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PRESENTATION

Operator

Good day, and welcome to the Fourth Quarter and Full Year 2021 Alexander & Baldwin Earnings Conference Call. (Operator Instructions) Please note, this event is being recorded.

I would now like to turn the conference over to Steve Swett, Investor Relations. Please go ahead. Thank you.

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

Thank you. Aloha, and welcome to our call to discuss Alexander & Baldwin's fourth quarter and full year 2021 earnings. With me today for our earnings call are A&B's President and Chief Executive Officer, Chris Benjamin; our Chief Operating Officer, Lance Parker; and our Chief Financial Officer, Brett Brown. 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 that 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, as well as the rapidly changing challenges with and the company's plans and responses to the novel coronavirus 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, 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; and evaluation of alternatives by the company related to its Materials & Construction business as well as other factors 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 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 up today's presentation with a strategic update. He will then turn the presentation over to Lance for an update on real estate operations, and then Brett will discuss financial matters. Chris will return for some closing remarks, and then we will open up the call for your questions.

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

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

Thanks, Steve, and good afternoon to our listeners. 2021 was a very strong year for our company, and it's positioned us to increase our focus on commercial real estate growth in 2022 as we strive to complete our simplification.

In commercial real estate, we began the year cautious but optimistic, still facing uncertainty regarding the path of COVID but with strong occupancy and a relatively healthy tenant base considering what our tenants had weathered in 2020. As the year progressed, Hawaii's recovery accelerated, and our high-quality portfolio of well-located retail, industrial and ground lease properties demonstrated its strength. Our collaborative engagement with our tenants through COVID bore fruit as our occupancy remained strong throughout and positioned us to capture upside from the economy's reopening during 2021.

Some highlights of our full year performance include: CRE revenue increasing more than 15%, total CRE portfolio NOI and same-store NOI both up more than 17% and core FFO up by more than 26% or 26%. This growth was driven primarily by our Retail segment, which achieved a nearly 24% improvement in same-store NOI. Our retail properties had been most severely impacted by 2020 COVID-related effects and, therefore, had a significant rebound. We also reported solid growth in our Industrial and Ground Lease segment, which generated same-store NOI growth of more than 8%.

The surge in employment levels and retail spending in Hawaii throughout 2021 provided a strong boost to our portfolio. These effects were largely the result of the state's reopening for tourism with passenger arrivals for the peak summer and winter holiday travel seasons at approximately 89% and 80%, respectively, of 2019 levels, even with the lingering uncertainty caused by the delta and omicron variant. As we said before, our portfolio is generally community based and less dependent on tourist activity, but the resurgence in Hawaii tourism is providing a broad benefit to economic activity, as evidenced by the drop in the unemployment rate from 10.3% at the start of 2021 to 5.7% at the end of the year.

It's important to note that the state's tourism levels in 2021 continued to reflect essentially no international travelers, which had comprised about 28% of visitors in 2019. As COVID case counts trend in the right direction, we expect to see a continued reduction in travel restrictions.

Our results, of course, are not due only to these broad economic trends. We own great assets in great locations. We ended 2021 at 94.3% leased occupancy, and our portfolio occupancy has remained consistent with year-end 2019 levels. Occupancy was aided by the record leasing volumes in 2021 with over 270 leases signed during the year for more than 650,000 square feet and with comparable leasing spreads of 4.6%.

We advanced a number of redevelopments during the year, totaling about $17 million of capital with strong projected returns between high single-digits and low double-digits. We expect to invest another $15 million to $20 million in redevelopment projects in 2022, with similar projected returns. All of this capital is going to refresh, reposition and re-tenant our well-located properties, demonstrating the embedded growth opportunities within our portfolio.

Looking beyond our existing portfolio, we've pivoted our investments team back to acquisition efforts. In the fourth quarter, we closed on our first acquisition since mid-2019. It's a well-located industrial property in Honolulu, along with 2 industrial lots for development in West Oahu. Our team is actively working to source additional opportunities, and we're diligently building our pipeline.

