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CORPORATE PARTICIPANTS

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

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

Jeff Pauker *Alexander & Baldwin, Inc. - VP of Investments*

Lance K. Parker *Alexander & Baldwin, Inc - Chief Real Estate Office*

Suzy Hollinger *Director of Investor Relations*

CONFERENCE CALL PARTICIPANTS

Sheila Kathleen McGrath *Evercore ISI, Research Division - Senior MD & Fundamental Research Analyst*

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

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Alexander & Baldwin 2017 Fourth Quarter and Full Year Earnings Call. (Operator Instructions) As a reminder, today's conference is being recorded.

I would now like to turn the call over to Ms. Suzy Hollinger, Director, Investor Relations. Ma'am, you may begin.

Suzy Hollinger - *Director of Investor Relations*

Thank you, Chelsea. Aloha, and welcome to our call today to discuss Alexander & Baldwin's fourth quarter and full year 2017 earnings. With me today and presenting are our President and CEO, Chris Benjamin; and Jim Mead, our CFO. Lance Parker, Chief Real Estate Officer; and Jeff Pauker, Vice President Acquisitions; and Clayton Chun, Chief Accounting Officer, also are here and 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 significant risks and uncertainties that could cause actual results to differ materially from those contemplated by the relative 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 were 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 generally discussed in the company's most recent Form 10-K, Form 10-Q and other filings with the Securities and Exchange Commission. The information in this call and presentation should be evaluated in light of these important risk factors. We do not undertake any obligation to update the company's forward-looking statements.

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

Chris will open up today's presentation with strategic and performance highlights and goals for 2018, then turn it over to Jim, who will discuss financial matters and guidance. Chris will return for some closing remarks, and then we'll open up for your questions.

With that, let me turn the call over to Chris.

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

Thanks, Suzy, and thanks, everybody, for being on the call this afternoon. Before we dive into the details of our 2017 results or our outlook for 2018, I want to share some introductory thoughts. I'm very proud of the progress we continue to make in advancing our strategy, most recently and visibly with the acquisition of 3 premier Hawaii assets from Terramar Retail Centers, but also in many other and less visible ways. We've had several achievements in the past year that individually would have been impressive. Collectively, they're remarkable. The one that's gotten the most attention and contributed the most to the complexities of this earnings release is the conversion to a REIT. That was a landmark achievement and a major undertaking. And of course, the Terramar deal is our largest commercial real estate acquisition since Kailua in 2013, and it enables us to complete our Mainland migration, another major and visible accomplishment.

What was less visible, yet equally important, were the myriad changes we made internally at A&B. Our employees stepped up in a big way to rethink how we run our business, to reduce our dependence on outside resources and the transition to a fully integrated commercial real estate company.

But it wasn't just in commercial real estate that our team stepped up. Our development team has accelerated both our build for sale and build for hold projects. The results are visible in our sales successes at Kamalani, Kahala and Wailea, the buildouts of Lau Hala and Pearl Highlands and the leasing and planning of Ho'okele Shopping Center.

Clearly, our real estate progress last year went far beyond the existing commercial real estate portfolio. Meanwhile, our diversified Ag team is advancing the repurposing of our Ag lands, and the Grace team is revamping operational practices, upgrading financial systems and pursuing new revenue sources. While our staff functions, law, community relations, HR, tax, technology, accounting, finance and others, have all contributed to our transformation and success. We are a stronger, more focused company today, and while I acknowledged in our last call that this is a long road we're on, we've been passing the mile markers at a steady pace.

Yet our stock has tumbled lately for reasons that I can't explain. Obviously, we've been caught up in broader trends, but from where I sit, I believe we've continually advanced our strategy and delivered outstanding performance from our commercial real estate portfolio.

I apologize for the sirens in the background, they're not coming to our building. They're gone.

Let me repeat. Obviously, we've been caught up in broader trends, but from where I sit, I believe we've continually advanced our strategy and delivered outstanding performance from our commercial estate portfolio in a Hawaii market that remains robust and in which we are uniquely and favorably positioned.

We'll continue, as always, to execute strategic initiatives designed to create value as a commercial real estate company, and my hope and expectation is that the market will recognize our efforts. I look forward to an active year of engagement with investors and continuing to get our very positive story out there.

With that context, let me now recap some of our 2017 accomplishments. While 2017 was dominated by activities related to our REIT conversion, we also were successful in taking other significant steps to increase commercial portfolio net operating income in Hawaii, including developing in-house leasing and property management capabilities that enabled us to achieve releasing spreads of 13.9%. Our same-store cash NOI growth in 2017 of 4.8% exceeded our guidance of 3.4%, in large part due to these initiatives.

