hand side, we have a great example of the value of some of our ground leases. This is a building that was owned by Macy's. It sat on a piece of land that we leased to them. They chose, about 2 years ago, not to renew the lease on that property. We got the improvements back. We are now under redevelopment of that building. We're going to put a couple of restaurants in, some in-line retail, a grocer, and most likely a health and fitness tenant. And it's going to become -- it's going to go from being a box -- department store box to really being a gathering place for the community. And by the way, we own all the retail around this building too. So it's going to create uplift, not only a couple of million dollars of NOI uplift with the asset itself, but it's going to create some positive effects on the assets around it.

In the middle, we have Pearl Highlands Shopping Center. It's a center we bought in 2013 and we are in the process of repositioning it in a couple of ways. We are upgrading the food court, upgrading both the facilities and the tenant mix. And we think that will draw more tenants -- I'm sorry, more customers to the center. We are also working with Regal Cinemas to significantly upgrade their facility, going to more of sort of a high-end theater experience. We think these are the kind of steps that will keep people coming to our centers and help us keep these centers very active and performing well. And then finally, on Maui, we are developing a new Safeway-anchored shopping center on land that was historically our sugar cane land that we entitled over the past couple of decades and have developed all the infrastructure, and now we're going vertical with the new shopping center. So those are examples of some of the things we're trying to do to grow our commercial real estate portfolio, in addition to acquisition activity.

So our team is very important. I mentioned this earlier, and I hope that you will get a chance not only to hear from the 3 of us today, but at some point get to meet the rest of the team, because we really have a phenomenal group of people. There are a couple of main themes about the management team that I want to emphasize. One is that we know the market very well. The vast majority of the management team was born and raised in Hawaii. And while they have -- most of them have spent significant time on the mainland, either in school or working for other mainland real estate companies, they've come back and brought a perspective of -- an outside perspective, but a local sensitivity and a local set of relationships and a local knowledge that is tremendously valuable to what we do in our whole value proposition in Hawaii. And I'm very proud of the team that we have.

In addition, the team has a breadth of knowledge in terms of everything from the entitlement and zoning and planning steps of value creation through the development and leasing and property management. We really have the whole gamut, and it gives us the ability to create value in ways that a lot of pure commercial real estate companies cannot. So that's a very important aspect of the management team.

So this chart shows what we've done over the last few years in trying to create value. Our shorthand for our strategy is we want to grow NAV and we want to find ways to have it realized in the stock price. Growing NAV over the last several years has primarily been about expanding the commercial real estate portfolio. We've had, I believe, about 40% growth in the commercial real estate NOI over the last several years. But the other part of that is having that value realized. And a significant part of that has been getting greater focus. Because if you go back 5 years, we had a very eclectic portfolio. 60% of the NOI was on the U.S. mainland and it was in multiple asset classes, and there really was no rhyme or reason to the portfolio. It worked for the purposes it was originally established for, but it was a little bit hard to understand and hard to value.

By migrating back to Hawaii in a significant way with some big acquisitions in 2013 and a number of acquisitions since then, we've created more concentration. We've grown NOI, and we have also taken other steps to help the market appreciate what we have, not the least of which is most recently our decision to convert to a REIT, and that has been enabled by that greater focus that we have, both geographically and the growing focus on retail assets. So as we go forward, we're going to continue to try to do both of those things: Grow NAV through growth of the commercial portfolio, primarily through a variety of means but also through effective management of our other businesses; and continue to work to simplify the story and have the value of our company realized in our stock price. And so that will be, again, a big focus of what Lance and Jim will talk about today.

So to wrap up, before I turn it over to Lance to dive into commercial real estate, I'll suggest that you watch for a couple of things today. One is, while you're only seeing a small subset of our management team, I think you'll see from both the knowledge of these gentlemen and what they talk about in terms of our past actions, the unique deals that we've done, the way that we've created value, that we are uniquely positioned to create value in Hawaii through real estate investing and commercial real estate growth. And again, it's -- what we've done in the past is only, at this point, an indicator of what we might be able to do in the future, but I think you'll be impressed by that. I think you'll also gain a very good appreciation for the asset base that we have, both on the commercial real estate side, but also in the non-commercial real estate side. Some of the other assets that Jim and Lance will talk about today.

I think we're very well positioned to create value in Hawaii, and I appreciate you being here today, and I'll turn it over to Lance now to go through commercial real estate.

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

Thank you, Chris, and good morning, everybody. Thank you for allowing us to share this morning with you.

As Chris indicated, I'm going to be covering the commercial real estate or CRE portion of the presentation today. And there's 4 major themes that I'd like to touch on.

First will be our management group, the leaders of this real estate team, and sort of extending the theme a little bit that Chris touched on in terms of tenure and expertise. I'll talk about the strength of the Hawaii market, provide a little bit more detail to some of the highlights that Chris spoke about earlier. I'll talk about alpha performance in our CRE portfolio compared to our REIT peer group. And then last, but certainly not least, I'll touch on multiple opportunities for NOI growth within the portfolio.

But first, if you will indulge me, I'll touch briefly just on how we've structured the CRE team with the 4 leaders of those groups. And first is Leslie Brown, who is head of our in-house leasing, which is a move that we made earlier this year, as we brought both property management and starting to bring our leasing functions in-house. Leslie started with us 24 years ago doing leasing in-house at A&B. She left to represent some of the most

-- the largest retail assets in the state, working for GGP as well as Taubman as well as Heitman becoming -- before coming full circle and rejoining us at A&B.

Kit Millan overseas our Asset Management group. He's got 21 years of experience, 13 of which has been in Hawaii. He's born and raised in Hawaii. So to Chris' point, strong local roots, good deep knowledge of the marketplace. Prior to joining us at A&B, he ran the Asset Management group for, Kamehameha Schools, which is an $11 billion private trust. It is the largest private landowner in the state of Hawaii.

Jeff Pauker, who was here last year for our Investor Day, heads our Investment group. He has been with the company just shy of 6 years, but during that time he's been involved in $1.9 billion worth of transactions and investments that we've made, both on the acquisition on the sales side as well as financings.

And then Rick Stack heads our CRE Development group. And so as Chris indicated, we've historically been a developer, and we've been able to pivot those resources and have Rick really focus on building our commercial real estate portfolio from the ground up as well as redevelopment and doing our tenant improvements and building improvements. He has 26 years of experience, 19 of which has been with us at A&B, and over $750 million in development transactions and deals that he has done.

So this wasn't just an opportunity for me to brag about my team to the group. I think the takeaway here is that we have the breadth and the depth to execute on all of the opportunities that I'm going to explain. That's a very important piece of how we think we will create value going forward.

This is just an overall snapshot of our Hawaii portfolio and the various ways that it breaks down. You can see roughly 2/3 of our NOI is derived from retail assets, 15 properties in total. The other roughly 1/3 of NOI comes from about an even split between industrial assets as well as ground leases. Chris touched a little bit on the ground lease side in terms of the Macy's opportunity and what that presents for us in future NOI. I'll go little bit more into detail later on in the presentation. We also have a small sliver of NOI that comes from 6 small office assets that we own in the state. Not shown here are the 7 remaining mainland properties that we still own. They generate roughly $5.6 million in annual NOI. Our strategic plan for those is to repatriate that capital to reinvest those proceeds into income-producing assets in Hawaii, as we find opportunities to do so.

So let me start on the retail side. And this really just breaks down that portion of our NOI. And importantly, there are 7 islands in the State of Hawaii that are populated. only 4 of which that have meaningful population. And you can see here that we own assets on all 4. And it's important because it allows us -- we have sufficient scale, as we look with existing tenants for expansion opportunities state-wide. But just as importantly, if not more so, for new tenants that are looking to enter into the market that need multiple locations, to justify coming 2,400 miles at a minimum to open a location or multiple locations in the state, and we can provide that platform for them.

So Chris mentioned the fact that Hawaii is a high barrier-to-entry market. It's one of the drivers for us that leads to what we believe is just the fundamental supply/demand imbalance in the retail sector. And if we start on the supply side, you can see here a relatively low GLA of retail space per capita. And this is in comparison to the 30 top markets that Green Street covers. And you can see how we bench against that.

This slide speaks to another supply constraint. We have spoken in the past anecdotally about low Internet penetration on retail sales in Hawaii because of shipping costs or maybe, more importantly, long wait times for things like Amazon Prime as well as difficulty in exchanges. But here we actually have data that was produced by Adobe Insights. And they track millions of websites. They actually are the underlying software for about 75% of all the retail spending online. So they're able to pull that analytics. And they did a study over 1-year period that ended in February of this year. And you can see the results here that despite high median income in Hawaii, we are relatively low on per capita Internet retail spending.

So moving on to the demand side. Extremely low unemployment compared to the rest of the country, which contributes to high household income. And this is income within a 3-mile radius of our centers, as compared to our retail peer group in the REIT space. When you add the fact that we have a transient tourist population that spends highly, we get outsized spending per capita. So the importance of that is now you take the low supply, you take the high demand, and that's what's able to drive some of the metrics that Chris highlighted and that I'll go through in more detail here. Our ABR is at the high end of the range at $27.50 compared to our peer group. And the reason that we're able to drive that ABR, Chris touched on it briefly here, but it's because our tenants do well. And if you look at reporting tenants, and grocery tenants specifically, you can see how they perform compared to our peer group. This $781 is for 2016 full year that was the data that we could use to bench against the peer. But in terms of

2017 performance, we're already up to $787. And in fact, in our Oahu portfolio, the average for our reporting brochures are $800 per square foot in sales.

We've talked in the past on earnings calls about releasing spreads, and you can see here, for the quarter end as well as the trailing 12 months, the performance that we've had. And so as strong as our ABR is, we've been able to get high releasing spreads, and we're starting to drive additional ABR that we expect to continue as we release on spaces.

This slide talks to the same store performance. We had highest same store performance when you look against our peer group for 2016. And we're still on track with 3% to 4% full year guidance for 2017, which, again, compares favorably to our peer group.

