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ALEX.N - Q3 2024 Alexander & Baldwin Inc (Hawaii) Earnings Call

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the third-quarter 2024 Alexander & Baldwin earnings conference call. (Operator Instructions)

This call is being recorded on Thursday, October 24, 2024. I would now like to turn the conference over to Aja Shimamura, Leasing Manager. Please go ahead.

Aja Shimamura - *Alexander & Baldwin Inc (Hawaii) - Leasing Manager*

Thank you, operator. Aloha and welcome to Alexander & Baldwin's third-quarter 2024 earnings conference call. My name is Aja Shimamura, and I am a Manager on the A&B leasing team. With me, today, are A&B's Chief Executive Officer, Lance Parker; and Chief Financial Officer, Clayton Chun. We are also joined by Kit Millan, Senior Vice President of Asset Management, who is available to participate in the Q&A portion of the call. During our call, please refer to our third-quarter 2024 supplemental information available on our website at investors.alexanderbaldwin.com/supplement.

Before we commence, please note that statements in this presentation that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and involve a number of risks and uncertainties that could cause actual results to differ materially from those contemplated by the relevant forward-looking statements. These forward-looking statements include but are not limited to statements regarding possible or assumed future results of operations, business strategies, growth opportunities, and competitive positions. Such forward-looking statements speak only as of the date 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. The evaluation of alternatives by the company related to its non-core assets and business and the risk factors discussed in the company's most recent Form 10-K, Form 10-Q, and other filings with the Securities and Exchange Commission.

The information in this 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. Please refer to our statement regarding the use of these non-GAAP measures and reconciliations included in our 2024 third-quarter supplemental information materials.

Lance will start today's presentation with an overview of the quarter, then hand it off to Clayton for a discussion of financial matters. To close Lance will return for some final remarks, and we will open it up for your questions. With that, let me turn the call over to Lance.

Lance Parker - *Alexander & Baldwin Inc (Hawaii) - President, Chief Executive Officer, Director*

Thanks for the introduction, Aja. Great job. And to everyone joining us, Aloha.

Last quarter, I highlighted four areas of focus at the company: operational excellence, balance sheet strength and flexibility, streamlining our business and cost structure, and finally, growth. We made progress on all fronts in the third quarter.

Operationally, the portfolio performed well. Year-over-year FFO was higher, supported by favorable NOI and strong leasing activity. Turning to our balance sheet, we entered into a new ATM program, providing an important tool to access capital when appropriate. And in October, we recast our credit facility extending the maturity of our revolver to 2028.

As we announced in our last call, we closed on the sale of 81 acres of land in July, providing us with additional liquidity and an opportunity to streamline our operations. From a growth perspective, we closed on the off-market acquisition of an 81,500 square foot industrial asset on Oahu for $29.7 million at a going-in cap rate of 5.4%.

The acquisition provided us with an opportunity to recycle capital from Waipouli Town Center, which we sold earlier this week and other non-income-producing assets. As a result of this transaction and the uptick in volume of deals we are seeing, I'm encouraged about our investment prospects going forward. With these accomplishments, we are again raising our full-year guidance.

Let me share more details from the quarter starting with our portfolio. Total NOI grew by 4.4%. Same-store NOI grew by 4.1%, and same-store NOI, excluding collections of prior-year reserves grew at 4.7%.

Thanks to Aja and the rest of the leasing team, we executed 71 leases in our improved property portfolio, representing more than 182,000 square feet of GLA with blended spreads of 15.3% on a comparable basis, driven primarily by an anchor renewal at Queen's Marketplace. Our same-store leased occupancy was 94.8% flat from last quarter and 80 basis points lower from the same period last year. Same-store economic occupancy at quarter-end was 93.7%, also flat from last quarter and 10 basis points lower than the same period last year.

SNO at quarter-end was $1.9 million flat compared to last quarter and $1.1 million lower than last year. I should mention that our SNO does not include about $1 million of ABR related to our build-to-suit at Maui Business Park, which will be added to SNO when we begin construction early next year.

