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EDITED TRANSCRIPT

Q4 2018 Alexander & Baldwin Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to Alexander & Baldwin 2018 Fourth Quarter and Full Year Earnings Call. (Operator Instructions) As a reminder, this call may be recorded.

It is now my pleasure to introduce VP, Capital Markets, Mr. Kenny Kan. Please go ahead, sir.

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

Thank you, operator. Aloha, and welcome to our call to discuss Alexander & Baldwin's Fourth Quarter and Full Year 2018 Earnings. With me today are our President and CEO, Chris Benjamin; and Diana Laing, our Interim 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 and 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 were made and are not guarantees of future performance.

Future-looking statements are subject to a number of risks, uncertainties, assumptions and other factors that could cause actual results and the timing of uncertain -- 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 and 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 by walking through the 2018 highlights and providing a strategic and operational update. He will then turn the presentation over to Diana, who will discuss financial matters and guidance. Chris will then return for some closing remarks, and then we'll open it up for your questions.

With that, let me turn it over to Chris.

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

Thanks a lot, Kenny. Welcome to our listeners. There are certainly a lot to digest in our earnings release and in the 10-K we will file tomorrow. But it's all consistent with the messaging from our December 21 call when we announced our big Maui land sale.

I'll start with the performance update slide comparing what we communicated in our October and December investor calls and what we are reporting today.

In our core Commercial Real Estate portfolio, we ended the year with same-store NOI growth of 3.6%, which was within our guidance range of 3% to 4%. And we exceeded our re-leasing spread guidance of 6.5% to 7.5%, finishing the year at 8.4%. We also realized a profit of $162 million in 2018 on our Maui land sale. The difference between the guidance of $165 million and the reported $162 million is simply the timing of certain land parcels that closed in February 2019 as opposed to late 2018. Total profit on the Maui land sale will modestly exceed guidance.

I'm very pleased to say we are tracking favorably on the reinvestment of the Maui land sale proceeds of $258 million, both in timing and quality of investments. For Grace, our impairment came in at $78 million, also within the guidance we provided.

The most significant new information we've announced today is the dollar amount of the impairment we've taken at Kukui'ula. I'll provide more details on that in a bit because it's important to understand what it does and doesn't signal. We had very little visibility into what the number would be on our last call but did indicate it could be a material portion of our carrying value. It was, in fact, a big number, but I'll provide an update on the project in a moment, which I think will provide helpful context.

While I say it often, I'm extremely proud of the A&B team for the tremendous progress we made in 2018 to advance our strategy of becoming a Hawaii-focused Commercial Real Estate company.

This slide shows some of the progress we made from January 2018 through today in both growing the Commercial Real Estate portfolio and simplifying the company.

I'll start with our CRE highlights. With our Hawaii CRE net operating income, or NOI, reaching $85 million in 2018, we have more than tripled our Hawaii NOI over a 6-year period. The significant growth in our portfolio in the islands proves the merits of our Hawaii-focused investment theme. The reinvestment of the Maui land sale proceeds will further accelerate that growth. In 2018, we also completed our REIT conversion and our Mainland to Hawaii asset migration, selling 7 Mainland assets to acquire the Terramar 3-asset Hawaii portfolio.

We also commenced construction of our Ho'okele Shopping Center on Maui and advanced other development-for-hold projects. And just yesterday, we declared our first regular quarterly dividend as a REIT.

Now as part of the simplification efforts in 2018, we completed the sale of 41,000 acres of ag land on Maui. We also moved forward on closing out our residential-for-sale and land sale projects, generating cash proceeds from sales and joint venture distributions of $104 million in 2018. These included sales proceeds from our wholly-owned projects, Kamalani, Kahala and Maui Business Park; and distributions from our joint ventures, Keala O Wailea, The Collection and Kukui'ula.

In February 2019, we also closed on 42 acres of land totaling $24 million at our Wailea project in Maui. Not only are these steps significant in driving both the growth of our Commercial Real Estate portfolio and the simplification of our business model, but they show continued progress toward our goal.

As we continue to advance the transformation process, I believe investor acceptance of our story and appreciation of our value will only grow.

What I'd like to do today before having Diana walk through financial matters and guidance is highlight the great progress we're making in our core Commercial Real Estate business. From there, I'll provide context for the fourth quarter adjustments we've made at Kukui'ula

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and Grace and then shed some light on the continued simplification steps we will be taking as we move towards the completion of our journey.