So one of the data points that I'm going to add here is the mix of our tenants. So the majority of our tenants are -- represent need-based users, and as a result, Green Street had published a report in August of this year that showed at-risk retailers within the strip retail group. And as we looked at those retailers in our portfolio compared to our peers, you can see that we believe we have a lower risk profile across our portfolio.

So the point of all of this is, when you take the fundamental supply/demand imbalance, you take strong performance of our tenants, you take strong performance of our properties, we believe that we have -- that we justify low cap rates and high value for our assets and our portfolio.

So as the largest owner of strip retail in the state, it's not surprising that the market also ascribes high value to these asset types. And this is actually for Honolulu, as opposed to the state as a whole. But this is data that we pulled from CBRE's first half 2017 cap rate survey. And they break markets into 3 tiers, effectively a primary, secondary and tertiary market. Hawaii is a Tier-3 or tertiary market within their survey. But you can see how cap rates compare despite being a Tier-3 market to the top performing markets in Tier-1. We're effectively at par in terms of cap rates and valuation. So again, this just speaks to the fundamentals of why we like the retail space, why we continue to look for opportunities in that space, because it continues to perform well, and we think drive value.

I'm going to move on to our industrial portfolio. So again, we have roughly 15% of our NOI that's driven by industrial. And there is a lot of similar characteristics in the industrial market that we see in the retail market. This gives a pictorial. Again, we've got assets that we own on all 4 major islands. And not only do we like the performance of the industrial market as a whole, but this provides a platform for our retailers. As you can imagine, being away from the mainland distribution is important for tenants, and we have numerous examples within our portfolio where we have tenants that are both in retail spaces that we own and then there are also tenants in industrial product that we own.

So this just speaks to historic market performance in the Hawaii industrial space. You can see extremely strong rental growth over the last 5 years and similarly low vacancy rents. So some of the highest rents that you'll see in the country, and then on the opposite side of the spectrum, some of the lowest vacancy rates that you'll find in the country, as well, for industrial space. Some of that vacancy is -- or lack of -- or availability is driven by the fact that historically, there hasn't been a lot of new construction of industrial space in the market. And this just shows, over a significant amount of time, the actual growth in industrial space in Hawaii compared to other high barrier West Coast markets and the U.S. as a whole. And what drives this really is high land values. So we have extremely high-land values in Hawaii that make it very difficult for speculative development to occur. And as a result, constraint on supply. Land values can range on the high end in urban Honolulu up to $200 per square foot for industrial. And so what you end up seeing is a lot of the trades that do occur, which are infrequent, are typically the owner/users who use different metrics for valuation than cap rate-based metrics, where you'd have to underwrite based on returns.

So this is our performance in our portfolio and, again, based on the fundamentals I just described in the marketplace. You can see, compared to industrial REIT peers, our ABR is almost twice that of others. And that is in spite of the fact that the age of our assets are significantly older. And that speaks not necessarily to the quality of our portfolio per se, but really the market as a whole. And if you think about the fact that, again, in the previous slide, lack of new supply, we have older product, but despite that, we're able to drive significant ABR numbers just based on, again, supply/demand imbalance within the marketplace.

And so similarly, this is the same -- we sourced this data from the same CBRE survey. And you can see here, again, despite a tertiary market, low cap rates relative to the top performing markets in the Tier-1, with about 100 bps spread. And so unlike the retail, where it was effectively at par, there is a little bit of movement here, but if I were to show all the rest of the data for the other markets, you'd see that, that differential is compressed compared to other Tier-2 and Tier-3 markets. So again, we think that this speaks just to the value of real estate in the islands, both on the retail side as well as industrial.

This is a picture of our last acquisition. We acquired an industrial building back in June of this year. I thought I'd walk through just a very short case study about how we looked at the deal, the opportunity set, how we underwrote it. And I think it highlights a lot of the value creation opportunities that we look for in the marketplace, and also the skill set of our team.

So this was the deal that we bought. And this is in the Kona Marketplace on the island of Hawaii. And you can see here that despite the fact that I said cap rates are between 5 and 5.5, we bought at an 8.3. So this was a limited marketed deal that we didn't have to compete for as a result. Now part of this discount that we were able to achieve was because of the fact that it's on a neighbor island. And so the way that we thought about this was there was probably about a 300 bps discount that we achieved through the pricing, 150 bps or so of which was entirely attributable to the fact that this was a neighbor island market. But the other 150 bps came from the fact that there was a significant amount of tenants that were on a month-to-month basis. It was poorly managed by a small family that had gross leases. They didn't really care so much about extending term. And so as we looked at the opportunity set, we saw a value creation opportunity. And for us, this was really sort of a pure play NAV acquisition. So the first part of the NAV increase here was the fact that we sold 339 acres of non-income-producing land from our portfolio. And so we realized full value from that disposition, over $29,000 per acre. And we were able to take that on a non-income-producing basis and reinvest it on a tax-deferred exchange. So no tax leakage into an income-producing asset with a 8.3% yield. So immediate step up in NAV as a result of getting full value for the land that we think otherwise would be valued at a discount, and then putting into it an asset. The other piece of the NAV creation story here was that 150 bps that I talked about that we believe within the first year of ownership we'll be able to eliminate just through rolling tenants to longer term, moving them to triple net leases. As part of our due diligence, we negotiated an extended term, so we were able to meet with the majority of the tenants, we were able to mitigate that risk through some pre-leasing. And that 150 bps is effectively a $2.2 million increase in value once we execute on the business plan. So for both of those, this was really sort of a representative example that checks all of the boxes on some of the longer-term strategies that we tried to achieve.

And then the other big bucket of our ownership in this -- our CRE portfolio, are ground leases. Now ground leases, for those of you that may not be familiar with them, is effectively a bifurcated ownership structure where the landlord or the ground lessor owns the fee interest in the dirt and there is a leasehold ownership interest in the improved assets. And that improved asset piece of the ownership structure is typically a long-term lease, sometimes as long as 99 years. And you usually fix the rents for that 99-year lease for the first 30 years or so, so that the owner of the leasehold piece can get financing. But beyond that, they go to fair market value resets, and those typically occur every 10 years or so. And then, importantly, at the end of the lease, the improvements revert back to the ground lessor. So when we talk about our ground lease portfolio, we're talking about the fee interest in the ownership piece that provides a very secure, almost bond-like return in the real estate space. It's -- for us, the way we view it, it really is the most secure piece of real estate that you can own because it's collateralized against the improvements that you get if there's a default with the tenant.

So this slide here highlights some of the other advantages of owning ground leases. Because they're long term and because all of the operational risk and cost is passed on to the tenant, there is no CapEx, there is no TI, very minimal management that we have to provide. And I talked about the rent resets and then the reversion benefits at the end of the term. So a good portion of our ground leases have either resets or reversions coming up. And these are 3 representative examples of where these occurred.

And so from left to right, in 2015, these are the improvements of Aikahi Shopping Center. We own the fee as part of an acquisition that we did in 2013. In 2015, the leasehold interest was up for its last fair market reset, so there was roughly about 10 years left on the lease. And we approached the lessee and offered to buy them out of the lease. We were able to negotiate the execution of that for $1.6 million, which represents just over $16 dollars a square foot on the improvements. So if you think about it from that perspective, it was an extremely accretive buy for us. We were able to consolidate ownership into fee simple interest. And this will be one of the potential redevelopment opportunities that we have going forward. That $1.6 million -- another way to think about it was effectively a 25% cap rate on the NOI. So again, a very accretive buy for us.

That same year, we had a ground lease reset. This was a ground lease on Maui that we owned. And we got the benefit of a 17% increase in NOI. And so one of the things that we've seen over time is that land appreciation has outpaced inflation in Hawaii. And so while you don't get step-ups every year like you may on a lease, or every 5 years if a lease or tenant rolls, you do get these big bumps every 10 years or so when these things reset. And then probably the best representative example, Chris hit the -- sort of the highlights on this, but this was the old Macy's space. We took this back in 2016 when they decided not to renew. They were paying $200,000 annually to us in ground rent. And through redevelopment and reinvestment of approximately $21 million in new capital, which will get 10% to almost 11% return on cost, we'll be able to increase that NOI somewhere in the range of 2.1% to 2.6%, so at least a 10x increase on NOI.

So great examples of things that we have done. And I share that with you, as we look forward, we have provided a new table in our real estate supplement. And so we breakout now our top 20 ground leases. And importantly, 85% of that entire portfolio either resets or expires by 2023. So there's just this great embedded opportunity for increases in NOI that will be representative of some of the things that we've done in the past that we'll have the opportunity to do in the next few years.

And here we just picked out 5 that are some of the larger, more important ones that we thought were worth sharing. So we have a near-term expiration, actually 2 parcels -- 2 contiguous parcels in urban Honolulu. There is a gas station as well as an empty lot that a car dealer uses for storage. These come up for reversions, so we get the improvements back with the c-store and the gas station, if we want it. Likelihood is we will probably restructure the deal and do a new lease because it's the highest and best use when we look at residual land values on a net present value basis. And we'll probably do the same thing for the vacant land parcel. But again, it will give us the opportunity to reset rents to market.

This Kaimuki Shopping Center. This is not part of the GLA in our portfolio that we quote but it is a grocery-anchored center in urban Honolulu. Kaimuki is a very highly, densely -- or densely populated area that centers performance very well. We get the opportunity to reset that in 2020. And then the next 3 were part of the Kailua acquisition. They are on the Windward side of Oahu. But you can see here a reversion of a car dealership. Again, highest and best use may be to go back to the table with them for an extension, as opposed to taking the improvements back. And then in 2022, we get a reset on an office complex. And in 2023, we get a reset on one of the larger grocery-anchored centers on the Windward side of Oahu. So while these 2 would be more representative of extensions, despite the fact that we get the reversion rights, when these improvements come back, those are the real opportunities on the reversion side because we get the benefit of all the improvements for free.