Turning to our simplification efforts, 2021 was a big year as the strong demand for Hawaii real estate and the large amount of capital in the market enabled us to monetize more than $200 million of non-core land. Activities for the year included the fourth quarter sale of our Kukui'ula joint venture, several lots at Maui Business Park and other agricultural and urban parcels on Maui. With the proceeds, we further strengthened our balance sheet. At year-end, leverage was 3.3x net debt to adjusted EBITDA, and we now have nearly $519 million of total liquidity, allowing us to go on offense as opportunities arise.

This progress in monetization of non-core assets and de-levering our balance sheet is encouraging and gets us significantly closer to our goal of being a pure commercial real estate company, but we fully acknowledge the remaining important step of exiting the Materials & Construction segment. M&C had a challenging year financially in 2021 and took an impairment in the fourth quarter that Brett will describe, but is far better positioned for profitability in 2022.

I want to commend the Grace team for the outstanding work they've done to reposition the business. In many ways, they've had to reinvent the company to respond to a fundamental and permanent shift in the industry. With more players vying for less business in the paving market than when we bought the business, they've had to reduce overhead significantly, increase operating efficiency, establish new bidding processes and discipline and expand their focus on the materials segment of the business. Because of their efforts and the strongest book of business Grace has had in 4 years, we expect to launch another marketing effort this spring against the favorable backdrop of an infrastructure bill that promises to inject up to $1.5 billion into Hawaii for road and bridge projects.

Now I will turn the call over to Lance to review our recent CRE highlights and land sales activity. Lance?

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

Thank you, Chris, and Aloha, everyone. Beginning with operations. In the fourth quarter 2021, our CRE portfolio continued to perform very well. Same-store NOI was up 33% year-over-year, reflecting greatly improved tenant performance and collections. We executed 65 leases for approximately 162,000 square feet during the fourth quarter and achieved average spreads of 10.1% for new leases and spreads of 4.8% on renewal leases. Overall leased occupancy at year-end was 94.3%, unchanged from 12 months earlier. Same-store leased occupancy was 94.2% compared with 94.3% at the end of 2020.

Turning to acquisitions. With ample liquidity, including cash and capacity on our line of credit, we are positioned to pursue an active growth strategy going forward. In the fourth quarter, we acquired an industrial property located within the urban core of Honolulu, immediately adjacent to the port and minutes from the airport, plus 2 lots for development in West Oahu, where most new industrial product is being developed. Our team is active across our target markets on Oahu, Maui, Hawaii Island and Kauai, and we are earmarking $50 million to $75 million or more as an annual pace.

As we shift to rebuilding our acquisition pipeline, we believe our strategic advantages of deep market knowledge and long-standing relationships will enable us to uncover the best value in the market and are busily engaging potential sellers.

With regards to key redevelopment activity, at Aikahi Park Shopping Center, the relocated full-service veterinary hospital opened in the fourth quarter, and East shops work is advancing on pace. Additional refresh work is also underway to upgrade and expand this well-located center in Kailua. As we have said, we realized incremental NOI here in 2021 and will receive additional income in 2022 as leasing is completed with anticipated incremental annual NOI uplift of $1.5 million to $1.7 million, which represents a projected return of 8% to 9%.

At Manoa Marketplace, our plans to improve the shopping experience of this grocery-anchored neighborhood center are underway, and we have selected a contractor for the work. 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. For this repositioning project, we expect to invest approximately $8 million and anticipate a stabilized return on cost at project completion of 8% to 8.5%.

At Pearl Highlands Center, we commenced construction of a 1.3-megawatt rooftop photovoltaic system as part of a broader clean energy initiative across our CRE portfolio. The system is sized to offset 100% of common area energy usage and also will provide energy to select tenants, resulting in approximately $300,000 in anticipated incremental annual NOI uplift.