On the macroeconomic front, recently published economic data in Hawaii shows personal income growth at 5.5%. Unemployment at the end of August was 2.9% compared to the national average of 4.2% and the 10th lowest in the country. Looking ahead, Hawaii's GDP growth is forecasted to be 2% in 2025 compared to the US average of 1.8%.

August year-to-date visitor arrivals were down 2.2% compared to 2023, driven primarily by the lingering effects of the Maui wildfires and currently at 88% of 2019 levels. As a reminder, 2019 represented a high watermark in terms of visitor arrivals to Hawaii.

With that, I'll turn the call over to Clayton. Clayton?

Clayton Chun - *Alexander & Baldwin Inc (Hawaii) - Chief Financial Officer, Executive Vice President, Treasurer*

Thanks, Lance, and aloha, everyone. Starting with our consolidated metrics for the third quarter. FFO is $28.2 million or $0.39 per share as compared to $21.2 million or $0.29 per share in the same quarter last year. Included within the FFO was $0.28 per share related to CRE and corporate, and that compares to $0.25 per share for the third quarter of 2023. The increase in CRE and corporate-related FFO was driven primarily by stronger CRE performance.

FFO related to Land Operations was $0.11 per share during the third quarter of 2024 as compared to $0.04 per share in the same quarter last year. The higher Land Operations FFO in the quarter is due primarily to the sale of 81 acres of non-core land that Lance noted earlier and higher income from a legacy joint venture.

AFFO was $23.4 million or $0.32 per share for the third quarter of 2024. This compares to $17.4 million or $0.24 per share in the same period last year. Each of these metrics for the third quarter of 2024 benefited from collections of prior-year reserves of approximately $300,000 or a penny per share versus $500,000 in the third quarter of 2023.

G&A expenses decreased by $200,000 or 1.7% to $7.4 million as compared to the third quarter of 2023. Last quarter, we indicated that we expected 2024 G&A to be in the range of $29.5 million to $31.5 million. As a result of our continued focus and progress made to simplify and streamline our cost structure, we now expect our 2024 G&A to be within a range of $29 million and $30.5 million.

Turning to our balance sheet and liquidity metrics, at quarter-end, total debt outstanding was $472 million. And we had total liquidity of $446 million made up of approximately $18 million of cash and $428 million available on our revolving credit facility. Including the effect of our interest rate swaps, 96.8% of our debt was at fixed rates, and we ended the quarter with a weighted average interest rate of 4.58%.

Net debt to adjusted EBITA was 3.6 times compared to 4.2 times at 2023 year-end. And this primarily reflects higher operating profit in Land Operations and lower G&A over the 12-month comparable period.

With respect to our dividend, we paid a third-quarter dividend of 0.2225 per share on October 7. Consistent with our normal practice, we expect our board to declare a fourth-quarter dividend in December. As mentioned in our second-quarter earnings call, we put in place a $200 million ATM program in August that replaced our previously existing facility.

We did not sell any shares under our new ATM program during the third quarter. The ATM program provides us with the ability to efficiently access the capital markets. And together with our existing share authorization represents an important capital allocation tool in our capital allocation tool kit.

Last week, we completed a recast of our revolving credit facility, which extends the maturity of our revolver to October of 2028 with two six-month extensions, and it provides $450 million of borrowing capacity. Important to note is that we maintained the same pricing grid as our previous agreement.

I should also mention that we have a $73 million mortgage secured by Pearl Highlands Center that matures in December. We intend to use availability on our revolver to pay off the mortgage. And we have a seven-year forward starting interest rate swap with a $73 million notion amount that will fix the interest at an effective rate of 4.73%.

When factoring in the impact of the revolver recast as well as the planned payoff of the Pearl Highlands mortgage including the effect of the interest rate swap, we will have 97% of our debt fixed at a weighted average interest rate of 4.7%. We'll have our weighted average maturity extended to 3.9 years, and we will continue to have ample liquidity to fund our internal and external growth activity.

