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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Alexander & Baldwin First Quarter 2019 Earnings Call. (Operator Instructions) As a reminder, today's conference is being recorded.

I would now like to introduce your host for today's conference, Mr. Kenny Kan, Vice President of Capital Markets. Please go ahead.

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

Thank you, Aloha, and welcome to our call to discuss Alexander & Baldwin's 2019 First Quarter 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.

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

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

Chris will open up today's presentation by walking through the strategic and operational update. He'll then turn the presentation over to Diana, who will discuss financial matters. Chris will return for some closing remarks, and then we'll open it up for your questions.

With that, let me turn it over to Chris.

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

Thanks, Kenny, and good afternoon to our listeners. The very positive momentum we've been enjoying in our Commercial Real Estate business continued in the first quarter. Recall that last quarter, we were celebrating having more than tripled our Hawaii net operating income, or NOI, over the past 6 years, thanks in large part to the migration of our Mainland assets to Hawaii. Now the Hawaii assets we've purchased continued to perform well and we are steadily expanding the portfolio through new acquisitions and developments or redevelopments. All of this supports a positive outlook for the year as well as a $0.02 or roughly 14% increase in our quarterly dividend.

For the quarter, I'm pleased to report an 11.5% increase in total cash NOI as compared to our prior year first quarter, 7.7% growth in same-store cash NOI and 10.3% in comparable leasing spreads. These figures exceeded our expectations and were driven by strong performance at Pearl Highlands Center and the Kailua Retail portfolio, as well as earlier economic occupancy within our portfolio. Given the strong start we've had, we feel comfortable adjusting our full year same-store cash NOI guidance to 2.5% to 3.5%, an increase of 50 basis points.

While our same-store performance is encouraging, an even bigger driver of growth for 2019 will be the reinvestment of the Maui land sale proceeds. That sale of 41,000 acres of agricultural land facilitates the reinvestment of $258 million of proceeds into Commercial Real Estate. This helps the company convert non-income-producing lands into income-producing assets in our core Commercial Real Estate portfolio.

As noted previously, we've targeted exclusively Hawaii assets in our preferred asset classes of retail, industrial and ground leases. I'm very pleased to announce that we are now either closed or under binding contract for 100% of the proceeds, and we were able to secure assets that perfectly utilized our tax-deferred proceeds without requiring incremental cash investment. The success of this reinvestment effort is yet another example of our team's impeccable execution in the Hawaii market.

Now I'll provide some additional details on all of this. Our Commercial Real Estate cash NOI was $24.2 million in the first quarter of 2019 as compared to $21.7 million in the same quarter of 2018. That's an 11.5% increase. The large contributors to this were Pearl Highlands with a 26% increase due to the addition of ULTA and the reopening of the newly renovated food court, Kailua Retail with a 22% increase as a result of the opening of 2 new restaurants and the UFC Gym at Lau Hala Shops and the ramping up of the 3 grocery-anchored centers we acquired last year from Terramar.

As I mentioned, same-store cash NOI increased 7.7% in the first quarter of 2019 as compared to the first quarter last year. This is an impressive start, but we do expect some moderation as the year goes on, simply because of favorable timing we received from some earlier lease commencements.

We executed 54 leases in the first quarter, covering 120,000 square feet of gross leasable area. This puts us on track for our full year leasing goals. Leasing spreads for comparable leases in our retail portfolio were 11.8% for the first quarter of 2019. Portfolio-wide, as I said, they were 10.3%. These results are well above the 4.5% to 5.5% guidance for the full year that we provided earlier, and they resulted from strong leasing activity in Kailua, Aikahi Park Shopping Center and Kakaako Commerce Center.

Our portfolio-wide occupancy increased to 93.6% at the end of the first quarter, which was an increase of 180 basis points compared to the first quarter of last year. Contributing to this increase was our successful repositioning of Pearl Highlands, including the strategically merchandising program that drew several new national tenants to the center.