Turning to our land sales, we had a very successful fourth quarter, capping off a record year. In the fourth quarter, we sold our Kukui'ula joint venture, several parcels at Maui Business Park and other non-core land on Maui. For the full year, we generated total sales proceeds of $203 million, which were used to reduce our leverage and fund our real estate investment activities. We expect further simplification progress in 2022 as we continue to capitalize on the robust demand for Hawaii real estate.

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 fourth quarter, we recorded net income of $6.1 million or $0.08 per share, FFO of $13 million or $0.18 per share and core FFO of $17.5 million or $0.24 per share. For the full year 2021, we recorded net income of $35.1 million or $0.48 per share, FFO of $70 million or $0.96 per share and core FFO of $69.4 million or $0.96 per share as well. For additional details on our results, including comparisons to the fourth quarter of 2020 or to the full year 2020, please see our earnings release and supplemental information package. As a note, each of these metrics for 2021 benefited from reserve reversals of approximately $900,000 or $0.01 per share in the fourth quarter and $4.3 million or $0.06 per share for the full year.

Let me now turn to our Commercial Real Estate segment. For the fourth quarter, CRE revenues increased by nearly 25% or $9.1 million over the prior year quarter to $46 million, and NOI increased by 33% or $7.2 million to $28.8 million compared to the same period last year. This 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. As I noted earlier, revenue included a reversal of $900,000 related to the recovery of previously reserved 2020 rent balances. Fourth quarter same-store NOI increased 33% or $6.9 million over the prior year quarter to $28 million.

Our Land Operations business produced revenue of $41.4 million and generated EBITDA of $33.4 million in the fourth quarter of 2021. Included in the quarter results are the positive one-time impacts from the Kukui'ula project sale and other land sales. For the full year, Land Operations revenue was nearly $80 million, and EBITDA was $56.5 million.

Our Materials & Construction segment had some noise in the fourth quarter of 2021 with a $29 million non-cash impairment of goodwill and long-lived assets as a result of our review of strategic alternatives for the business, along with a one-time non-cash charge at an equity method investment, of which $3.5 million is attributable to us, and that resulted in adjusted EBITDA of negative $2.7 million for the quarter compared to positive $700,000 in the same quarter of the prior year. For the full year, adjusted EBITDA was negative $1.1 million compared to positive $6.3 million in 2020.

For the full year 2021, G&A was $51.9 million, which was at the low end of our expected range and below our 2019 G&A year-end total of $58.9 million, reflecting the steady progress we've been making in our streamlining efforts. For the fourth quarter 2021, G&A expenses were $14.7 million compared to $11.6 million in the fourth quarter of 2020. The increase was due to a combination of the very low G&A levels experienced at the height of the pandemic and the 2021 costs related to ERP conversion and higher performance-based incentive compensation.

Turning to our balance sheet and liquidity metrics. During the quarter, we used proceeds from land sale to pay down $92 million on our revolving credit facility. At December 31, 2021, our total debt to -- our total debt outstanding was $533 million, and we had total liquidity of $519 million, including approximately $70 million of cash and $449 million of remaining capacity on our credit facility.

At quarter end, net debt to trailing 12 months consolidated adjusted EBITDA was 3.3x, down from 6.7x one year ago. Excluding the one-time non-core monetization income and M&C impairment impacts, net debt to consolidated adjusted EBITDA would be in the low to mid 5x range, and our debt to total market capitalization stood at 22.6% at quarter end.

With respect to the dividend, our Board declared a fourth quarter dividend of $0.18 per share that was paid on January 6, 2022 to shareholders of record as of the close of business on December 23, 2021. Our Board recently declared a first quarter 2022 dividend of $0.19 per share, a $0.01 or 5.6% increase from the fourth quarter of 2021 dividend and back to our pre-pandemic quarterly rate. The first quarter dividend is payable on April 5, 2022 to shareholders of record as of the close of business on March 18, 2022.

