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ALEX.N - Q4 2023 Alexander & Baldwin Inc (Hawaii) Earnings Call

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**Stephen C. Swett** *ICR, LLC - MD*

## PRESENTATION

### Operator

Good day, and welcome to the Fourth Quarter and Full Year 2023 Alexander & Baldwin Earnings Conference Call. (Operator Instructions) I would now like to turn the conference over to Steve Swett, Investor Relations. Please go ahead, sir.

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### Stephen C. Swett - ICR, LLC - MD

Thank you. Aloha, and welcome to Alexander & Baldwin's Fourth Quarter and Full Year 2023 Earnings Conference Call. With me today are A&B's Chief Executive Officer, Lance Parker; and Chief Financial Officer, Clayton Chun. We are also joined by Kit Millan, Senior Vice President of Asset Management, who is available to participate in the Q&A portion of the call. During our call, please refer to our fourth quarter 2023 supplemental information available on our website at [investors.alexanderbaldwin.com/supplements](https://investors.alexanderbaldwin.com/supplements).

Before we commence, please note that statements in this 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, the evaluation of alternatives by the company related to its noncore assets and business and the risk factors discussed in the company's most recent Form 10-K, Form 10-Q and other filings with the SEC. The information in this presentation should be evaluated in light of these important risk factors. We do not undertake any obligation to update the forward-looking statements.

Management will be referring to non-GAAP financial measures during our call today. Please refer to our statement regarding the use of these non-GAAP measures and reconciliations included in our 2023 fourth quarter supplemental information and earnings press release. Lance will open up today's presentation with an overview of the quarter and year, provide an update on our real estate operations, and then Clayton will discuss financial matters. Lance will return for some closing remarks, whereupon we will open it up for your questions. Now I'll turn the call over to Lance.

**Lance K. Parker** - *Alexander & Baldwin, Inc. - President, CEO & Director*

Thanks, Steve, and aloha, everyone. I'm pleased to say that 2023 ended on a high note. Our high-quality CRE portfolio of retail, industrial and ground lease assets performed well. In the fourth quarter, total NOI growth was 4.7%, and we achieved same-store NOI growth of 4.3%. Same-store NOI growth excluding collections of previously reserved amounts was 4.8%. Core FFO was \$21 million or \$0.29 per share. Same-store leased occupancy at year-end was 95.5%, 100 basis points higher than the third quarter. Same-store economic occupancy at year-end was also up 100 basis points from the last quarter to 93.8%. We also executed 50 leases in our improved property portfolio for approximately 114,000 square feet and achieved blended spreads of 7.8%, with spreads for new leases at 11.4% and spreads for renewal leases at 7%. For the year, total CRE NOI growth was 4.7%.

On our last call, we revised our annual guidance up, and we ended the year exceeding those metrics with same-store NOI growth of 4.3%, same-store NOI growth excluding collections of previously reserved amounts of 6.8%, and Core FFO for the year was \$85.3 million or \$1.17 per share. We executed 233 leases in our improved property portfolio and had 6 ground lease renewals. Leases in our improved property portfolio covered approximately 624,000 square feet with blended spreads of 7.7%, spreads for new leases at 8% and spreads for renewal leases at 7.6%. Renewals in our ground lease portfolio resulted in blended leasing spreads of 37.8% driven primarily by the renewal at Windward City Shopping Center earlier in the year. The spread between leased and economic occupancy was 170 basis points and annualized base rent attributable to these SNO leases was \$2.8 million of ABR or 2% of portfolio NOI.

During the fourth quarter, we also completed a number of strategic objectives that position us well for the long term. We began permitting for a 30,000 square foot 32 foot clear height warehouse and distribution center at Maui Business Park. The space is pre-leased to a national tenant, and construction is anticipated to begin in the second half of 2024. We expect to realize \$1 million of ABR when the asset becomes economic.