This in-sourcing also helped us develop better relationships with tenants and manage across the portfolio rather than on a property by property basis. This approach facilitated multi-location leases, including the one signed with Ulta Beauty, which will be opening stores in 3 of our centers: Pearl Highlands; Kailua Town; and the newly acquired Pu'unene Shopping Center.

Given the quality and geographic breadth of our portfolio, we are the lessor of choice for retailers wanting to enter Hawaii and participate in the high-quality retail market in our state.

Another example is Drybar, which has opened its first Hawaii store in the commercial space at The Collection.

Additionally, we advanced reposition and renovation projects at Pearl Highlands and Lau Hala Shops, and began leasing and design work for the Ho'okele Shopping Center project, which we're developing from the ground up on our landholdings adjacent to Maui Business Park

Lastly, we acquired a multi-tenant industrial warehouse on the Big Island using exchange proceeds from the sales of non-income-earning assets. We're proud of these outcomes which are the result of tremendous effort and teamwork by our employees.

The REIT conversion itself is not an end but a means, an important enabler of commercial real estate income growth. And we're already starting to benefit with last week's purchase of the 3 strip retail centers from Terramar for $254 million. The acquisition fills out our Hawaii portfolio with 2 new highly strategic locations, Ewa Beach, Oahu, a densely populated suburb in West Oahu; and Lihue, Kauai, the island's economic, government and transportation hub. And it enables us to complete the migration of our commercial portfolio from the Mainland.

Let me first talk about the new assets, and then I'll recap the migration. Laulani Village and Hokulei Village are stabilized grocery-anchored centers built within the last 5 years, which we've purchased at just above a 5 cap. We also have purchased the brand-new Pu'unene Shopping Center, which is shadow-anchored by the only Target store on Maui. Construction at Pu'unene was completed last month and the project is 60% leased with a strong tenant roster, including new Maui market entrants, Ulta, Planet Fitness and Massage NV. While most of these retailers are still building out their spaces and not yet paying rent, these in-place leases alone will produce a low 5% yield once they go economic later this year. And upon stabilization, we anticipate 125 to 175 basis points of incremental yield to be generated from the currently unleased GLA. We're fielding interest from a number of tenants for the remaining spaces and feel confident in our ability to match or exceed our underwriting.

Slide 7 is my new favorite, if anything speaks to A&B's knowledge of the Hawaii market, our expertise in identifying and executing high-quality transactions, our ability to develop the strategy and deliver on it, this is it. When we set out in 2013 to migrate our portfolio from the U.S. Mainland to Hawaii, we told you we would be patient, that we would only reinvest -- in high-quality assets in Hawaii, and we would not liquidate the Mainland portfolio just for the sake of liquidating it. We would be strategic in the migration, and it would take as long as it would take.

This slide shows the assets that were or will be sold and reinvested into 5 major Hawaii acquisitions, and I'm thrilled by what the team, originally led by Lance Parker and now led by Jeff Pauker, has accomplished through this migration. Did I get that right?

Suzy Hollinger - *Director of Investor Relations*

Yes.

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

Lining up the dispositions and executing the sales is a blend of art and science, and the team has done a masterful job for the Terramar transaction, as they have -- with our previous major acquisitions, especially Kailua Town and Manoa Marketplace. This migration has been about much more than just geographic concentration. We now have a highly strategic portfolio that already has generated great results for us and will continue to.

These charts best demonstrate both the Mainland to Hawaii shift and the quality of our Hawaii assets, which have fueled 37% growth in cash NOI since 2012. Implementation of the migration strategy turned a once purely financial portfolio, built to diversify our income streams and support our development business, into one that is attractive and focused on a standalone basis. Thereby, making conversion to a REIT possible and desirable.

This year, we expect to make progress on our current for-hold development projects. Our development team turned over the improvements at Pearl Highlands Center to tenants late in 2017, and the food court is expected to open soon with a mix of old favorites and exciting new dining options. The food court's opening, along with the reopening of the upgraded Regal Cinemas, is expected to create interest that will drive more traffic to the center. The team also is beginning to turn over spaces to tenants of Lau Hala Shops and will start construction of the Ho'okele Shopping Center on Maui soon. The returns on cost for these investments, as shown on the slide, are very attractive.

We continue evaluation and planning for new projects as we work with several anchor tenants on their space plans and needs. We're finding -- I'm sorry, as we work with several anchor tenants on their space plans and needs, we're finding that the process is more complex and protracted than we originally anticipated. We do, however, expect to announce at least one new project late in the year.

Lastly, in commercial real estate, here are the very strong results we've posted for 2017. We'll continue to enhance our leasing and asset management platforms and leverage those capabilities across our portfolio, an opportunity that our former outsourced model didn't provide. With 11.6% of the portfolio expiring this year and a projected 100 basis point increase in occupancy, we're in a strong position to continue growing NOI.