Finally, turning to guidance. We are providing initial 2022 guidance for core FFO per share within a range of $0.94 to $1 per share. Rent commencements and uncollectible rents are the biggest potential impacts to full year results and where we end up in the range. This guidance is based on same-store NOI growth within a range of 0% to 2%. Please bear in mind the growth over 2021 is impacted by the one-time recoveries of COVID-related reserve reversals. Excluding these, our same-store NOI growth for 2022 would be 2% to 4%.

Additionally, 2022 same-store guidance implies comparable property NOI will be ahead of 2019 levels, highlighting the strength of the recovery of our properties and recent and forecast rent commencement. And while we expect 2022 G&A expenses to decrease marginally from 2021 due to our ongoing simplification efforts, we do expect to see the benefits of those efforts reflected in a year-end run rate several million dollars below full year 2022. Finally, I'll note that while not included or part of our guidance as it's not a part of core FFO, we expect to incur an $80 million to $95 million non-cash settlement charge related to the defeasance of our pension plan, plus additional cash contributions ranging between $34 million to $48 million.

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. I use the word pivot a lot these days because I believe it conveys what we're doing as a company as we shift our focus back to the growth of our commercial real estate portfolio. We're still shedding some legacy assets and liabilities, but we've made enough progress and strengthened our balance sheet sufficiently that we've pivoted our investments team to a focus on building our acquisition pipeline. They did a great job of selling assets like Kukui'ula, and now that they've returned to a primary focus on growth of our Hawaii commercial real estate portfolio -- sorry, now they've returned to a focus on -- an extra word in there.

It won't be easy because there's a lot of capital-chasing deals, but I continue to believe in the basic premise upon which our entire strategic transformation was based, that we are uniquely positioned to be successful in acquiring, developing, redeveloping, leasing and managing commercial real estate in Hawaii, a compelling market we know better than anyone. We're excited to be that much closer to that focus. Yes, we still have some simplification tasks to complete, but with a healthy balance sheet and Lance's entire CRE team focused on growth, I anticipate great things for the company.

As we complete our transformation into a focused commercial real estate company, we intend to continue our long-standing commitment to Hawaii and the principles now known as ESG. In 2021, we published our second Annual Corporate Responsibility Report, emphasizing our commitment to protect our environment, support our employees and our communities and operate with strong governance. In 2022, we're expanding this commitment with employee councils focused on environmental and social stewardship, which will engage a broader and more diverse group of employee perspectives in defining and pursuing our commitment to each other and the community.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Alexander Goldfarb with Piper Sandler.

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

So a few questions here. First, looking to the '22 guidance. Obviously, the guidance looks ahead of where consensus is. How much of the reinvestment from the land sales, et cetera, that you did this year is baked into that number? So simply put, the $0.94 to $1, is that all just core A&B? Or is that assuming some level of reinvestment using proceeds from this year?

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

Go ahead.

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

Well, the -- first of all, the vast majority of the $200-plus million of land sales that we did last year were assets that were held in the TRS. And so there is really not a lot of 1031 exchange capital from those sales. We did have a modest amount of 1031 proceeds at the end of the year, and that was -- all 1031 and 1033. That was all reinvested in those 2 assets -- well, the -- actually, 4 assets but the collection of industrial properties and land that we bought in the fourth quarter.

But beyond that, we do have acquisition aspirations this year and -- but we're -- factored in our plan, their fourth quarter acquisitions, and they're not driving a significant amount of NOI. So I think the short answer to your question would have been this is pretty much core performance and core growth.

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

Okay. So I mean regardless whether it's TRS or in the REIT, it doesn't matter. It's still $200 million of capital. But what you're saying, Chris, is that the $200 million that you got, you used a little bit of it, but basically, we shouldn't think about that coming back in as a recycling to invest in new properties until the end of this year. So -- okay. So then the $0.94 to $1 is really based on the core, which that's solid.

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

That's the right interpretation. I just wanted to make the point that we don't have a clock ticking on the reinvestment of those proceeds because they're not 1031. We were able to -- yes. So we basically used it to pay down debt. And then as soon as we find investment -- and by the way, we hope to be making investments well earlier than the fourth quarter, but we were conservative in our planning as far as any NOI generation.

