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PRESENTATION

Operator

Good day, and welcome to the Alexander & Baldwin Third Quarter 2021 Earnings Conference Call. (Operator Instructions) Please note, this event is being recorded. I would now like to turn the conference over to Steve Swett with Investor Relations. Please go ahead.

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

Thank you. Aloha, and welcome to our call to discuss Alexander Baldwin's third quarter 2021 earnings. With me today for our earnings call are A&B's President and Chief Executive Officer, Chris Benjamin; Lance Parker, our Chief Operating Officer; and Brett Brown, Chief Financial Officer. Clayton Chun, Chief Accounting Officer, is also present and will be available for 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 and 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, as well as the rapidly changing challenges with and the company's plans and responses to the novel COVID-19 pandemic and related economic disruptions. 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 and 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; risks associated with the COVID-19 pandemic and its impacts on the company's businesses; results of operations, liquidity and financial condition; 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 SEC.

The information in this call and the 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 the Investors section of our website at www.alexanderbaldwin.com.

Chris will open today's presentation with a strategic update. We will then turn the presentation over to Lance for an update on our real estate operations, and then Brett will discuss financial matters. Chris will return for some closing remarks, and then we will 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, Steve, and good afternoon to our listeners. I'm excited to report on a strong quarter of operating performance and simplification progress, but before I do that, I'd like to acknowledge two recent promotions that were announced on Monday.

First, Lance Parker has been promoted to Chief Operating Officer of the company. Lance has played a huge role in transforming A&B into a focused Hawaii commercial real estate company. Under his leadership, A&B's commercial real estate portfolio has expanded and thrived and is now our core business. Our noncore businesses, such as Grace, will continue to report to me until we monetize them so that Lance and his team can focus on commercial real estate operations and expansion.

Also, Scott Morita has been named Vice President and Corporate Counsel, replacing Chief Legal Officer, Nelson Chun, who previously announced his plan to retire in early 2022. I'm pleased to be promoting from within for this position, and by doing so, ensuring that we'll be preserving the tremendous collaboration we have between our legal and commercial real estate teams. I'm excited about Lance's and Scott's new roles and what they signal about our progress in advancing our agenda as a focused commercial real estate company.

Now on to our third quarter results. Our commercial real estate portfolio produced excellent results once again this quarter, delivering core FFO of $0.25 per diluted share, up 56% from the same quarter last year. This performance reflects not only the strong fundamentals of Hawaii's economy but also the strength of our portfolio and the leasing environment. The foundation of that strong leasing environment is Hawaii's dramatically improved economy. We spoke last quarter of the significant recovery during the first half of 2021. And now that we've dodged the worst of the Delta variant, our outlook remains very positive. The state's unemployment levels continue to improve, sinking to an 18-month low of 6.6% in September.

Passenger arrivals for peak summer travel in July were at 89% of 2019 levels. And while we did have a small pullback due to the Delta variant, expectations are for a strong holiday season. Further, just this week, the governor announced loosened gathering restrictions in Hawaii and alignment with federal international travel requirements, which should help welcome more meaningful levels of international travelers beginning November 8. It's important to note that the state's strong tourism levels so far in 2021 are with essentially no international travelers, thus a great sign for further growth to come.

Although we are not heavily dependent on tourist activity to drive traffic at our community-based retail properties, the resurgence in Hawaii's tourism is providing a broad benefit to economic activity, which is driving positive results across our portfolio.

The market for residential real estate also remains strong, and we continue to see good sales results at Kukui'ula in the third quarter, where we closed 11 units and a bulk parcel, generating $10 million in total cash proceeds from joint venture projects during the third quarter. Year-to-date at the project, we closed sales of 37 units and 2 bulk parcels, making this the best annual sales result of the last decade. This is the third quarter in a row that the main partnership made distributions, bringing year-to-date cash proceeds from the various Kukui'ula joint ventures to approximately $43 million.

Turning to our simplification efforts, I'm pleased with our progress in advancing several potential land sales. We are always cautious about discussing transactions before they close, but we do expect to close additional noncore land transactions before year-end, possibly including some agricultural land, some urban zoned land and perhaps our interest in Kukui'ula.