Moving on to Land Operations, we'll be focused on generating cash from development units, development parcel sales and various recapitalization strategies for both wholly owned and joint venture projects. Federal tax reform helps us here as it will allow us to retain more of these proceeds for reinvestment in our commercial portfolio.

In diversified agriculture, we're working actively with farmers, ranchers and others to convert our former plantation lands into productive uses. We hope to approach the halfway mark in that effort by the end of the year. But we do acknowledge that the process is difficult and may not happen according to our desired timeline. The transition of the plantation to diversified agriculture is not expected to result in material income; however, it should reduce the cost of stewarding these lands.

Finally, our Materials & Construction business has undergone a review of operations over the past year, and several improvements were identified and are being implemented, including those listed on this slide. Implementation of these initiatives is the focus for 2018. It's a great business with unique high-quality assets and an experienced and dedicated team. Jim will have more comments about the expected performance for the segment in a moment.

While we continue to face some challenges in the business, I'm confident the steps we're taking this year will translate into better performance in the future.

With that, let me turn it over to Jim to discuss financial matters and guidance.

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

Thanks, Chris. Good afternoon, everyone. We reported $4.31 per basic share in the fourth quarter and $4.68 for the full year 2017. There are a number of things that go -- to go through this morning, so let me start with how we compare it to your expectations. Suzy evaluated each of our analyst estimates for the quarter and year, and if we adjust them for things like share count or items related to either our REIT conversion or selling assets to fund our acquisition, we believe that we exceeded all of your estimates.

And after our call today, I would be pleased to review these adjustments with you. I'm going to start with Slide 16 that outlines the unusual items in this quarter's financial results. The deferred tax line item was driven by a couple of things, the conversion to a REIT and the tax -- and the change in tax law with the Tax Cuts and Jobs Act.

The next item relates to our sale of Mainland properties to fund the investment in our Terramar portfolio acquisition. We agreed to sell 3 mainland properties before the end of the year, upon which we took an impairment for these properties with selling prices below book value in accordance with the accounting rules. We also closed the sale of Midstate 99 in the fourth quarter, which resulted in a gain. So the fourth quarter impairment net of gains realized on Midstate was $16.1 million.

As we complete sales to finance the Terramar acquisition, we expect gains in the first and second quarter of 2018 to reflect closings on the remaining Mainland assets in addition to gains we expect on the assets that we intend to sell to fill the capital stack of our acquisition.

In total, we expect to record gains in excess of impairments or realized losses on the basket of the final 7 Mainland assets that will complete our Mainland migration to Hawaii. The conversion to a REIT is also completed, so the REIT conversion costs that have been booked for the past 3 years will not recur. REIT conversion costs were $3.8 million in the fourth quarter and $15.2 million for the full year.

So now, I'll turn to the accounting for our special distribution. Recall that we declared and paid the special distribution of $783 million, 20% cash and 80% stock as a final step in our conversion to a REIT. Because we declared our special dividend in November and paid it in January, that carryover at year-end caused us to account for the entire distribution as all cash on the balance sheet and stock in the determination of share count for diluted EPS purposes.

This next slide shows the balance sheet treatment. The entirety of the special dividend, $783 million, was booked as a cash distribution, so we recorded a dividend payable liability totaling $783 million, and total equity was reduced by an equivalent amount in our year-end 2017 balance sheet.

The pro forma in the right column illustrates if the declaration in payment had occurred prior to year-end. The reduction in equity would have been only the $156.6 million cash portion, and this is the accounting that you can expect beginning in the first quarter of 2018.

For calculation of share count for diluted EPS purposes, the special distribution was treated as an all equity distribution. And therefore, we increased the number of diluted shares from our dividend declaration date to year-end by an amount representing the full $783 million, divided by the average share price over that period. So the diluted share count we reported in our financials is not comparable to the actual share count today. That's why we use basic share count in our earnings release since that better reflects the share count of the company as of year-end. The actual share count today is 72.0 million shares.

Chris already spoke about our commercial portfolio results, and I'd like to reiterate the strength we've had in our performance. As I've become more familiar with our portfolio over my 7 months at the company, I can really say that it has some very substantial and measurable differences to Mainland portfolios. The first thing is that we are a geographically separated supply limited set of islands. It's really hard to get us with an overnight delivery. Our locations within our communities make our needs-based focus even more powerful. Not only do we have been very limited exposure to at-risk retailers, our retail productivity is very high compared with Mainland strip center properties. Our grocers produce almost $800 a square foot on average, and many of our in-line retailers are well over $1,000 a square foot.

So we'll talk about guidance in a minute but it should be no surprise that our expectations continue to be very positive.

