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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Alexander & Baldwin Second Quarter 2019 Earnings Call. (Operator Instructions) As a reminder, this conference call is being recorded. I would now like to introduce your host for today's conference, Mr. Kenny Kan, Vice President of Capital Markets.

Kenneth W.K. Kan ***Alexander & Baldwin, Inc. - VP of Capital Markets & Treasurer***

Thank you. Aloha, and welcome to our call to discuss Alexander & Baldwin's 2019 Second Quarter Earnings. With me today are our President and CEO, Chris Benjamin, and Brett Brown, our CFO. We are also joined by Lance Parker, our Chief Real Estate Officer, and Clayton Chun, our Chief Accounting Officer, who will participate in the Q&A portion of the call.

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

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

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

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

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

Thanks, Kenny, and good afternoon to our listeners. Once again, I'm very proud of the results we've produced in our core Commercial Real Estate segment. In the second quarter, 2019, we generated a remarkable 20.4% increase in cash net operating income or NOI compared to the same quarter last year. The largest drivers of this increase were the purchases in late 2018 and early 2019 of 6 Hawaii commercial assets and ground leases with proceeds from the sale of non-income producing agricultural lands. This was an important step in the process of simplifying the company and making it easier to value as we converted non-income producing land to income generating commercial properties.

The 6 assets we purchased are in the Company's preferred asset classes and collectively will produce roughly $14.4 million of annualized NOI once they are fully stabilized next year. This year, based on the timing of when we acquired them, they will generate approximately $9.6 million of NOI and help us eclipse the $100 million NOI mark for the first time. That figure, more than $100 million of Hawaii generated NOI, compares to just $26.7 million of Hawaii NOI in 2012. We have nearly quadrupled our Hawaii generated NOI in just 7 years, really a remarkable achievement.

Contributing to the growth in NOI over that time has been consistently strong same-store NOI growth and this continued in the second quarter. We saw an increase of 6.1% in same-store NOI compared to the second quarter of 2018, while leasing spreads in the quarter were a strong 7.5%. These figures were driven by economic occupancy of Ulta and Guitar Center at Pearl Highlands and continued strong performance in our Kailua Retail portfolio including another Ulta store there. Results are similarly strong for the year-to-date. Total cash NOI is up 15.9% compared to the first half of 2018 and same-store cash NOI has increased 6.9% year-to-date. With this strong performance in the first half and our outlook for the rest of the year, we are adjusting our 2019 full year same-store cash NOI guidance to between 4.5% and 5.5%, an increase of 200 basis points. While also increasing our 2019 leasing spread guidance to between 5.5% and 6.5%, a 100-basis point increase.

We've also announced today a sizable increase in our quarterly dividend due to better than expected growth in REIT taxable income. Our board today approved a third quarter dividend of $0.19 per share, an increase of 15.2% from our second quarter dividend and an increase of 31% from our first quarter dividend. As a reminder, our practice is to target a distribution of 100% of our REIT taxable income each year. As this number grows, we are being proactive in adjusting the quarterly dividend so that we can get as close as possible to our full year distribution goal by yearend and have a dividend level we can sustain in future years.

I'll now shed some more light on the activities that are behind our strong Commercial Real Estate performance. On our last call, I described the types of assets we were acquiring with the Maui Agricultural Land Sale proceeds. But we hadn't yet announced or closed on the last 2 assets. In total the investments included 2 Class A industrial properties, 2 ground leases, and our final 2 acquisitions which were 2 grocery-anchored centers, one located on Kauai and one on Hawaii Island.

These retail assets complement our existing retail portfolio and move us closer to our goal of having centers located in virtually all regions of the state so that we can offer tenants multiple locations for their Hawaii expansion or entry needs.

On May 16th, we closed on the $17.8 million off market acquisition of the Waipouli Town Center which is located in Kapaa, Kauai. As noted, the purchase of the 57,000 square foot grocery anchored center utilized 1031 proceeds from the Maui Agricultural Land Sale that closed in December, 2018. Waipouli Town Center complements our existing grocery anchored portfolio and increases our geographic coverage on Kauai as we now have a grocery anchored center in the Kapaa region, the most populous town on Kauai with a population of nearly 11,000 people. In addition to having a large resident population, Kapaa is a popular tourist destination and lies on the main northbound highway on Kauai, just 7 miles from the main airport in Lihue.