We also went live with our 460-kilowatt rooftop photovoltaic system at Kaka'ako Commerce Center. This is the second rooftop PV system in our portfolio and follows the successful installation of our first system at Pearl Highlands Center last year, which provided about \$675,000 of incremental NOI in 2023. We are in various stages of rollout at other centers in our portfolio and look forward to sharing more as additional systems are brought online.

Most notably, we completed the sale of Grace Pacific through 2 transactions for a combined \$60 million. The sale of Grace is significant for 3 reasons: first, we can focus on growing our commercial real estate portfolio; second, we can fully utilize the strength of our balance sheet to fund these growth initiatives; and finally, we can simplify our reporting metrics. These accomplishments in the fourth quarter add to our achievements from earlier in the year, including our off-market acquisition of Kaomi Loop Industrial, a 33,000 square foot property, in the second quarter and the completion of our Manoa Marketplace refresh in the third quarter.

Our portfolio of primarily grocery-anchored neighborhood centers continues to benefit from the economic environment here in Hawaii. Unemployment was 2.9% at the year -- at the end of 2023, improving 80 basis points from a year earlier and lower than the national average of 3.7%. There were 9.6 million statewide visitors in 2023, up from 9.2 million in 2022 and 93% of pre-pandemic levels. Visitors from the Mainland U.S. exceeded pre-pandemic levels but were down slightly compared to 2022. There were 573,000 visitors from Japan in 2023, nearly 3x higher than 2022, but still only about 1/3 of pre-pandemic levels. We have often said that our grocery-anchored portfolio benefits from, but is not dependent on tourism. This has proven true with the Maui wildfires, where visitor arrivals were down in 4 of the last 5 months in 2023 compared to 2022, but our tenant sales have remained stable.

And now I'll turn the call over to Clayton for financial details. Clayton?

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**Clayton K. Y. Chun** - *Alexander & Baldwin, Inc. - Executive VP, Treasurer & CFO*

Thanks, Lance, and aloha, everyone. Starting with our consolidated metrics for the fourth quarter of 2023. Net loss available to shareholders was \$3.5 million or \$0.05 per diluted share. Income from continuing operations available to shareholders was \$8.5 million or \$0.12 per share. FFO was \$19.9 million or \$0.27 per diluted share. Core FFO was \$21 million or \$0.29 per diluted share. Each of these metrics for the fourth quarter of 2023 benefited from collections of amounts reserved in previous years of approximately \$400,000 or \$0.01 per diluted share. For comparative purposes, in the fourth quarter of 2022, collections of amounts reserved in previous years was \$500,000 or \$0.01 per diluted share. For the full year, net income

available to shareholders was \$29.7 million or \$0.41 per diluted share. Income from continuing operations available to shareholders was \$40.7 million or \$0.56 per diluted share.

FFO was \$79.4 million or \$1.09 per diluted share, and Core FFO was \$85.3 million or \$1.17 per diluted share. Our full year results were impacted by collections of amounts reserved in prior years of \$2.1 million or \$0.03 per diluted share in 2023 compared to \$4.7 million or \$0.06 per diluted share in 2022. For additional details on our results and comparisons to prior periods in 2022, please see our earnings release and supplemental information package.

Turning to Land Operations. Adjusted EBITDA was \$6.3 million in the fourth quarter of 2023, which compares to \$10.7 million in the same quarter of 2022. The change was due primarily to lower sales of unimproved property in the fourth quarter of 2023 as compared to the year before. Full year Land Operations adjusted EBITDA was \$10.8 million in 2023 compared to \$67 million in 2022. The higher Land Operations adjusted EBITDA in 2022 is due primarily to the gain recognized related to the McBryde sale that occurred in 2022.

