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PRESENTATION

Operator

Good day, and welcome to the Alexander & Baldwin Second Quarter 2022 Earnings Conference Call. All participants will be in a listen-only mode. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions) Please note that this event is being recorded.

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

Steve Swett - *ICR, LLC - MD*

Thank you. Aloha, and welcome to our call to discuss Alexander & Baldwin's second quarter 2022 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 COVID-19 pandemic and related economic disruptions. Such forward-looking statements speak only as of the date of 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 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 it over to Chris.

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

Thanks, Steve, and good afternoon to our listeners. The second quarter was another outstanding quarter for Alexander & Baldwin. Our portfolio of high-quality retail, industrial and ground lease properties produced excellent results and we ended the quarter with leased occupancy of 94.6%, approaching pre-pandemic levels. Beyond the continued stellar CRE performance, we meaningfully advanced our strategic agenda during the quarter as we closed on the sale of approximately 18,900 acres of non-core landholdings on Kauai. I'm pleased that we are now on the verge of successfully completing our strategic transformation to a pure commercial real estate company.

I'll provide a high-level summary of our results and then Lance, and Brett will provide more details on our portfolio performance, the non-core land sale transaction, and our financials.

Commercial real estate revenue in the second quarter increased 5.8% over the prior-year quarter. Portfolio NOI was up 4.5% and Same-Store NOI grew by 4.4%. Core FFO was up 9.7% and core FFO per share was up 12%. As I mentioned, we ended the quarter at 94.6% leased occupancy, just 30 basis points below our occupancy at the end of the first quarter of 2020.

Our industrial portfolio had leased occupancy of 98.4%, up 60 basis points from one year ago and our retail portfolio occupancy was 93.1%, up 80 basis points from last year. During the second quarter, we signed 76 leases for about 174,000 square feet of gross leasable area and captured blended rent spreads of 6.2% for comparable leases.

We continue to benefit from strong underlying economic growth across the state. Domestic visitor arrivals for each of the first six months of 2022 have exceeded pre-pandemic levels, and were up over 11% year-to-date compared to 2019.

Additionally, international visitor arrivals are increasing, which should provide incremental economic benefits. While our portfolio is community-based and not heavily dependent on tourist activity, the resurgence in Hawaii tourism is providing a broad benefit to Hawaii's economy, with the state unemployment rate down to 4.3% for June 2022, an improvement of over 18 percentage points from the peak, nearly two years ago.

Inflationary pressures and economic uncertainty are potential concerns, but so far, we've not seen significant impacts across our business. Our portfolio performance remained strong due to excellent leasing activity. Interest in Hawaii real estate remains robust, also allowing us to make significant progress on our non-core land sales, including the 18,900-acre transaction we closed during the second quarter.

On the acquisition front, the market remains tight, but we continue to pursue opportunities. With a strong balance sheet and local market presence, we have historically been able to take advantage of market dislocations, so this environment may play to our strengths, but we are maintaining our investment discipline.

Financial results in our Materials & Construction segment were below our expectations for the quarter, primarily due to the timing of key projects, COVID impacts on our workforce, and inflationary cost pressure. Still, we made good progress in ramping up paving operations late in the quarter and securing new work, and this positions us well for the balance of the year. Given the improvements made over the past few years in operations, cost management and bidding, our great progress with simplification, and the fact that Grace Pacific is now the lone significant non-core asset we still own, our Board has authorized a formal marketing process to sell Grace. This is a compelling business with a long history, strong market position, and many competitive advantages. We hope to find a strategic buyer for whom Grace is a more natural fit. We will provide updates as we progress, but cannot comment further on the process or our expectations at this time.

With that I will now turn the call over to our Chief Operating Officer, Lance Parker, 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, our CRE portfolio continued to perform exceptionally well in the second quarter. Same-Store NOI was up 4.4% year-over-year, reflecting improved tenant performance and collections. We executed 76 leases for approximately 174,000 square feet during the second quarter and achieved increased rent spreads of 11.9% for new leases and 5.4% for renewal leases. Some of the significant leases executed during the period were two leases at our P&L Warehouse that sustained the 100% leased occupancy of the industrial property and a total of 12 leases related to properties in Kailua, including Aikahi Park Shopping Center.

Overall, the Same-Store leased occupancy at quarter end was 94.6%, up 60 basis points from 12 months earlier. Over the same period, Same-Store retail leased occupancy was up 80 basis points to 93.1% and Same-Store industrial leased occupancy was up 50 basis points to 98.3%.