As Lance mentioned, based upon our performance in the third quarter and our improved outlook for the remainder of the year, we are again raising our guidance. We now expect our 2024 same store NOI growth to range between 1.75% and 2.75%, and same-store NOI growth, excluding reserve reversals, to range between 2.25% and 3.15%.

The increased same-store NOI guidance reflects the impact of leasing activity, tenant performance, and operational efficiencies. It should be noted that also included in our increased same-store NOI guidance is the impact of fourth-quarter-related vacancies including approximately 50,000 square feet within our industrial portfolio and 13,000 square feet within our office portfolio.

We are actively pursuing releasing and repositioning options for these assets. While we expect these vacancies to continue into 2025, we are encouraged by the prospects.

We are also raising our FFO guidance for the year and now expect 2024 FFO to range between a $1.27 per share to $1.35 per share. The improved FFO guidance consists of higher CRE and corporate-related FFO ranging from $1.07 to $1.11 per share due primarily to NOI and G&A cost reductions.

We are also increasing our Land Operations FFO guidance to a range of $0.20 to $0.24 per share, reflecting earnings from land sales and our legacy joint venture. These are in addition to the 81-acre Kamalani land sale that we mentioned during our second-quarter earnings call. Finally, we are also raising our 2024 AFFO guidance to a range of a $1.05 to $1.12 per share due primarily to the improvements in FFO.

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

Lance Parker - *Alexander & Baldwin Inc (Hawaii) - President, Chief Executive Officer, Director*

Thanks, Clayton. I am pleased with what we accomplished this quarter and the outlook for the remainder of the year. We achieved strong results in our commercial real estate portfolio, closed on an off-market industrial acquisition, and have taken steps to ensure that we have ample access to capital markets through our ATM program and extending the maturity on our revolving credit facility.

On that note, we'll now open the call up to questions.

QUESTIONS AND ANSWERS

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions)

Gaurav Mehta, Alliance Global Partners.

Gaurav Mehta - *Alliance Global Partners - Analyst*

Yeah. Thank you. I wanted to ask you on your new and renewal rent spread that came in higher than last few quarters. Just hoping to get some more color on what you were seeing on that front.

Kit Millan - *Alexander & Baldwin Inc (Hawaii) - Senior Vice President, Asset Management*

Sure. No problem. This is Kit Millan here. So our leasing team had a really exceptional quarter. And I think a couple of things that I want to point out related to leasing is number one, we had 23 new deals, which is the highest we've had in a long time. And that's really pointing to the healthy demand we're seeing for both retail in-line space as well as small bay industrial.

In terms of our spreads, as Clayton mentioned, a lot of those large spread this quarter was driven by one deal in particular, which was an anchor deal at Queen's Marketplace. And if you back out the impact of that and one other retail deal, the spreads were more consistent with what we've been seeing for the balance -- for the earlier part of the year and the last part of last year.

Gaurav Mehta - *Alliance Global Partners - Analyst*

Okay. Second question I wanted to ask you was on the guidance. I think you talked about some expected move-outs in 4Q both for industrial and office properties. Hoping to get some more color on those tenants.

Lance Parker - *Alexander & Baldwin Inc (Hawaii) - President, Chief Executive Officer, Director*

Hey, Gaurav. This is Lance. Thanks for joining. It's really three tenants that are sort of driving the expected move-outs in Q4 -- so two in the industrial side and one in the office side.

On the industrial side, we are expecting to receive back a full floor of our Kaka'ako Commerce Center. So this is a multi-story building that we have in urban Honolulu. I will note that the floor we're getting back is more traditional warehouse space. And so we do have some existing prospects that we're already in dialogue in. Although Clayton did mention that we need to expect these vacancies to carry through into 2025, we're encouraged by the fact that we're in conversations before we actually recapture this space.

The second one is an industrial over in our Komohana property in Kapolei in West Oahu. It's about 16,000 square feet, so smaller space. Similarly, we're in discussions for a backfill opportunity, so feel confident about that.

And then lastly, we're getting about 13,000 square feet of office space back at our Kahului Office Building on the island of Maui. That was a bank that relocated and built a new facility within our Maui Business Park. We are in conversations with potential backfield tenants there as well. Although just given the status of the office market I would expect that there'd be some time for us to backfill that space.