The combination of noncore sales and improved cash flow from our commercial real estate portfolio has improved our debt metrics and strengthened our balance sheet such that we now have dry powder to focus again on commercial real estate growth. At quarter end, leverage was 5.5x net debt to adjusted EBITDA compared to 6.6x a year ago. And we expect to achieve even further delevering as we move toward the conclusion of our monetization efforts. Lance will describe how we're taking advantage of our stronger balance sheet and positioning ourselves for growth, both with reinvestment into our existing assets and through acquisition efforts.

Turning to Materials & Construction, in the third quarter, the M&C segment generated positive EBITDA of 2.2 -- positive adjusted EBITDA of $2.2 million, reflecting another quarter of sequential improvement in performance. We are encouraged by the underlying factors that should support a continuation of this positive trend. Most notably, we're finally seeing more of the backlog that we built in 2020, and added to in 2021, be converted to contracted work. As a result, work has added -- I'm sorry, as a reminder, work is added to backlog when we're confirmed as the winning bidder, but it must be converted to a contract before we can do the work and generate the revenue.

The significant uptick in contracted work in the third quarter, as shown in the chart on this slide, positions us to be more productive and drive greater earnings in the quarters ahead. Already in the fourth quarter, we've started to see the benefits of these additional jobs with an uptick in paving volumes.

With that, I'm pleased to turn the call over to our new Chief Operating Officer, Lance Parker, who will review our recent commercial real estate highlights. Lance?

Lance K. Parker - *Alexander & Baldwin, Inc. - Executive VP, COO*

Thank you, Chris. Beginning with operations. In the third quarter of 2021, our CRE portfolio continues to perform very well. NOI is up 30% year-over-year, reflecting greatly improved tenant performance and collections. We executed 77 standard leases for approximately 216,000 square feet during the third quarter, including another consecutive record -- another consecutive quarter, excuse me, of record-level new leasing volume with 34, and achieved average spreads of 2.3% over prior leases and spreads of 8.7% for new leases. Both overall leased and same-store leased occupancy at quarter end were 94.6%, up 60 basis points sequentially, and the same-store retail occupancy was up 90 basis points sequentially to 93.1%. The strong performance represents an acceleration of the positive trends we saw in the first half of the year, giving us confidence that we'll continue to see strong CRE performance through year-end and into 2022.

Turning to growth. With our recent success in monetization, we are shifting our attention to acquisitions. As a local sharpshooter, we are taking advantage of our Hawaii-focused and decades-long relationships to uncover the best value in our market. The transaction market, which has slowed significantly during COVID, is now reopening, and we are prudently reviewing and restocking our pipeline. With $383 million of total liquidity, including cash and capacity on our line of credit as well as strong cash flows from our CRE portfolio, we have plenty of dry powder to pursue an active growth strategy going forward.

In fact, as Chris mentioned, we are pleased to announce our first acquisition in 2 years. Albeit a smaller scale, using 1033 funds that were set to expire, we have acquired an industrial property located within the urban core of Honolulu, immediately adjacent to the port and minutes from the airport. It's great to be back in the market and growing our portfolio especially given the strong industrial fundamentals and our desire to expand our industrial footprint. We look forward to sharing additional acquisitions as we pivot towards CRE portfolio growth.

With regard to our redevelopment activity, Aikahi Park Shopping Center has reached substantial completion of the central shops. Efforts continue on the tenant build-out and additional refresh work is also underway to upgrade and expand this well-located center in Kailua. We have realized incremental NOI here in 2021 and will receive additional income next year as leasing is completed with anticipated incremental annual NOI uplift of $1.5 million to $1.7 million, representing projected returns of 8.2% to 9%.

We are pleased to share the next property in our redevelopment pipeline, Manoa Marketplace. Plans are to improve the shopping experience of this grocery-anchored neighborhood center. This is an extremely well-located community center near the flagship University of Hawaii campus and within a few miles of Waikiki and Ala Moana. Sustainable design and building elements will be incorporated in our efforts to enhance the dining, shopping and service options. For this repositioning project, we expect to invest approximately $8 million and anticipate a stabilized return on cost in 2023 in the low double digits.