With regard to growth, our team is active across our target markets on Oahu, Maui, Hawaii Island, and Kauai and are pursuing opportunities in our preferred asset classes. Expectations are changing between buyers and sellers around market performance and pricing, and we believe our deep market knowledge and long-standing relationships will enable us to uncover opportunities and realize long-term value.

We remain disciplined in our approach and believe our ample liquidity will provide advantages as the market shifts. In the meantime, we continue to pursue internal opportunities such as development or redevelopment, where yields remain attractive and we can better control timing.

Redevelopment efforts at Aikahi Park Shopping Center are nearing completion for the fourth quarter of 2022 target stabilization. At Manoa Marketplace, which we introduced last quarter as the next property in our redevelopment pipeline, construction work is set to commence soon to improve the visitor experience at this well-located neighborhood center while incorporating sustainable design and building elements. And on the topic of sustainable properties, construction of the 1.3 megawatt rooftop solar installation at Pearl Highlands Center continues on schedule towards completion in September 2022.

Turning to our land sales, in the second quarter, we closed on the sale of approximately 18,900 acres of non-core landholdings, comprised primarily of conservation and agricultural land on Kauai, as well as 100% of the company's ownership interest in the McBryde Resources, Inc., the operator of hydroelectric power facilities on the island. This was great execution on another large step towards completing our simplification efforts. Brett will provide more details on the financial aspects of this significant transaction. We remain in active discussions with interested buyers on our remaining non-core landholdings and expect to make additional monetization progress this year.

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 hello everyone.

Starting with our financial results for the second quarter, we recorded net income of $4 million or $0.05 per diluted share. FFO of $13.2 million or $0.18 per diluted share, and core FFO of $20.3 million or $0.28 per diluted share. As a note, each of these metrics for 2022 benefited from reserve reversals of approximately $1.8 million or $0.02 per share in the second quarter of 2022 compared to $1.6 million and also $0.02 per share in the second quarter of 2021.

On a year-to-date basis, net income was $14.5 million or $0.20 per diluted share, FFO of $32.9 million or $0.45 per diluted share and core FFO of $41.1 million or $0.56 per diluted share. Each of these metrics for 2022 benefited from reserve reversals of approximately $3.8 million or $0.05 per share in the first half of 2022 compared to $2.8 million or $0.04 per share in the first half of 2021. For additional details on our results including comparisons to 2021 results, please see our earnings release and supplemental information package.

Let me now turn to our commercial real estate segment. For the second quarter, CRE revenues increased by 5.8% or $2.5 million over the prior year quarter to $45.8 million and NOI increased by 4.5% or $1.3 million to $29.8 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. Second quarter Same-Store NOI increased 4.4% or $1.3 million over the prior year quarter to $29.7 million.

Our land operations business generated adjusted EBITDA of $52.8 million in the second quarter of 2022. Associated with the sale of approximately 18,900 acres of non-core landholdings on Kauai, including the company's 100% ownership interest in McBryde Resources, is a $54 million gain on the disposal of assets in the period. On a go-forward basis related to this sale, we will lose approximately $3 million to $4 million of annualized operating profit, although this income was scheduled to run-off in the relative near term. Another benefit of this sale worth mentioning is the substantial reduction of long-term liabilities and potential risks, so this was another very important step in simplifying and focusing our company.

Our Materials & Construction segment posted modest results for the second quarter with a $600,000 operating loss and positive adjusted EBITDA of $700,000. This compares to a $1.9 million operating loss and a positive $700,000 of adjusted EBITDA in the second quarter of 2021. As Chris noted, our Board has decided to commence a process to sell Grace Pacific to a more natural owner. Once the process is fully underway, we will provide more updates on timing, but at this point, we are pleased to officially commit to completing this important step as quickly and efficiently as possible.

For the second quarter of 2022, general and administrative expenses were $13.2 million compared to $12.4 million in the second quarter of 2021 and in line with our budget.

Turning to our balance sheet and liquidity metrics. At June 30, 2022, our total debt outstanding was nearly $476 million and we had total liquidity of more than $532 million including over $33 million of cash and full capacity on our $500 million credit facility. With the sale of the non-core landholdings on Kauai, including our interest in McBryde Resources, a portion of those sale proceeds was used to pay down the remaining $50 million balance on our credit facility. With that, we also terminated the interest rate swap on that balance, which was set to mature in February 2023, recognizing a $0.5 million gain on termination.