As we seek to grow our Commercial Real Estate portfolio -- we've had great success in doing so, by the way -- we regularly refer to the 5 levers we're pulling. So let's go through them and share how we're progressing on each.

The first is effective management and leasing of our existing portfolio, where we have more than tripled the NOI of our Hawaii assets in the past 6 years and will further increase NOI with the reinvestment of the Maui land sale proceeds. We have a robust real estate portfolio, arguably one of the best Commercial Real Estate platforms in Hawaii, and are in a position to leverage our expanded scale for improved revenue and greater efficiency to further grow and improve the performance in the portfolio. Since bringing our real estate management in-house in 2017, we're getting leases executed faster, reducing the commissions we pay and better leveraging our tenant relationships across our portfolio. These efficiencies helped drive same-store NOI growth of 3.6% in 2018. Additionally, in 2018, 240 leases were executed, covering 825,000 square feet of GLA, with leasing spreads of 8.4% and occupancy of 92.4%.

Our second lever for Commercial Real Estate growth is redevelopment and repositioning of existing assets. In 2018, we completed the repositioning of one of our assets, the Pearl Highlands Center. Our investments to improve the Regal Cinemas space, the Food Court and the façade of the property have allowed us to execute on our strategic remerchandising of the property, attracting higher-quality tenants.

Occupancy has increased to 93.4% as of December 31, and thanks to the addition of ULTA and the full lease out of the Food Court. And in addition, it will increase further to 98.1% with the commencement of the Guitar Center lease in the first quarter of 2019.

With the stabilization of this asset, we anticipate generating return on our incremental investment of approximately 10%.

Another success story is Lau Hala Shops, a former Macy's ground lease where we took back the improvements when Macy's chose not to exercise an option to extend the ground lease. We converted the largest single-tenant building into a smaller, restaurant, fitness, grocery and in-line spaces. The center is now 100% leased as of December 31, 2018. Rents have exceeded our underwriting, which is leading to an estimated stabilized return of greater than 11% on approximately $23 million of incremental investment.

Our next repositioning effort is at the Aikahi Park Shopping Center. And while this project is still in the planning stage, we anticipate that it will provide similarly attractive returns as our other repositioning efforts. We're developing plans to refresh the center, keeping all of the most popular tenants and greatly improving the look and feel of the property to enhance the consumer, shopping and dining experience. Certain tenants, including the anchor tenant Safeway, will be upgrading their spaces, and at least one longtime tenant will be expanding its operation. As always, we will continue to evaluate our portfolio for further repositioning opportunities.

Our third lever is ground-up development of commercial assets. In 2018, we commenced construction at the 94,000 square-foot Safeway-anchored Ho'okele Shopping Center, which is adjacent to our Maui Business Park project in Kahului. Total estimated project cost is $42 million. At the end of December, the center was 64% preleased. Construction is on schedule for opening in the third quarter of 2019 for the first phase of development, which will include a Safeway grocery store, gas station and some in-line retail spaces.

We will be commencing on Phase 2 as leases are executed. When Phases 1 and 2 are completed and stabilized, we anticipate generating NOI of between $3.1 million and $3.6 million from the asset, which is approximately an 8% return on cost or 200 bps to 300 bps above the cap rate of which an asset like this might trade. The Ho'okele investment is an example of how we can leverage our existing landholdings for CRE development. We expect there will be more of such opportunities for commercial development on our urban zone lands in the future.

Our fourth lever is 1031 changes from land and property sales. As you know, we have significant experience in executing on these transactions. We have invested over $1 billion in Hawaii Commercial Real Estate since 2013, trading out of many Mainland assets into Hawaii assets, and 1031 exchange proceeds have helped to finance a large part of these transactions. Also, we are now in the active process of reinvesting the proceeds from our Maui ag land sale, thus further pulling this particular lever.

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Our success in unlocking these many deals in Hawaii, most of them off-market, speaks volumes about both the quality of our team and the merits of our decision to focus in the market where our knowledge, relationships and reputation help us make great investments. The team was as busy as ever in 2018, starting the year by completing the Mainland migration and ending it by looking for new assets to buy with $258 million of Maui ag land proceeds.

Our most notable 2018 acquisition was the 415,000-square-foot Terramar portfolio of 3 newly constructed premier retail centers in Hawaii for $257 million. The acquisition was financed primarily with proceeds from 7 Mainland properties. In addition to the acquisition of the Terramar portfolio, we closed in late December on the first reinvestment of Maui land sale proceeds. This first acquisition was the Opule industrial asset, 152,000-square-foot warehouse on Oahu for $40 million.