Moving on to our 1031 reinvestment program. It's worth remembering that while this program has been active for many years and has fueled our significant Hawaii commercial real estate expansion, most of our reinvestment proceeds in recent years had been generated from the sale of Mainland commercial assets. This year, however, we are investing proceeds from the sale of non-income-producing lands. This, of course, helps drive significant growth in NOI.

As I said, 100% of the proceeds from December's land sale are now spoken for, with closings to date on 58%. We are on schedule to close the remaining transactions well in advance of our required deadline.

We are purchasing 6 Hawaii properties, all within our preferred asset classes. We have closed on 2 industrial assets and 2 ground leases. We are under binding contracts to purchase 2 fee-simple neighbor island grocery-anchored retail properties. These retail properties complement our existing grocery-anchored portfolio and add geographic coverage.

Overall, we expect stabilized yields about 100 basis points above the 4.5% we guided to in December, thanks to a combination of higher cap rates and the fact that all proceeds went into income-producing assets rather than development land, which had been a consideration back in December.

Now let me provide you with more specifics about individual assets we've acquired. 3 of our 4 acquisitions have been in the city of Kapolei, which is on the West side of Oahu, and has been dubbed Oahu's second city due to the significant presence of government services, including a satellite city hall, state office and judiciary complex and a secondary campus for the University of Hawaii.

Given its relatively close proximately to the Port of Honolulu and the Honolulu International Airport, and the availability of contiguous industrial zone land, Kapolei is home to the majority of new industrial product and is where the majority of national tenants have located their warehouses. For these reasons, this is an important geography for us as we look to expand our industrial footprint.

Our first Kapolei acquisition completed in December was two Class A warehouse buildings, representing 150,000 square feet of prime industrial space. The property, which was expanded in 2018, is in the Kapolei Business Park, and approximately 75% of the building was leased back for 10 years by the former owner, Covan, a national moving company that has been doing business in Hawaii for 20 years. We are currently marketing the remaining 25%, which is newly completed space, and have received interest from a few national warehouse tenants.

Our second Kapolei acquisition closed on April 8. We acquired a newly constructed Class A warehouse called the Kapolei Enterprise Center, or KEC. The 93,000 square foot building was completed in March and is 100% leased to Best Buy and Hawaii Transfer Company Limited, a Hawaii-based distribution and logistics company. KEC with a warehouse height of 40 feet and dock high loading is one of the most modern industrial buildings constructed in the state.

Our third Kapolei acquisition which closed on April 29 is a 36.4-acre parcel at Kapolei Business Park. This asset is currently licensed to the City & County of Honolulu for the next 7 years and is the site at which prefabricated concrete components of the new rail system are being cast by a subcontractor to the Honolulu Authority for Rapid Transportation. The property is fully zoned with all off-site improvements in place, providing numerous options beyond the current lease.

In addition to our Kapolei properties, we completed the acquisition on March 25 of the ground lease under one of Home Depot's top-performing stores in the Iwilei's submarket of Honolulu. The property consists of a single 9-acre parcel on which Home Depot has constructed a 133,000 square foot warehouse, 15,000 square foot garden center and a 600 car parking garage. The property is mixed use zone, with a transit-oriented development overlay over a portion, allowing future retail, office, industrial and residential uses.

So to summarize the status of our Maui land sale reinvestment program to date, we've placed $149.1 million or 58% of the total proceeds and are under contract for the remaining balance. We are on track and scheduled to close on the remaining balance prior to the mid-June 1031 exchange deadline. We anticipate generating an approximate 5.6% yield on the $258 million placed. So a little over $14 million in annualized incremental NOI. For 2019, we expect these assets to produce about $9 million of NOI given the timing of the acquisitions and stabilization time frame.

I'm extremely proud of the team for execution of these exchanges. These assets were completely sourced off market from relationships the company has built over many years of operating in Hawaii, further reinforcing the benefits of our Hawaii market focus.

Now let's move on to the progress of our redevelopment and development efforts. At our Lau Hala Shops redevelopment project in Kailua, the asset is fully leased and the opening of Down to Earth, organic grocery store, later this year is expected to bring occupancy to 97%. The remaining 1,500 square feet of in-line retail space is awaiting permit approval to complete tenant buildouts. We should be 100% occupied by the end of the year. We also continue to study options for Phase II of the Kailua redevelopment project, and we'll work with the community through the planning process.