Okay, so that's our existing portfolio, where we think we've been having strong performance that represents more organic growth going forward. These are future opportunities that we continue to mine within our CRE portfolio for growth within NOI. And Chris hit the highlights on these. But here you can see the returns and the capital that we invested to generate those returns. So 8% to 9%. When we think about redevelopment or ground-up development, we typically think about it in the context of existing cap rates. And so to the extent that we can generate a lift of anywhere between 150 to 300 basis points, we think that's an appropriate risk-adjusted return for the development that we'll undertake, and we'll typically do those deals. And you can see, based on the cap rate information that I shared, this underwriting is consistent and the performance is consistent with where we expect. I will caveat that by saying one of the unique opportunities within our portfolio, because of our historic landholdings, is we actually have urban land that is significantly below market value on a book basis. And so to the extent that those opportunities exist, we may look for opportunities where our overall returns may be slightly below that 150 to 300. But when you think about it from a book basis, it's one of the competitive advantages that we have in the marketplace. And so we will take advantage of those opportunities as they present themselves.

And this just goes into a little bit more of the detail of the 3 centers. I probably won't spend too much time on this because Chris sort of hit the highlights and we talked about the financials. But again, Pearl Highlands we expect -- we have actually already started turning spaces over to tenants with the food court. And we expect Regal Cinemas to be economic at the end of the year. So that will be an increase for NOI for us. Lau Hala Shops will start turning spaces in the beginning of next year to some of the tenants that Chris had mentioned, the 2 restaurants, some of our in-lines, the grocer as well as the potential fitness tenant for the second floor space. And then we expect to break ground on the Ho'okele Shopping Center, this is the Safeway-anchored center in Maui, by the end of the year.

So let me talk briefly about acquisitions because this is an important avenue for growth for us. Chris mentioned the longevity of the company, the roots that our management team has. I touched on the experience of the real estate leaders. And I don't think there is a better example of where all of that comes to bear than in the acquisition portion, because it's where we really leverage our relationships. We leverage the fact that nobody has done more deals in the Hawaii marketplace than A&B. We've developed a high level of credibility in the marketplace. I think the best example of that was our acquisition of the Manoa Marketplace at the beginning of last year. It was an off-market deal where we bought both pieces. I talked about the ground lease. We bought the fee interest in the ground and then we leveraged that to buy the leasehold interest from a second owner. And when we combined the 2 into the fee simple ownership, we were somewhere between 50 and 100 basis points higher than what we would have otherwise paid on a cap rate basis. So again, immediate lift from a NAV basis. But here it's -- some of the numbers that sort of highlight and support the comments that I just made. Of the almost $1 billion in deals that we've done over the last 5 years, 93% of those were either off-market or we consider to be first-look opportunities. And by first-look, I mean we are at the table in discussions or negotiations before those properties go to market. And in many instances, we're the impetus to taking it to market, but because we were first to the table, we had the benefit of a stronger understanding. We've developed a relationship with the seller. And so it's how we continue to farm opportunities in the marketplace.

Our hit rate has been impressive at 50%. And so when we look forward in terms of opportunities, we have over $600 million in active letters of intent right now. And it's not to say that we're going to close all of that. I'm not going to stand here and say that we are even going to close 50% of it. But we recognize that we do have to build the funnel. And we are constantly stuffing the funnel, recognizing that the more deals that we can put into the funnel, the more deals that we expect to come out in terms of actual closings. And so from a budget standpoint, we have sort of a placeholder of $50 million per year for new acquisitions. And that was really more of a function of a longer term perspective, as we did the math and looked at our historic win rate compared to the number of trades that typically occur in the marketplace. We think that we can confidently expect to place about $250 million worth of acquisitions over a 5-year span. And so this was effectively taking a straight-line approach to that from a budget standpoint.

So as we think about the opportunity set for acquisitions in the marketplace, aside from all of the things that I shared about why we like retail and why we like industrial, in terms of headroom and opportunity set, one of the other things that we like is the fact that ownership is extremely fragmented. And there is not a high percentage of institutional ownership in the marketplace. While some of the trophy assets certainly are owned by large REITs or other institutions from a market-wide perspective, there is quite a bit of headroom. Our ownership of Oahu Retail is at 20%, state-wide it's 15%. So again, we think there is a lot of headroom for us to play in that marketplace to increase market share. And when you look at -- more compelling, I think, is the industrial, with our ownership of less than 1%. And there is a very low amount of institutional ownership in the islands of industrial space. There is, quite frankly, a very low amount of institutional quality real estate within the Hawaii marketplace that's supported by our average age of our inventory.

But again, we think there's a pretty strong opportunity set for us to grow our position in the marketplace in both of those assets.

So that was a lot to sort of throw out there. We've got a lot of supporting detail in our supplement. I know you folks have copies of the slides. But I'm going to pause here and see if anybody has any questions that I can take at this point, or we can defer until later in the presentation.

QUESTIONS AND ANSWERS

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

Yes?

Unidentified Participant

What's the chance of Amazon, on the island? What impact does it have, if any?

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

So with regards to their purchase of Whole Foods, there are 3 existing Whole Foods in the state, one of which is a tenant of ours in Kailua. There is another one that's being built by Howard Hughes in urban Honolulu. So they'll have 4 locations there. The slide that I showed from Adobe Insights, one of the reasons we thought and we sort of know just as being -- as living in Hawaii anecdotally, was the fact that Amazon Prime as an example. Despite the fact as a member you'll get a free shipping, delivery times are not next day delivery. They're typically 6 to 10 days out. And so the instant gratification portion of being an Amazon Prime member doesn't really exist in Hawaii. And so it's not to say that dynamic may not change. We've been very careful and it's why we sourced the data that we did, to monitor the trends and to see if that does change. But for the time being, it is one of, we believe, the reasons that retail sales per capita is lower in Hawaii than in other markets.

Unidentified Participant

For the ground lease resets that are expiring in 2018 and 2019, what kind of resets would you expect to get?

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

Yes. I'm sorry. Thank you, Chris. So the question was for the ground lease resets in 2018 and 2019, what sort of resets would we expect to get. I think the best guidance that I could give would be to look at the 3 representative examples that we used to show in both the 2 in 2015 and the 1 in 2016. So the one that's probably most applicable was the Kaiser release where we got a 17% increase.

Yes?

Unidentified Participant

Who are the people who had an urge to acquire shopping centers?

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

So the question was who are the principal competitors to acquire shopping centers on the islands. We've competed against a number of funds. We've competed against a number of REITs historically. So I would say it depends on the price point. And so typically in the -- say, if you're $30 million and below for retail assets, you're going to be dealing primarily with local players, sometimes individual buyers. If you are in the $30 million to $70 million, maybe $80 million range, it starts to open up to other -- either institutional or I would say regional buyers that already have a presence in the islands. And then $100 million and up is probably at the amount of scale where new market people can make the justification to manage from afar. So that's when we will typically see a broader array of buyers. We haven't had a lot of large trades. I think the last large trade that occurred in our marketplace was back in 2015. It was the sale of the shops at Wailea. That was a pretty large deal that went to Heitman. That was a sub-floor cap. But we would expect that going forward, for institutional type trades, we'll probably see more funds than anyone else, just from what we're hearing in other markets. Because we haven't had a lot of trades in ours, we're looking at other high barrier-to-entry markets, other coastal markets to try to pick up trends of who buyers are.

Yes?

Unidentified Participant

So you mentioned in your industrial slides that you have properties that go back to 1980? Are there any redevelopment opportunities within that industrial portfolio?

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

The 1980 was -- the data that we showed was the supply that has been added or hasn't been added to the marketplace. But in terms of redevelopment opportunities, we do have, in the long term, some assets where we have excess land that could be an opportunity for us. We also own the Maui Business Park Phase 2, where we have industrial zone. This is on the island of Maui, where we took historic landholdings, and it's where we have been historically selling lots. But we also -- that's where we are doing our development for the Ho'okele Shopping Center, the Safeway anchored. And we do look at opportunities to build there, to the extent that the economics work from the industrial side.

Yes?

Unidentified Participant

It sounds like you're now thinking about when you're looking at a project, looking at the land on a book -- excuse me, on a book basis and not a market value basis, is that new? I feel like in the past, you've always said you wanted to look at these projects and looking at the land on a market value basis. And so then the next question would be how many projects, by doing that, did that really open up for you that historically you wouldn't have been able to do by looking at it that way that you might be able to do over the next few years?

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

I wouldn't say it's entirely new. Thank you, Chris. So the question was in the way that we look at new developments and underwriting them on a return on cost basis using market-based cap rates versus our historic land basis, and whether that has -- or the way that we underwrite has changed, and what's the opportunity set as a result of that. So the first answer to the question is, I think we're becoming more convinced, as investment opportunities are more limited, that it really is a competitive advantage for us. And if you look back to our slide where we had our NOI growth, it's the table in the supplement where we have our 3 development opportunities and redevelopment opportunities, so Pearl Highlands, Ho'okele and Lau Hala Shops. We did footnote. So the returns on Ho'okele are actually based on our book value for the land. And so those returns would effectively be about 100 bps lower if we actually mark-to-market on the land. So there was an opportunity where we felt compelled. We had a strong tenant that was in tow. We thought that, that was a mitigating risk factor. And an appropriate way to look at it was to take advantage of our lower land basis. So we will look at those types of opportunities for industrial and other assets, if we have the right tenant, and if we think it makes sense on a risk-adjusted basis.

Unidentified Participant

One follow-up to that. I know that in multi-families that have already said that because of demand and cost, it's very difficult to make [half the numbers penciled], but now ultimately on a book basis, is there an opportunity maybe to look at that market now, whereas you haven't in the past?

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

We don't have in my opinion a lot of land that lends itself to multifamily, but what I will say is, as opportunities presents itself, we really try to think out-of-the-box as much as we can from a higher and best use perspective and make our investment decisions that way. And so a good example is our ground lease reset in the 2018 to 2019 where we have the vacant land as well as the c-store and the gas station. It's a great corner location in Urban Honolulu, it is zoned either for high density condominium or just resi for lease. And we did do an analysis as to whether or not we could do rental development there. And we don't think that's the highest and best use just given construction cost and land values. Yes?