Our Land Operations segment executed some significant land sales that are notable: on Oahu, a Kahala lot for $13.6 million; 713 Ag zoned acres on Maui and Kauai for [$20.1 million] (corrected by company after the call); 6 lots in the Maui business park for $6 million; also on Maui, closing of $13 million of unit sales from our Kamalani affordable residential project in 2017.

As we sit right now, we had 9 more unit closings this year and have 44 binding commitments, which, in total, is about 3 quarters of our available inventory. In our Keala O Wailea joint venture property, of the total 67 units for sale, we've had 19 closings this year, another 48 of the units under binding contracts and the remaining 2 are under nonbinding contracts.

On the agricultural side, 4,500 acres of former Maui sugar lands were redeployed into diversified agriculture during 2017. And as Chris said, we're actively seeking to deploy the remaining acres.

Turning to our Materials & Construction operating segment. Last year, we delivered 25% greater tonnage of asphalt. And we continue to win the lion's share of business across Hawaii. The work we did last year was at lower margins as a result of competitive pressures, so we had a reduced bottom line. I'll have a little more to say about this later in the call.

Turning to the balance sheet, let me start with the funding sources for the Terramar transaction, which includes the sale of Mainland and certain other commercial properties in 1031 exchanges and the assumption of a $62 million mortgage. To date, we've closed 3 of the final 7 Mainland assets for $56 million, and expect to close the remainder of the sales for almost the entirety of the equity portion of the purchase price later this quarter or in the second quarter. Our focus here was to increment our leverage as little as possible to complete this acquisition and to use tax efficiently sourced internally generated capital.

From a value creation standpoint, we are trading nonstrategic properties on the Mainland at or near the top of market values for well under premier assets in Hawaii. Because the equity funding is entirely internally sourced, and since this is the completion of our transition from the Mainland to all Hawaii, we believe that this acquisition is accretive to shareholder value. Regarding the funding of our special distribution, we had prefunded about $100 million of the $156.6 million cash portion with term notes with maturities ranging from 9 to 12 years. Because of our timing, we achieved some very attractive rates.

An additional $50 million was financed with a new 5-year bank term loan that closed earlier this week and the small remainder was put on our line of credit, which you will recall, we expanded to $450 million in the third quarter of last year. We expect an increase in debt-to-EBITDA from the special distribution and the Terramar acquisition since some property sales will come later in the first and second quarter.

We nevertheless continue to have a goal to maintain a modestly levered company. Our stated target has been 5x to 6x net debt-to-EBITDA, and our goal for this year is to bring leverage towards the middle of our targeted range with development and land sales activities for the year.

So now, I'd like to turn to guidance for 2018. We have been improving overall disclosure through the past year, including our new and more complete financial supplements and what we provided in our investor conference. Continuing with that theme, our goal for this call is to broaden the number of guidance benchmarks we're providing to you in order to help you better track our accomplishments through the year.

Now let me note before I start that although we work diligently to refine internal plans, because of the unpredictable nature of earnings from Land Operations, we won't be providing guidance on this business segment.

With that in mind, here is our 2018 guidance. In our Commercial Real Estate segment, we continue to expect a healthy leasing market during 2018. So based on our same-store expiration schedule, we expect leasing spreads for 2018 to be in the range of 6.5% to 7.5%. This compares with the leasing spreads that we accomplished during 2017 of 13.9%, and what I would characterize as a similar leasing environment. The main difference between 2018 and 2017 is the specific leases that are expiring. We additionally expect Hawaii same-store retail occupancy to increase almost 100 basis points to 94% at year-end 2018. Our properties continue to throw off strong and growing cash flow. Our same-store NOI growth expectations are in the 3% to 4% range. That growth rate compares favorably to the strip retail Green Street universe. In addition, we expect to spend about $9 million in maintenance CapEx, and as a percentage of NOI, that would put us at the low end of the same Green Street peer group.

For those of you keeping track, we will add Gateway at Mililani Mauka South and Manoa Marketplace to our same-store portfolio this year, and the Mainland properties and other properties that we sell to fund the Terramar acquisition will come out. As I just said, CapEx for the portfolio is expected to be about $9 million for maintenance and another $35 million for for-hold development and redevelopment properties. At the just acquired Pu'unene retail center, which is in lease-up, we expect an additional $10.5 million related to final contractor payments and for completion of tenant-related work and leasing commissions and $0.6 million at Hokulei Village Shopping Center, again, another new property with a small amount of leasing commissions and tenant work remaining.

And now, to our Materials & Construction segment. As we pulled together our budgets this year, we had a number of considerations. And among them is that we've been actively retooling this business to better take advantage of its strengths and presence in the marketplace. So here are some of the other thinking that went into our 2018 planning. We expect a light year for new bids for roadwork, a large state spending program ended in 2017, and a new state and federal program is expected to start in late 2018.