For our Aikahi Park Shopping Center in Kailua, we have presented our plan to the community and we'll continue community engagement over the summer. We expect to be under construction by the end of the year. While we're still finalizing plans and underwriting the project, we do expect that it will generate high single-digit returns on an investment of $15 million to $18 million. We will share more details on this project as plans are solidified.

At our 94,000 square foot Ho'okele Shopping Center, ground-up development project on Maui, which is adjacent to our Maui Business Park project at Kahului, construction remains on schedule with an anticipated mid-2019 opening of the Safeway grocery store, gas station and some in-line retail space. The second phase of this project, which includes approximately 27,000 square feet of additional retail space will commence construction as leases are executed.

Now we move on to our Land Operations segment. As part of our strategic transformation, we continue to monetize land and development for sale projects. In the first quarter, we generated revenue of $49 million from land and development sales, including the closing of a bulk sale at Wailea, the final tranche of 800 acres of agricultural land to Mahi Pono, 22 units at Kamalani and 1 lot at our Kahala project. Also included in the revenue figure is $6.2 million of cash distributions from joint ventures, including The Collection joint venture and the builder joint venture at Kukui'ula. Our main Kukui'ula joint venture project continues to enjoy strong sales performance, with 6 developer unit sales in the quarter. We're happy with the progress we're seeing at the project.

While Commercial Real Estate and Land Operations are tracking very well, our Materials & Construction business continued to struggle in the first quarter of the year with adjusted EBITDA of negative $1.4 million as compared to $3.1 million for the first quarter last year. The challenges we faced in the quarter were due primarily to a combination of delays in contracted government work and costs associated with operational and systems changes.

The most recent change at Grace is the appointment of a new president to lead the business. Jerrod Schreck assumed the reigns on April 24, and I'm confident he will drive many improvements in the business. Jerrod has been with A&B for almost 4 years, and in that time, he has overseen 2 of our most complicated and well-executed undertakings: The shutdown of our sugar plantation in 2016 and the subsequent sale of the lands underlying the plantation in 2018. Prior to joining A&B, Jerrod held several operational and executive roles in other Hawaii companies. Jerrod is actively engaged with the operating unit heads at Grace and developing a plan for restoring profitability.

Our first quarter results were disappointing, in part because there are positive signs in the business as bidding activity picks up and we have completed the implementation of a new financial system that will give us better insights into the financial drivers of our business. I'm going to refrain from giving a full year outlook at this point. But as Jerrod and his team get their arms around our opportunities in the next couple of months, we will be in a better position to provide an outlook on our next call.

We are progressing in our efforts to explore strategic options for the business and are preparing for a possible marketing effort later this year.

With that, let me turn it over to Diana to cover financial matters.

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

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 7.7% during the first quarter of 2019 compared to the same period last year. Occupancy in the same-store portfolio in the first quarter ended at 93.2% compared with 91.7% at the end of the first quarter last year, primarily due to strong leasing activity at Pearl Highlands Center, Waipio Shopping Center and Kunia Shopping Center.

Leasing spreads for comparable leases in the total Commercial Real Estate portfolio were 10.3%, which is comprised of new lease rental rate increases of 8.6% and renewal rental rate increases of 10.7%.

Total portfolio cash NOI increased 11.5% for the first quarter of 2019 compared to the same period last year, primarily due to outstanding performance at Pearl Highlands Center, Kailua Retail and the stabilization of the TRC assets. The Hawaii portfolio at the end of the first quarter ended with occupancy at 93.6%.

To recap Chris' earlier comments, we've invested a total of $149.1 million or 58% of our total 1031 exchange proceeds. We have binding contracts for 2 retail assets on the neighbor islands that should utilize the remaining proceeds, totaling $109.3 million. Our deadline for reinvestment is mid-June, and we anticipate closing these transactions before then. When complete, we anticipate that these investments should produce stabilized NOI of approximately $14.4 million per year, assuming an average cap rate of 5.6%. Coupled with the reduction in holding cost of the land of about $8 million per year, this should result in additional EBITDA of approximately $22.4 million per year once our acquisitions are stabilized and our obligations are completed on Maui.