Unidentified Participant

Is there anything you can add to the criteria for which you evaluate acquisitions?

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

Yes. So I -- the question was can I elaborate on the criteria that we use to evaluate acquisitions? So typically, on the CRE side, we're looking at either IRR or return on cost based metrics to determine whether or not it's the best use from a capital allocation standpoint. And that holds true whether it's development for ground-up development, whether it's redevelopment or whether it's an acquisition. And so we try to apply the same metrics.

So that again from a capital allocation standpoint, we're consistent in how we're viewing the opportunities that are making decisions whether or not the pricing that we're seeing in the market is an appropriate one. Yes?

Unidentified Participant

Earlier you talked about monetizing some land to one of the industrial units. Can you just talk what will be generated in the capital lands you have, how much (inaudible) you can use a source of funds for more (inaudible)?

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

Sure. So the question was can I elaborate on the land that we sold to fund the Honokohau acquisition? And what sort of opportunities do we see in the future to monetize landholding similar to that? So what I would say a couple of things. I'm going to first say that in my opinion one of the most liquid and strategic currency that we have to redeploy capital is our Mainland assets. And so we've got the 7 assets on the Mainland, but again to the extent that we find good acquisition opportunities in the marketplace or if there are other reasons to sell, just given dynamics in the marketplace on the disposition side, I think we'll look first to that. Our land sales have really been more opportunistic as opposed to prescriptive. And I'll talk a little bit more about land and evaluation, and Chris will go a little bit more into strategy later in the presentation. But I think it's fair to say that we think of our landholdings as how do we extract the most value from it. So it's not necessarily a for sale play. Again, it's going to be more opportunistic driven to the extent that, that's what make sense. And then, I did want to comment just a little bit on land value growth. I made a comment in the leased fee section that land growth has historically -- or land values have grown historically above CPI. And so we commissioned a study. I guess, it was about 18 months ago with one of the large appraisal firms. To just look historically, they went back over 25 years to both in urban markets and suburban markets to see what type of land appreciation we experienced. And we did that to better understand. It's a little difficult to forward look on what sort of rent resets we may get within our existing portfolio until we get closer and actually have those discussions and negotiations. But it was important to us as we think about future acquisitions and whether or not we're buying a ground lease piece, whether or not we may be interested in buying a leasehold piece, or whether or not we see opportunities to actually buy fee simple and then to bifurcate the ownership ourselves and arbitrage some of the difference that you may be able to get between the 2 pieces and having the 2 pieces worth more than the whole. And what we found is, anywhere from a -- and obviously values range, but anywhere from a 10 to about 150 bp increase on an annual basis over CPI. And so again, it's one of the inherent value creators within our ground lease portfolio that despite the fact that you may not get these resets for 10 or 20 years, you get the compounded effect of that growth once you do reset that ground lease. And you get the benefit to the NOI once it occurs. Okay. So with that, I'm going to turn it over to Jim and to cover Materials & Construction.

PRESENTATION

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

Morning, everyone. I was sharing some ideas with Chris the other day and it occurred to me that, one of the really great things about having a new CFO is that it's a fresh look at all of the things that were -- that are in the company. Do you know, one of the really annoying things about having a new CFO, it's like a guy sitting there who is new to the company judging everything that you've done over your whole life. So I volunteered to take on the Materials & Construction business, because it's not a business that I naturally understand, I don't expect that you all would naturally understand this business either, but I wanted to dig in more and understand why it was important to the company and to understand more about the quality of the business. So I'm going to give you a collection of slides that I pulled out, just information as I went through the Materials & Construction business to give you a sense for the things that I saw. And we can all draw some conclusions at the end. But one thing I'll tell you for sure is that this business throws off a ton of cash. And right now where the business sits is in our TRS. And our TRS holds the Materials & Construction business as well as our development activities and other activities that aren't compatible with the REIT structure. So being in that TRS and throwing off all that cash, it really makes the activities in the TRS cash neutral. Meaning, on the inverse side of that, that the REIT is not charged with providing cash flow to support any of those activities. So I would say right now it plays a very important strategic role in the balancing of cash flows for the TRS versus the REIT. The principal value of the business is derived from our interest in Hawaii's strategically located quarries. And the rest of the business is driven off of the quarries, paving is largely a delivery system for quarry products. And the other products shown here are also derivatives and have a value in part because of our large market share that we hold in the Hawaiian islands.

A large driver of the business is state and local spending. You can see that on the left, on road maintenance and construction, which is a subset of that slide on the left. And you can see on the right that we capture over time more than 50% of the contracts awarded across Hawaii. And a good measure of the forward-looking business and the strength of the business is looking at the backlog that we have in the business. And you can see that since we purchased the business in 2013, that backlog of business has been fairly stable. It's about $215 million right now.

And the operating results are shown on this slide. And again, you can see here that the EBITDA. The EBITDA generation since we purchased the company shown in green. You can also see the margins have been fairly stable. And if you were to look at other comparable companies and there are a number of other public comparable companies. The margins of our business are relatively higher as you might expect because we're vertically integrated and we own our quarries in the right locations in Hawaii. So keep in mind that one thing I'd just tell you is that and in experiencing and hearing some of the calls in the past, it's a very tough business to judge on a quarter-to-quarter basis. You really need to look at over longer periods of time, because there's seasonality of weather, there's timing of the execution of the work and awarding of contracts. The business has changed somewhat since the company acquired it. And it has become at times more competitive. So before I arrived at the company, the management team and Chris in particular had taken on a number of initiatives to improve the operating efficiency of the company and to bring in new talent. We have a highly experienced Chief Operating Officer starting soon. And we're looking forward to the additional value that he brings to the company.

As I said that there are public comparables and from a valuation standpoint of this company, M&A is very active today. And in our case, we have a large market share and quarry materials that's highly sought after. Working with an appraisal firm, I divided the business into its 2 major components for the purposes of identifying comparables and separating out the 2 major activities the company is about 1/3 in the specialty construction business and about 2/3 in the materials business. And you can see on this slide, that we've identified 8 public peers in materials business. And their mean multiple is about 11.1x on the next forward year EBITDA basis. We've also identified 5 public peers in the specialty construction business with a mean multiple of 7.8x of the next forward year EBITDA.

And in addition, Materials & Construction business acquisitions over the past few years have included large premiums between 20% to over 50%. You'll see in our revised supplemental disclosure that we provided, I hope more information that can help you take a look and maybe carry forward in understanding valuation as we move forward in time. So that is a quick summary of Materials & Construction. And I know it's not exactly in your wheelhouse -- it's not in my wheelhouse either, but Chris is here to help me with questions and answers. So I'd love to take any questions you might have.

QUESTIONS AND ANSWERS

Unidentified Participant

Yes. A&B has demonstrated certain core competencies that are well illustrated in, say, the Macy's redevelopment. What core competencies does the company have, that apply to this business to make you the best owner of the business units?

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

It's a question about core competencies, do we have to make this business the best business? I going to let Chris add to it, but by and large, let's start back to the roots of this business, are land based and quarry based. And so we found, I think, in the past historically that the quarries and the land under the quarries are in our roots and deriving value from those quarries. This was the best way to drive value from those quarries over time. But let me let Chris take on the other part of this.

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

Well first all, that was a great beginning to the answer, because I think the land-based nature of the business and the extraction business, I think, is very important to us. Also, the cash flow that it provides is extremely important to the business. But from the standpoint of core competencies, first of all, we purchased the absolute best materials and construction business in Hawaii. So the core competencies that we purchased or inherited with that acquisition are unsurpassed in terms of the operating business. We are supplementing that skill set as a result of some recent attrition or retirements of some senior folks with the new Chief Operating Officer, but we've got the best people in the business. Now from the standpoint of what did A&B add to the business? It's important to keep in mind and Suzy probably knows the exact percentage, but I believe over 80%, 85% of our business is government contracts. And so A&B with its relationships in Hawaii, its connections to the community, I think there are a lot of synergies between a lot of the things that help make us successful on the planning and entitlement side in real estate can also help that business be successful in terms of its work for the various government agencies. So I think we acquired a great team. We add to that our broader relationships and then we supplement the skills as necessary. I think we've got a very, very strong position in that business. Yes, Bill?

Unidentified Participant

When you mentioned the management transition kind of this business, you talked about potential to improve some efficiencies? I wonder if you can be more specific on what you raised operated more efficiently.

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

The question is what can we operate more efficiently? I can start and maybe Chris will add some color. But if you were to take a tour of the facilities, you'd see a number of things that have been done over time since the acquisition to improve the efficiency. I think it's an operating business. There's a lot of heavy moving vehicles. There's trucks and things like that. So you have to have a sort of appreciation of geography, the importance of scheduling activities, the importance of contract management. But there's a lot of physical things on the site that you would see improvements of the actual equipment -- relocation of equipment, better kind of industrial engineering of the whole process that they undertake. We've a very good team there right now. And actually hopeful that the fellow we're hiring will also bring some additional skills, but do you want to add anything to that?

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

I think the one thing that I would add to that is that we have traditionally had a fairly -- a very strong, I don't want to use the word dominant, but a very strong position in the paving business in Hawaii. And that has been kind of a focus of the business has been paving. But I think what we are realizing more and more is that, the greatest value creation opportunity in the Materials and Construction business is the quarries and the extraction of minerals and it's not just to support our paving business, but we sell rock, we sell asphalt -- liquid asphalt to third parties. And one of the things that we're focusing on more and more is how do we maximize the value of that business, because really, in some ways the paving business is really just the delivery point, just like it is the delivery point for the materials. But the greatest value is actually in the materials and maximizing the value of the leases that we have or the ownership that we have of these quarries. And so looking for ways to get greater throughput in sales of raw materials is critical. And that's one of the things that the new gentleman that we've hired, I think, brings to the business. Beyond that it's the things that Jim identified. It's everything from how do we schedule trucks and minimize excess labor and fuel and those sorts of things to what are our IT systems and how well are we coordinating our activities. A lot of that is sort of normal blocking and tackling. But I'd say the most fundamental shift and opportunity for us is to increase our extraction rates and increase the profitability of the quarry operation even at a time when our paving business is under some new competitive pressure, that shouldn't keep us from realizing tremendous value from the raw materials part of the business.