Operator

Rob Stevenson, Janney.

Rob Stevenson - *Janney Montgomery Scott LLC - Analyst*

Hi, good afternoon, guys. Lance, can you talk a little bit about the proceeds from the -- I'm going to butcher this -- Waipouli Town Center disposition? And was there any notable expense drag given the vacancy there that now goes away and positively impacts you in addition to the proceeds there?

Lance Parker - *Alexander & Baldwin Inc (Hawaii) - President, Chief Executive Officer, Director*

Hey, Rob. Thanks for the question. And first off, you nailed the pronunciation. So great job on Waipouli. I will say, that was, I think, a unique opportunity for us to recycle out of that asset. It was underperforming; place it into a very strategic off-market industrial deal. So it was a good use of the proceeds.

And I guess with regards specific to your question, I'll kick this over to Kit on if there was any drag on the expenses.

Kit Millan - *Alexander & Baldwin Inc (Hawaii) - Senior Vice President, Asset Management*

So what I would say is given the occupancy at that property, obviously, there was a -- quite a bit of CAM leakage since we lost our major anchor there a couple of years ago. So in that sense, it does eliminate some of the drag on the overall portfolio.

Rob Stevenson - *Janney Montgomery Scott LLC - Analyst*

I guess, Clayton, is that material? Is that something that positively impacted the increase in guidance or was it sort of non-material given that asset?

Clayton Chun - *Alexander & Baldwin Inc (Hawaii) - Chief Financial Officer, Executive Vice President, Treasurer*

Yeah. So as far as Waipouli itself, the way that we had viewed disposition was that it was tied to our acquisition that we had announced earlier -- it's a cold storage industrial facility. And so effectively, this was a recycling of capital opportunity for us that we viewed at the end of the day, it was accretive. And so that was part of our thesis for doing that deal.

Rob Stevenson - *Janney Montgomery Scott LLC - Analyst*

Okay. What does the acquisition pipeline look like today? Are you guys seeing any pick-up in people willing to sell assets across the islands? Is it still hunting for needles in the haystack? How are you guys sort of viewing the transactional market these days, relative to where it's been?

Lance Parker - *Alexander & Baldwin Inc (Hawaii) - President, Chief Executive Officer, Director*

Yeah, I'd say specific to the points you raised it, it's a little bit of both Rob, but I'm certainly more encouraged by the looks that we're getting. I made some comments earlier last quarter about the fact that we were seeing more deals at the top of the funnel. That has continued through Q3. We were obviously able to execute on the 82,000-square-foot industrial deal that we did.

And while I would say that our improved guidance for the remainder of the year does not contemplate any additional acquisitions, I remain encouraged that just based on what we're seeing at the top of the funnel that we'll be able to find some opportunities, if not this year, heading into next year.

Rob Stevenson - *Janney Montgomery Scott LLC - Analyst*

Okay. And then, on the leasing front, at this point, are there any meaningful 2025 leases that are known move-outs that we need to be thinking about as we update models following earnings here?

Lance Parker - *Alexander & Baldwin Inc (Hawaii) - President, Chief Executive Officer, Director*

No, we did want to provide just the visibility into the move outs that we expect to occur this quarter and head into 2025. But as we look into the year, just we have all this information in our supplement. We've got about 10% of roll anticipated from a GLA basis and about the same on an ABR basis. That's including the comments we made about those three vacancies. We've got an overall WALT of about six years on the portfolio. So feeling pretty good about 2025.

Rob Stevenson - *Janney Montgomery Scott LLC - Analyst*

Okay. And then I guess last one. On the 35,000 square feet of new leases in the quarter, how should we be thinking about when the bulk of that sort of starts producing revenue when you get a tenant in there? Is that a -- sort of thinking about it is like a six-month lag, a nine-month lag? How should we be thinking of that in terms of build out or anything else that you have to do before those tenants can take over that space and start paying revenue?