Essentially there are 2 highways on Kauai and when you leave the airport you can either go north or west. Regardless of which way you choose, you will now come across one of our centers before long. Waipouli has an excellent tenant mix including a 30,500 square foot Foodland Grocery Store and other needs based retailers and occupancy just shy of 94%.

Our final and largest acquisition with the Maui Land proceeds was the Queens' MarketPlace, a Class A, grocery-anchored retail center on the Kohala coast of the big island, also known as Hawaii Island. We closed on this purchase on May 22nd for $90 million. The 135,000 square foot center was built in 2007 and is located 24 miles north of our Lanihau Marketplace asset in Kona. Queens' MarketPlace is a high performing center with an outstanding tenant mix including a gourmet grocery store, movie theater and a diverse selection of dining and retail options that appeal to both local residents and visitors. Like our other resort center, the Shops at Kukui'ula, Queens' MarketPlace is heavily utilized by local residents. And while it benefits from resort traffic, it is not wholly dependent on it. We are excited to add this beautiful center to our portfolio.

These 6 acquisitions using 1031 funds not only boost our NOI, but they increase the efficiency with which we operate in Hawaii. I'm very pleased with the way our property management, leasing, asset management and development teams, all fully in-house now, are functioning and improving our efficiently and results. We're seeing the benefits of being able to do multiple leases with tenants that are just entering Hawaii for the first time and helping our existing tenants expand their Hawaii presence.

We talk often about the fact that we are landlord to 3 of Ulta's 4 Hawaii stores and we're working on multi-location deals with other new tenants. As the largest owner of grocery-anchored centers in Hawaii, we can offer the one stop shopping that many retailers are looking for.

We've made a lot of strategic decisions over the past several years, and one of them was to concentrate most of our acquisition activity on Oahu. Historically we had not had land on Oahu, but it is the major population center of the state. The neighbor islands are still critically important to our success and the statewide positioning I just described, but I'm quite proud that we have achieved a portfolio balance that is so closely aligned with the balance of economic activity in the state as shown by this slide. If you compare island by island gross domestic product to A&B NOI, you can see what a great job our acquisitions team has done in executing this particular element of our strategy. We haven't just been buying Hawaii assets, we've been building a thoughtful and complementary portfolio.

Beyond acquisitions, we are also extremely pleased with the strong performance of the existing portfolio. As mentioned earlier, in the second quarter of 2019, same-store NOI increased 6.1% from the second quarter of 2018 and leasing spreads were 7.5% in the quarter. A significant driver of this performance was Pearl Highlands Center where we recorded a 16% year-over-year increase in cash NOI thanks to the addition of Ulta, Guitar Center and the reopening of the renovated Food Court. Kailua Retail also performed well, with the opening of Lau Hala Shops which of course is not included in same-store numbers. Our Kailua portfolio produced a 15% year-over-year increase in total cash NOI.

As mentioned earlier, with the strong performance in our same-store portfolio and outlook for the remainder of the year, we did increase our same-store NOI guidance by 200 basis points and are now projecting between 4.5% and 5.5% growth for the year. The reason this range is not higher despite the year-to-date 6.9% increase we've logged, is that some of the leases that fueled our year-to-date improvement commenced in the third quarter of last year, so we lose the year-over-year impact in this year's third quarter. We expect third quarter same-store NOI growth to be roughly 3% followed by a stronger fourth quarter. This is all based on the timing of lease commencements in 2018 and 2019. Overall, we've very pleased by the trajectory of our NOI.

In the second quarter we executed 53 leases covering 208,000 square feet of gross leasable area. As I mentioned, leasing spreads in the second quarter were 7.5% portfolio-wide and they were 7.8% within the retail portfolio. On a year-to-date basis, leasing spreads portfolio-wide stand at 8.6% as a result of strong performance in the Kailua retail portfolio including Aikahi Park Shopping Center which had 6 executed leases in the second quarter. We also had notable leasing activity at Kakaako Commerce Center with 13 executed leases in the second quarter. As mentioned earlier, we are increasing our leasing spread guidance to 5.5% to 6.5%, an increase of 100 basis points from our previous guidance.