Unidentified Participant

Do you have a sense of what percentage of total quarry production for asphalt in Hawaii you represent?

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

The question is do we know what percentage of the total quarry business we have? I think delivery of rocks and things like that of the islands.

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

I apologize. I do not know the percentage of the total rock or aggregate business we have. Suzy may know that number. I would guess that it's in the range of or above 50%, but I don't know. Suzy here?

Suzy Hollinger - *Alexander & Baldwin, Inc. - Director, Investor Relations*

It's about 50% to 60% -- between 50% and 60%.

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

Between 50% and 60%.

There are questions about Materials & Construction or anything that Lance or I covered as well. We are going to take a break now. So if there's anything from the first half you want to talk about, we can talk about it now. All right.

Unidentified Company Representative

So why don't we return here at around 10:35. 15 minutes from now.

(Break)

PRESENTATION

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

Okay. We're ready to get started again. So I'm going to -- this is Chris for those listening in. I'm going to really just set it up for Lance to talk about our Land Operation segment. We have covered so far Commercial Real Estate segment, okay, and Grace Pacific, our Materials & Construction business. We have significant value in our landholdings. As you know, both are development and developable lands as well as our agricultural lands. And that's what we're going to talk about now. The -- we own 87,000 acres of lands in Hawaii, actually a bit more than that. And what we're focused on with these lands is first and foremost making sure that we're deploying these lands in the highest and best use. And so for the vast majority of these lands and by the way most of the lands sit in the REIT. Almost all of the ag lands are in the REIT. And much of the developable and even some of the development lands that are not in active development, but have the potential to be developed in the future sit in the REIT, while really only those that are in active development sit in the TRS. And that gives us the opportunity over time as we monetize some of those lands to transition those -- the value of those lands into commercial real estate. But long before we get to that, we have to make sure that we are moving those lands towards their highest and best use. In the vast majority, in the case of the vast majority of our lands, that's agricultural, it's going to be agriculture. Again -- but for a few thousand acres that will potentially eventually be developed and maybe another 8,000 or 10,000 acres that have higher and better use not through full entitlement, but through means that Lance will probably talk a little bit more about. The rest of the lands is really, its highest and best use is going to be in agriculture. So a lot of what we're focused on right now is making sure that we're pursuing those -- that highest and best use. So for the agricultural land, as I'll discuss in a moment, it's making sure that we redeploy them, especially, after our recent sugar shutdown into diversified agricultural activities. And then, for those lands that have entitlement and development potential moving them through that process. So through those activities, we expect over time to increase our recurring income streams as we transition the assets. We have a tremendous track record of execution on both the ag front and the development front. We've been developing in Hawaii since 1949. We have been farming in Hawaii since 1870. And just since 1990, we've developed over 3,400 -- or about 3,400 residential units in 33 different projects, almost 700,000 square feet of commercial real estate. And we've sold over 6,000 acres of raw ag land. The -- Lance is going to go into more detail on the development side and some of the development pipeline. I'm going to talk about just very briefly our agricultural activities.

So we have in my humble opinion and but I think it's actually a very accurate opinion, the best farmland in Hawaii. It is the land that housed the most successful sugar plantation over the last 150 years. The highest productivity land in Hawaii. It is contiguous, it has water sources, it has an electrical grid, it has renewable energy generation on it, it is close to a port, it is fertile. For all of those reasons, we believe that this land has tremendous agricultural potential going forward.

And however, we've decided that it isn't a mono crop solution. We've just shut down a mono crop model with our sugar business. And now we're transitioning to a diversified ag model. So rather than 1 blanket of 1 crop, we're essentially going to be creating a quilt of a number of different crops. And that's essentially what Slide 54 shows.

Now this is still somewhat conceptual. Some of these uses are already reality. In particular, the livestock areas are already being fenced and converted to cattle ranching. There are other areas we're doing test crops of Pongamia and other energy crops. We are actively working with the County of Maui on an ag park planned for more food crops, which will be grown primarily by local farmers. What our goal here is, is to make sure that these lands are redeployed into agriculture, but to do it in such a way that it's really not being financed by us, that we're taking a very capital-lite approach to repositioning these lands. So in some cases, that could mean contributing the land to a joint venture, where a joint venture partner puts in the capital to both grow the crops and process them. In other examples, it could be third-party leases, arm's length transactions where we're leasing the land, generating good REIT income and letting someone else farm the land. And in some cases, it could be sales of land and to third parties again, who want to farm the land. Now you might say as we talk about converting non-income producing lands into income producing lands, you might say why don't you just do that now. And the reality is, though, that our focus is not on transitioning assets immediately. It's on finding the right solution for the assets and maximizing the value. The best analogy I can give is the Mainland portfolio. As Lance said earlier, that is a tremendously liquid, tremendously attractive and tax efficient source of capital for growth in Hawaii. But when we separated from Matson and we announced that we were going to migrate that portfolio, we were very careful not to set a time frame, not to put a time frame on it, because if we had put a time frame on it, that would have potentially forced us into X that were -- sales that were premature, that were not maximizing value and more importantly into acquisitions that were not necessarily value maximizing. I think our track record with the patience we've had and the pace at which we've monetized those assets only when we found attractive investment opportunities is analogous to what I want to do with these ag lands and the developable lands that Lance is going to talk about. I don't want to fire sale. I don't want to go unload assets for the simple reason of redeploying the proceeds into commercial real estate. I want to be thoughtful about how we reposition these lands, how we position them for maximum value and how we realize that value over time. And in the case of the ag lands, it may be very long-term ownership. And we'll talk a little bit about that as we go forward. In some cases, it could be near-term monetization, but it's really all about trying to maximize the value. And so with that, let me just say, that I'm pleased with the progress we're making on diversified agriculture. I'm pleased by the reception we've gotten from the local community. The cattle ranchers are excited about being able to finish their cattle in Hawaii rather than shipping them to the Mainland. Some of the local authorities are very excited about the prospects of creating more renewable energy in Hawaii. The county is very excited about the prospect of expanding its ag park and allowing more local farmers to farm. So I think we're going in the right direction here. And we just have to be patient to realize maximum value over time.

So with that, I will hand it over to Lance to talk about development for sale.

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

All right. Thank you, Chris. So this slide here is a table of our 8 active development projects for sale. And before I go into any more detail on this, I should note, as Jim mentioned, our active development projects for sale sit in the TRS portion of our business. We have over 1,500 units of primary, residential, resort residential as well as commercial properties actively being developed and sold in this business. And while I don't have a slide to talk to the team that is responsible for executing on this, Chris talked a little bit about track record, but I will just mention briefly the head of this group, Alan Arakawa, has over 26 years of experience, born and raised in Hawaii. He's been responsible for delivering some of the largest master-planned communities in the state. And he has the full complement of team that stands behind him to help execute on this. And it's important, I think, to mention that because we have a lot of value in this business. And to Chris' point, we're looking to pull every lever we can to maximize the value in this business and to monetize it. And so that can take on a variety of different forms from sale of finished units, to sale of finished lots, to sale of development lots, to vertical development of product if we think that's the best way to extract value. And so we need a strong team that can be able to execute on all of this simultaneously. But when you look at this table here, which you'll notice and we've sorted it by what we think is the end of the life of the development from a sales standpoint. So the first 6 deals from top to midway down on the bottom, you can see that really within the next 3.5 years, we have the opportunity to sell out of these projects. And it's really the last 2 Maui Business Park Phase II as well as Kukui'ula that are much more long-term in nature. So we have supplied additional information in the supplement that wasn't there before in hopes to provide additional ways to think about the value of this portion of our business. And what I'm going to talk about today isn't necessarily to guide to a number, but it's to talk about different ways that some people may want to think about these projects. And so in the right-hand column here, we talk about possible valuation methods that we think would be appropriate when you look at these projects individually about how to think about value and to collectively think about this portion of our company.

And so for these near-term projects, one method could be a book value basis plus additional capital spend could be a valuation methodology that you use. We've also provided information that you could do a DCF, and I'll actually walk through an example of how we would think about how that would be applicable as well as a discounted margin analysis. And so one of the goals in the new disclosure was to try to provide enough information to use any of these 3 different ways to think about value. And the last thing I would say on our last 2 projects are longer-term projects. And we think about the best way to really ascribe value to that is probably a book value plus future spend from our standpoint. I think a DCF becomes difficult as you look longer-term with discount rates and how you actually try to build that model. So let me move off from here and talk a little bit about a case study Keala O Wailea. And so this is a project in the Wailea Resort. We bought back into Wailea in 2004 -- actually 2003. So prior to that, we were the original master developer along with Northwestern Mutual. We sold out in 1989. We bought back in, in 2003. It's been a very successful deal for us during both of our terms of ownership. And as we've looked about the best way to maximize value, this was a representative example of -- we've sold builder parcels before, rather than going to a capital intensive plan where we were actually putting additional capital to go vertical, we contributed the land to a joint venture with a partner of ours Bob Armstrong who we've done a number of deals with. Who has proven to be a very capable trustworthy partner. We've had great success with him in our other projects. And so we contributed this at a value of $9 million, which was not our book basis, but it was really sort of a mark-to-market on what we thought that land was worth. So we put it into the joint venture. We structured it such that we get priority return of our capital and then we -- goes through a distribution of proceeds over and above that.

So this slide here shows on the left side, all of the information that is now available in our supplement. It's not laid out the same way, that you'd see it. It goes horizontally in the supplement, we provided here vertically just so that we could sort of built a DCF. I'm going to walk you through the different steps, using the information we provide and how we would think about a DCF from a valuation standpoint, if you felt that this was the most appropriate way to value a project like this. And so on the left-hand side, I think it's important to note, we provide information both at the project level, which is applicable for whether it's a wholly-owned development by A&B or whether it's a joint venture. But we also provide just A&B data to the extent that it's a joint venture. And so you've got to sort of think about both pieces as you build the cash flow model and ultimately try to arrive at a valuation.