At June 30, 99% of our debt was effectively fixed with the only floating rate debt being the GLP asphalt credit line, which had $5.1 million outstanding at quarter-end. Also at quarter-end, net debt to trailing 12 months consolidated adjusted EBITDA was 2.4 times. Excluding the one-time non-core monetization and M&C impairment impacts, net debt to consolidated adjusted EBITDA would have been 5 times. And finally, our debt to total market capitalization stood at 26.7% at quarter end. We feel we are in an enviable position of having low leverage and ample liquidity and with no material debt maturing for nearly two years.

I also want to remind everyone as I've mentioned on prior calls, we have terminated our defined benefit pension plans. In the second quarter, we incurred pre-tax settlement charges of $73.7 million with an associated $18.3 million income tax benefit and funded $29 million in cash, which was well below our expected range communicated on prior calls.

Within the Land Operations segment during the second quarter, the net impact of the pension settlement charges and the gain on the non-core landholdings sale was a $1.4 million loss, essentially an offset of two meaningful steps toward our simplification.

With respect to our dividend, our Board recently declared a third quarter 2022 dividend of $0.22 per share, an increase of 10% or $0.02 per share payable on October 5, 2022, to shareholders of record as the close of business on September 19, 2022. This third consecutive quarterly dividend increase reflects strong second quarter commercial real estate results and expected performance for the remainder of 2022.

Finally, turning to guidance, we are raising our full-year 2022 guidance a second time with core FFO per share to a new range of $1.05 per share to $1.11 per share from the prior range of $1.01 per share to $1.07 per share. This increase was due to an improvement in our outlook for commercial real estate Same-Store NOI growth. We now expect CRE Same-Store NOI growth within a range of 4% to 6% from our prior range of 2% to 4%. CRE Same-Store NOI growth excluding prior year reserve reversals is expected within a range of 3.5% to 5.5% from our prior range of 3% to 5%.

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

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

Thanks a lot, Brett. The second quarter results as well as the outlook that Brett just summarized demonstrate the quality and the strength of our commercial real estate portfolio. With high occupancy, robust leasing activity and strong rent spreads in the portfolio, we completed the meaningful sale during the quarter of non-core landholdings and the McBryde Resources business on Kauai. While those lands generate some nice non-REIT income as Brett described, they also still had significant liabilities associated with them and the potential for meaningful income loss as power purchase agreements expire in the future. So that transaction was an important part of our simplification process and further strengthens our balance sheet.

With the sale and the sale of Kukui'ula last year, the successful completion of our strategic transformation is in sight. Grace Pacific is now our lone significant non-core asset and with the Board's decision to commence the sales process for Grace, our goal of being a focused commercial real estate company is near. We have the balance sheet and the available liquidity to pursue acquisitions as they arise and market dislocations have historically played to our strength.

On the ESG front, we will begin renewable energy generation within our commercial portfolio in September when we complete a 1.3-megawatt solar PV installation at Pearl Highlands. We've been producing renewable energy for over a century through our agricultural and land operations, but we're now focused on ensuring that our commercial real estate portfolio is both a source of generating renewable energy and is very energy efficient in terms of its consumption of energy. We are analyzing PV expansion opportunities at additional properties and are actively advancing other environmental and social initiatives. I'm pleased to announce that our third annual Corporate Responsibility Report will be published in August, highlighting our efforts and progress on ESG matters.

In closing, I'm extremely proud of our team and their efforts to maintain strong performance amid our pivot to a more focused platform, which will provide us with the opportunity to grow into the future and create value for our shareholders while living up to our mission as "Partners for Hawaii."

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

QUESTIONS AND ANSWERS

Operator

We will now begin the question-and-answer session. (Operator Instructions) And our first question today will come from Alexander Goldfarb with Piper Sandler. Please go ahead.

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

Hey, I think it's still morning out there, it's been an early busy earnings season. So one, awesome that you guys are finally going to put up the for sale sign on Grace, so that is big. A little bummed that you sold the power plant. It's pretty cool to cover a company that had its own waterfall power plant, but is what it is. So maybe just taking the recycling of proceeds, as you guys sell Grace and you've sold a lot of non-income producing assets, how do we think about the FFO impact in the near term and then the time it takes to redeploy that capital into FFO-generating assets?

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

Hey Alex, it's Brett. Thank you for the comments there. And yes, it is still morning here. So the initial use of proceeds as I mentioned is paying down debt that we are able, we had a very limited amount of floating rate debt. And then I did have the balance on the revolver, I was able to pay it down. But then in the near-term, we're obviously looking to deploy into our core sectors of retail, industrial, and land ground leases as well as internal growth opportunities and so we'll continue to deploy it as we're able. I think we'll announce what we can when we see it, but I don't know, Lance, if you want to get into any opportunities that you're seeing on the investment side.