As I said earlier, we're tracking well in the reinvestment of the $258 million we generated from the Maui sale, and we have until June to reinvest the proceeds. While the Terramar deal was an exchange of income-generating assets on the Mainland for higher quality income-generating assets in our core market, the Maui land sale helps us increase NOI by shifting non-income-producing lands to income-generating properties. Successfully reinvesting the 1031 proceed is critical to NOI growth, and as I said, I'm very pleased by the progress we're making in this process.

We've closed on or are under contract for deals totaling more than 77% of the proceeds, and we have a long list of potential assets that we've identified for the remaining 23% of the capital.

The assets under contract and most of the additional identified assets are in our core asset classes of anchored retail, light industrial and ground leases. We also feel confident that the stabilized cap rates we will achieve will meet or exceed 4.5% we signaled on our December strategic update call.

Finally, the lever 5. As I mentioned earlier, we've made over $1 billion of Hawaii Commercial Real Estate acquisitions since 2013. 70% of this figure was funded by internal sources of capital, resulting from property and land sales through 1031 transactions. As successful as our 1031 program has been, we eventually will exhaust our internal sources of capital to fund growth, thereby diminishing the role of 1031 exchanges. At that point, we will rely increasingly on our balance sheet and equity for growth capital, which comprise the fifth lever.

We've not pulled this lever in a meaningful way to date as we have had internal sources of capital to fund our growth. To make this lever more accessible in the future, we will keep simplifying the company, making it easier for investors to fully value the company, and we'll also be improving our debt metrics in the process.

The fun part of this process of transforming the company and simplifying it is the growth of our portfolio. Shrinking exposure to the less strategic parts, however, is just as important but not always as fun. In many cases, we have simply been selling off development inventory at attractive prices and attractive margins. But in other cases, we have incurred some noncash book impairments as we've either transitioned out of businesses like the sugar operations in 2016 or changed our strategic intent as with Kukui'ula in 2018. As I said before, there will be some pain along the way in transitioning to become a pure commercial REIT, but the benefits of focus will be worth it.

I believe that and have been encouraged by the positive reaction we've gotten to December Maui land sale announcement that the steps we're taking are in the right direction.

Let me now shift to some of our simplification efforts. Kukui'ula presents an interesting paradox because it is performing better than at any time in the past decade, really hitting its stride of late. Yet events dictate that we have to recognize a significant impairment. This impairment is not triggered by a degradation of our outlook for the project but rather a change in our investment horizon. Let me explain. The joint venture closed on 28 units in 2018, including lots ranging from $525,000 to $4.8 million and homes ranging from $1.3 million to $4.5 million. This momentum, which is carried over into 2019 with 2 closings and 7 new contracts and reservations in just the first 2 months, is very encouraging.

While sales and homebuilding activity are growing, we are committed to simplifying the company, and we ran a process in 2018 to

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explore strategic alternatives, which included, among other options, selling the project. However, as I mentioned in December, we were not satisfied with the results of the process and, thus, decided not to pursue any of the alternatives. We believe the joint venture can continue to build on the favorable sales trends, and we can position the project for later monetization. We're not putting any timeline on exiting but decided in December that we're not the best long-term owners for the project. This reflects the best interest of both our shareholders and the project itself as there likely will be other parties that can ultimately be better stewards for a project like this in the long term. As long as we remain involved in the project, however, we will remain committed to its continued build-out and sales since this is the path toward maximum valuation.

Even though momentum of the project is good, our change in intent in December triggered an assessment of the carrying value of the investment. In the past, we simply had to be confident that we would recover our carrying value over time, which we absolutely were. With our change in intent, the test changes to be one at fair market value, essentially a buy-it-now analysis, which is logically going to produce a lower value especially at this stage of the real estate cycle. After engaging an independent third-party assessment of its fair market value, we are taking a noncash, $187 million charge to our investment in the project. As of December 31, 2018, a new book value of our Kukui'ula investments, excluding the shops at Kukui'ula, is $144 million.

The other big adjustment we took in the fourth quarter was the impairment of our Materials & Construction subsidiary, Grace Pacific. We stated in December our intent to pursue strategic alternatives for this business, but that's not what triggered the impairment in this case. In this case, it was an annual goodwill testing, which is conducted each year in the fourth quarter, and it produced this year a lower valuation than it had in prior years, primarily due to declines in our recent financial results, our view of the market and business outlook going forward. This segment has struggled due to increased competition in a declining paving market, and our operational improvement initiatives have yet to bear fruit. As with Kukui'ula, we engaged an independent valuation firm to conduct an assessment of the value, and that produced the aggregate noncash $78 million impairment, primarily in the paving and quarry operations of Grace. As a result of the impairment, our net book value at the end of 2018 was adjusted down to $233 million.