Finally, we have commenced construction of a 1.3-megawatt rooftop photovoltaic system at Pearl Highlands Center, our largest retail asset. The system is expected to be operational in the later part of 2022 and will be sized to offset 100% of common area energy and provide additional power to select tenants. It will also generate approximately $300,000 of annual NOI to the center. This is another example of our focus on energy efficiency and the beginning of a broader initiative to bring rooftop solar to more of our portfolio.

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

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

Thanks, Lance, and good afternoon, everyone. Starting with our financial results. For the third quarter, we recorded net income of $6.4 million or $0.09 per share compared to net income of $3 million or $0.04 per share in the same quarter of 2020. Third quarter funds from operations was $15.5 million or $0.21 per share compared to $12.5 million or $0.17 per share in the same quarter of the prior year. Core FFO was $17.9 million or $0.25 per share compared with $11.6 million or $0.16 per share in the same quarter of the prior year.

Growth in FFO over the past 12 months was due to improved tenant performance, resulting in higher current rent payments and increased collections of previously reserved amounts. On a sequential basis, our core FFO of $0.25 per share was flat from the second quarter to the third quarter. Both second and third quarter core FFO were up 19% or $0.04 per share relative to the first quarter, reflecting the continued strengthening across our commercial real estate portfolio so far in 2021.

Let me now turn to our Commercial Real Estate segment. CRE revenues of $44 million was $8.3 million or 23% higher than the results in the same quarter of 2020. NOI of $28.1 million was $6.5 million or 30% higher than the third quarter of 2020. The increase from the year ago quarter, again, reflects the overall recovery of our tenants which resulted in improved rent collections, including both current and prior period rents. The third quarter NOI included reversal of reserves of $700,000 related to the recovery of previously reserved 2020 rent balances. Same-store NOI of $27.4 million was $6.3 million or 30% higher than the third quarter of 2020.

Turning to leasing. We had a record quarter for new leasing volumes with 34. As overall, we completed 77 standard leases totaling approximately 216,000 square feet. For comparable leases, spreads were 2.3% portfolio-wide and 8.7% for new leases. In addition, this quarter, we signed 3 COVID-related lease modification extensions, down from 16 in the second quarter, and totaling approximately 5,000 square feet at a weighted average term of 2.5 years.

The continued high volume of leasing activity reflects the exceptional tenant demand and excellent fundamentals we're seeing across the Hawaii market.

Our land operations business produced revenue of $5.4 million and generated EBITDA of $2 million in the third quarter of 2021. Included in the quarterly results is $2.5 million of joint venture income primarily related to Kukui'ula, where 11 units and a bulk parcel were sold, resulting in total cash proceeds to A&B of approximately $10 million. As Chris mentioned, due to the sales activity at Kukui'ula, we received a partner distribution for a third straight quarter.

Our Materials & Construction segment generated adjusted EBITDA of $2.2 million for the third quarter, with the sequential increase attributable to the further commencement of paving projects.

Finally, with respect to our G&A, we are pleased with our consolidated G&A reductions and expect the decreases to continue as we advance our simplification and streamlining efforts. Reportable G&A expenses for Q3 were $12.6 million, up from the third quarter of 2020 due to a combination of the very low G&A levels experienced at the height of the pandemic last year and the 2021 costs related to the pension termination process and refinancing transaction. We now expect G&A to be in the range of $52 million to $54 million this year, well below our 2019 G&A year-end total of nearly $59 million, reflecting the steady progress we've been making in our streamlining efforts.

Let me now turn to our balance sheet and liquidity metrics. This quarter, we were within our target leverage range of 5 to 6x net debt to adjusted EBITDA and had ample liquidity at quarter end. We paid off 2 small mortgage loans totaling $14 million with a draw on the credit facility, adding these properties to the unencumbered pool of assets which now exceeds $1.2 billion in gross book value. At September 30, 2021, our total debt outstanding was $628 million, and we had total liquidity of $383 million, including approximately $26 million of cash and $357 million of remaining capacity on our credit facility.

During the quarter, we established an at-the-market equity issuance program to go along with our existing share repurchase authorization. The ATM is authorized for issuance of up to $150 million of common stock. During the third quarter, we did not issue any shares under the ATM or repurchase any shares. Also during the quarter, we completed a recast of our credit facility, increasing the total capacity from $450 million to $500 million in order to repay the $50 million bank syndicated term loan, extending the term out to August 2025 and lowered spreads by up to 80 basis points.