Portfolio-wide occupancy increased to 94.7% at the end of the second quarter, which was an increase of 260 basis points from the second quarter of last year. Contributing to this increase was the successful repositioning of Pearl Highlands Center, which drew several new national tenants to the center. The center is now 100% leased and we expect our last tenant, Roger Dunn Golf, to be economic by yearend. Laulani Village and Waipio Shopping Center both experienced significant occupancy gains with new tenants including restaurants and service options for the respective communities, bringing occupancy above 98% at both of these grocery-anchored centers.

Continued industrial demand resulted in increased occupancy at our Komohana Industrial Park and Kakaako Commerce Center. I should note that we expect some moderation in our reported occupancy numbers in future quarters as two newly developed centers, Pu'unene and Ho'okele will be added to the portfolio before achieving full stabilization. This is a normal pattern with development assets. Recall that even though we purchased Pu'unene and did not build it from the ground up, it was still under construction when we acquired it and continues to be in lease up mode.

Shifting now to our development and redevelopment projects, Lau Hala Shops, the redeveloped Macy's in Kailua, is fully leased with several tenants open including the restaurants, some in-line shops and the UFC Gym. The remaining spaces are fully leased and the 15,000 square foot Down to Earth, a locally based organic grocery store, will hold its grand opening next week. We anticipate that the remaining 3 in-line retail spaces will open by the end of the year and the Center will be fully occupied.

At the nearby Aikahi Park Shopping Center in Kailua, we have just approved and announced an $18 million repositioning plan for the property which includes the conversion of unused theater space to meet the specifications of an existing Aikahi tenant that wants to expand at the center. The theater space was vacant when we bought the center and repurposing the space is an exciting opportunity for us. It opens up the tenant's current space for other tenant demand. We also will be doing a general refresh of the center, adding outdoor gathering places and addressing some deferred maintenance issues. With the improvements, we anticipate greater tenant interest in the center which will facilitate new leasing opportunities while improving the shopping experience and making the center a community gathering place.

We anticipate commencing this project by the end of the year and completing the renovation in mid-2021. The renovation project is projected to generate a 9% yield when stabilized.

Moving now to ground-up development, I'm pleased to say that the Safeway store at phase 1 of our Ho'okele development on Maui opened last week, 2 months ahead of schedule. The 71,000 square foot first phase is almost complete. The Safeway gas station is scheduled to open at the end of the month and the remaining in-line spaces are scheduled to be completed in the third quarter. The 23,000 square foot second phase of Ho'okele will commence as leases are in place. The total projected cost for the project is estimated to be $41.9 million. When complete, we anticipate generating NOI of between $3.1 million and $3.6 million for a stabilized yield of 7.4% to 8.6%.

Moving to Land Operations now, we continue to work through the monetization of land and development for sale projects as we work toward our goal of becoming a focused commercial real estate company. In the second quarter, we closed out of the final 22 units in our Kamalani Increment 1 residential housing development project on Maui. This project has delivered 170 workforce housing units to the Maui community, satisfied the Affordable Housing requirements for the subsequent increments of Kamalani, and generated 55 additional affordable housing credits. While we don't anticipate building out the subdivision increments, I'm sorry, the subsequent increments of the project, we will seek a qualified home builder to take over the project or partner with us. Land Operations proceeds for the quarter also included lot sales from our Kahala and Maui Business Park projects.

At our Kukui'ula joint venture on Kauai, sales activity is outpacing last year's results which were the highest annual sales the project has seen in over a decade. The current pace of sales importantly is enabling the project to be self-funding and we have not had to write a subsidy check in over a year. We've made good progress in pulling capital out of development for sale projects and focusing our new development capital on development for hold. In the past year, we have closed out of 4 development for sale projects, Ka Milo, Keala O Wailea, The Collection and Kamalani Increment 1. We continue to sell through inventory at our Maui Business Park project where demand seems strong. We have just 3 contiguous lots left in Kahala and of course we have Kukui'ula where we will continue to capitalize on the current favorable momentum. Brett will talk about the benefits that our monetization efforts have had on our balance sheet as we continue to pay down debt.