I'd now like to take a minute to talk about what's next for A&B. The Maui land sale was transformative in many ways because it transitions us largely out of diversified agriculture and will result in roughly a $12 million increase in net operating income once we have reinvested the 1031 proceeds and properties have stabilized. It also puts us an important step closer to the focused Hawaii Commercial Real Estate company we've committed to become. The challenge now is to execute on the final few steps in that journey.

We will continue to focus on growing our core Commercial Real Estate business and effectively managing our existing portfolio, capitalizing on our embedded opportunities and knowledge of the Hawaii market. We will also focus on further monetization of non-CRE assets.

But the time line is not firm. One thing that we've maintained throughout our strategic transformation is that we cannot set artificial deadlines for taking any particular steps. As such, we have to take actions when the time is right. We didn't set a time line for the Mainland migration nor do transition of our ag lands, and we can't predict when we will monetize remaining TRS assets. However, we are committed to further progress, and we've engaged an adviser to help us evaluate our strategic options for Grace.

We're also kicking off a strategic planning process that will help us define our other elements -- the other elements of our path ahead, such as what will we look like when we're simply a Commercial Real Estate company. We need to define a path towards this even though it can't be implemented overnight. Effectively managing the processes streamlining organization will not be easy, but it's essential to reducing our corporate expenses over time.

With that, let me ask Diana to comment on financial matters.

Diana M. Laing ***Alexander & Baldwin, Inc. - Interim CFO***

Thanks, Chris, and good afternoon, everyone. I'll start with a recap of our Commercial Real Estate segment operating performance. Our same-store cash NOI increased 3.6% during 2018 compared with 2017. Occupancy in the same-store portfolio ended the year at 91.9% compared with 93.7% a year earlier, primarily due to a vacancy at our Komohana Industrial Park Property.

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Leasing spreads for comparable leases in the total Commercial Real Estate portfolio were 8.4%, which is comprised of new lease rental rate increases of 4.8% and renewal rental rate increases of 9.3%.

Total portfolio cash NOI increased 2.3% for 2018 compared with 2017, which was comprised of an increase in Hawaii property cash NOI at 15.2%, offset by a decrease in Mainland property cash NOI at 86.1%, which is reflective of the completion of our portfolio migration away from the Mainland and the growth of our Hawaii portfolio. The Hawaii portfolio at December 31, 2018, totaled approximately 3.5 million square feet, with occupancy at 92.4%.

The Land Operations segment produced adjusted EBITDA of $162 million in 2018 compared with $15.8 million in 2017. As we previously discussed today in our December strategic update, we sold approximately 41,000 acres of agricultural land in Maui in December for cash proceeds of $258 million. In connection with this sale, we recognized a margin of approximately $162 million during the fourth quarter, and we've established a reserve of approximately $81 million for contingent obligations related to the sale.

Also included in the Land Operations segment results is $187 million noncash impairment related to our investment in Kukui'ula, which Chris discussed in his remarks. The carrying value of our investments in Kukui'ula now total $144 million, excluding The Shops at Kukui'ula; and inclusive of the Kukui'ula project, the Land Operations segment now includes 4 active development-for-sale projects, which are described on Page 27 of the supplemental information.

Of the $262 million sale proceeds, $258 million from the transaction are eligible for 1031 exchange, and we expect to reinvest these proceeds into Hawaii commercial properties by midyear. As Chris mentioned, we already have $40 million invested through our Opule acquisition in December. With a total of 77% of all the replacement asset either closed or under contract, we're making significant progress on reinvesting the 1031 proceeds. At an average cap rate of 4.5%, these acquisitions should produce stabilized NOI of approximately $12 million per year. And coupled with the reduction in holding cost of the land of about $8 million per year, this should result in additional EBITDA of approximately $20 million per year once our acquisitions are stabilized and our obligations are completed on Maui.

Results from our Materials & Construction segments are driven by our Grace Pacific subsidiary. As Chris discussed, declines in financial results and our view of the market going forward during the fourth quarter prompted an impairment of approximately $78 million, primarily related to goodwill and long-lived assets in the quarry and paving operations, ultimately resulting in net book value for Grace of approximately $233 million at the end of 2018.