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

Okay. And speaking of ticking clocks, Grace, what was the write-down in the fourth quarter? And my recollection is you guys had already taken a pretty significant write-down or multiple write-downs in this business over the years. So what was it in the fourth quarter? And then last year, you spoke about it being off in a good place and getting ready to market it and having the pipeline of projects deep enough that you could market it.

So I'm sort of curious how we reconcile the write-down coupled -- offset with, hey, there's this infrastructure bill or legislation that should provide a dream of projects to do, and therefore, we should be in a better spot or you guys would be in a better spot to be selling this. I'm just trying to reconcile the 2 and then understanding what drove the write-down.

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

Yes. Let me -- well, really good question and very appropriate question. Let me take most of it, and then maybe Clayton will jump in with a little bit of the technicalities on the write-down. But let me first say that you're right. A year ago, we thought we were relatively well positioned for a better year. We expected better profitability in 2021. We had 2 things happen. One, essentially -- though the biggest one was that we lost a significant job that had already been awarded to us, and we thought it was going to be executed last year. There was a lawsuit by another company that had bid on it. They prevailed in that lawsuit against the state, and we lost that job. So a big part of our book of business was lost.

The big difference for this year and the reason that we are more confident that we're really going to achieve better performance this year is the fact that whereas last year we had backlog, which means jobs that had been won, they had -- they were not yet contracted. This year, going into the year, we have the vast majority of the work that we have in the plan, we already have contracts for. So that means that work is almost certain to be executed this year. So that puts us in a better position to predict how things will be, and that's why we are more confident. But look, I fully understand that my credibility on forecasting Grace's financial performance is not high in recent years. So I'll take that, and it's a fair comment.

Having said that, we believe that we want to try to market the business. We think that it's important to our simplification that we do that. We are not dead set on selling it at any price this year, but we are going to take it back to market. We think the fact that we're off to a good start this year, we think that we will have better performance, and the infrastructure bill, we think all of that should set us up for a better marketing effort.

But we're -- the business isn't held for sale. We haven't declared that definitively at any price, we're going to sell it. But we're hopeful that we will get a price that is appropriate and that we can hand the business off to a more strategic owner who can take it to the next level.

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

And what was the additional write-down, though?

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

Yes. So the additional write-down, Clayton, do you want to kind of talk about what triggered that?

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

Sure. So the write-down, it was pertaining to long-lived assets, by and large, and what that was reflective of was the company shortening our intended holding period for Grace and, as Chris mentioned, our desire to market the business in the near term. So as a result, all of that led to us having a reduction in the carrying value on the balance sheet.

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

Okay. And then just final question. You mentioned in 2022, there are 2 sort of non-core items, $80 million relating to winding down the pension plan, but you also mentioned $30 million related to something else. So my question is, what is that something else? And as you guys look at the books, are there any other charges that you're thinking about taking or -- because, I mean, you've written down a lot of stuff. So just curious how much -- if there's anything beyond what you've already outlined.

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

Alex, it's Brett. Both were related to the pension. It's the $80 million to $95 million non-cash settlement charge, and then there's a cash funding portion, and that was the 34 to 43 or whatever the number was.

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

But just to be clear, they're not additive.

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

They're not. Right.

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

They're not additive. The non-cash impact on the books is bigger than the cash impact.

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

Correct.

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

Okay. And anything else that you guys think may get written off in general? Or is this the end of the house cleaning between pension, Grace, whatever?

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

Nothing additional at this time.

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

No. I would say -- yes, I would just add that a big focus for us is trying to clean up as many of these final sort of legacy obligations that we have. The pension is the biggest single one. And I would say that most everything else that we have is generally pretty well reserved on the balance sheet. So I don't think there should be any other surprises.

Operator

The next question comes from Sheila McGrath with Evercore.