Kit Millan - *Alexander & Baldwin Inc (Hawaii) - Senior Vice President, Asset Management*

That's a very good question. Let me start with the industrial side, because the industrial side is a lot easier to predict. So industrial build-outs don't tend to take very long, not a lot of permit work in general. We can often turn on industrial right away, but within six months is the typical time frame.

Retail, it really depends on the type of space. If it's a restaurant space with quite a bit of work, quite a bit of permitted work, it can actually take up to three quarters of a year or 12 months to turn on the rent. So it really just depends on the retail side. If it's a regular in line retail with a minor build-out, in some cases, we can turn on the rent in three to six months.

Operator

Alexander Goldfarb, Piper Sandler.

Alexander Goldfarb - *Piper Sandler & Co. - Analyst*

Hey. Good day. Still good morning out there. So just two questions. First, sort of circling back to Rob's question, as we think about the ATM, it doesn't sound like you're using the ATM for balance sheet purposes, because you didn't talk about it to be used for the Pearl Highland to pay that off. And it also sounds like the acquisition market remains tough. So just patience seems to be the message.

So how do we think -- or how do you guys think about the ATM? Is this something that you would use like 20 million at a pop or is this more of -- implement that if you were to come across, let's say, a large portfolio, you would use the ATM. But otherwise, one-off acquisitions are probably going to be funded via asset sales or land sales or something of that sort.

Clayton Chun - *Alexander & Baldwin Inc (Hawaii) - Chief Financial Officer, Executive Vice President, Treasurer*

Yeah. Hi, Alex. Clayton. So for the ATM, you're right that we did not draw on the ATM or utilize the ATM for the third quarter. And that includes for purposes of our refinancing activities that occurred as well. The way that we look at the ATM, it's effectively a tool in our capital allocation tool kit. And so to the extent that there's opportunities in the market that arise, we will consider the ATM as a source of financing, but we're going to evaluate the different options, which includes financing it by way of debt. To the extent that our stock is trading at a level where it makes sense for us to utilize the ATM, we're not going to hesitate to do so.

Alexander Goldfarb - *Piper Sandler & Co. - Analyst*

Okay. And then the second question is, you know everyone -- every analyst's fun question around this time of year is 2025. Obviously, you've been bringing up numbers this year. Looking at the core business, let's call it $1.10, to use an even number -- is a $1.10 sort of the base that we should think about 2025 and then obviously some expectation of growth, or should we be assuming that there will be some element of land in next year such that -- I don't know if it's $0.05, $0.10, maybe it's more, I don't know -- but how do we think about next year from sort of a base operations and then the above and beyond? Because I also think you guys have spoken previously that if you exit land entirely, there's like $4 million or $5 million of G&A that goes away, that's associated with land, which would also sound like that would be a benefit to the base FFO if you will.

Clayton Chun - *Alexander & Baldwin Inc (Hawaii) - Chief Financial Officer, Executive Vice President, Treasurer*

Yeah. So I'll take that. It's Clayton again. So with respect to the 2025 guidance, Alex, we're not in a position to provide guidance on this call. I think the comment that you are bringing up with respect to Land Operations and the fact that it is influenced by episodic land sales, that does continue to remain true. And so I guess I'll leave it at that. but we're not providing guidance on this call for either Land Operations or any parts of the company's results,

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Alexander Goldfarb - *Piper Sandler & Co. - Analyst*

Okay. But Clayton, I guess as you sit here today looking till the end of the year, it doesn't sound like you're going to exit land. So there will still be some land in next year is what it sounds like. It doesn't sound like you're fully exiting by this year. It sounds like there would be some carry over into next year that should generate some sort of contribution.

Clayton Chun - *Alexander & Baldwin Inc (Hawaii) - Chief Financial Officer, Executive Vice President, Treasurer*

So the way that we've reported our results for Land Operations, if we were to exit it, it would be presented in our financial statements as discontinued operations, which it's not. And so from that perspective, we're, we're not planning at this point to have an exit of that entire part of the business.