Next, we'll be working through a backlog of contracts that we're bidding in a competitive environment with modest margins. And finally, you will see the cost of one-time initiatives in our results. We believe these investments will lead to greater productivity and revenue growth in the future, but we, nevertheless, have factored these costs into 2018. It's still early in the year and so we're not yet at the point I can provide formal guidance. So instead, I'd like to guide you modestly lower in adjusted EBITDA from last year to the $30 million range for 2018. But we'll come back to you with firmer estimates as we move through the year.

Turning now to G&A. Total company G&A is projected to be approximately $60 million during 2018 an over $6 million reduction from 2017. And no amounts are expected to be incurred in connection with the REIT conversion.

When we made this special distribution, we sized it to fully distribute our 2018 REIT taxable income based on our internal budgets. Of the total distribution, approximately $40 million or $0.55 per share on the current share count was related to this 2018 taxable income projection.

And so we would not expect additional distributions for 2018 income, unless we outperform our commercial real estate budgets or create tax gains that are currently unbudgeted. Our plan is to begin regular dividend payments in 2019. And regarding our balance sheet, I've already spoken about our goals, but with drivers that I've just outlined, we expect net debt-to-EBITDA to fall to the mid-5s area for the full year of 2018, and that we would continue to have a largely fixed rate debt structure.

So lastly, I'd like to give you a heads-up on a couple of filings coming up. We expect to file our 10-K tomorrow and then an 8-K/A on Friday to provide pro forma financial and other required information as a result of the size of the acquisition of the Terramar portfolio. Then, on Monday, March 5, we plan to file an S-3 shelf registration statement. The shelf registration is something that most public companies have on file and it simplifies the issuance of equity. It's one of those tools we think is prudent to have in place, just like we feel it is prudent to have a share repurchase authorization in place. The shelf filing is not an announcement of any planned equity offering.

So now, let me turn the call back to Chris for closing remarks.

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

Thanks, Jim. If I could, I'd like to just point out one thing, or clarify one thing that you said, which is that our G&A is going down $6 million this year, but that's going down from the number that excludes our REIT expenses. So if you were to take the number that included our REIT expenses, it would be a much more significant reduction, right?

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

For sure. yes.

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

I just want to make that point. All right. So wrapping up, I'm pleased to say that all the major Hawaii economic drivers are fundamentally sound and are expected to remain so in 2018. Tourism marked the 6th consecutive record year in 2017, and the outlook for a seventh in a row is very positive for 2018. Record years have translated into a low 2% unemployment rate, basically full employment. And with full employment and rising income levels, spending has increased, which is positive for our retail centers. Last year, general excise taxes, which are collected on all state sales, increased 4.5%. Our bottom line takeaway is that the Hawaii economy continues to provide a constructive backdrop for our operations.

Let me conclude with the following thoughts. First, we're delivering on the strategy we've articulated over the years. Second, Hawaii's economy is strong and its retail environment is at least somewhat insulated from the Internet pressures affecting so many other retail markets. Third, our portfolio is a healthy mix of needs-based retail, not malls, along with light industrial and high-quality ground leases. Fourth, while we acknowledge that our strategic transformation is a work in progress, that's where we see much of the uplift going forward. And with the REIT conversion behind us, we recognize the importance of delivering results in 2018.

I look forward to an active year of investor engagement as we continue to get out and tell our story to a growing and evolving investor base, and we'll start that process next week at the Citi Global Properties CEO Conference in Florida. Thank you for your time and support and we're happy to take your questions now.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Sheila McGrath with Evercore.

Sheila Kathleen McGrath - *Evercore ISI, Research Division - Senior MD & Fundamental Research Analyst*

You guys have been busy. I was wondering if you could give us some more detail on the Terramar acquisition in terms of pricing on the stabilized assets and how it fits into your portfolio? And then, from a modeling standpoint, just help us understand when those other dispositions might hit this year?

Jeff Pauker - *Alexander & Baldwin, Inc. - VP of Investments*

Sheila, this is Jeff. On pricing, I would say that the 2 stabilized assets, Laulani and Hokulei Village, Chris mentioned those being at just above a 5 cap. I think that's consistent with market pricing, though I would note that these assets being literally brand-new are, to us, best analyzed on a free cash flow basis after TIs/LCs and CapEx, these guys have fully stabilized the assets and we don't see a significant amount of additional capital in those 2 stabilized assets being necessary. So the cash yield is quite attractive. On -- maybe you could repeat your second question regarding disposition.

Sheila Kathleen McGrath - *Evercore ISI, Research Division - Senior MD & Fundamental Research Analyst*

Well, and just give us a little bit more color on stabilized asset before we go to the disposition.