Turning to G&A. For the fourth quarter of 2023, G&A expenses were \$7.8 million compared to \$8.2 million in the fourth quarter of 2022. Full year 2023 G&A was \$34 million compared to \$35.9 million in 2022. The reduction in G&A for the fourth quarter and full year is due primarily to lower personnel-related expenses, and it reflects our continued focus on streamlining our overhead as we've simplified the company. We reported a loss from discontinued operations of \$11.7 million in the fourth quarter of 2023, primarily related to Grace Pacific, which was sold in November.

Turning to our balance sheet and liquidity metrics. At quarter end, total debt outstanding was \$464 million, and we had total liquidity of \$477 million made up of approximately \$14 million in cash and \$463 million available on our revolving credit facility. Approximately 92% of our debt is fixed rate. Net debt to trailing 12 months consolidated adjusted EBITDA was 4.2x compared to 2.7x in 2022. As a reminder, the 2022 metric included nonrecurring income related to the McBryde sale transaction.

We have \$58 million of debt that's secured by our Laulani Village asset, which matures this May. To address this, we intend to refinance the mortgage with an unsecured fixed rate note. We will provide more information as details are finalized. During the quarter, we repurchased approximately 90,000 shares of stock at an average price of \$16.34 per share. For the full year, we repurchased 181,000 shares at an average price of \$16.53 per share. With respect to our dividend, we paid a fourth quarter dividend \$0.2225 per share on January 8, and our Board declared a first quarter dividend of \$0.2225 per share that is payable on April 5.

Before I turn to guidance, as Lance mentioned, with the sale of Grace, we are simplifying our reporting metrics. We will continue to guide to same-store NOI and same-store NOI excluding collections of previously reserved amounts, but we will no longer report or guide to Core FFO in 2024. Core FFO was meant to reflect our CRE business and general corporate performance. But with Grace sold and Land Operations transactions expected to be less impactful than in the past, we believe FFO is more reflective of the company's operating results as a focused commercial real estate company going forward. We will also begin reporting and guiding to AFFO.

So with that being said, we expect same-store NOI growth in the range of 1% to 2% and same-store NOI growth excluding collections of previously reserved amounts of 2% to 3%. We are guiding to FFO in the range of \$0.95 per share to \$1.05 per share and AFFO in the range of \$0.80 to \$0.90 per share. While we are not providing quarterly guidance, our quarterly metrics may vary due to the timing of certain items, including Land Operations activities.

Our 2024 guidance incorporates the following key assumptions. With respect to same-store NOI, it should be noted that we are not expecting any significant fair market value resets of leases in our ground lease portfolio during 2024 as was the case in previous years. Our guidance also reflects lower NOI at our nonstrategic office assets primarily from tenant move outs. While we cannot provide more information at this time, we believe the short-term decrease in office-related NOI resulting from tenant move-outs will enable us to reposition these assets for higher and better use going forward.

And last, a comment on our FFO guidance. In 2023, our FFO of \$1.09 per share included \$0.15 of FFO attributed to Land Operations, primarily reflecting the margin on land sales completed during 2023 and \$0.94 of FFO that related to commercial real estate [and corporate activities]. For 2024, we expect the composition of our total company FFO to primarily reflect our Commercial Real Estate business [and corporate activities]

(added by company after the call) in which we anticipate that portion of FFO growing from \$0.94 per share in 2023 to between \$0.99 per share and \$1.04 per share in 2024, reflecting a growth rate of 5% to 11%.

With that, I will turn the call over to Lance for his closing remarks.

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**Lance K. Parker** - *Alexander & Baldwin, Inc. - President, CEO & Director*

Thanks, Clayton. The fourth quarter again demonstrated the strength of our outstanding team and the quality of our retail, industrial and ground lease assets. We are excited about focusing on growing our commercial real estate portfolio and are well positioned to do so. We will be pursuing internal development and redevelopment opportunities like our industrial build-to-suit at Maui Business Park. And importantly, our investments team is engaging with local real estate owners to source external opportunities. And our balance sheet provides us with the liquidity needed to support these efforts. With that, we'll now open the call up to questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from Rob Stevenson with Janney.