Shifting now to Materials & Construction, for the second quarter Grace Pacific continued to underperform and the segment produced adjusted EBITDA of negative $900,000 as compared to a positive $6.2 million for the second quarter last year. The challenges we faced in the quarter were due primarily to a combination of delays in contracted government work and low margin paving backlog that we are working through. We are seeing an uptick in sales from the quarry and hot mix asphalt businesses, although not enough to offset the losses in the quarter from paving operations. I'm encouraged by the foundational steps our new leadership at Grace is taking to assess and reform the business, but I cannot predict how long it will take to produce a meaningful turnaround in performance. We are looking at the best ways to manage costs in the face of a very challenging competitive and market environment.

Meanwhile, we continue to work with a financial advisor and are evaluating strategic options for the business including a possible sale. We have not reached a conclusion regarding when we might sell the business and won't make that decision until we've gotten feedback from the marketing process later this year. We do recognize that we're not the optimal long-term owner of a paving and aggregate operation and that our REIT story will be cleaner once we've transitioned out of it. But we have to be mindful of the valuation considerations.

I now want to turn the call over to Brett to cover financial matters, but before I do, let me just say how happy I am to have him on the team. It's surprising to me to realize that this is his first A&B earnings call because he started almost 3 months ago and we've been to REIT Week and ICSC and frankly met with most of you at least once in that timeframe. But this is in fact his first earnings call and I'm happy to have him on the team and happy to hand it over to him.

Brett A. Brown ***Alexander & Baldwin, Inc. - Executive VP & CFO***

Thanks, Chris, and good afternoon, everyone. Before diving into quarter's activities, I just want to say how pleased I am to be a part of the A&B team and I'm enjoying working with everyone here at the company. It's a great opportunity and I'm happy to be here. First, I'll start with a recap of our Commercial Real Estate or CRE segment operating performance. Revenues were up 15.7% or $5.3 million over the prior year quarter. Total portfolio cash NOI increased $4.3 million or 20.4% for the second quarter of 2019 compared to the same period last year, primarily due to new acquisitions as part of the Maui Ag Land Sale 1031 Reinvestment proceeds. Outstanding performance at Pearl Highlands Center, Kailua retail and the stabilization of the TRC assets acquired in early 2018. The CRE portfolio ended the second quarter with occupancy at 94.7%.

Our same-store portfolio performed extremely well, increasing cash NOI by $1.1 million or 6.1% during the second quarter of 2019 compared to the same period last year. Occupancy in the same-store portfolio increased 170 basis points ending at 93.7% compared with 92% at second quarter end of last year, primarily due to strong leasing activity including early rent commencements dates for Guitar Center and Ulta at Pearl Highlands Center and other new tenants taking occupancy at the aforementioned center, plus at Laulani Village Shopping Center and Waipio Shopping Center.

As Chris alluded to, bringing the functions of leasing, development and tenant coordination in-house has improved our tenanting process and enables such early rent commencement dates like Guitar Center. Leasing spreads for comparable leases during the quarter in the total Commercial Real Estate portfolio were 7.5%, which is comprised of new lease rental rate increases of 12.1% and renewal rental rate increases of 6.8%. Primary drivers were strong renewal leases which comprised 10 of the 12 largest lease spread deals in the quarter between 9.7% and 32.5%. 2 new leases of the 12 largest lease spread deals in the quarter had an average lease spread of 25.8%. Year-to-date, revenues are up $6.9 million or 10% to $75.9 million. Total portfolio cash NOI increased by 15.9% or $6.8 million to $49.5 million, primarily driven by NOI from 1031 reinvestment acquisitions and strong same-store performance. Cash same-store NOI for the first half of 2019 increased nicely by $2.5 million or 6.9% to $39.8 million. As Chris mentioned, we're expecting the third quarter of 2019 to be below our new guidance range due to prior year comps in which we had some larger tenants taking occupancy in the third quarter of 2018. But as noted, we expect a strong fourth quarter of 2019 to keep us in the range of our full year guidance.

To recap Chris' earlier comments, we have invested all of the Maui Agricultural Land Sale proceeds as of May 22nd, one month before the mid-June 1031 deadline and at higher cap rates than originally expected. At stabilization we are projecting an NOI of approximately $14.4 million per year which represents an average cap rate of 5.6%. With the reduction in holding cost savings of the Maui Agricultural Lands of about $8 million per year, this should result in additional EBITDA of approximately $22.4 million per year once our acquisitions are stabilized and our obligations are completed on Maui.