Jeff Pauker - *Alexander & Baldwin, Inc. - VP of Investments*

Sure. So Pu'unene, as Chris mentioned, is shadow-anchored by Target. Construction, literally, was just completed. It's 60% under lease though, it's not 60% economic yet. The tenancies are exemplified by retailers who chose this asset as their first entry into Maui, and that's one of the reasons why we're excited about it. That's folks like Ulta and Planet Fitness. Obviously, it was the first and only Target that was on Maui, that's our shadow anchor. In addition, it's an important strategic investment because it allows us to control all of the new retail inventory in and around Maui Business Park Phase II. So that's meaningful for us as we continue to lease up Ho'okele Shopping Center.

Sheila Kathleen McGrath - *Evercore ISI, Research Division - Senior MD & Fundamental Research Analyst*

Okay. Great. And then, just -- so for modeling purposes, the dispositions of the Mainland assets, is that a first half of the year event, second half? Or how should we think about that?

Jeff Pauker - *Alexander & Baldwin, Inc. - VP of Investments*

It's a first half of the year event. We're materially underway on the marketing and contracting for dispositions. I'd say, you're going to see a number of those deals close in the first quarter and then some stragglers in the second quarter.

Sheila Kathleen McGrath - *Evercore ISI, Research Division - Senior MD & Fundamental Research Analyst*

Okay. Good. And then, I think, Chris, you mentioned corporate tax reform benefiting the proceeds that you'll be able to keep from development sales and Grace Pacific. I was just wondering if you'd give us a little bit more detail on that? And then, if you -- the stock has really gotten hit hard versus REITs. I mean, is it something that you think that was related to the tax loss selling with the distribution? Or just if you have any insights?

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

Sure. So let me start and then I'll let Jim jump in if he wants to add anything. As far as tax reform goes, obviously, as a REIT, the reduction in corporate tax rate doesn't affect us on the REIT side, but because we have a fairly sizable taxable REIT subsidiary, the benefit that I referenced was simply the reduction in the corporate tax rate and how that will flow through the financials for the TRS. So it will simply reduce the federal tax component of any TRS profits. The other big benefit for us out of tax reform, frankly, was the preservation of the like kind exchange rules that allow us to continue this migration of the portfolio back to Hawaii in a tax-efficient manner, so that was a very positive outcome for us from tax reform. The second question was related to the stock?

Sheila Kathleen McGrath - *Evercore ISI, Research Division - Senior MD & Fundamental Research Analyst*

Yes. Just, I mean, ever since you paid the distribution, the stock has been particularly weak. And I was just wondering if you guys, because we certainly have gotten a lot of calls on it, that's the only thing I could point it to, but I'm just wondering if you had any other insights?

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

So we were, on our side, kind of hoping that this call would help clarify that, a couple of things, Sheila, one, is that our retail is actually performing very, very well, and maybe perhaps differently than other retail in the Mainland is kind of being perceived today. And the second thing is a lot of this movement in money right now from retail to other assets, I think, we're just caught in the -- I think, we've just been caught in the tailwind at that, and to the extent that we outperformed prior to the distribution, I think, we underperformed some since then but we're kind of right around -- I think, we're right around the strip center performance. So I'd like to think that we will be differentiated. I would hope that you would help us, and others would help us do that. But I think that if you look at the amount of stock price reduction versus where we think our valuation is, we think it's probably not warranted at this point.

Sheila Kathleen McGrath - *Evercore ISI, Research Division - Senior MD & Fundamental Research Analyst*

Okay. And one last one and then I'll get back in line. But just to clarify, on the G&A, just because your operating statements, I think, allocate G&A into each of the segment reporting and then have a corporate -- or G&A line item below. I just want to clarify that $60 million is actually pulling the G&A from each segment and adding to that other individual line item?

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

So let me start to clarify the first. What I said is the actual G&A including reconversion cost was $81 million or $82 million. When we be back out the $50 million of REIT conversion costs, our G&A was $66.4 million, something like that. And the target we gave you for the year is $60 million. So the first thing to note is that going from $66 million to $60 million is more -- I think is more than a 10% reduction in our G&A year-over-year as we improve the efficiencies and the way we're doing things internally. The second piece is that, I think, I mentioned 2 calls ago, or it may be on the last call that we're running at a run rate of what I'll REIT comparable G&A, kind of in the upper 20s. I think, I got to a number around 26 or 27 in the last call. I don't know if that's 26, 27, 28, but we're going to be in that range, again, for this year, I think, less than -- a little bit less than half of the overall G&A bucket will be what you would consider to be supporting a REIT activity if this company was 100% a REIT. We have more complexity in our accounting, we have more business segments, so we have more cost, but if you just do that on a comparable basis, I think that's sort of where we come out.