Under the facility, we may further reduce our cost of funds by achieving an investment-grade credit rating as a ratings-based pricing grid was added to the agreement, among other improvements. We are very happy to have the support of the banks and other lenders to enhance our capital markets capabilities and options. These steps are intended to ensure we have all the necessary tools to maximize shareholder value as a REIT. Together, our new credit facility, the ATM and our share repurchase authorization will provide us robust capital markets tools as we complete our simplification and pivot to growth.

After closing the recast credit facility, we now have no material debt maturities until 2024. At quarter end, net debt to trailing 12-months consolidated adjusted EBITDA was 5.5x, essentially in line with the last quarter and down from 6.6x 1 year ago. Our debt to total market capitalization stood at 27% at quarter end and stands at 25% today. With respect to our dividend, our Board plans to declare a fourth quarter dividend in December with payment in January 2022.

Regarding guidance, we are raising our 2021 guidance for core FFO per share from a range of $0.81 to $0.87 per share to a range of $0.88 to $0.92 per share. Additionally, we are increasing our same-store NOI guidance range from 7% to 10% to an updated range of 10% to 12%. This updated guidance reflects the strong year-to-date performance of the CRE portfolio as well as our outlook for the remainder of the year, which includes our expectations of lower collections on reserve rents and higher fourth quarter G&A due to ERP implementation costs and performance-based incentive compensation accruals.

With that, I'll turn the call over to Chris for his closing remarks. Chris?

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

Thanks, Brett. We were very pleased with our results this quarter, generating record new leasing activity and significant NOI growth as our portfolio continues to benefit from the robust fundamentals of the Hawaii economy. Strategically, we're advancing our simplification and strengthening our balance sheet to support further growth in commercial real estate. While the acquisition we completed in October was a small one, it's just the beginning as we pivot our focus back to growth. I want to thank and acknowledge the entire A&B team for their good work and dedication this year.

Lastly, a quick note on our long-standing commitment to environmental, social and governance practices, which are key components of our success. We recently released our second annual corporate responsibility report, which is available on our website, and highlights our commitment to be partners for Hawaii and responsible corporate citizens. To this end, I'm excited to be a panelist at the Make Climate Action Everyone's Business Forum tomorrow. The forum is aligned with the COP26 conference taking place in Scotland this week, and I'll be speaking on a panel called Local Action, Global Goals discussing how Hawaii's private sector is making progress on the UN Sustainable Development Goals.

With that, we'll now open the call for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question will be from Daniel Santos from Piper Sandler.

Daniel Santos - *Piper Sandler & Co., Research Division - Research Analyst*

My first one is on the Grace business, and I was wondering if you might give us some insight into sort of what's driving that recovery. It would definitely seem like that's sort of happening a bit faster than we expected. And then, of course, I know you haven't disclosed any particular plans to sell, but maybe give us some more detail on what the outlook for that business looks like in the next 12 to 18 months.

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

Yes. Dan, thanks for the question. This is Chris, and let me take that -- those 2 questions. So first of all, I'm thrilled to hear you say that you think the Grace recovery is happening faster than you expected, it has been. We've had high hopes for recovery and profitability there over the last year largely because of the backlog that we had built last year. And frankly, for us, it's been a little bit frustrating because it has taken longer to turn that backlog into contracted jobs and actually generate the revenue. So that's why we showed that chart and we are excited about what happened in the third quarter with respect to converting the backlog into contracted jobs.

Just to elaborate briefly on why that's important, one of the issues with a construction business is there are often barriers to doing work in certain areas. For example, rain is the most common one. The bigger your contracted work total, the number of jobs that you have to choose from, the better able you are to pivot and flex and move to a different part of the island, keep your crews fully productive. And then, of course, there are also scheduling issues. So the more jobs you've got, even though you can't necessarily do more than a certain amount in a day, and so we wouldn't expect revenue to double because our contracted work has doubled, we would expect to keep our crews more productive as a result of that higher volume of contracted work.