In the consolidated financial statements, operating revenue for 2018 increased $219 million or 52% over 2017, primarily due to higher revenue from the Land Operation segment, which is the result of the sale of the Maui ag land. Cost of operations increased $80 million or 26.8% over 2017.

Selling G&A expenses were $61 million in 2018 compared to $66 million in 2017, a decrease of 7.8%, primarily as a result of lower professional services and personnel costs in 2018.

We recognized asset impairments of $78 million, primarily from the Materials & Construction segment, and impairments to our equity investments of $189 million, primarily related to Kukui'ula. We had a net loss of $72 million in 2018 compared with net income of $228 million in 2017.

Going forward, we expect to finance our business and acquisitions for the next year primarily with cash on hand or generated from operations. In addition, we have available borrowing capacity of $300 million on our $450 million credit facility. At December 31, 2018, our debt to total market cap was 37%, net debt to adjusted EBITDA was 2.7x, and fixed charge coverage was 7.4x. We have a well-laddered debt maturity schedule, and 75% of our debt is fixed rate.

Last year, we discussed the goal of reducing debt by $100 million in the last 3 quarters of the year, which we expected to pay with proceeds of land development properties. We fell short of that goal, but largely due to timing of transactions, one of which, the Wailea land sale closed in early 2019.

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Going forward, as we continue on focusing expanding the Commercial Real Estate segment, we'll continue to improve our debt metrics by increasing cash flow from the Commercial Real Estate segment and by paying down debt with proceeds of asset sales where possible.

Turning to guidance for 2019. Guidance in the Commercial Real Estate segment is expected to produce same-store cash NOI to grow by 2% to 3%, leasing spreads to be in the range of 4.5% to 5.5%, maintenance CapEx to be approximately $11 million, growth CapEx to be approximately $30 million and our acquisition volume of approximately $220 million, the proceeds -- or the payment for which is generated by the 1031 exchanges.

Our plan regarding the payment of dividends is generally to match our payout with our REIT taxable income. For 2019, we have declared a dividend for the first quarter of $0.145 per share, and we'll continue to monitor this number throughout the year.

Now I'll turn the call back to Chris for closing remarks.

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

Thanks a lot, Diana. I'm going to go off-script for a second and just thank Diana for being onboard, helping us through this close. And I want to thank Clayton as well and his entire team. This has been an unusually complicated close, but I think it's a very important part of our strategic transformation, and they've done a great job of documenting our financials this quarter. And I know it will take some time for investors to digest them, but we remain ready to help with questions. But I want to thank both of them for their leadership.

Before I go to my closing remarks, I want to share this visual representation of the incredible progress we have made toward becoming a focused Hawaii Commercial Real Estate company. On the left side of the slide, there's a bar chart showing the growth of our Hawaii Commercial Real Estate NOI, which has more than tripled from 2012 to 2018. And of course, we expect this to grow significantly more as we reinvest the Maui ag land proceeds, likely to eclipse $100 million on a run rate basis by the end of this year.

The pie chart to the right reflects of the book value of our assets by segment as of December 31, 2018. This shows that our core Commercial Real assets represents 69% of our total book value now and really starting to look more and more like that Hawaii-focused Commercial Real Estate company that we're seeking to become.

So in closing, I'm very proud of what we've accomplished through this journey. Our team has displayed both the skill to execute our strategy and the willingness to make the tough decisions we've needed to make. The road ahead will require more of the same, but I'm very confident that we can meet the challenges and seize the opportunities ahead of us.

So that concludes our prepared remarks, 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 Institutional Equities, Research Division - Senior MD***

Chris, I wanted to ask you about Kukui'ula. So pursuing the sale process, and you abandoned that. But what will you do differently at that project to get it ready to revisit a sale or bring in JV partners? What's the strategy? I just want to understand.

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

Yes, it's a great question. And I'll start with an answer, and if Lance wants to jump in, he can feel free to do so. So to the first thing, Sheila, is just making sure that we can continue to take advantage of the momentum that we've got in the project right now. Sales have really picked up. I think it's result of the few things. One is, and probably the most important thing, is just the critical mass that we're getting at the project. There is a tipping point in projects like this, and while it's impossible to declare that we've passed the tipping point, I think that there's a high likelihood that we have. We've -- it's a vibrant community, and people are bringing their friends in, and people