Moving on to our Land Operations segment, this business unit produced revenue $24.9 million in the second quarter of 2019 as a result of sales and distributions related to land and development for sale projects resulting in EBITDA of $900,000 in the quarter and of $13.9 million year-to-date. Activity for the second quarter includes the $16.9 million of cash generated from the closing of 22 units at Kamalani for $8.5 million, and $8.4 million generated from our Kahala and Maui Business Park projects.

Results from our Materials & Construction segments were driven by our Grace Pacific subsidiary. In the second quarter, Grace adjusted EBITDA was negative $900,000 compared to a positive $6.2 million in the second quarter of last year. As Chris discussed earlier, performance in the second quarter suffered as a result of delays in government contracted work and low margin work. We continue to implement improvement plans under our new President at Grace and will report on progress in future quarters.

In the consolidated financial statements, operating revenue for the second quarter of 2019 was $109 million, a $3 million or 2.7% decrease compared to the second quarter of 2018. While revenues were up in our CRE and Land Ops businesses, performance in our Materials & Construction fell behind last year, pulling overall revenue figures down. Cost of operations decreased $300,000 from the second quarter of 2018 due to lower operating expenses in the Materials & Construction segment which decreased 13.8%.

Selling and G&A expenses were $16.2 million in the second quarter of 2019 compared to $15.1 million in the second quarter of 2018, an increase of 7.3%, as a result of bringing the leasing function in-house which has resulted in lower leasing commissions as well as one-time advisory consulting fees at Grace Pacific relating to exploring the strategic options for the business. All of this activity generated a net loss of $800,000 in the second quarter of 2019 compared with net income of $2.5 million in the second quarter of 2018. The large variance to last year is primarily the result of nonrecurring asset sales in the first quarter of 2018 as we executed our strategic plan to become a Hawaii-focused real estate company.

In this low interest rate environment, we are exploring the available opportunities to assure we have as efficient a capital stack as possible while maintaining the flexibility to execute our simplification plan. In the quarter, we reduced our debt by $47.3 million, primarily from asset sales and a federal tax refund resulting in available borrowing capacity of $340 million on our $450 million revolving credit facility.

At the end of the second quarter 2019, our debt to total market capitalization was 30.4% and fixed charge coverage was 6.5x. Net debt to EBITDA was 2.9x for the quarter, however, this includes the nonrecurring Maui Land Sale transaction at the end of 2018 and early 2019. As such, net debt to EBITDA on an adjusted basis is in the mid 7s range when looking at just the core CRE business. As we execute our simplification plan, the sale of our non CRE assets and the use of after-tax proceeds to pay down debt should result in net debt to EBITDA commensurate with our REIT peers. We have a well-laddered debt maturity schedule with only $55.6 million maturing over the next 2 years. 77.8% of our debt is at fixed rates and the fixed rate debt has a weighted average interest rate of 4.43%. As of June 30, 2019, unencumbered CRE assets were more than $1.1 billion or 75% of the total CRE property book value of nearly $1.5 billion.

Last quarter we updated our guidance for the Commercial Real Estate segment for same-store cash NOI to grow in the range of 2.5% to 3.5%. As Chris mentioned, given the strong results in the second quarter and our outlook for the rest of the year, we feel confident increasing our full year same-store cash NOI guidance by 200 basis points to a range of 4.5% to 5.5%. As well, we provided leasing spread guidance in the range of 4.5% to 5.5%. After another strong quarter of leasing activity and with the outlook for the remainder of the year, we are increasing our leasing spread guidance to a range of 5.5% to 6.5%, a 100-basis point increase to previous guidance.

We are affirming our Maintenance CapEx guidance to $11 million for 2019, as we spent $3.2 million during the second quarter and a total of $6.6 million year-to-date. We are reiterating our guidance of $30 million in growth CapEx for the year. For the second quarter of the year, we spent $5.5 million, primarily for construction of Ho'okele Shopping Center, for a total of $17.2 million during the first half of the year.