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

Yeah, I'll go ahead and take it. I mean, sort of, implicit in that question, Alex, is maybe what are we seeing in the market and I would just say, previously we've referenced sort of annual run rate of deploying $50 million to $75 million per year in growth capital. I will say on the acquisition front, our investment team continues to be very busy in uncovering opportunities, we're getting a lot of good looks in the marketplace, but I'd also say we're seeing some pricing dislocation and so we remain very disciplined in that regard. But then of course, we've also got our internal growth opportunities. And what I would say is between actual spend this year on redevelopment things like Manoa Marketplace, as well as pipeline opportunities with tenants that we are in conversations with either for redevelopment within our retail portfolio or build-to-suit within our industrial land holdings, we do have the pipeline sufficient to meet that growth expenditure.

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

So just big picture, as we think about and let's say this would complete by year-end, Brett, how much earnings would come out like what would FFO be impacted on a full-year basis? And then it sounds like the time to redeploy is probably something like 2024, just the time that you find something, buy it and close, whatever. So I'm just trying to figure out the short-term earnings impact before we can think about the longer-term earnings benefit?

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

So the short-term impact as I mentioned, was $3 million to $4 million in operating profit in the Land Operations segment. That being said, as we also indicated there was a reducing income stream there, so that was not a long-term generation there. With the paydown of debt, that came with roughly $100,000 a month. So on an annualized basis, obviously, that's $1.2 million. And then, I would hope to be able to redeploy sooner than 2024, but we'll see what the opportunity set is. Clearly anything that happens this year would be later in the year, and would not have a material impact on 2022. But we hope to see some decent impact, favorable impact on 2023.

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

And what about the earnings at Grace?

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

So Grace has been volatile, but I did want to go back to what Brett was mentioning as far as the impact of McBryde. The other thing to consider is the termination of the pension itself does result in the avoidance of costs associated with us having those plans. And so as far as the impact to our P&L, on average, it was about $3 million to $4 million of total pension expense that we were incurring each year and so that would be effectively an offset.

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

Okay. And then the second question is ESG. Obviously it's something that's getting more and more focus. Certainly Hawaii is understandably a big, environment is very important. But still, you guys are a public company. There has to be an economic advantage. So is this really more of a check the box or how do you guys measure, because you could ESG anything and not get a return. How do you measure the economic benefit to the company, to shareholders, to the dividend and how do you strike the balance between what may be social warriors would want the company to do versus what's economically viable. So how do you strike that balance and how do you measure the economic returns?

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

Yeah. Thanks Alex for the question. So I'm going to invite -- when I'm done with my remarks I'm going to invite either Lance or Clayton or Brett to jump in on the economic returns that we expect from the solar installation, which are actually very, very strong and probably only getting better as energy prices rise, but let me comment more generally on ESG.

So first of all, we've always believed that being a company that's committed to the local community pays back in many ways. In terms of I think the patient approach that we took with our tenants during the pandemic has proven to be financially very, very attractive and appropriate because as we've collected rents beyond what we ever expected we would, it's proven that keeping those tenants in place and taking that kind of long-term approach has been very helpful and I would call that sort of an ESG-friendly step. But we do other things. We give back to the community, we are involved in the community. And I think that when you have a company, a REIT, that is geographically concentrated like we are in a relatively small market, those things pay dividends. The other thing that I would say pays dividends, and look, it's hard to generate a calculated return from that. How much of our rebound in NOI is due to that patient approach versus just the rebound in the economy, I can't tell you definitively. But I truly believe that the community-based approach and community-sensitive approach we took is helpful.

And then similarly on the workforce side, I truly believe that the things we do on the ESG front with our employees helps reduce turnover, helps reduce, therefore recruitment costs, and other costs associated with turnover. And so I do think their economic benefits. Having said that, completely agree with you that there needs to be an economic return from the things we do, but I am firmly convinced that the decisions that we make on ESG are not only the right thing to do, but I think they are the right thing for our business and our shareholders in the sense that they just improve our standing with our tenants, with our community, and with our employees.

But specific to the PV installation, someone jump in and share a little bit about what we're able to do there.

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

Yeah. So I'll go ahead and jump in and just while all of the things that Chris said are correct and appropriate, we do have other ESG and particularly on the E side, Alex, where it is a little easier to quantify some of the benefits and I'm thinking specifically to the 1.3-megawatt solar rooftop installation at Pearl Highlands, which we are hoping by the way is really just the first of a broader rollout of systems across the portfolio, where we will get a pickup, an incremental pickup, of about $300,000 in NOI, and I will state that it was based on original underwriting. Since then electricity costs have increased and so if anything the economic benefit could be even better to us, but I think we found a way to strike the right balance about doing the right thing, but then also finding opportunities to get paid for it as well.