So the revenue line on the top is effectively built by taking the number of units we have. We give square footage -- average square footage of units. And in some cases, we give a point estimate on sales price or in this case, we give a range. And so to the extent that you take the midpoint of this range, you would simply do the math to arrive at a total revenue number of just under $78 million. What we also give in the supplement is the sales closing start-end date. And we have disclosed that we have not closed any units. We have a number of binding units in escrow, but we have not closed any of them yet. So of the 61 binding, we said we won't have closings until the end of 2017. But in this case since we're looking retrospectively second quarter, we just flowed that out starting in Q3 and just did a straight-line on revenue. And again, in the absence of any other information, just thinking about how somebody would build this model. Something that we don't provide and something that's very important is closing cost. And so these are closing costs and commissions. The revenue number that we give or the guidance that we provide, the range here is a gross number. And so you've got a net out closing cost. Typically, those are in the range of about 6%. So here we've done the math at 6%.

On project cost, we give total project cost. We give project cost expended to date. And then, in this case, we also break down A&B's expected project cost and A&B's expected or funded project cost to date. And so we have total project cost of $64 million and a remainder of $40 million.

And so effectively, $24 million has already been spent. And so given the range here of construction start and end, we simply flow out the remaining construction spend through the sales period to derive that portion of the cash flow.

And we have our cost incurred to date here basically in time period 0. And what you end up with is, obviously, the cash flow at the bottom. So in terms of the waterfall and how it works. We get our $9 million back. And then, you get the remaining cash flow at the project level. And we applied a discount rate here thinking that that may be appropriate. Discount rate would be sort of in the eye of the beholder. From our perspective, we took what feels like a lower end of a range on a discount rate for an NPV type analysis, primarily because the majority of the units are already presold. So of the 70 units, again 61 are under binding presales. Importantly, that represents 87% of inventory, but more importantly, 94% of total revenue. So again, from a risk standpoint, we think a lower discount rate would be applicable. And that's the range that you get there based on 2 potential discount rates.

And then, the last piece of math is A&B's economic share. And so we provide that in the supplement as well and you simply use that as the factor to get our portions of the cash flow, you add it up and that's where you would end up from a valuation standpoint.

Questions on this? Okay. Kukui'ula, I want to go through the slides here on Kukui'ula and just introduce the project to some of you that may not be familiar with it or may not have seen it. It is our largest investment from a development for sale standpoint. This is a resort residential project on the south shore of Kauai. This was built on historic A&B lands in a joint venture with DMB, our partner out of Scottsdale, Arizona that's done a number of these types of projects across the country. It's a 1,000 acre project. It is fully amenitized in terms of a Tom Weiskopf designed golf course that is in Clubhouse improvements, spa, as well as a farm, which is a very unique amenity that we provide to members. And it's a great selling feature to prospects. It's on the sort of the mountain side of the resort, where you can go and you can pick fresh fruit and vegetables. We have seeded some capital into this project for either joint ventures or what I'm going to call sort of proof-of-concept vertical development.

And so when I talked about the best ways to realize value, we see the opportunity to really try to make bulk sales, get other developers to come in to invest in this project, and we need to provide proof-of-concept. And so we've invested in a couple of vertical projects, one is the Club Villa. This was a 13-unit development that East West Partners did. We subordinated the land. Well, actually, we didn't subordinate the land. We got a portion of the land payment upfront with partial payments out of sales, and this is the picture of one of the units there.

This is a rendering of a house that has probably just been completed and furnished as we're speaking. About 30 days ago, they were wrapping up interior improvements. This is in what we call the Makai neighborhood. Wonderful ocean view, lots that have been finish-graded. And this, again, was sort of a demonstration house in hopes of sparking interest for developer builders to come in and purchase parcels. And similarly, this is a house in the Mauka or hillside portion of the project. This house was just furnished actually last week, and so this was completed as another demonstration project. So again, sort of spot projects throughout the development in sparking interest from others to come in and sort of pick up the ball from a development standpoint and take down builder parcels. So this is just an overview of the project. And as I mentioned, when you think about a project, or at least when we think about a project, like Kukui'ula or Maui Business Park, the DCF or even a margin -- discounted margin analysis, starts to become a little bit more problematic as you're looking out beyond 10 years, in this case, we're at sort of 20-years plus. And so we think this is probably the better way to think about it is book value from a valuation standpoint. And you can see here, our book value at $325 million represents the main joint venture with DMB as well as some of the vertical capital that I described.

Landholdings. Before I move on to this, any questions on the development for sale? Okay. So Chris talked about the acreage that the company owns, the historic land. And this slide here shows a visual depiction of those acreage by zoning, and this was the historic way that we disclosed our landholdings in the supplement. So 3, sort of, major zoning classifications: conservation, agriculture and then urban/entitled, including lands that are in the urban entitlement process but not necessarily completed, and we broke it out by island. As we looked at our land inventory, we really thought that a more meaningful way to look at the lands are in 3 buckets, but in 3 different buckets. And so the first is higher-use potential lands. And so these are lands that have great views. These are lands that lend themselves maybe to smaller agricultural activities, potential large estate residential-type uses as opposed to more large-scale farming. And so this is sort of how we thought of this bucket, and I'll talk a little bit later about the number of acres that we've put into this category, but some of the sales data that we have historically provided. So a lot of the sales that we talk about over the last 5 years and the values that we have shown have all come from this portion of the landholdings. And -- so that's why we thought it was a little better way to sort of break out those buckets.

The second bucket is core ag lands. So these are -- certainly, are IAL, or important-ag-land-designated properties or parcels. Again, they also represent parcels where highest and best use would be agriculture at scale. It could be pasture. It could be, again, just larger pure agricultural uses. And in the third bucket is supporting ag lands. And so the majority of our conservation lands sit in this bucket. They're very important lands. It's hard to ascribe individual value to these parcels. They -- we think of them as support lands because it's where some of our water infrastructure sits that provides some of the value to both the core ag lands as well as the higher- and better-use lands. And so that's the delineation that we used for that category.

So what I'm showing here on Slide 72 in the upper portion of the slide is how we had broken out our landholdings historically in our supplements by the zoning categories that I described and showed you a picture of. The lower part of the slide is the way that we've broken out the same lands in the new categories, higher-use potential, core ag and supporting and conservation. You can see that the numbers tie, but again, just thinking about maybe a more meaningful way of breaking it out from a valuation standpoint. And so I made the point earlier, but this shows our land sale run rate over the last 5 years and values that we've been able to get for those parcel sales. And again, the majority of these sales came from that higher-use category. And so that would be a -- more representative to think about value for that bucket based on some of these sales that we've achieved as opposed to the other 2. So putting a number on this much landholdings is, obviously, a challenging thing to do. This is simply a data point, but it's a public data point. And so again, we're not necessarily saying this is representative of pure market value, but the county of market -- the county of Maui does go through a valuation process on an annual basis, and so we will see fluctuations in our tax-assessed values. And having challenged some of those valuations over time, more so on our commercial side, I can share with you that they actually go through a pretty rigorous process. And so again, this is a public data point that's available. We thought it would be at least worth sharing. But it's important to note that these would represent undiscounted retail values. So these are -- this is sort of a bottoms-up evaluation analysis the county goes through parcel-specific as opposed to thinking about the aggregate. So the other major category of lands outside of ag, which I just described, are urban-zoned lands. And under the old category, we had sort of a larger bucket that included fully entitled as well as in-process entitlement. So we've stripped that out. And what we've got here is 390 acres of fully entitled urban lands. And so Chris had the slide earlier in the presentation that talked about the lengthy entitlement process. These represent lands that have gone through that entire process. But again, we tried to be a little bit thoughtful within this category of how we further stratify buckets to represent appropriate valuation thoughts. So developable on the top would be with full or partial infrastructure, and that's roughly 156 acres. The next category below would be with limited or no infrastructure, and that's -- it's important because depending on use, you could have anywhere between $500,000 to $700,000 per acre in cost in infrastructure to get to a point where you actually would have fully infrastructured salable land that would be representative of some of the sales that we show in the table below. And so the data that we used to provide on our 5-year run rate, again, was really sort of applicable to this top category, and so we thought it made more sense to really highlight that as opposed to having the broader bucket. And then the other, the 20 acres and other are really support lands. So these would be roads and other things that actually have zoning, but where you really couldn't ascribe a whole lot of value. They're similar to -- on a individual basis, they're similar to the support lands in the ag in the sense that they're very important, they're critical to the other valuation components, but on a stand-alone basis don't really get much value. So one way to, sort of, think about this, if you were to look at these prices, if they're more representative of this top line in terms of fully infrastructured, fully entitled lands, this next line, this 214, there's an applicable discount that should be applied. And again, when I talk about the cost of putting infrastructure into that, we sort of think about this is probably somewhere in the range of whatever value we would ascribe to this top, this is probably at -- in the 50% range because you have, again, significant amount of infrastructure that you've got to put in. And I would say for these other lands, similar to the support lands and the ag, we don't ascribe a whole lot of value to them on a stand-alone basis.

So what we try to do in Slide 76 was, again, rather than guide to a number and talk about what we think the appropriate valuation would be for the aggregate of all of those lands, it was -- so just think a little bit more conceptually about the concept of discounting. Chris mentioned how we think about our long-term land strategy, recognizing that to maximize value, it could be a long road for some of these lands. And so we just tried to sort of illustrate what potential discount rates could be, and in this case, it would really be the factor that you would apply to retail value to arrive at a number. And I would say just sort of directionally, the way that we think about it, some of the ag lands probably fall more in this middle range, just given what we think would be an appropriate discount and appropriate run rate in terms of potential sales. And I'd say the urban lands, just given the fact that they've gone through the entitlement process, there is value there, we've been able to monetize those on a shorter time frame, and are probably up in this upper-left-hand quadrant in terms of just, again, thinking about how we think of value with regards to these lands.

Okay. So that was a lot. I'm going to pause and open it up for any questions that you may have.