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

And the balance of that number would include Grace and...

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

Yes, the balance of that number includes Grace, it includes land operations and also the infrastructure of accounting that just needs to be there to support different business functions.

Operator

And our next question comes from the line of Steve O'Hara with Sidoti.

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

I was wondering, I mean, just in the quarter, where you noted that your occupancy was up pretty positively in the quarter, was that due to any openings? Or what drove that in the quarter?

Lance K. Parker - *Alexander & Baldwin, Inc - Chief Real Estate Office*

Yes, the biggest driver of that was actually Kunia Shopping Center, so that's a strip center that we have on Oahu. And we had a couple of spaces that we had been working through leasing progress in Q2 and Q3, and it became occupied in Q4, so that's where you saw the pick up in the overall portfolio.

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

Okay. And then, I mean, generally, it would seem like the outlook's pretty positive for occupancy overall?

Lance K. Parker - *Alexander & Baldwin, Inc - Chief Real Estate Office*

It is. As Jim mentioned, as we look at the portfolio, specifically Hawaii now, that we will be 100% Hawaii by the end of the first half of the year. We're feeling good, both in terms of occupancy, but the other metrics as well. Same-store NOI, we did good last year at 4.8%, we're giving guidance at 3% to 4%. So we're feeling good about performance of our tenants. We saw good, strong performance in 2017 at Kailua. We expect that to continue, as well as some of our tenants in Kukui'ula. And then, leasing spreads as well. We had really good performance last year at 13.9%, and if you recall, the first half of the year was really high and it got moderated toward the second half of the year, and that's where we expect full year performance to be for 2018 in the 6.5% to 7.5% range.

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

Okay. And then, just a question maybe on the construction outlook in the economy. I mean, Matson, on their call, noted that construction volumes were less, and it sounded like the high-rise boom was transitioning to the single-family home development eventually. And I'm just wondering, I mean, does that -- does any slowdown in shipping demand benefit the general economy in Hawaii? Or is it that you'd get more benefit from stronger construction overall in terms of maybe retail spend and things like that?

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

Well, Steve, let me take a shot at that I think, first of all, as it relates to the overall economy, I think that what Matson referenced and what I think we would reference also is that we see a bit of a temporary lull in some construction activity, but there are 2 big primary residential projects that are getting going out in the west side of Oahu that, I think, will help pick up construction pace in a not too distant future. And I think that the economy will be strong through this maybe temporary dip. And I know that Matson has seen some decline in shipping volumes. As it relates to our Grace business, however, we're in a very different position than maybe Matson would be with respect to the construction cycle because most of our bid -- or most of our work is bid well in advance and we've got fairly sizable backlog that we can work through this year. Now we have -- we continue to have some competitive pressures, a lot of that work was bid in a very competitive environment. Of course, there's weather, there's government, administrative processes and getting that work let out. But the work is there to be done if we can get through those administrative processes. Where we see there could be a lull, and this is something that Jim and I will be looking at with the Grace management over the next few months and hopefully it will inform more clarity in our guidance is, potentially, a bit of a gap between some of the work that's already been bid and the next wave of big construction contracts for roadwork that would be let out because, we think, actually, 2019 is going to be a pretty big year for new contracts. And so the question is, how much of this current backlog can we get done. And then, is the new work there to pick up the slack when that happens. Is that a fair...

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

That's right.

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

Okay. That's helpful. And so I mean, in terms of the competitive pressures, they're so far still the same, or have they maybe let up and you're just -- and you're working through that backlog that was bid under pressure?

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

A little bit hard to say. I would say that there have not been a lot of jobs bid real recently. So it's a little hard to say whether those competitive pressures will subside. I do know that the other players who have won some of that other work are in the process of delivering on it. And I think their success or failure in being able to deliver at the prices that they bid will determine their bidding strategies going forward. So I think it's a little bit too early to declare that it's going to continue or subside, but I think we'll have a better sense over the next few months.

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

Okay. And then, maybe finally, can you just remind me, within the Land Operations, as you make sales within that segment, any proceeds generated, does that just stay in that Land Operations and from the development portfolio, or is that maybe paid out as a dividend, or funneled through the leasing portfolio? Can you just -- what's the plan there? And how does that work?

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

So I think your question is somewhat related to geography. Where the land is, if it's in the TRS versus the REIT. But I would say that the first use of proceeds from sales of land, if it's in the TRS or sales of developed properties, we have debt at both places, we just pay down debt and reduce our debt burden on the company. The TRS is in a cash, I think, cash flow positive position, so for the full year of '18. So it's not as though we need to reinvest proceeds from sales there. We can take that and reduce the debt burden on the TRS, and it creates actual debt capacity for the REIT if we want to invest and -- or we have the opportunity to invest in the REIT. Obviously, if we sell something from the REIT, we have different tax technical issues to address. The best way obviously to do something to REIT is a 1031 exchange. Otherwise, if it's something that's not qualified for 1031, we have different tax burdens. So we have different considerations.