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

Thank you.

Operator

And our next question will come from Sheila McGrath with Evercore ISI. Please go ahead.

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

Good afternoon. On the land sale, I was wondering if you could give us a little insight on what portion was conservation land versus ag. I only ask that because in our model, we just assumed kind of zero conservation value for that and just if you could give us, did that all the acreage and the power plant go to one buyer?

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

So Sheila, this is Chris, taking it in reverse order. Yes, it was one buyer. In fact, it was the same buyer that bought the Kukui'ula project from us, and it was not -- they were completely separately negotiated deals, we didn't have any discussions about the subsequent land sale until after we closed on the Kukui'ula sale, but we felt that there were some good synergies for that buyer and they agreed. And so essentially the same group out of Colorado that bought the Kukui'ula property bought the rest of these lands. On the land, maybe someone has the number, the exact number in front of them. It's roughly 10,000 or 11,000 acres of the land was conservation --

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

About two-thirds conservation and one-third agriculture, Chris.

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

Yeah. Okay. So yes, from a pure land standpoint, you're right, Sheila, that typically conservation land has very little value. We don't typically assign zero, but we assign in the hundreds of dollars, not in the thousands or tens of thousands of dollars to conservation land because it cannot be developed. However, the conservation land we sold, that some of the -- a good chunk of it, was the land where water is collected for hydroelectric power generation. And so while the underlying land may not have a lot of value, the hydro plant that was associated with those lands did have value because of the income that it generates. So I hope that's helpful too.

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

Yeah, that's great. And then just let us know how much non-core lands are left to sell and was there any tax leakage on that sale?

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

Actually Clayton, do you want to take those questions?

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

Sure. So as far as non-core land holdings, we have about 5,300 acres remaining. And so, as far as your second question, tax leakage, there was no tax leakage. That was in the TRS and we were able to utilize some of our tax attributes that we had available to us.

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

Okay, great. And then on the acquisition pipeline. Just curious if you think that your probability of hitting near-term target with the cost of debt higher for the leverage buyers. Are you seeing any evidence of those type of buyers falling away and that would be to your advantage?

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

I'd like to think that we'll see some of those opportunities, Sheila, and I think what we're seeing right now is a little bit of a pause in the market and people moving to sort of their respective sides of the table, but it is certainly our -- I don't know if I want to say expectation, but one of the things I think we're well positioned both from being here, having the relationships, but also from our balance sheet to be very opportunistic. So to the extent that we do get those opportunities, we are poised to move very quickly to pursue them.

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

Okay. And then on -- there was something in the supplemental, I saw quickly at that an industrial acquisition, but it was from Grace Pacific. So I'm just wondering if that's a new industrial development or what that asset is?

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

So Sheila, that is an industrial building that was part of our Grace Pacific operations and so what happened during the quarter was, we had simply just transferred that into the commercial real estate portfolio.

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

Okay. If Grace is sold, you'll be like the landlord and they will lease it back. Is that the plan?

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

That's correct. It would be retained.

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

Okay, great. And then you did bump the dividend. Just wondering how investors should think about dividend policy. Are you targeting a certain pay-out ratio?

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

Hey Sheila, it's Brett. We're still trying to pay out right around 100% of REIT taxable income in the current environment.

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

Okay. And one last one is on the -- there were or in the supplemental, there's a number of ground lease resets that are listed sometime in 2022. Are those already like factoring through 2Q results or something, or do you think that there'll be some uplift in ground leases in the back half of the year?

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

We do have, I'm thinking of two specifically, Sheila. One is a contractual reset, and so we would have that come through later in the year and then we also have another that's a fair market value reset that is currently, we're currently in discussions with the tenant around what that rate will be. But I would expect an impact, although I'm not sure how much it will occur later in the year, I'm just not sure how much will actually impact our NOI in 2022, we'll get the full pickup of it in 2023.

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

Okay, great. Thank you.

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

Thank you, Sheila.

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

Thank you, Sheila.

Operator

And this will conclude our question-and-answer session. I'd like to turn the conference back over to Steve Swett, for any closing remark.

Steve Swett - *ICR, LLC - MD*

Thank you, Cole. 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 email us at investorrelations@abhi.com. Aloha, and have a great day.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect your lines at this time.