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**Robert Chapman Stevenson** - *Janney Montgomery Scott LLC, Research Division - MD, Head of Real Estate Research & Senior Research Analyst*

Clayton, a question on the earnings guidance. If I look at sort of the midpoint of the guidance implying sort of \$0.25-ish, is the main difference between that and the \$0.27 that you posted in the fourth quarter the Grace Pacific and the other sales coming out? Is there anything operationally that whether or not it's the lower NOI from the office assets or anything else that you're expecting to sort of be a drag on sort of core property NOI or FFO in '24 at this point?

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**Clayton K. Y. Chun** - *Alexander & Baldwin, Inc. - Executive VP, Treasurer & CFO*

Thanks for the question. And so with respect to our guidance around FFO, what that's conveying is the fact that we have continued growth in our commercial real estate business. The main difference between 2023 and our guidance for 2024 pertains to Land Operations. And so that's where we had some margin that was generated in 2023 for the various land sale transactions. And so looking forward into this 2024 year, we're expecting that margin impact to be less so.

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**Robert Chapman Stevenson** - *Janney Montgomery Scott LLC, Research Division - MD, Head of Real Estate Research & Senior Research Analyst*

Okay. That's helpful. And then when you're taking a look at the lease expirations, whatever you guys have got into the final stages or completed thus far in '24 here and the stuff that you're in negotiations on, how is that looking versus the sort of, call it, almost 8% leasing spreads in the portfolio in '23? Are you expecting that '24 is going to be similarly strong? Is there anything either property mix or above-market leases or anything that would pull that down or push it up? How should we be thinking about the '24 leasing spreads?

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**Lance K. Parker** - *Alexander & Baldwin, Inc. - President, CEO & Director*

Rob, it's Lance. Let me maybe not quite answer the question before I turn it over to Kit to give you sort of the details you were looking for. The one thing I did want to say just on lease roll and expirations, we were very deliberate in sort of laddering out our roll in terms of looking at the portfolio. So one thing that I did want to highlight that may not jump off the page in the supplement is we're feeling pretty good really over the next 5 to 6 years about having sort of a smooth expiration. And with that, Kit, maybe you can provide some insight into how we're thinking about spreads.

**Kit Millan** - *Alexander & Baldwin, Inc. - SVP of Asset Management*

Sure. So what I can say is that the year has started off strong in 2024. We've seen consistent demand across all retail categories, still strong interest from QSRs, community services like vet clinics, dental services, et cetera. So we expect another very solid leasing year overall. In terms of spreads, it's very difficult to project exactly what is going to happen in 2024, but what we've seen recently has been consistent with what we produced last year.

**Robert Chapman Stevenson** - *Janney Montgomery Scott LLC, Research Division - MD, Head of Real Estate Research & Senior Research Analyst*

Okay. And then last one for me. What do you guys -- can you talk a little bit more about what you guys are seeing in terms of potential assets either being privately negotiated and available for sale and/or being marketed for sale on the islands that you might be interested in? Is -- are you expecting to at least see greater volume of potential property acquisitions coming across your desk this year? Is it tight? Is it -- is the debt markets equally as impacting transactions out there as it is on the mainland? Can you just give a little bit of an overview of what you're seeing and the sort of impediments to deal transactions at this point?

**Lance K. Parker** - *Alexander & Baldwin, Inc. - President, CEO & Director*

Sure. I'll start by saying that to the extent that some of those questions were yes or no type questions, yes to all of them. So the market remains challenged. I mean from a marketed perspective, we're not seeing a lot of deals. Capital markets is still impacting pricing with some dislocation in terms of what sellers are expecting versus what we think assets should be trading for. Now that said, the reality is the majority of our acquisitions are typically done off-market. And so for that reason and the fact that now with simplification behind us, the sale of Grace last year was a big milestone. We had some of our resources dedicated to completing that. We have now turned everyone loose and really looking to find and source these off-market opportunities within the state. And so simply as a result of that, I would expect to see more deal flow.