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who have heard about it or stayed there with friends or in the lodge program are getting excited about it. And I think that, that has really helped the momentum. And the challenge we have now is we're running out of inventory. And so in the near term -- when I say inventory, I'm talking mostly about lots. As you know, it's not our intent to do a lot of vertical development, but we have done some. So our priority for 2019 is just making sure that we've got lots available to sell and take advantage of the momentum. And we're doing that -- as you may recall, we built the main project road all the way out to the west side of the projects. So we now can very readily and quickly and relatively inexpensively tap into new land parcels where we can create lots and get them ready for sale. And so that's our near-term focus. And we think with relatively little capital, we can bring sufficient lots to market to keep this momentum going and keep our cash flow and cash investment to a minimum. A little bit longer term, we will probably look to do more vertical developments so that we can get some more lower end, even multifamily product developed, but that, we're going to try to do with our people's money. We're going to do that through joint ventures, potentially selling parcels. The bottom line is we're going to look for very capital-efficient ways to keep the momentum going at Kukui'ula and take advantage of what lately has been a very positive market. And I'll invite Lance to add anything else he'd like to.

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

Yes, I would just add, Sheila, that I think that's probably what Chris just described as the biggest change to the business plan for Kukui'ula going forward. It's sort of that midterm opportunity set of vertical building for somebody else to step into. And as part of our process that we went through last year, we've convinced ourselves that there is opportunity for other investors and developers to take advantage of that business plan. So we sort of laid out the strategy for that, and I think that's going to be one of the opportunities for us to seek additional capital.

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

Okay. That makes sense. And then an accounting question on that. Does the impairment that you took give you any tax benefit? Or if you do something strategic with Grace or sell an asset, does that impairment enable you to shelter gains or not?

Clayton K.Y Chun ***Alexander & Baldwin, Inc. - VP, CAO & Corporate Controller***

Sheila, this is Clayton. The impairment itself is a noncash book entry. And so any tax impact that would be generated would result from an actual transaction itself. And so in this case, because it was just a fair-valuing exercise that happened, there really isn't any tax consequence to the company as a result of us remeasuring it to fair value.

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

You're hitting on an important point, which is that one of the things we look at in our strategic plan is how future sale of the project if it were to occur below our tax basis could be used to shelter other gains. So that will be a big part of our strategic plan thinking and our capital strategy going forward.

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

Okay. Great. And then if you could just remind us or walk us through the land sale proceeds just in terms of timing of closings because it would impact our models. So -- and just maybe the property types. But that would be helpful.

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

Do you want me to -- or you want to take it, Lance?

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

You take a shot it for now.

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

So just to recap the numbers, $258 million of total proceeds, what we have indicated as far as our expected return or yield on the $258 million is a relatively conservative 4.5% cap rate. Now we could do better than that depending on the mix of assets, but as you may recall, we picked that number because we assume that we would not only have a mix of some of our core grocery-anchored assets, which typically trade around the 5% cap. But we may also have some either developable land or ground leased assets that might trade at even lower cap rate. So that's why we chose the 4.5% as an initial guide. And we'll be able to update that number as we go along. But if you just take that number and you assume $12 million of NOI, which is what that would equate to, we know that we have to invest it all by the

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middle of June. So you can assume that by the middle of June, it's all invested. And in terms of the pace of the investment of it, to help your modeling, we closed $40 million in the fourth quarter. I would assume either late first quarter to anywhere in the second quarter for the balance of the investments. But I would be relatively conservative in terms of timing. Our focus is just to make sure we get it all done before the June deadline.

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

Perfect. One more, and I'll get back in line. But what is the growth CapEx of $30 million? What is that targeting?

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

Yes, the majority of the segments, some of it is going to wrap up some of our build-out for Lau Hala Shops. Even though we're 100% leased, we still do have some landlord work to complete there with some of our tenants before they open. And then it's completion of the first portion of the Ho'okele development, that's our Safeway-anchored center in Kahului, Maui; as well as the commencement of the redevelopment and repositioning of the Aikahi Park Shopping Center on the windward side of Oahu.

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

Ok, great. Thank you.

Operator

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

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

Just wondering if you could walk through the JV quickly. I think, looking at the supplement, there's about 14,000 acres on Maui. I think there are conservation and et cetera. Are there -- whose those land is going to be placed within the JV? And will that take kind of the -- those lands down to 0 in terms of what you have left in the portfolio outside of the JV?

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

Yes. Let me describe the general structure of the deal, and then -- I don't actually have the supplement in front of me, Clayton does. He could -- you can chime in, Clayton, with specific numbers. But basically, the answer to your question, Steve, is that, yes, the conservation lands on Maui, which are primarily the East Maui Irrigation lands now reside within a JV that we have with Mahi Pono, the entity that purchased the ag lands. So the ag lands of 41,000 acres, those were all conveyed to Mahi Pono, and the conservation lands are now within this JV. And part of the agreement that we have with them whereby they purchased a 50% interest earlier this year, and they have the option to purchase the balance at a later date.