Moving on to our Land Operations segment. This business unit produced adjusted EBITDA of $13 million in the first quarter of 2019 as a result of sales and distributions related to land and development for sale projects. This included significant transactions, such as the bulk Wailea land sale, totaling $23.6 million; closing of 22 units at Kamalani and 1 at Kahala for $11.2 million; and the final tranche of the bulk Maui ag land sale for $6.7 million.

Results from our Materials & Construction segments were driven by our Grace Pacific subsidiary. In the first quarter, Grace adjusted EBITDA was negative $1.4 million compared to a positive $3.1 million in the first quarter last year. As Chris discussed earlier, performance in the first quarter suffered as a result in delays in government contracted work, higher costs associated with the operational changes in place and the systems changes in the quarter.

In the consolidated financial statements, operating revenue for the first quarter of 2019 increased $16.1 million or 14.2% over the first quarter of 2018, primarily due to our Land Operations business. Cost of operations increased $9.4 million or 10.3% over the first quarter of 2018.

Selling and G&A expenses were $15.5 million in the first quarter of 2019 compared to $15 million in the first quarter of 2018, an increase of 3.3%, primarily as a result of bringing in-house the leasing function, which has resulted in lower leasing commissions overall.

All this activity generated net income of $9 million in the first quarter of 2019 compared with a net income of $47.3 million in the first quarter of 2018.

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 $298.5 million on our $450 million credit facility. At the end of the first quarter of 2019, our debt to total market capitalization was 29.7% and fixed charge coverage was 6.4x. As we execute our simplification plan, the sale of our non-CRE assets and the use of after-tax proceeds to pay down debt should result in net debt to EBITDA commensurate with our REIT peers. We have a well-laddered debt maturity schedule and 72.9% of our debt is fixed rate.

Early in the year, we provided guidance for the Commercial Real Estate segment. We expect the same-store cash NOI to grow by 2% to 3%. Given the strong results in the first quarter, we feel comfortable increasing our full year same-store cash NOI growth by 50 basis points to 2.5% to 3.5%. We also provided leasing spread guidance in the range of 4.5% to 5.5%. We expect to be toward the higher end of this range given our performance for the first quarter and the outlook for the rest of the year.

Maintenance CapEx guidance was $11 million for 2019. For the first quarter, we spent $3.4 million and believe we're still on track with that guidance for the full year. Gross CapEx guidance was $30 million for the year. For the first quarter, we spent $11.7 million, primarily for construction of Ho'okele Shopping Center, and we're reiterating our guidance of $30 million for growth CapEx for 2019.

Our guidance for acquisition volume of approximately $220 million for the year is predicated on deploying the 1031 proceeds that we need to place by mid-June. As we've mentioned, we're on track to place these proceeds within the required window.

Our plan regarding the payment of dividends is generally to match our payout with our REIT taxable income. For the second quarter, we declared a dividend of $0.165 per share, which is a $0.02 or 14% increase from our first quarter dividend. This increase reflects our optimism regarding strong full year REIT earnings, which includes higher NOI from 1031 exchanges than we previously expected.

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

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

Thank you, Diana. And thanks also for your leadership of our finance function over the past 6 months. We're very happy now to have you on our Board of Directors, and we look forward to having Brett Brown join us next week as our new CFO.

In summary, let me just say that I'm excited by the continued strong momentum in our Commercial Real Estate business, both the same-store portfolio and our new assets. While we still have work to do to further simplify the company, the successful exchange of non-income-producing lands for assets that will generate more than $14 million of income annually is an important step in the right direction. We continue to consider options for our Materials & Construction business and are deep into our broader strategic planning process, all part of our effort to achieve our strategic endgame of being a focused Hawaii commercial real estate company.

With that, we will open it up for questions.