So that's good news. And I'd say that's probably one of the most encouraging things in the business. There have been other things, too. Just the pickup in construction activity in Hawaii, generally, has helped our aggregate sales, the pickup not only in our paving activity but other people's paving activity has been helpful because we sell rock and hot mix to other providers.

So -- we do have an improving outlook for the fourth quarter. I always have to caveat fourth quarter forecasts with the reality that it does tend to get rainier in the fourth quarter. I'm actually looking out the window at rain right now. So we have to be cognizant of the fact that even though we're off to a great start in October in Materials & Construction or we had a good October, we have to be prepared for weather, and so we always have an asterisk on our outlook for the fourth quarter.

But it is going well. That positions us, I think, better for monetization of the business. As you know, I think we chose not to monetize the business last year when COVID and some other factors impacted our earnings significantly. We said that we wanted to turn performance around. I think we're making good progress toward that. And we will certainly look in 2022 to try to monetize the business. But it's nice to have this steady positive trajectory in earnings to set the table for a possible monetization next year.

Daniel Santos - *Piper Sandler & Co., Research Division - Research Analyst*

Got it. That is a very helpful answer. My next question is on, and apologies for the pronunciation, Kukui'ula, you said it was your best quarter of sales in a decade. I was wondering if you could provide maybe some color on what you think is driving that acceleration. And then as a sort of offshoot, you mentioned that it is some -- one of the assets that you were considering -- one of your noncore assets you're considering selling. So maybe give us some insight there and what's driving the -- what your sort of internal calculus is on what you're deciding to sell.

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

Yes. So thanks. I'll try to keep track of all those questions. So at Kukui'ula, just as a minor clarification, what I said is that our year-to-date is already better than any year we've had since actually probably 2007 or so. So more than a decade. Our annual result, not our quarterly result, would be the best in over a decade, which is great news.

And I think the single biggest driver for that -- there are really 2 drivers. One is, we made an investment several years ago to bring more inventory to the market, which meant building out more roadways, putting in utilities and grading lots and having more inventory available. So the completion of a lot of that inventory coincided with the pandemic-driven surge in demand for residential land in Hawaii.

And so we got -- a big portion is probably -- there are a few silver linings from the pandemic here and there. And obviously, overall, it's been devastating for the people of our state, and it was very tough on parts of our business. It's probably the one part of our business that has probably benefited from the pandemic is the lot sales at Kukui'ula. So that's really what's driving the surge in activity at Kukui'ula.

And that positions us then for monetization. We went to the market a few years ago. We decided not to sell because the performance of the project was not as strong as we would have liked and we didn't get a strong reaction in the market. Currently, both because of the better performance of the project and because of all the capital out there chasing land deals, generally in Hawaii and elsewhere, we did run a marketing process, and we have selected a buyer to work with on that project. Now we always caveat it that we'd never know when these transactions will close or if they'll close. But we do feel that we're advancing toward at least a potential transaction this year to sell our interest in Kukui'ula, which would then allow us to redeploy that capital towards commercial real estate growth, which is, again, consistent with our strategy.

I think there was a third question there that I've forgotten. So feel free to remind me. I think the question was strategic -- I think you were asking sort of strategically, how do we think about what we want to monetize. And really we want to monetize everything that is not commercial real estate, ultimately. Now we don't necessarily -- we haven't been doing it in a fire sale mode. We've been patient about it. We've actually been undertaking it for several years. We've sold some ag lands in 2018. We've sold some developments off. Kukui'ula, we may well sell this year. Grace, possibly next year. But we're trying to balance the urgency of simplification and delevering with a desire to get good pricing on our assets. And I think, overall, we've done that very well. I'm pleased with the pace, and I'm also pleased with the financial results of the transactions we've had to date.

Operator

(Operator Instructions) The next question will be from Sheila McGrath from Evercore.

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

Yes. You mentioned the industrial property. I know it's a small transaction, but if you could just give us a little bit more detail on the pricing and cap rate or price per square foot. And also since you're teeing up these noncore assets, you must be actively looking at acquisitions. If you could give us some detail on the pipeline right now, looks more industrial, ground lease or retail.

Lance K. Parker - *Alexander & Baldwin, Inc. - Executive VP, COO*

Sheila, this is Lance.