QUESTIONS AND ANSWERS

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

Probably also worth saying that part of what Jim is going to do is tie all of this together, I think, in the end. So some of the valuation discussion, I think, Jim, you're going to kind of piece it together. So if you have sort of more valuation-related questions, you may want to hear Jim's presentation first.

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

All right.

Unidentified Participant

What were you saying about that discount rate chart where the different land would go in your [appendix] ?

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

So the question was, how are we thinking about this chart on 76 and the discount rates. So Dan, we -- again, just thinking about what applicable discount rates might be, and a run rate in terms of time. And we often get questions about how quickly do we expect to sell lands? What's our timetable? And both Chris and I, I think, spoke appropriately to the fact that we don't look prescriptively at how quickly we will sell or monetize these opportunities. It's really about value. And so if you think of it in that context, it's hard to sort of drive to a number. So this was really intended to be more illustrative in just thinking about the concept of discount, recognizing from our standpoint that public data points are probably ascribing too much value because it's on a undiscounted retail basis, and that when you think about a more logical time frame, these would -- this would be an appropriate way to think about it. So I don't know if I answered the question.

Unidentified Participant

And then you said, like, upper left?

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

Yes, yes, I would say, not so much focusing on the table itself, but more on kind of the way we think about time frame. We have long-term intent with most -- with respect to most of the ag lands. And so whether that long-term ownership by us or if some of it transitions to third-party ownership over time, it's going to be a process of, potentially, decades. I do think though that on the developable land, because most of it is either well into or all the way through the entitlement process, it's much more marketable in the nearer term. So I would think it would not only be potentially to the left or maybe even to the column that doesn't exist, further left in terms of shorter time frame on the developable land.

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

Yes?

Unidentified Participant

What did you say were the infrastructure cost to get it raised full content...

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

So the question was, what were the infrastructure cost to get it ready for developable. The numbers that I threw out were $500,000 to $700,000 per acre. And it really depends. We've had some projects where horizontal cost -- I'd share with you as an example our Ho'okele subdivision intra costs for that were closer to $1 million an acre, so it really depends. But the point there is that there is a substantial investment that typically has to be made to go from sort of that second line to the top line.

Yes?

Unidentified Participant

Just on that value for that cost. Does that include the cost of fully entitling these lands and if not, what is that cost?

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

The question is does that cost include the cost to fully entitle these lands? And if not, what is that cost? So the first part of the question is, it does not. Everything in this category, the 390 acres is fully entitled, so it's already gone through the entire entitlement process. And in terms of what it costs actually to get there, that's probably a more difficult question to answer. It really depends on what you're trying to entitle. We've had projects, our Kamalani development is a primary residential deal in Kihei on Maui. That took us almost 12 years from start to finish to go from ag until we were fully entitled and ready from a zoning standpoint to move forward with the development. The costs were probably somewhere in the -- and I'm just going to sort of throw out a number here, mid- to high-6 figures would be probably a representative example of what it may cause to go through that process, it could be more than that depending on the project and the complexity. But it's harder to ascribe on a per acre basis because it's not necessarily scalable. Some of those costs are fixed irrespective of the size.

Yes?

Unidentified Participant

In the supplement, you provide some comps for the urban sales.

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

Yes.

Unidentified Participant

And I know (inaudible) jumped up 2 quarters ago to 600,000 range and it jumped up to this recent $1.1 million, $1.4 million. Was there any (inaudible) field that is doing that or it's just something (inaudible)...

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

I think the short answer is yes. I'd have to dig into the data to be able to answer specifically what drove it a couple of quarters ago. What I will say is, I do know some of our high numbers, for example, in the 0 to 3, that 4.3 high was a 2012 Q1 sale. And so we typically do a 5-year trailing look-back. And so that would fall off, and so the average would go down. All right.

PRESENTATION

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

So what I'd like to do now is to go over a few items that we haven't touched on today, there are a variety of things, and then close with some thoughts to bring closure on value on the things that have been presented today by Lance and Chris.

First of all, as we've talked about through the entire presentation, we filed -- we refiled our second quarter supplement, which is in the presentation books you have and is also online. We modeled the commercial real estate side, I think, against the best-in-class companies that provide supplemental information. And then also as well, as you've heard today, tried to provide more information around or higher-quality information around materials and construction, land and development. So I hope -- we hope that, that's useful. And by the way, we're always interested in your feedback on things that we may not have provided that you think would be materially important for us to provide, and we'd love to hear that, so always welcome a call. The first thing I'd like to do is just to point out that on Table 8 of the new supplement, we've redesigned the way we do the calculation of NOI to be more consistent with a number of the other, I think, best-in-class REITs. We're now providing cash NOI and same-store cash NOI, removing all the straight lining and noncash items. So I think it provides a more useful operating metric for you all to look at. Nevertheless, if you want to look at it a different way, you can see -- I don't know how to use the pointer but you can see that the various adjustments are all here. So if you want to add some things back, you can do that yourselves. The second thing is, we've talked about ground leases and the value of our ground lease portfolio and how their resets are coming up, in most cases, fairly soon. So on Table 12 of the supplement, we've provided the information on the top-20 ground leases that I hope will be useful to you as well. So there is a couple of things that happen as we get to the end of the year, our first full year of being a REIT, and I wanted to just touch on them as well. The first is, we have something that you may not be familiar with in other companies that you cover, and that's deferred taxes. Since we became a REIT in 2017, the deferred taxes on our balance sheet will be reversed out, the ones that are related to the REIT. So I want to give you little details on that. The balance sheet shown here has deferred taxes of $182.8 million, and the components of that are a $232 million amount related to the REIT, and a negative $49 million that relates to the TRS. And that -- the negative $49 million principally relates to the accounting for the pension fund that we have, which I'll touch on again in a moment. When we finished the year, the deferred taxes related to the REIT, the $232 million that we were showing at June 30 will be reversed, running through the income tax line item in the income statement. So it will increase equity in the balance sheet, will reduce the liability, but as you see here, because the liability becomes negative, it flips to an asset. So at the end of the year, you'll see a reversal of the deferred taxes and the creation of a deferred tax asset instead of a liability.

The other thing that happens at the -- in January of next year is that we make a special distribution, and there are 2 components to the special distribution. The first component is a -- as a result of becoming a REIT in 2017, we have to take our historical earnings and profits and distribute them to our shareholders. And the second piece is that we're going to roll into that distribution the remainder of the dividends for 2017 and our estimated taxable income for 2018. So those 2 pieces will be distributed in January of next year. We filed an S-4 that will be effective this week related to something different, which was the internal merger of some entities in our company. The purpose primarily related to adopting new governance provisions, and that requires a shareholder vote that's going to be in late October. Chris is going to review governance with you in a moment, but I want to point out that the S-4 has in it a pro forma for the distribution that I'm talking about right now. We are electing to make the distribution 80% of the stock and 20% in cash to maintain the quality of our balance sheet. And you'll see in the S-4, pro forma for this distribution, our debt to EBITDA increases from 4.6x to 5.6x based on the financials at June 30 of this year. So a lot of factors determine the mechanics around the distribution and we're not in control of some of those, the New York Stock Exchange is. As we get clarification from the exchange on the mechanics of distribution, we'll come back to you later this year to explain that.

So related to the pension fund, it's something that we have that I don't think you've probably seen in REITs generally, so the message that we've gotten from is that, I think, you'd like us to simplify some of these things that are not typical for REITs. So we've been looking at the pension fund, looking at ways to simplify it. We have a really good tax team at A&B, and they put their heads together and built some mechanics around how we might fund the deficit that we have in our qualified pension plan, and do that in a tax-efficient measure. So tomorrow, we're putting $48 million into the qualified plans. And because of this really excellent tax work that we had done internally, our after-tax cost will be about $22 million or just $0.47 on the dollar after tax.

I'd like to note that because tax is so important to us to manage the leakage from the company, we recently brought in a former PwC tax partner from San Francisco, a fellow named Kevin Nishioka, to be the new head of our tax department.

So let me wrap up some thoughts on valuation and just summarize what I hope that you heard today and will take away with you. So this is what, I think, we talked about today. In speaking about the commercial real estate portfolio, our new supplement provides a trailing 12-month cash NOI along with the pro forma adjustment in the footnotes that would give you the ability to calculate our run rate cash NOI pro forma for any acquisitions or newly opened properties. Lance spoke to cap rates, and I hope you garnered from that discussion that we would be leading you to a low-5% cap rate for the commercial real estate portfolio. And in our minds, that would be something like an 8% type of cap rate for our Mainland assets and maybe something in the 3s for the highly secured ground leases that we have, in part because the ground leases in many cases reset in the near future. So they should garner a very low cap rate relative to the owned real estate. Regarding our development and process for our commercial portfolio, our supplement gives you cost-to-date, total cost and an expected NOI contribution, and I would hope that you could cap those NOIs at a very low number, considering that, in some cases, they're almost complete and also that they will be largely leased or almost -- and -- or fully leased by the time they open. With regard to materials construction, I showed you the breakout between materials and specialty construction, gave you indication of trading -- EBITDA multiples without takeover premiums, and I'll direct you to the supplement again for a trailing 12-month EBITDA. Lance guided you to a discounted cash flow approach for shorter-term, nearer-term development for sale properties and to book value for longer-hold properties. Again, the book value related to the difficulty that you might have doing a long discounted cash flow, especially when the activities that we're going to be undertaking are kind of lumpy. They might include individual sales or they might include larger bulk sales of sites for development to other developers. Lance also gave you an indication of the values for the higher-use land and for the agricultural land, each at a retail valuation and then provided some sense of time in -- the time/value impact in realizing those values. And again, I think it's important to note that, that time/value impact is something that we look at, but it would be something that somebody else, a third party, looking at the property's values might look out as well. So it's an important consideration in looking at the overall value over the portfolio of those agricultural and higher-use lands. Of course, I just emphasize that these -- what I've just gone through are static values, and I hope what you are also garnering from today is the management team that can create additional value. I think that the team is in my -- from my perspective, is a -- personally -- I was just looking at the calendar, I've been here 2 months and 2 days now. So in my 2 months and 2 days at the company, I've seen a really highly dedicated, highly skilled, hard-working group of people managing the opportunities that we have in Hawaii. And I think that if you're going to take a look and want an exposure to Hawaii, I think we have all the parts that collectively can provide the hardest defined piece in the markets today, which is the alpha that everybody is seeking. With that, let me open up again for questions and -- yes?