QUESTIONS AND ANSWERS

Operator

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

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

Chris, I was wondering if you could talk a little bit more about pricing on the industrial acquisitions from a cap rate and price per square foot basis. I know that operating industrial in Hawaii is much higher rents, low vacancy. And just a little bit color -- of color on the market there.

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

Sure, Sheila. If you don't mind, I will have Lance take that question.

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

This is Lance. So we closed on 2 industrial assets, the first was in late last year, it was Opule Street, what we refer to that acquisition that was 2 industrial warehouses. So these are true Class A warehouses. And I've spoken in the past just about the limited amount of product in the market, in the Class A section. The majority of what we have here in Hawaii is older inventory compared to other industrial markets across the country. The market itself is relatively strong, we've got just over 40 million square feet of total inventory on Oahu, with a vacancy rate of just under 2%. So market fundamentals are still pretty strong. This particular asset was 160,000 square feet, and on a price per pound or price per square foot, it was about $263. So that was a total purchase price of $39.5 million. And I think to your point, while on the surface that may seem high, if you think about the vacancy that we acquired there, we've got about 30,000 square feet at an asking price of $1.35 or about $16.60 annualized per square foot. I think you can do the math and appreciate that on a cap rate basis, it was a pretty good purchase for us.

The second asset that we purchased earlier, I guess it was last month, was KEC, it's about 93,000 square feet of industrial space. This was in the same submarket of Kapolei, where we see a lot of the new construction occurring. And this, I will say is really sort of an A+ building. This is one of the first or few 40-foot clear buildings that have been -- I think this may be the first 40-foot spec building that has been built in the market, dock high, concrete tilt up, ESFR sprinklers, true Class A product. So that was fully leased, half of the building to Best Buy as a lot of the retailers are looking for opportunities to store goods and materials here in the market and be able to expand their buy online and pick up in the store concept.

The other half was leased to a local storage and moving company, that's done business in the islands for a number of years. So that purchase was $26.5 million, and it was slightly higher on a price per square foot that came out to about $285. But again if we think about just the increase in capacity in volume of a 40-foot clear building versus a 32-foot clear building, we felt pretty good on the pricing metrics. So once we close on all of these, we've given guidance in terms of what our overall acquisition on the $258 million is going to yield for our 2020 stabilized NOI of about 5.6%, I don't think we're going to break them down individually per asset.

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

Okay. And were both of those transactions off market?

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

They were off market. So again, just speaking to, I think just reinforcing the idea of the local sharpshooter story here with our team on the ground having built relationships over the years and then being able to execute on those relationships in short order.

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

Okay, great. And then Chris, I was hoping you could give a little bit more detail about that 36-acre parcel that's first to ground lease, and then you'll be able to develop it. Is it appropriate or the highest and best use for all industrial? Or -- just your thoughts longer term on that opportunity.

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

Sure. Yes. I'll also ask Lance to chime in a little bit here. But one of the things that we had indicated back in December when we first announced the transaction on Maui was that we might look to buy some development land with the proceeds because they were non-income-producing and it was a good opportunity to potentially exchange into some longer-term, maybe non-immediately income generating assets. And in this asset, I think in some ways, we've gotten the best of both worlds. We've got an asset that's going to generate some nice income for us in the near term. And then longer term, when the lease expires in about 7 years, we'll be in a position to do potentially some development for hold. And so that's an exciting opportunity for us. Lance, I don't know if you want to add anything else about the market and your view on that.

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

Yes. I would just add that it's in the same submarket as Opule acquisition and KEC. So we feel very good about both the general market fundamentals, but also the submarket. And this is fully entitled. It's fully infrastructured in terms of off-site infrastructure. It's zoned for industrial. So it really, I mean, to Chris' point, gives us all of the flexibility at the end of the lease to move forward with some development-for-hold opportunities.

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

And who is the seller? Was it that Honolulu Rapid Transit or...

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

So HART is actually a sublicensee, the City and

County is our licensee. The seller was a joint venture partnership between a local developer and a Mainland investor.

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

And last question and I'll get back in line. But Chris, if you could just touch on the discussions in the State of Hawaii about charging REITs extra taxes. Where does that effort stand? And any idea what the impact might be for Alexander & Baldwin?