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

Hi, Lance. Congrats.

Lance K. Parker - *Alexander & Baldwin, Inc. - Executive VP, COO*

Thank you. I appreciate that. So with regard to the industrial acquisition, it's about 42,000 square foot warehouse as well as a small industrial yard. The warehouse itself is extremely well-located in urban Honolulu, literally walking distance to the port and minutes' drive time to the airport. So we were excited to buy into that submarket knowing how strong the industrial market has been here for years.

And I think it's a -- it represents some small fruit, but nevertheless, fruits of our labor in terms of pivoting our investments team to growth and looking more toward the market. The market was pretty tight through COVID, and we are starting to see a little bit of thawing. So, excited to be more engaged with potential sellers.

In terms of assets, our priority will continue to be to buy into our existing 3 asset classes. So retail, industrial with this acquisition, ground leases as well. We think there's sufficient room for us to continue to grow in those asset classes here in Hawaii. And so that really will be our focus.

In terms of pricing, I would expect to be -- to see some cap rate compression in the market, just given how tight things are. And to Chris' earlier comments with a significant amount of liquidity in the market chasing opportunities. And so the pricing for this industrial asset in particular was about a 5.1% cap going in. We do think that there is some additional room for growth. But given some of the pricing expectations we've seen, we feel actually really good about the pricing that we achieved. And as I indicated, location is very good, and then just the building attributes, 24-foot clear, dock-high loading, it's a good asset for us to add to our portfolio.

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

Okay. Great. And then same-store NOI on the retail was like a monster increase. I just want to know if -- Brett, maybe you can remind us how the deferrals and reversals work. And in that -- in those numbers, is there anything like nonrecurring that we should be careful not to pull forward?

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

Good question, Sheila. So as a reminder, the deferrals, generally, if they weren't reserved for, did not impact our earnings in the current period. So anything we deferred from 2020 was recorded as income in 2020.

As far as the reserve reversals, that did impact and had a positive impact in the current quarter of about $700,000 or about $0.01 per share. We also pleased with the percentage rents that we picked up in the current year, that was -- or in the current quarter, I should say. That's about $1.5 million, and so that had a big impact.

And that's -- so the reserve reversals and the percentage rent is something that we don't anticipate going forward into the fourth quarter. And so just being cautious that the reserve reversal opportunities are lower going forward. And as you get further away from the -- when those rents were originally reserved becomes less of a certainty. And then the expectation is there was some catch-up on those percentage rents in the current quarter. So again, being conservative, not including that in the go forward either.

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

So the $700,000 was $0.01 a share, and that was -- but how much did the percentage rent account for?

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

That's about $0.02 per share.

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

$0.02. Okay, okay. And then just on noncore lands, Chris, that you -- ag and it sounds like commercial and Kukui'ula. The last large land deal that you did on the ag side, you were able to structure it so there was no tax leakage. I'm just wondering how we should think about that. Do you think you'll be able to execute these without having to pay significant taxes?

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

I do, Sheila. I think that most of the land that we are selling or hope to sell over the next -- the balance of this year and into next year sits within the taxable REIT subsidiary. But within the TRS, we have, I believe, sufficient credits and carryforwards or losses within the current period to shelter most of that income from any tax leakage.

And a lot of that is related to past -- some past losses. And then also when we do sell Kukui'ula, even though from a book standpoint, we would expect it to most likely be favorable. You'll recall that we had a big book write-off a few years ago, and so the tax basis in Kukui'ula is quite high. And so that would also provide some shelter that would allow us to avoid tax leakage.

Operator

And the next question will be from Marla Backer from Sidoti.

Marla Susan Backer - *Sidoti & Company, LLC - Research Analyst*

So I have a follow-up question on getting a little bit more color on the acquisition pipeline to the extent that you can provide it. Given the divesting of noncore assets, is there any timing issue here? Are potential acquisitions in any way dependent on the timing of selling some of the noncore assets that you've been talking about? Or given your liquidity, they're not -- that's not an assumption?

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

Thanks, Marla, for joining us here. I would -- I'll start. This is Chris, and then let either Brett or Lance jump in if they want to, or Clayton. But the short answer is we do not feel that we need any additional sales to close in order to enable us to keep going on the acquisition front. Obviously, that would depend a bit on the magnitude of the investments. And while we are looking for larger investments, I would anticipate that anything we would do in the near term, we would certainly be able to handle with available liquidity.