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

Okay. And that's what you're referring to with the tax rate changes, so any sales that you'd make on within the TRS, that cash would be -- there'd be more cash available to potentially grow the REIT portfolio?

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

It's -- the after-tax cash flow is going to be much better than it would have been under the old law.

Operator

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

Sheila Kathleen McGrath - *Evercore ISI, Research Division - Senior MD & Fundamental Research Analyst*

Since we're talking about taxes, in terms of modeling the taxes in the operating statement, is it appropriate, Jim, just so we model taxes, just on the Grace Pacific segment and the land segment, and just...

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

You're asking a very good but very difficult to answer question, I think. The actual realization of tax in the last year is we had no tax -- federal tax payments last year as a result of our tax planning and some other things that we've done. In this coming year, it's going to -- I'm sorry, let me -- if you don't mind, we'll give some thought to how to answer your question correctly and get back to you on that, but I don't think that there's an easy answer for me to give to you.

Sheila Kathleen McGrath - *Evercore ISI, Research Division - Senior MD & Fundamental Research Analyst*

Okay. And then, I think, Chris, you mentioned in the Land Operations segment that you're considering recapitalizing? I didn't catch exactly what you said. So recapitalization. So would that mean like bringing in a joint venture partner to an existing project or just some detail on that?

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

Yes, I think, it could certainly include that, Sheila. So for example, we've got a project such as Kamalani, Kukui'ula, which are well underway, but will require, over time, additional development capital. And it could very well be bringing in third-party equity partners to help fund some of the continued vertical construction and build out of those projects. As we've made clear in recent years, we want to pursue a relatively capital-light development strategy on the development for sale side. And so that would be one of the potential arrows in our quiver to do that.

Sheila Kathleen McGrath - *Evercore ISI, Research Division - Senior MD & Fundamental Research Analyst*

Okay. Great. And then, if you could just give a quick update on the Kailua development. And the 10.5% to 12.9% stabilized yield on cost, did that move higher? Or is it -- it's very impressive, but I'm just wondering if that forecast has moved higher?

Lance K. Parker - *Alexander & Baldwin, Inc - Chief Real Estate Office*

Sheila, it's Lance. It did move higher. And so as we get closer to completion of the project, we're going to start turning over spaces, actually either late this month or early next month. We're getting a little tighter on our numbers, we were able to make good progress in securing the lease with

UFC on the entire second floor of that, so we have been at the table for some time in negotiations. That's now executed. So we've really got just a couple of bays downstairs, and we're excited for the Roy's, who's already announced what his concept will look like. The Maui Brew to open, we think those will be tremendous additions to the Kailua market as well as UFC. We think it will be a really good addition. And then, the grocer, Down to Earth, will probably be the last tenant to open. They're a little further behind just in terms of their process and going through improvements, et cetera.

Lance K. Parker - *Alexander & Baldwin, Inc - Chief Real Estate Office*

And while you're on the line, Sheila, let me just take a minute, if you don't mind. Jeff did a really good job of just providing some color on Pu'unene, but this was a pretty big acquisition for us with Terramar. Let me just share a couple of thoughts on both Laulani and Hokulei, the 2 stabilized assets. So Laulani is the biggest of the 2. This is in a submarket in Ewa on Oahu. It is a submarket that we've had our eye on for some time. It's probably one of the strongest in terms of demographics, it's got some of the lowest per person or per capita, strip space -- I'm sorry, strip retail per capita in the state. And then, this asset specifically, we've had our eye on for a number of years. So we're really excited to bring it into the portfolio. It's safely anchored. It's actually -- it will become the highest grossing Safeway in our portfolio. So a really good addition there. And then, Hokulei in Lihue, as Chris mentioned, it is the county center for the island. The Safeway there already with only 1 year under its belt is performing extremely well. And proving that new construction, well-located, will be the place of choice for new tenants that come to the island. These aren't the biggest names, but Jack in a Box, Petco, it's their first time to the island, and this was their location that they chose to open in. So again, just expanding that platform to be the landlord of choice here in the islands.

Operator

And I'm showing no further questions at this time. I would now like to turn the call back to Ms. Suzy Hollinger for closing remarks.

Suzy Hollinger - *Director of Investor Relations*

Thanks for being on the call today. If there are any questions that you have for us to follow up on, please call me, my number is (808) 525-8422. Have a good day. Thanks.

Operator

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