Our acquisition volume guidance of approximately $220 million for the year was achieved as we executed on the acquisition of the final 2 assets as part of the Maui Agricultural Land sale proceeds in May. Our dividend philosophy is to distribute an amount that approximates REIT taxable income. We declared a $0.19 per share dividend for the third quarter which represents a $0.025 or 15.2% increase over our second quarter dividend of $0.165, reflecting our strong year-to-date and forecasted full year REIT earnings as a result of higher same-store NOI performance as well as higher than expected NOI from 1031 exchanges.

With that, I'll turn the call back to Chris for closing remarks.

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

Thanks, Brett. In closing I want to provide a few thoughts about A&B's strategic transformation. I'm very proud of what we've accomplished in recent years, much of which we've talked about today and is evident in the real estate numbers we're producing. I'm also cognizant, however, of the fact that we have some unfinished business as we seek to simplify our story further and make the company easier to understand and value. We're in the midst of a highly productive strategic planning process and are charting the course for further simplification and value creation. I look forward to sharing elements of that plan with you later this year and I'm appreciative of the enthusiasm with which our team is embracing the opportunities we have in front of us. With that, we will open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Sheila McGrath with Evercore. Your line is open.

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

Chris, in your prepared remarks you mentioned targeting a certain dividend level by yearend. I don't recall what that was. Is there a specific number that you had previously outlined?

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

No, sorry for any confusion on that. So first of all, our dividend policy is that we want to pay out 100% of our REIT taxable income. Because we've had such a dramatic increase in NOI and therefore REIT taxable income this year, what we were trying to do is make sure that we ramp up the dividend in such a way that we pay out the full REIT taxable income this year, but don't have to in the fourth quarter take the dividend to a level that we can't sustain going forward. So we have internal calculations of what our REIT taxable income will be and we're hopeful that with the $0.19 dividend this quarter and hopefully keeping it at that level for the fourth quarter, we will distribute if not all, at least the vast majority of our REIT taxable income through those dividends. So that's really what we're trying to communicate. We don't want to leave too much for the fourth quarter and have to catch up and then take the dividend to a level that we can't sustain going forward.

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

Got it, thanks. And then on Kukui'ula, the sales volume picking up is good news and the fact that it's self-funding. Does that make you want to hold this asset for longer term, or are you still looking at strategic partners for that asset as well?

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

The nice thing, Sheila, this is Chris, is that it gives us some flexibility to be a little bit more patient. But I would say that our long-term intent continues to be that we would look to transition out of ownership of the asset. But we don't feel a great sense of urgency there just because we're not having to put capital into it, sales activity is good. For the first time we have serious interest in parcels, so builder parcels of many acres, 10, 20, 30 acres, so we've got some interest there. Plus, we're selling lots at a good pace. So just to recap, nothing has changed with our longer-term intent but we do feel that we've got the ability to be patient, let the project continue to monetize naturally, and then look for opportunities in the future to sell out of it when they present themselves.

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

Okay. And then I think you've closed all the 1031 acquisitions. I just wondered, are you -- do you have any additional acquisitions in the pipeline? And when you think about your target leverage level, how much wiggle room do you have to acquire additional assets without having to tap the equity markets?

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

Let me start, this is Chris again, let me start with a general response and then if either Lance or Brett want to jump in, they can. So the general answer would be that first of all, yes, we have placed all the 1031 proceeds from the Maui Ag Land sale last December. As we sell any additional REIT assets that qualify for 1031 Exchange, and we do still have some ag land that would fit that bill, but we don't necessarily anticipate any sales in the near term, but if and when we do have sales that qualify for reinvestment, we certainly would look to invest there. Given where our balance sheet is now, and some of the comments that Brett made about the fact that we would like to bring our leverage down, we don't anticipate using our balance sheet in the near term for additional commercial real estate acquisitions. So the very near-term outlook is that we'll probably be relatively quiet on the acquisition front until and unless we have more 1031 eligible sales. We will focus on continuing to monetize assets to bring down our leverage and then once we've done that and we've simplified the story more, we would hope that through a combination of some dry powder on our balance sheet as well as improving stock performance through greater simplification, we'll have the ability in the future to access the equity markets, but also have more dry powder to use debt for acquisitions. So I'd say probably relatively quiet on the acquisition front for the balance of this year and into the first part of next year. But as we de-lever and as we get our stock price to where we hope we can get it, we'll have a little bit more flexibility and capital for continued growth.