Lance Parker - *Alexander & Baldwin Inc (Hawaii) - President, Chief Executive Officer, Director*

So one way to think about it, Alex, might be is that there will continue to be a land ops heading into 2025. And therefore, there could be opportunity from an FFO perspective. But again, we're going to stop short of signaling or providing any guidance in terms of what we expect that to be like for next year.

Alexander Goldfarb - *Piper Sandler & Co. - Analyst*

Yeah. No, I understand. We have to wait, but I'm just trying to think about how you guys are positioned heading into next year. In addition, you have funding potential from continued land sales. Thank you.

Lance Parker - *Alexander & Baldwin Inc (Hawaii) - President, Chief Executive Officer, Director*

And I will add that that remains a priority for us, because we do recognize while there is opportunity remaining in that section of the business, there are also costs embedded in that section of the business. And so this is not something that's a back burner issue for us. We will continue to monetize and provide liquidity for reinvestment but also quite frankly driving down the cost structure.

Operator

Mitch Germain, Citizens JMP.

Mitch Germain - *Citizens JMP Securities, LLC - Analyst*

Thanks. Lance, when you look at your -- congrats on the deal this quarter. When you look at your pipeline, does it look similar to what you acquired, i.e., your last couple of deals have been industrial or are you seeing some opportunities in the shopping center arena as well?

Lance Parker - *Alexander & Baldwin Inc (Hawaii) - President, Chief Executive Officer, Director*

Hey, Mitch. I'd say the additional encouraging part for me is that we're seeing a little bit of everything, and I would also add that, similar to comments that we've shared in the past, we don't have a specific allocation or target across our specific asset classes. It's really going to be opportunistic.

And so just the fact that we're getting more looks over the last two quarters again, I think, is a good sign we're starting to see -- not just for us, but there has been additional activity in the market. So these are all positive indicators heading -- or looking forward.

Mitch Germain - *Citizens JMP Securities, LLC - Analyst*

Okay. That's super helpful. Last one for me -- everything else has been asked. When I consider the same store, you're referencing three move-outs, but if I kind of think, you guys are 3%-ish of the year -- seems like there's some conservatism baked into that number or will those move-outs have that meaningful impact on same-store growth in the fourth quarter.

Lance Parker - *Alexander & Baldwin Inc (Hawaii) - President, Chief Executive Officer, Director*

I would -- I'll answer this at a high level and then open it up to either Clayton or Kit if they want to provide some additional color. We stated at the end of -- or I should say, at the beginning of the year that we were expecting some episodic results in CRE quarter-to-quarter and that we were really trying to focus on full-year guidance.

So implied in the numbers would suggest a bit of a slowdown for Q4. And that's consistent with our expectations. But again, given full-year year-to-date performance, we felt comfortable enough to raise full-year guidance.

Clayton Chun - *Alexander & Baldwin Inc (Hawaii) - Chief Financial Officer, Executive Vice President, Treasurer*

Yeah. And if I could just add on -- Hi, Mitch, this is Clayton, the same-store NOI guidance for the fourth quarter, it's also taking into account the results from last year's fourth quarter, where there were some I guess non-recurring type of benefits that contributed to our overall same store NOI, expectations going into Q4.

Mitch Germain - *Citizens JMP Securities, LLC - Analyst*

Got you. And then Clayton (multiple speakers)

Clayton Chun - *Alexander & Baldwin Inc (Hawaii) - Chief Financial Officer, Executive Vice President, Treasurer*

Go ahead. Sorry.

Mitch Germain - *Citizens JMP Securities, LLC - Analyst*

No, I was going to -- that's perfect. That's exactly what I needed. And then how should I consider like a clean FFO number for the quarter,kind of backing out like what we characterized to be somewhat non-recurring items in the land, bucket? What's a clean FFO number for the quarter here?

Clayton Chun - *Alexander & Baldwin Inc (Hawaii) - Chief Financial Officer, Executive Vice President, Treasurer*

Yeah. So Mitch, when we think about FFO, we've been intentional in presenting the bifurcation of our FFO between the CRE / corporate, and Land Operations, recognizing that the Land Operations business has episodic results. And so for purposes of stripping out those one-time FFO related to land sales itself, you would get to the CRE corporate where we did -- and I guess that's the way to think about it in terms of consistent FFO going forward.