And then I'd add on top of that, Rob, in addition to external growth prospects, we continue to mine the existing portfolio for internal growth opportunities, whether it's repositioning of our assets, we were really pleased to get the build-to-suit at Maui Business Park over the line and start there, adding to photovoltaic, which is starting to actually add some meaningful NOI to our portfolio. So we're really looking to sort of fire on all cylinders when it comes to increasing the portfolio.

**Operator**

Our next question comes from Alexander Goldfarb with Piper Sandler.

**Alexander David Goldfarb** - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

So just a few questions here. First, on the guidance. We're looking at a midpoint of \$1 for this year. It's below what we and the Street were expecting. But in fairness, the company was -- you had a lot of stuff going on in the company, Grace and other things that were going on historically. So now we have a sort of a pure-play real estate company. Is the dollar sort of what you would consider the new baseline? Or is that impacted by anything this year that maybe not having the company hit on all cylinders, if you will?

**Clayton K. Y. Chun** - *Alexander & Baldwin, Inc. - Executive VP, Treasurer & CFO*

Alex, Clayton. I think the short answer to that is this is more reflective of commercial real estate and corporate going forward. Whereas in years past, we did have a lot of noise in our FFO, and that was attributed to the various episodic sales that we had of noncore businesses. And so as mentioned in the prepared remarks, 2024 is more reflective of just CRE in its entirety and not having the significant impact that Land Operations had.



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**Alexander David Goldfarb** - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

So you're saying that Land Operations was masking some of the costs?

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**Clayton K. Y. Chun** - *Alexander & Baldwin, Inc. - Executive VP, Treasurer & CFO*

Masking some of the -- what I'm saying is that for FFO, it was a greater portion of the FFO. So the composition of our FFO did have more Land Operations in the past, whereas for 2024, that is not the case.

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**Alexander David Goldfarb** - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

Okay. And then you mentioned office was a bit weak. Obviously, we all know what's going on there, but you also mentioned repurposing for higher and better. Just a bit more on that. Is this like an office to resi conversion, like what Douglas Emmett is doing? Or are you thinking about knocking down buildings? Or what are you thinking about for office higher and better use?

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**Lance K. Parker** - *Alexander & Baldwin, Inc. - President, CEO & Director*

We're open to exploring different options, Alex. So as you know, we've only got 4 office properties within our portfolio. One is here in Oahu and 3 are in the neighbor island of Maui. And so where you're seeing the softness both really in vacancy and where we were sort of signaling with NOI is coming from our 3 Maui assets, 2 in particular that sit on the same block. And that's where there will be an opportunity for us, whether it's through redevelopment, quite frankly, whether it's a capital recycling opportunity through a user sale. Just given where we are with occupancy, I think there's a couple of different options that we're going to be exploring throughout 2024.

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**Alexander David Goldfarb** - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

Okay. So it's the 3 office assets on Maui. I guess to that point, we've had this discussion before, especially around Maui Business Park, where you guys have sold land rather than doing development. If you keep selling like selling office and selling land parcels, it's -- obviously, it's harder to grow, but sometimes the right decision is to sell rather than invest more capital, and I get that. As you think about the portfolio as it is now, if you think about 100% being the current portfolio, is it everything that you want? Or is there more beyond these 3 assets that you may see selling? And I'm just trying to think about growth of the company going forward.

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**Lance K. Parker** - *Alexander & Baldwin, Inc. - President, CEO & Director*

Sure. I think it's important to make sure that we get the message that we are a net buyer. So we want to grow the company. Now that being said, as we look at various sources of capital, to the extent that there may be something to recycle into a significantly better return, we will certainly consider that relative to the cost of some of our other capital opportunities. But by all means, our goal is to be a net buyer, grower of the portfolio.