Clayton K.Y Chun *Alexander & Baldwin, Inc. - VP, CAO & Corporate Controller*

Right. So I was just going to piggyback off of what Chris was saying. And so the 14,000 acres related to EMI, wherein the next quarter supplemental, it would reflect the removal of those amounts that relate to the joint venture.

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

Now we will still own a chunk of ag land on Maui. But the ag land that still shows up in the supplement will remain. That is separate from the deal.

Clayton K.Y Chun *Alexander & Baldwin, Inc. - VP, CAO & Corporate Controller*

Right. That's correct.

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

Okay. That's helpful. And then so there's ag lands on Maui, there's ag land in Hawaii, and you have the kind of breakdown of sales, et cetera. And is the -- are any other sales that happen within this portfolio, they can be moved to CRE? And then is the -- I believe you have a -- the land on Maui, the 6,300 acres, I believe a portion of that is leased to a coffee entity. And I'm just wondering, is that contained in the CRE as well? Or is that -- was that in ag or something like that?

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Clayton K.Y Chun ***Alexander & Baldwin, Inc. - VP, CAO & Corporate Controller***

So the land that's being leased to the coffee company is in the Land Operations segment. So it is not in the CRE segment.

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

Okay. And then the first part of that?

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

I guess, that's about 3,000 acres, I believe. And the balance of our ag land would reside within the REIT but not generate income currently for CRE.

Clayton K.Y Chun ***Alexander & Baldwin, Inc. - VP, CAO & Corporate Controller***

That's right. Yes.

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

Okay. And then maybe just on the -- and maybe I can follow up with somebody after the call, but I just want to get kind of a breakdown of what -- within the Land Operations, I know you had the write-down -- I think you had the write-down Kukui'ula and then the gain on the sale or, at least, a portion of it. What else was in there that happened within the quarter? Just trying to get kind of maybe a cleaner run rate on what happened within the quarter. And then also within Materials & Construction, I mean, I guess, outside of the write-down there, it looks like a pretty awful quarter relative to what you've had thus far this year and past periods, if you could just talk about that a little bit.

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

Yes, so let me start -- let's take this in reverse order. I will comment on Grace, Materials & Construction and then maybe Clayton or Lance could provide a little more color on what transacted in the fourth quarter in Land Operations because we did have some other land and development sales. Yes, so Grace, pretty awful is probably not a bad characterization of the quarter, but I do -- and it was very disappointing to us even if you strip out the impairment. I will say, however, that I think a good portion of -- some of it is absolutely reflective of just kind of the market and environment we've been in with jobs that were bid in a very competitive market. We've had weather challenges and other things. But I think the reason that the number for the quarter was as poor as it was and our full year number was only a little over $14 million was, in large part, due to various operational initiatives that we're undertaking to really try to set the business on a better course. So while we're not, at this point, providing an outlook for 2019, I certainly expect that it will be materially better than 2018 that we are putting behind us a lot of the operational change initiatives and operational challenges that we've had. But having said that, we are still going to be in a fairly challenged environment and this is going to be an ongoing process. The final thing I'll say on Grace is I'm very encouraged by the initiatives that are taking place. I really believe that the right things are being done out there to improve performance. But it's quite clear from the results that we are not seeing the benefits of that yet. But I'm optimistic that we will.

Clayton K.Y Chun ***Alexander & Baldwin, Inc. - VP, CAO & Corporate Controller***

So with respect to the land operations, you pointed out aptly that there was a lot of noise during the quarter and the year related to the Kukui'ula impairment. There's also the impact related to the tune of $162 million of margin that is realized during the quarter. In addition to that, we had closed on some land sales, and so we had identified one of those, which is a sale to the County of Maui that closed at the very end of the year, and that produced some income. In addition to that, we have our ongoing renewable energy income that was generated. And so that really makes up the balance of Land Operations and the results for the quarter itself.

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

Okay. Am I right? Is that still lost, kind of taking those things out within Land Operations, the Kukui'ula and the land sale, the gain on that?

Clayton K.Y Chun ***Alexander & Baldwin, Inc. - VP, CAO & Corporate Controller***

So taking both of those, so the $162 million and the Kukui'ula impairment, that would result in close to breakeven, but it would be a modest loss.