QUESTIONS AND ANSWERS

Unidentified Participant

So the distribution in January includes 2018 income. So there will be no further distribution in 2018?

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

Correct. We're going to be on an ordinary dividend payment schedule beginning in 2019. And again, we're ramping those 2 together, the dividend and the purge amount, the E&P purge amount so that we can maintain quality of our balance sheet, which we think is very important for us to do.

Unidentified Participant

So (inaudible) question on that. The 20% cash number, is that a taxable or is that a choice you can make?

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

So there is some historical precedent of REITs being permitted by the IRS to do a maximum of 80% stock and 20% cash. We have a private letter ruling, enabling us to do this distribution 80-20. There is also some recent IRS work that has been done that is leading toward, I think, I'm not the tax person, an ability for REITs to do 80-20 without getting a private letter ruling, but we have a private letter ruling enabling us to do that.

Unidentified Participant

And going back to -- on a weighted-average price earlier. You're saying that the high of $4.2 million was inflated. What would be more like a uninflated value? [Which one's more risk?]

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

For -- I'm sorry, for which assets?

Unidentified Participant

For urban land.

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

So for urban land, what would be the more appropriate valuation for urban land. I'll turn that over to my urban land expert.

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

So we give a low, we give a high. And we give a weighted average. I think the weighted average clearly is more representative than the high would be. My comment to the high was simply that, that was a -- just about 5-year comp that really is truly a high point, so it will drive a little bit of lift in the overall weighted average than you would expect to see go down, if not in the next quarter's supplement, probably the one thereafter.

Unidentified Participant

How much, like, roughly aside, drag it up versus [what it will?] What would that be like?

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

I'd have to go back to look at the numbers. I couldn't answer it off hand, sorry.

Unidentified Participant

So in Materials & Construction, I think you said Florida has a very good tax basis. So selling it probably isn't an option. And I think you mentioned that spinning it to shareholders is possible starting in 2020, is that right?

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

So yes, I've had -- so the question is, what are the options should we ever want to get -- sell the Materials & Construction business. Is that what your question is?

Unidentified Participant

Well I guess not necessarily sell. Do you see any shareholders or sell or whether -- if you decide to pursue some kind of strategic alternatives.

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

Right. So I just wanted to emphasize, I think, it's an important component of the company so long as we have development in the company that we need to fund. But in a hypothetical sense, I did some tax work to look at the -- I did some -- my -- the tax team did some tax work to look at some of the options. And the options for that business are no different than any other business that any company would own. You can sell it, spin it, spin merger, all a variety of things, but you'd have to have, obviously, some careful tax planning to avoid significant leakage. And if we get to the point where that's a strategic priority for us, we'll be working on it diligently to make sure we can do it in a tax-effective manner. I think that's all I have to say. We don't want to add anything.

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

No, I'd just add that you're right that -- because our conversion is effective 1/1/17, then technically, 1/1/20, we would be -- assuming that the tax laws don't change again, we would be eligible to do a tax re-spin of the business if that were the strategy we wanted to pursue.

Unidentified Participant

I got a question on your chart on 79, on the cash NOI. You had some (inaudible) CapEx. (inaudible) costs were roughly 20% to 25% of the cash NOI. Is that something that you expect just on a quarter-by-quarter basis?

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

So you're -- were you looking at these down here?

Unidentified Participant

Yes.

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

Again, you need to look at, sort of, a rolling 4 quarter average to really get a sense for the percentage of maintenance to NOI or revenues. Do you want to add anything to this?

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

No, I think that's the appropriate way to think about it. As an example, we talked about the Pearl Highlands, a portion of what we're calling effectively redevelopment or repositioning capital was tenant improvement numbers that went toward Regal Cinema. And so that was an outsized amount of improvements in $3 million that -- So I think a longer-term perspective is more appropriate, you may see a bump if there's a deal like that.

Unidentified Participant

You didn't answer my question. (inaudible), 10%, 15%?

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

So I have an answer, but it's a -- but I -- I mean, what we had seen when we looked at longer term is sort of the 12% to 15% range. And my understanding in working with -- in our work with Green Street is that 15% was more typical for a Mainland retail company. Now of course, these numbers also blend industrial into it. So we'd have to break that out to give to you the real numbers. Okay. Well, thanks, and I'll turn it over to Chris for his closing remarks.

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

Thank you, Jim and Lance. And so in closing, I want to start -- I want preface my closing remarks by talking a little bit about the DNA of A&B. One of the things that makes me very proud to be CEO of this company is that the company takes very seriously its commitment to the community, its commitment to shareholders, its commitment to its employees. And I think that, that shows up in a lot of ways, a few ways that I'll talk about right now. But as we approached the -- really our whole strategic evolution and most recently our REIT conversion, we wanted to make sure that we were taking steps that were appropriate on behalf of our shareholders.

One of the things I often like to say is that you don't get to be 147-year old the company in Hawaii, a small place like Hawaii, if you don't operate with integrity and if you don't think about the impact of your actions. And it's similar with respect to our view of governance. We've always been a relatively straightforward -- we haven't been, sort of, pushing the edges of the envelope with respect to our governance. But as we move into the REIT space, as many or all of you know, governance within the REIT space, the REIT sector tends to be particularly, sort of, monitored and fairly rigid. If you could give me the next slide, thank you. And so we're taking some steps, as part of our holding company merger, to enhance our governance practices.

The first thing that we are doing is, we are putting in place certain rules to help ensure the long-term compliance with some of the REIT ownership and transfer restrictions that exist within the REIT space. So that's some of the more technical mechanics of our holding company merger. But we're taking advantage of this holding company merger and the S-4 also to amend our articles and bylaws to declassify our board, institute majority voting and take other actions that are generally more shareholder friendly. Again, not that we were outliers, probably the classification of our board was maybe the thing we got the most questions about, but we're moving away from that to a declassified board.

We're remaining incorporated in Hawaii, which is important to us as a Hawaii-based company. It's important to you because we're not incorporated in Maryland. So there are no MUTA-like provisions that would be of a concern to you. We've also taken steps, obviously, with the addition of Jim on the management team, Kevin who he just mentioned of the tax team and other management positions that we've hired, Leslie Brown in leasing, to really beef up our commercial real estate and REIT expertise within the company. And on the board, we've recently added Tom Lewis, who is retired CEO -- longtime CEO of Realty Income, very successful REIT CEO, who's now on our board and very fortunate to have Tom added to the team. So we're taking very seriously the responsibility to our shareholders.

We're also taking very seriously our responsibility to the community and the environment. We have a long history of focus on sustainability. We have been very committed to land stewardship practices. We were a founding member of the Watershed Partnerships in Maui and Kauai. We have partnered with The Nature Conservancy over the last quarter century to manage a number of our acres in the conservation districts where we own land. We have been a significant investor in renewable energy in recent years. Actually, our investments in renewable energy go back to 1906 when we developed Hawaii's first hydroelectric plant.

But more recently, we've been a leading investor in solar farms in Hawaii. We're undertaking various environmental initiatives within our commercial real estate portfolio to look at efficiency and renewable generation of energy. So these are all things that are, again, very consistent with the DNA that I referred to earlier. And then, finally, on the social or community side, we're very committed to the community, and this is really the legacy of our founders. We support organizations throughout Hawaii. We feel it's very important and ultimately beneficial to not just the community but to our employees and to the company and our shareholders that we undertake these kinds of activities, and it really helps enhance and strengthen our relationships in Hawaii. So last slide now, and I appreciate your patience, I appreciate your interest in the company.

And I want to talk a little bit about where we've come and where we're going. And this is kind of going back to where I started. We're going through a strategic evolution. A lot of the focus of late has been on our REIT conversion. But really the REIT conversion is just the latest step and just one step in our evolution as a company. We have taken a number of steps over the last several years, beginning with the separation from Matson, the spin-off of the shipping business, then moving on to the repatriation of our capital to Hawaii, our significant investments within Hawaii, and the success of those investments and those dispositions on the Mainland in helping us refocus ourselves in Hawaii and on commercial real estate, in particular.

So we've made great progress, and I'm proud of that progress, but we're by no means done. The evolution continues. We're not a perfect REIT. We have a lot of non-REIT components in our TRS. We've talked about those today. We're focused on continuing the migration and the transition to a more pure REIT, and we're making the necessary strategic operational, financial and governance changes to do that. But we have very valuable non-REIT assets that we have to be thoughtful about how we migrate. I want to go back to the DNA referenced a minute ago.

One of the things that's in our DNA is we tend to be very conservative in our investor communications. So we've gone to great lengths today to sort of caveat and qualify the pace at which we may continue to make this migration of some of these non-REIT assets into REIT assets. I don't want you to confuse that with a lack of focus on those initiatives. The conservatism of our disclosures and our qualification of the pace at which that might happen is simply to make it clear that we're going to be focused on doing it at the right pace. But to the extent that we can be monetizing these development assets and migrating some of that capital, you can rest assured that we're going to be very focused on it, and we're going to be making that happen as quickly as we can, but not at the expense of value and value creation. So it's a delicate balance.

I just want to make it clear that I don't want you to interpret anything we said today as a lack of desire or intent, it's simply a qualification of the unpredictability of the pace at which we'll do that. So in closing, I said I'm proud to be the CEO of A&B for many reasons, but for none more so than the quality of our team and the execution that that team has shown over the last several years. And I believe will continue to show as we go forward. You've seen a small sampling of our team today. Those of you who've been to Hawaii have met a lot more of our team. But they're focused on all the right things, and I think we're going to make tremendous progress in the years to come. And I appreciate you taking time to learn about our plans, and we'll keep you posted on our progress. With that, I'd be happy to take any remaining questions. All right. Seeing none, I thank you, again, for participating today.