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

Yes, Sheila. Thanks. So for anybody who is not familiar, this is a bill that has been passed by the state legislature, but is awaiting the governor's signature or potential veto. The bill would impose a tax on REIT. Essentially what it would do, it would disallow the dividends paid deduction for dividends paid out by REITs, which effectively is creating a double taxation on REITs. Suffice it to say that we consider double taxation of our REIT income a serious issue, and believe it would create a disincentive to further investment not only by us, but by all REITs. And investment by REITs in the last several years has created tremendous jobs and other benefits for Hawaii. So we're hopeful the governor will consider all that as he considers signing or potentially vetoing the bill. For now, we will monitor the process, and continue to evaluate the potential financial impacts, as well as potential changes in our future investment strategy. It's definitely too soon to speculate on changes in our investment strategy. But I have to acknowledge, we've committed ourselves fully to the State of Hawaii, we've invested over $1 billion over the past few years in commercial properties alone and another 50% on top of that, another $0.5 billion or so if you include our taxable REIT subsidiaries. So if Hawaii becomes only the second state to tax REITs, this is going to have to factor into our future investment decisions. But beyond that, I really can't speculate on the specific impact.

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

Is there any reason why there's a lot of different entities or structures that own commercial real estate property? Is there any reason why they are targeting REITs specifically?

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

Well it's a good point because there are a lot of pass-through entities, LLCs and partnerships, and then of course, there's tremendous amount of commercial property ownership by nontaxable entities, trusts, pension funds and others. So it is a bit puzzling that they have targeted REITs in this way. But it made it to the legislature and we'll have to see what the governor does with it.

Operator

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

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

Just maybe following up on that. I mean, has there been any sense in terms of the governor's -- the way he's weighing maybe? Has that created any issues on a federal level where this would be maybe disallowed on a federal level. But it sounds like another state already does it, so maybe that's not the case.

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

No. Yes, that's a good point. New Hampshire, I think about 50 years ago or so disallowed this and it did not have any ripple effect. I think that it was recognized as, frankly, I think that state tax policy just because it creates such a disincentive to investment by REIT. So I don't -- I can't really speculate, although I think there is that data point that suggests that this doesn't necessarily mean that it will spread. And I certainly have no insights into the governor's thinking and we can't speculate on that.

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

Okay. And then maybe just on the SG&A. I know that, that picked up a little bit, but it sounds like that was related to increased activity. Is there a way to think about SG&A or G&A at a pure REIT position? I mean, in terms of if you're no longer worrying about Grace and the development portfolio is more of a -- more wound out and taken care of. How are you thinking about SG&A ongoing for just a pure REIT business?

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

Yes. Steve, that's a great question. And let me start with an answer. And then if either Diana or Clayton want to add anything, I welcome them to do that. So that's a great question because that's exactly what we're doing right now. We're going through a strategic planning process, and what we are focused on is really imagining the company as a pure REIT, as a pure commercial real estate company, after we have simplified the story and eventually monetized more of our development assets, and most likely, the Grace business. But of course, today, that is still aspirational and still a bit of a fiction. And so what we have to do is we have to determine what that endgame is. And we will be absolutely using industry benchmarks, we'll be using Green Street data, we'll be using objective third-party input on that and thinking about what that looks like. But it may be a year, 2 years, 3 years, it will be a period of time before we get there. And so what we have to then think about is how do we migrate towards that over time? And what actions as far as simplification go will allow us to adjust and get to our longer-term goals. So just to reiterate, first step is sort of setting the longer-term goals. Second step is developing a glide path towards that, that is kind of tied to milestones of our transformation.

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

Okay. That's helpful. And then just going back to Grace. I mean, can you talk about maybe what you think the issues are now versus maybe what you thought they were before? Or has that not changed? And I mean, it seems like you have a new manager there now, and I'm just kind of wondering maybe seems like this has progressed maybe longer than I thought and I'm sure internally you guys had planned. And I'm just wondering how maybe confident are you now versus before that you have things kind of in place in the right direction? And is this maybe the market overall that's weak? I mean, are other competitors having similar issues and that's more of the problem? Or is it internal and it's kind of broken and we need to fix it?