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

Okay. Okay. And I know that's lumpy, et cetera. And maybe just last one, I don't know if you have anyone else in queue. Within the CRE,I guess, the Slide 24 that you have in there, I think that's very helpful in terms of the valuation, the way to think about things. Just in terms of the book value and moving those things or simplification, et cetera, I mean, do you think about -- the Land Operations, the $350 million book value, is there a way to think about market value for any of these pieces maybe other than Materials & Construction? And then the second part is how much of that Land Operations could be moved into CRE assuming you sold it at book value?

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

So the first part of that is a pretty long and complicated answer because it includes so many different components, and we'd probably want to go off-line and talk a little bit about the buildup of the NAV of the land ops piece. What I will say is that the only assets that fall within the Land Operations segment that could be directly converted to Commercial Real Estate through a 1031 exchange would be the ag lands. And the book value of those lands is very low. So from a book value standpoint, the vast majority of land operations would be development projects and JVs that would be taxable if we sold them. And we could, of course, use that to pay down debt, and that could indirectly benefit our CRE growth, but they wouldn't be directly transferable. I hope that answers your question.

Operator

And our next question comes from the line of Sheila McGrath with Evercore.

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

A couple of quick additional questions. Just the net debt to EBITDA measure is a rough one for Alexander & Baldwin with the huge sales. Just wondered if you think that's a metric we should not really focus on right now. Or are you targeting a normalized net debt to EBITDA? How should we think about leverage metrics for Alex?

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

Diana?

Diana M. Laing ***Alexander & Baldwin, Inc. - Interim CFO***

Yes, I think as we continue to evolve the business into a more REIT-like Commercial Real Estate cash flow business, I think I would expect net debt to EBITDA to fall into the range of, frankly, investment-grade credit something in the high 5, 6s. I think that -- having said that, I think that we're not quite there with that from the Commercial Real Estate perspective. But again, as we grow EBITDA by growing the Commercial Real Estate portfolio, those metrics will improve even if we don't pay down any debt, and it is our intent to pay down what we can with the proceeds of land sales. So I think our goal would be in the high 5s and 6s in the net debt-to-EBITDA measurement. And I think we are probably at the high-end of that going forward, absent more debt paydowns and Commercial Real Estate acquisitions.

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

Okay. Perfect. And then on G&A, this is probably for you again, Diana. But G&A in 2019, how should we think about that in comparison to the 2018?

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

So actually I'll take that one, Sheila. We're really not ready to give an estimate partly because we are about to undertake our strategic planning process. And as I said in my prepared remarks, a big part of the strategic planning process is going to be around kind of designing the A&B of the future and thinking about what we look like once we are truly a focused Commercial Real Estate company. And there are 2 parts to that: One is thinking about what that future looks like. The other one is thinking about when that future arrives. And as I said before, we're not putting a firm time line on the final steps in the simplification. So I hope that by the middle of the year, we're in a much better position to talk about kind of the glide path in what we want to accomplish in terms of simplifying the supporting businesses that would then, of course, drive some of the G&A. But we're not necessarily projecting that, that would result in a lot of savings this year. Because even if we were to make changes that drove significant longer-term reduction, there could be transition costs associated with them. So while I certainly hope to do better than 2018 in terms of G&A, it's a little premature for me to give you a target. And so what I would like to do is come back on that more in the middle of the year after we've been through our strategic planning process.

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

Okay. And last question. On ground leases. It is a unique kind of opportunity in Hawaii for you to pursue acquisitions there. Can you just refresh us on the pricing of those and if you think that you'll have any opportunities to use OP units to facilitate those types of transactions?

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

So Sheila, this is Lance. Yes, we definitely agree. We really like the ground lease space. In terms of pricing, we expect cap rates of those types of opportunities to be significantly less than what we would pay for fee simple positions, if for no other reason, simply because it is literally the most secure piece of the capital stack that you can buy into in real estate, which is part of the reason we like it. And so we've seen anywhere from, call it, 100 bps to 150 bps cap rate compression on ground lease deals versus fee simple. And then with regards to the OP, we do think that OP will be a strong currency for us in this marketplace given some of the generational ownership structures that we see here in Hawaii. But I would say that would hold true not just for ground lease opportunities, that would really hold true through across the entire spectrum of asset classes that we like to invest in, whether it be retail, industrial or ground leases.

Operator

And I'm showing no further questions at this time. So with that, I'll turn the call back over to VP, Capital Markets, Mr. Kenny Kan, for closing remarks.

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

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

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 wonderful day.

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