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**Alexander David Goldfarb** - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

Okay. And then just a final question. I think a few years ago, you sold a property, and I think there was some water -- you didn't necessarily guarantee, but there was like a buyback or whatever if the entity didn't get the zoning or the water access or there was something like that, that was part of that sale. Just curious how that new owner is proceeding and if you think that there's any chance that they won't be able to achieve their goals in which case that property comes back to the company.

**Lance K. Parker** - *Alexander & Baldwin, Inc. - President, CEO & Director*

Trying to think of specifically what you're referring to in terms of property coming back to the company.

**Alexander David Goldfarb** - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

There were some assets that you sold and the buyer, I think, had -- you guys said, I think -- there were some guarantee, I think, that they could get water rights or some sort of rights on the project. And if they didn't over a course of time, they could sell it back to you.

**Lance K. Parker** - *Alexander & Baldwin, Inc. - President, CEO & Director*

So we do have on the balance sheet some reserves that we have for certain obligations related to prior sales. And I'm assuming that, that's probably what you're referring to. I guess suffice it to say that we are -- we feel like we are properly reserved from a balance sheet perspective for any potential outcomes.

**Operator**

Our next question comes from Mitch Germain with Citizens JMP.

**Mitchell Bradley Germain** - *JMP Securities LLC, Research Division - MD & Equity Research Analyst*

The timing of the debt redemption, I guess, you used the Grace proceeds there. Was that when you receive them? Is that like December? When should I kind of consider that occurring?

**Clayton K. Y. Chun** - *Alexander & Baldwin, Inc. - Executive VP, Treasurer & CFO*

So for the proceeds that we received from the Grace transaction, we had \$45 million of cash that was received in December. And then in January of this year, there was \$15 million that was repaid related to the promissory note. So all in that was the \$60 million. And -- so that was applied against net debt.

**Mitchell Bradley Germain** - *JMP Securities LLC, Research Division - MD & Equity Research Analyst*

So it paid the balance in the revolver. Is that the way to think about it?

**Clayton K. Y. Chun** - *Alexander & Baldwin, Inc. - Executive VP, Treasurer & CFO*

It did go down to -- or it was applied towards the revolver, Mitch.

**Mitchell Bradley Germain** - *JMP Securities LLC, Research Division - MD & Equity Research Analyst*

And so late December and then early January are the 2 assumptions we should...

**Clayton K. Y. Chun** - *Alexander & Baldwin, Inc. - Executive VP, Treasurer & CFO*

So yes, \$45 million in December was cash that we received at the time the deal was closed and then \$15 million in January.



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**Mitchell Bradley Germain** - JPM Securities LLC, Research Division - MD & Equity Research Analyst

Got you. I'm curious about the capital plan. I mean the buyback was really tiny. But obviously, given the pricing of some of the debt, I'm just curious about kind of your thoughts about going forward, if you have any potential land sales or any monetization is probably a good way to put it in your portfolio, how you're thinking about using those proceeds.

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**Clayton K. Y. Chun** - Alexander & Baldwin, Inc. - Executive VP, Treasurer & CFO

Sure. So with respect to the remaining noncore lands that we have, it is a much smaller footprint than it was years ago. And so we're now at a point where it's under 4,000 acres of noncore land that we have remaining. And so we will be opportunistically monetizing. And so with the proceeds that do come in, our intent would be to eventually recycle that into CRE growth opportunities. But in the meanwhile, we would be applying it towards the repayment of any debt.

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**Mitchell Bradley Germain** - JPM Securities LLC, Research Division - MD & Equity Research Analyst

Got you. And I guess I'm sticking with the balance sheet. You've got 2 tranches of debt coming due, 2 mortgages. Did you say both of them were going to be combined into a unsecured note? Is that the way to think about that?

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**Clayton K. Y. Chun** - Alexander & Baldwin, Inc. - Executive VP, Treasurer & CFO

No. So what I was referencing was -- so there's -- as you pointed out, we do have 2 mortgages, one that matures in May and the other that matures in December. And so what I was referencing was the earlier one. And so that was about \$57 million.