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

Yes. The same-store NOI was impressive at up 33%. I just want to make sure I understand how much of that is from the reversal of reserves, if you could just like strip that out. And then also, when we project forward for '22 with your guidance, how should we think about the impact from -- are there more reversals of reserves in the guidance?

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

Sheila, it's Brett. So in the fourth quarter, we had about $900,000 related to reserve reversals, and for the full year, it was $4.3 million in 2021. We expect less opportunity as we've collected more in '21 than we anticipated. So it will be a smaller pool, and we believe as time goes by, that collectibility becomes muted. But in guidance, at the midpoint, we're looking at about $2 million that we may be able to collect in 2022.

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

Okay. Great. And that just comes through in revenue as norm...

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

Correct.

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

Okay. And then on the NAREIT-defined FFO, I just wanted to clarify that, that was $0.18, but that includes the -- is that impacted by the $29 million of non-cash write-off? Or what is the Grace write-down impact on that? Anything?

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

It's the full $29 million, correct.

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

Okay. And what is the other $3.5 million that you mentioned with Grace? What is that exactly? $3.5 million.

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

That was some inventory write-down and equipment write-down at one of our joint venture investment -- materials joint venture.

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

Okay. Great. And then where is Grace carried on the books at this point? And should we consider that, that's like the fair value? Or just help us understand where it's carried at right now.

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

So the carrying value of Grace as of year-end was 103.2, and that is reflecting the adjustments that we were just talking about. With respect to the fair value itself, that does not reflect fair value, and we are planning on taking it through the marketing process, and so we'll just have to see what that process yields.

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

Okay. And then just on the acquisition pipeline, how is that looking? And is it skewed to industrial? Or just give us a little bit of insight on how that's going.

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

Sheila, this is Lance. We made a couple of remarks about pivoting the team and our ability for growth. And I will say that we are actively pursuing acquisitions, and I'm pleased by the level of engagement that we've been seeing. Generally, market conditions here are still tight. There's very few listed opportunities. But we are evaluating a number of off-market transactions, and that's really where we've sort of earned our stripes in the past with our relationships and market knowledge.

We are focusing on our existing asset classes, so retail, industrial as well as ground leases. But I would say that we would be willing to consider complementary asset classes through either a joint venture structure or a ground lease structure. So we're casting a wide net.

And yes, feeling good about our prospects. But as Chris indicated, from a plan perspective being a little bit more conservative, pushing back the impact of that until fourth quarter. And then maybe I would just add, while our appetite remains strong externally, we continue to also look for internal growth investment opportunities. So I mentioned in my remarks updates on Aikahi Park Shopping Center, Manoa Marketplace as well as Pearl Highlands. But we also continue discussions for industrial build-to-suits at Maui Business Park as well as some build-to-suit discussions and spec development evaluation on the 2 parcels that we purchased in the fourth quarter, the industrial lots out in Kapolei.

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

Okay. Great. And then I think we all agree that Grace is non-core. I just want to get a sense of what else is in that bucket for sale going forward. I think it's good news if you're developing at Maui Business Park rather than sale. But what are -- what else can you monetize that you might consider as non-core?

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

Essentially, it would be the remainder of our agricultural lands, which do generate some income both through some renewable energy assets and some leases to farm operations, but we still consider them non-core. So those would be opportunities.

And then there are some small development parcels on both Maui and Kauai that would be optimal for residential development, which really isn't in our plans any longer. So those are relatively modest value parcels, but those also would be things that we'd be looking to monetize.

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

And then you did mention in your investor deck something about solar at one of the properties. Just curious, is that something that many of your properties would be suitable for that you would consider?

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

That's the goal. So Pearl Highlands, we were purposeful in having that being the first project that we kick off. It is our largest asset by GLA. And so we have good roof space to deploy solar panels and looking forward to, hopefully -- well, certainly, we started but hopefully getting that done this year. And then we are under active evaluation to be able to try to scale that more broadly within our portfolio.

Operator

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, 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@adhi.com. Aloha, and have a great day.

Operator

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

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