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

Yes. So great question. A complicated question and a complicated answer. So bear with me as I try to walk you through it. First of all, I will say that I truly believe this is a great business. And I actually have had the opportunity over the last couple of months to spend a lot more time with Grace and spend time in the business, understanding the opportunity and the challenges. And I am convinced that we've got much brighter days ahead. I'm excited about Jerrod getting in there. And I think he brings a lot of very important and relevant skills to the organization. He is not by background a construction or paving person, but we've got a great construction and paving team there. I think that what he brings is the strategic orientation, the ability to mobilize and motivate and encourage the team in the right direction. And I think he will do that and already is doing that.

Now having said that, expressing confidence in the business, I don't have a lot of credibility at this moment in doing that because I, quite frankly, did not see performance like the first quarter coming. And I have to admit, I think it's confluence, I don't know a perfect storm is the right term, but it was a combination of still working through some older backlog that was bid in a very, very competitive market, some government contract delays that kept us from starting up some work that we were ready to start and anticipated starting in the quarter and we weren't able to. Some changes in financial systems that made it -- that had some costs and some other organizational costs that we incurred. And quite frankly, being kind of between financial systems, not having as much visibility into the drivers of the performance and not being as able to be nimble and make operational adjustments where they would be most productive.

So I really believe a lot of those things are going to change, and we're going to see better performance going forward. But you will note in my scripted remarks that I purposely did not provide an outlook for the year because I think, as I said, I don't have a good basis for doing that today. I really believe that Jerrod and his team will put us in a position to do that in our next earnings call. And so I am hopeful that we will be able to provide a lot more guidance, and I'm certainly hopeful that we'll have a much better result in the second quarter.

Now you didn't ask it, but let me go ahead and elaborate a little bit on where we are with the business and the potential sale process. We have -- as I mentioned last quarter, we've engaged an adviser to help us work on evaluating the merits of marketing process. Our Board has discussed that, and we've agreed that we should at least test the market or the business. For a lot of reasons, this may not prove to be the optimal time to sell the business because, of course, we have very poor EBITDA right now. And many of these transactions are EBITDA-based businesses -- I'm sorry, transactions.

I believe the business is very valuable, and if our vesting of the market doesn't produce a number that we're happy with, then we may need to be patient. And we may need to work on these operational improvements.

The last thing I'll say is that regardless of the time frame for sale, our putting Jerrod in there to run the business and all the other focus that we have on the business right now is around making it as successful as we can for the long term. We're not trying to just pretty it up for sale. We're really trying to make the kind of changes that will have sustained benefit. And whether we benefit from that through continued ownership for a period of time or we benefit from it through a potential buyer giving us some of that value is the right thing to do and is what the team is focused on. And I really do feel good about the initiatives out at Grace and Jerrod's leadership there. So that's my long -- very long answer to your question, Steve, and I hope that provides some appropriate context.

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

Well, it does. And then maybe just quickly on the improvement relative to prior expectations from the sale and reinvestment. It sounds like that's a little bit better than expected. I think it was kind of expected to be $12 million, 8 million and it sounds like it's $22 million and change now. And then if you can just confirm that. And then it seems like UHERO is kind of maybe a little more negative on the Hawaiian economy than they had been previously. What are you seeing there? And it seems like there's some sort of a change in terms of the local view of tourism generally and I'm just wondering if that's more of a political thing. Do you think it's kind of more of a hot button issue now? Or is that kind of a real change that's happening within the state, with how people feel about that in the state?

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

Okay. Good. Two good questions. Let me address the first one in full, and then I'll at least start the second one, and see if anyone else wants to chime in. So with respect to the numbers that you cited, let me just clarify for anyone else that's listening that may not recall those comments that we made. Back in December, we announced that we would get 2 primary benefits from the Maui land sale. One would be net operating income from the reinvestment of the proceeds into commercial properties, and we estimated that, that would be roughly $12 million. We also said that we would expect to get about $8 million a year of operating savings from not having to maintain those lands in the plantation, security, environmental, operational costs, et cetera. So that $20 million that we've referenced was made up of those 2 components.