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**Mitchell Bradley Germain** - JPM Securities LLC, Research Division - MD & Equity Research Analyst

Okay. (inaudible) later on then.

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**Clayton K. Y. Chun** - Alexander & Baldwin, Inc. - Executive VP, Treasurer & CFO

Yes. So with regards to the mortgage that's coming due in December, we're looking at a variety of options around what we want to do with that. And so we'll provide additional detail on that as it becomes available.

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**Mitchell Bradley Germain** - JPM Securities LLC, Research Division - MD & Equity Research Analyst

Got you. Last one for me. Just to speak -- it seems like land contribution for the year is kind of flat-ish to maybe a little bit of a drag. So what creates that drag to your numbers? Is it just additional carry expenses with no -- just maybe just kind of talk over how you get a couple of pennies of decline from that full.

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**Clayton K. Y. Chun** - Alexander & Baldwin, Inc. - Executive VP, Treasurer & CFO

Mitch, you're on the right track. And so effectively, we do have carrying costs associated with these remaining noncore assets that we have. And so to the extent that there is no land sale activity, then that would result in just those carrying costs being there.

**Operator**

Our next question comes from Brendan McCarthy with Sidoti.

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**Brendan Michael McCarthy** - *Sidoti & Company, LLC - Equity Research Analyst*

To start off, just as a follow-up on an earlier question about the acquisition environment. It sounds like, obviously, the market has kind of dried up a little bit. But are you seeing any distressed opportunities out there? And if so, what asset classes are you seeing them in?

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**Lance K. Parker** - *Alexander & Baldwin, Inc. - President, CEO & Director*

So maybe in reverse order, Brendan, I'd say there aren't a lot of distressed opportunities in the marketplace. But that being said, I'm not sure that I would necessarily characterize our market as drying up. I'd say it's typically been, just on a relative basis to other U.S. markets, probably less marketed activity, which is typically why we view the fact that we're here and we have the relationships as a competitive advantage to us. It's not to say that we may not see some distress, but we don't have a lot of these higher levered sort of larger office portfolios or other asset classes that may lead to more distressed situations here than you may see in other areas.

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**Brendan Michael McCarthy** - *Sidoti & Company, LLC - Equity Research Analyst*

Got it. That's helpful. Just a quick question on a line item in the FFO portion of the statements here. I think I saw there was a \$4.3 million abandonment development -- or I'm sorry, \$4.3 million cost related to abandoned development. What was that from?

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**Clayton K. Y. Chun** - *Alexander & Baldwin, Inc. - Executive VP, Treasurer & CFO*

Brendan, it's Clayton. What we did have was some non-cash charges during the quarter, and the item that you're thinking of as far as the abandonment of development costs, it was \$2 million for the quarter. And so that was just effectively a non-cash charge as we were cleaning up our balance sheet.

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**Brendan Michael McCarthy** - *Sidoti & Company, LLC - Equity Research Analyst*

Got it. One more for me just on the lower G&A expense for 2023. I know you mentioned that was lower personnel expense or lower personnel, I believe. Is that just due to lower head count at the company?

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**Clayton K. Y. Chun** - *Alexander & Baldwin, Inc. - Executive VP, Treasurer & CFO*

Yes. So as we've been simplifying the company, we've been identifying ways in which we're able to also simplify our overall overhead. And so I think it's a reflection of that.

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**Operator**

(Operator Instructions) This concludes our question-and-answer session. I would like to turn the conference back over to Steve Swett for any closing remarks.

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**Stephen C. Swett** - ICR, LLC - MD

Thank you, operator, and thank you all for joining us today. If you have any follow-up questions, please feel free to call us at (808) 525-8475 or e-mail us at [investorrelations@abhi.com](mailto:investorrelations@abhi.com). Aloha, and have a great day.

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**Operator**

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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