Mitch Germain - *Citizens JMP Securities, LLC - Analyst*

Got you. I guess I was kind of thinking your full-year number included some land contribution. So I was almost thinking, taking that into account how much other contribution was gain related, if you know what I mean.

Clayton Chun - *Alexander & Baldwin Inc (Hawaii) - Chief Financial Officer, Executive Vice President, Treasurer*

I wasn't quite following that.

Mitch Germain - *Citizens JMP Securities, LLC - Analyst*

(multiple speakers) do it offline. Yeah, thanks.

Operator

(Operator Instructions)

Brendan McCarthy, Sidoti.

Brendan McCarthy - *Sidoti & Company, LLC - Analyst*

Great. Thanks. Hey, Clayton. Hey, Lance. Thanks for taking these questions. I just wanted to ask if you can provide some additional color on that legacy joint venture that had an impact in the land ops segment this quarter.

Clayton Chun - *Alexander & Baldwin Inc (Hawaii) - Chief Financial Officer, Executive Vice President, Treasurer*

Yeah. Hi, Brendan. It's Clayton. So the joint venture is an investment that was made a while back, going on like 10 years or so. So this is before we had converted to a REIT. And so it's a passive investment that we have. And frankly, at this point, it's really not requiring much in the way of management time, nor does it require -- has it resulted in any contributions from a cash flow perspective.

Brendan McCarthy - *Sidoti & Company, LLC - Analyst*

Got it. Thanks, Clayton. And I guess looking out to -- or looking at the updated '24 guidance, that guidance obviously assumes very minimal, if any, benefit from that investment in Q4.

Clayton Chun - *Alexander & Baldwin Inc (Hawaii) - Chief Financial Officer, Executive Vice President, Treasurer*

Yeah. So for the fourth-quarter guidance that -- or the full-year guidance, it does incorporate the fourth quarter for which for Land Operations as a whole, we were expecting that to be breakeven more or less.

Brendan McCarthy - *Sidoti & Company, LLC - Analyst*

Okay. And I wanted to look at SG&A. Can you just remind us where these efficiency improvements have come from, and I guess what really drove the -- or the expected change for the total amount for 2024?

Clayton Chun - *Alexander & Baldwin Inc (Hawaii) - Chief Financial Officer, Executive Vice President, Treasurer*

Yeah. So as we had mentioned on previous calls, G&A as well as our overall cost structure continues to remain a priority. And we've been focusing on seeking improvements to enable us to lower our overall run rate, G&A and otherwise. And so, what we're seeing is the benefits of the implementation of various process improvements and frankly the simplification of the overall company itself. So it's a combination of a number of different types of cost categories, whether that's personnel, consultants, and the like.

Brendan McCarthy - *Sidoti & Company, LLC - Analyst*

Great. Thanks for that. That's helpful. And I'll ask one more question just on the Pearl Highlands asset, the mortgage coming due. Can you walk us through the decision to utilize the revolver there? And was that always the plan, or were there kind of different financing conversations had?

Clayton Chun - *Alexander & Baldwin Inc (Hawaii) - Chief Financial Officer, Executive Vice President, Treasurer*

Yeah. So as we were considering the Pearl Highlands mortgage that's maturing in December, we were evaluating different options. Ultimately, we had settled with utilizing the revolver to refinance it and that was taking into account a forward starting interest rate swap that we have.

And so our strategy was utilize the swap that had a notional amount of -- or has a notional amount of $73 million. And it effectively enables us to lock in the interest rate at a fixed rate of 4.73%. So we feel comfortable about utilizing the revolver to match that up with the swap. And so that's effectively how we got to the conclusion.

Operator

(Operator Instructions)

There are no further questions at this time. Please continue, Mr. Clayton Chun.

Clayton Chun - *Alexander & Baldwin Inc (Hawaii) - Chief Financial Officer, Executive Vice President, Treasurer*

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 email us at investorrelations@abhi.com. Aloha and have a great day.