Operator

Thank you. (Operator Instructions). Our next question comes from Steve O'Hara with Sidoti. Your line is open.

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

Hi, good afternoon. How are you? Just curious about along the lines of this simplification and things like that, I guess I'm, within the real estate supplement, there's the table with the land holdings and things like that. I'm wondering if there is a way to get better granular detail in terms of which of those lands are 1031 eligible, which of them are -- maybe a little bit better location details, things like that, to get a better estimate of the -- so the total value in that portfolio, I mean it seems like some of the pieces are fairly new value, that would seem like a very opaque section and I'm wondering if maybe part of the process you're going through right now is just an effort to maybe alleviate some of that opaqueness.

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

Well yes, Steve, it is. It's a difficult question to answer in an earnings call setting. But what I will say, a couple of things, from -- you asked a few questions in there. One is, what's eligible for 1031 Exchange. And typically, that would be either an income-producing asset like a commercial real estate asset or it would be land that we've historically used in agriculture or land that we've historically leased for income. It would exclude any land that has been or is under active development. It would exclude any development projects like Maui Business Park land or Kamalani land or Wailea land, that sort of thing. With respect to getting better granularity about what the opportunities are and therefore what value is embedded here, I think that's actually an area that we'll try to shed more light on this fall when we are through our strategic planning process. My anticipation, my expectation is that we'll probably have some sort of a strategic update call with investors to give a sense of not only what our general strategy is and our objectives and timeline, but also probably shed some more light on what we're seeing as far as land valuation, progress and potential. So I think that's probably a question better left for that timeframe and it is certainly something that we are looking at very closely as part of the strategic plan just to get a better sense of what our monetization potential and timeline look like.

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

Okay, thank you. Then just maybe as a follow-up in terms of cash generation, things like that, it looks like operating income, I'm sorry, operating cash flow was significantly higher through the 6 months. Is that kind of a change that's something that's sustainable now going forward versus past periods in terms of the ability to generate cash? And is that more a factor of kind of timing of sales and things like that?

Brett A. Brown ***Alexander & Baldwin, Inc. - Executive VP & CFO***

Hi, Steve, it's Brett. You're right, it's the latter there. It is the timing of the land sales and generating the cash. Obviously, the commercial real estate portfolio is performing extremely well and producing quite a bit of cash flow from operations. But again, there is some I guess abnormality or some range in the sales of the land that can go up, can go down in different quarters. So that's what was the effect of this quarter was the land sales there. As well we had cash but not from operations, on the federal income tax refund.

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

Okay, and then maybe just moving back to the real estate supplement, Looking at some of the lands with I guess in entitlement process or titled lands and things like that, if they were -- I guess is that like kind of a subsection of potential 1031 land or is that something that could be developed in hold at some point? Or is it only stuff that was kind of previously designated within ag or something like that? Just wondering if some of that, either land in entitlement or the land with infrastructure already in place could be converted to the CRE and maybe what the upside might be from that.

Lance K. Parker ***Alexander & Baldwin, Inc. - Executive VP & Chief Real Estate Officer***

Hey, Steve, this is Lance. I have just a question before the answer. Are you looking at Table 20 in the Supplement, is that what you're referring to?

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

Yep, I think that's the one.

Lance K. Parker ***Alexander & Baldwin, Inc. - Executive VP & Chief Real Estate Officer***

Yeah, so I'd say just in broad strokes, I'd refer back to Chris's answer. If you think of that lower section of the table that references more of the agricultural-based lands, those would be sort of 1031 eligible. And again, in broad strokes, the ones above that, to the extent that they are actively in development, probably are not. Now while they may not be 1031 eligible, there would be some potential opportunities in there for developing for hold where we own the land and we could go vertical with commercial development. The one sort of biggest piece within our development portfolio that's not reflected on Table 20 but is shown in our active development table is Maui Business Park. And so there, I think that's probably the best example of where we have future opportunities for development for our commercial portfolio.

Operator

Thank you, and I'm showing no further questions in the queue. I'd like to turn the call back to Mr. Kenny Kan for any closing remarks.

Kenneth W.K. Kan ***Alexander & Baldwin, Inc. - VP of Capital Markets & Treasurer***

Thank you very much for listening in to the earnings call. If you have any questions, feel free to call me at 525-8475. Aloha.

Operator

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