But overall, our objective is to transition assets from non -- or cash from non-income-producing assets into income-producing assets. So it's an important evolution, but it's not something that we're dependent on, disposing of any assets to fund growth right now.

Lance K. Parker - *Alexander & Baldwin, Inc. - Executive VP, COO*

Marla, it's Lance. I was just going to add to that, to Chris' earlier comments, nor are we dependent on having to use those proceeds to reinvest on a tax-efficient basis. We've historically been 1031 buyers to recycle capital. But given the advantages we have, particularly in the TRS, once we receive those proceeds, we can be a little bit more patient in replacing them into the market, into the appropriate acquisitions for us.

Marla Susan Backer - *Sidoti & Company, LLC - Research Analyst*

Okay. And then in terms of what you're seeing in terms of the reversals and the deferrals of rental revenue that you had accrued in 2020, and obviously, you're seeing improvements now. Are you seeing those improvements amongst your tenants pretty much across the board? Or are there any niche sectors where you still have some concerns?

Lance K. Parker - *Alexander & Baldwin, Inc. - Executive VP, COO*

This is Lance again. I guess maybe to speak to sort of tenant health in general. I would say across the board, we continue to see recovery with our tenant base, and that's obviously a pretty broad statement. I know there are questions out there with regard to supply chain issues as well as labor shortages, and we have heard from some of our tenants that they've had to make changes to their business models to account for that. But sort of the 3 things that we look for in terms of tracking our tenant health, one is collections, which remains consistent, and we've seen improvement on that throughout the year, and that's been consistent through Q3 and heading into Q4. Tenant sales, which we obviously track on a monthly basis. And similarly, we see consistency there. And then the third is just general leasing interest. And I would say that, obviously, we had a very strong quarter in Q3 in terms of number of deals that we executed. And that level of interest is continuing into Q4, so feeling good about that.

I would say maybe the one exception to all of those statements might be the one theater that we have within our portfolio. And I think generally, that's just a segment within the industry that continues to lag a bit. But other than that, I would say everything else is improving nicely.

Operator

And the next question is a follow-up from Sheila McGrath from Evercore.

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

Yes. I had a question on retail occupancy. It looks like you're back to pre-pandemic levels. With discussions that you're having now, do you expect any more occupancy gains as being realistic or stabilized?

Lance K. Parker - *Alexander & Baldwin, Inc. - Executive VP, COO*

I think there would -- there could be some opportunity for a little bit of growth, Sheila. As I indicated, we continue to see strong leasing interest. But to your point, the majority of our vacancy at this point is in just a handful of spaces where we have larger mid-box vacancy available. And -- so while we continue to be in discussions with potential tenants for that, I wouldn't expect to see any near-term improvement within that portion of our portfolio. So I wouldn't plan on any material growth within the retail portfolio heading toward the end of the year. But certainly stability in terms of the numbers that we've been able to achieve year-to-date.

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

Okay. And then, Chris, can you remind us -- I know it's a Board decision, but on the dividend policy, are you -- is the thought that you're managing to a certain payout ratio or just kind of broad-based comments on the dividend policy.

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

Yes. Thanks, Sheila. The broad policy, which has been the same pretty much since we converted to a REIT and had that big E&P distribution, has been to distribute 100% of REIT taxable income. But while we've been in the process of delevering, we have not chosen to go beyond that. We've been sticking to pretty much 100% of REIT taxable income. So there's no -- so that's been our goal.

And to do that, the approach we have taken has been to obviously monitor our earnings performance closely, but also to use the flexibility of a December declaration and January payment so that we can be assured of knowing exactly where we're going to be for the year before we make the final dividend approval. So as I believe was referenced in our release, we would expect the Board to declare a dividend in December for payment in January, as we've done in the last couple of few years.

Operator

Thank you. Ladies and gentlemen, this concludes our question-and-answer session. I would like to turn the conference back over to Steve Swett for any closing remarks.

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

Thank you, Chad. And thanks, everybody, 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. Aloha, and have a great day.

Operator

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