On the first one, $12 million, yes, as I said in prepared remarks, we'd now expect that to be a little bit over $14 million based on a combination of better cap rates, higher cap rates at which we're buying these assets and also the fact that we have kind of budgeted a little bit of capital for non-income-producing land, development land, I should say. And we are going to be earning a yield on everything that we buy. So that takes that $12 million up to about $14 million.

The $8 million cost savings number is still a good long-term kind of stabilized number. I think we did acknowledge that this year we have some postclosing obligations in the land sale of a couple or a few million dollars. So that cost savings number will be a little bit lower this year, but we still do feel good about it on a go-forward basis. So if you put those together, that would generate about a $22 million annual benefit from the land sale.

Now on the second question of the UHERO outlook, I'm going to let -- in a moment, I'm going to let Kenny probably jump in and comment a little bit more on this. But generally, we think that it is moderating but at good and favorable levels. We don't think there's any negative messaging other than just maybe a little bit of moderation.

You're referring also to the fact that there was a bill related to Airbnb and taxing Airbnb. I think that may be what you're referring to. If that's the case, I don't think that reflects a negative sentiment towards tourism in the state. I think everybody in the state understands that tourism is our primary economic driver and very important to us. I think what it represents and I think it's also represented by the REIT legislation as that the state is very aggressively looking for more income sources, more revenue sources. And I think both of those came out of that. I haven't been as close to the Airbnb issue, but I certainly, from what I've read, haven't concluded that, that means people are souring on tourism. I think they're just looking for another revenue source for the state. With that, let me kick it to Kenny in case he wants to add anything on the UHERO report.

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

Sure. I think you're referring to the UHERO report that was released earlier this week. I think what it said is that visitor arrivals and spending was down for the first quarter compared to the last year. And that was likely due to just U.S. and global concerns with the economy. I think we have to remember that 2018 was a year of peak visitor arrivals as well as visitor spending, so the first half of 2019 as compared to peak levels. When looking back over the last 5 years, total growth in visitor arrivals has been 20%. So from 8.2% to a level at last year of $9.9 million. So I believe what that means for Hawaii is that while the growth curve has flattened somewhat to peak growth periods, there's still new strong base of visitation that continues, although at a lower rate. So just to remind you that for A&B, a large part of our CRE portfolio is grocery-anchored retail, industrial and ground leases that supports the local community versus really reliance directly only on the visitor industry.

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

Okay. Yes. That's essentially, I think -- well, that wouldn't be the exact report, I think that's essentially the answer that I was looking for. That explains it.

Operator

We have a follow-up question from the line of Sheila McGrath of Evercore.

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

I guess I was wondering if you could touch on the fact that first quarter same-store cash NOI was 7.7%, but you just tweaked guidance a little bit. And same question for leasing spreads. Was there something in the first quarter that was onetime-ish or just an outlier that we should be aware of?

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

I'll let Lance take that one.

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

So Sheila, we did have a strong quarter on the same-store side. I would say there are a couple of causes for that when we compare it to first quarter of 2018. Some of which were sort of property-specific. So going economic with ULTA at Pearl Highlands as well as Kailua and a few instances like that. We also had the benefit of earlier rent commencement dates. So effectively accelerating deals that we had already budgeted or forecasted that were going to occur later this year that occurred in the first quarter. And so that's why what we do feel comfortable increasing our guidance as we look out towards the rest of the year is that going to be at that same amount because we're basically getting some of that benefit in the first quarter. And if you could remind me on your second question?

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

No, it was a similar question, the leasing spreads in the quarter were much better than annual guidance, but you didn't move.

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

So we had a -- yes, we had a handful of tenants that drove the leasing spreads. And so I think as we look out toward the rest of the year, I certainly would expect to be at the upper end of the range, but not in a position to change guidance at this time.

Operator

I'm showing no further questions in queue at this time. I'd like to turn the call back to 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 your participation in today's conference. This concludes the program, and you may now disconnect. Everyone, have a great day.
