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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Alexander & Baldwin 2018 Second Quarter Earnings Conference Call. (Operator Instructions) As a reminder, this call may be recorded.

I would now like to introduce your host for today's conference, Ms. Suzy Hollinger. Ma'am, you may begin.

Suzy P. Hollinger - *Alexander & Baldwin, Inc. - VP of IR*

Thank you. Aloha, and welcome to our call to discuss Alexander & Baldwin's Second Quarter 2018 Earnings. With me today are our President and CEO, Chris Benjamin; and Jim Mead, CFO. Lance Parker, Chief Real Estate Officer; and Clayton Chun, Chief Accounting Officer, are also here and will participate in 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. 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 as well as the evaluation of alternatives by the company's joint venture related to the development of Kukui'ula, generally discussed in the company's most recent Form 10-K, Form 10-Q and other filings with the Securities and Exchange Commission. 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 our website, alexanderbaldwin.com.

Chris will open up today's presentation with quarter highlights and a strategic and operational update. He'll then turn the presentation over to Jim, who'll discuss financial matters and guidance. Chris will return for some closing remarks, and then we'll open it up for your questions.

With that, let me turn it over to Chris.

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

Thanks, Suzy, Aloha, and thank you for being on the call this afternoon. Let me start by saying, I'm pleased by the progress we're making in our operations and with our strategic agenda. Some of that progress is clearly visible in our financial performance, particularly, in the Commercial Real Estate segment, while some won't be visible until later this year.

Our core Commercial Real Estate segment produced excellent results in the quarter as same-store NOI growth was 3.1% and strong leasing spreads are expected to support continued same-store NOI growth in the second half of the year.

Leasing activity in the quarter was robust. And by June 30, we had completed 55% of our targeted leases for the year at spreads on comparable leases of 9.7%. These numbers are reflective of the continued strong environment for our portfolio and the excellent efforts of our team.

Land Operations performance was modest as expected, reflecting a few closings of development and joint venture units. Those sales generated $25.1 million of cash that was used to repay debt, which we've stated as a primary goal for the year. There was notable improvement in Materials & Construction operating profit in the first quarter, although not from the prior year.

After a rough first quarter and month of April, May and June results were on plan and the third quarter is off to a good start, I believe we're back on our expected run rate for the second half of the year, but probably won't make up the ground we lost in the first several months of the year. Jim will have the complete rundown on earnings and guidance later in the presentation.

Before diving into the operational update, let me tell you why I'm encouraged by our progress in advancing our strategic agenda. We've known for years that there were many steps to our strategic transformation, some were singular events like the REIT conversion, but most are gradual processes like the migration of our commercial portfolio from the Mainland to Hawaii. The milestones on this journey aren't regular or equally visible, but we continue to pass them. After passing 2 big milestones in Q1, the special distribution and the completion of the Mainland migration, we articulated 2 new objectives for the balance of the year. First was to advance the monetization of our development for sale projects, primarily residential developments, in order to simplify our story and reduce our leverage from the high point we've raised in Q1 with the special distribution in the Terramar acquisition. Second, was to reverse the negative operational and earnings trends at Grace. These objectives, of course, are in addition to the continued advancement of our commercial real estate portfolio, which always is our highest priority and where our progress has been steady and is demonstrated clearly in our results.

Many steps in the quarter helped position our development projects for monetization, meaning that we have more units under contract, we are in discussions with potential buyers of some of our smaller development projects and we're advancing the process of raising third-party capital for some of our larger development projects. Again, lots of good progress that isn't yet reflected in our results, but should position us well to achieve our simplification and debt reduction objectives over the balance of the year. We don't need all of these efforts to bear fruit, but I'm confident that many of them will.

Meanwhile at Grace, we're making good progress in addressing the operational and strategic challenges facing that business. Some of the challenges have been environmental, both market- and weather-related. But some have been internal, and we're addressing the internal challenges while pursuing strategies to counter the external ones.

Also, we seem to be catching some breaks with better weather and a handful of long-delayed projects finally moving forward. While our strategic progress over the past few years has been significant, we're not done and I expect more strategic headway over the balance of the year. We're committed to the remaining steps in the process of becoming a focused commercial real estate company and confident that we're tracking well toward that end point.

With that context, let me now provide an operational update. In Commercial Real Estate, net operating income, or NOI growth, has been fueled by many sources, including favorable releasing activity, as I mentioned earlier. Given the strength of the Hawaii economy, we believe we can maintain solid leasing spreads over the balance of the year.

I'd like to take a few minutes though to summarize the commercial real estate development and redevelopment projects we're advancing, which are increasingly going to be a source of NOI uplift and attractive financial returns in the coming quarters and years.

We've been talking about improvements at Pearl Highlands Center for several quarters and we're finally seeing the benefits. Regal Cinemas' repositioning and the food court upgrades are complete, with most of the food court tenants open for business and doing well. The long awaited ULTA store will open at Pearl Highlands next week, likely to the same kind of success experienced at Hawaii's first ULTA store, which opened at our Pu'unene Shopping Center on Maui on July 20. ULTA has been extremely pleased with the performance of the Pu'unene store where initial sales doubled their expectations.

Further uplift at Pearl Highlands will come from the planned opening of a 19,700 square foot Guitar Center store next year. It'll be Guitar Center's first Hawaii location.

With these physical and leasing improvements at Pearl Highlands, the center is 96% leased and will provide a boost to same-store NOI in the quarters ahead.

Our next redevelopment is Lau Hala Shops in Kailua, where we are 88% preleased and expect to earn a return on incremental cost of between 12% and 13%. Tenant improvements commenced during the quarter with initial openings planned for October. This center, which reverted to the company in 2016 when Macy's opted not to exercise the ground lease extension will now provide an exciting blend of dining, grocery, fitness and shopping options for the Kailua community.

Our third redevelopment is Aikahi Park Shopping Center. Recall that we acquired the center in 2 parts: First, the ground lease with the acquisition of the Kailua portfolio in 2013 and then the leasehold improvements in 2015. The leasehold improvement acquisition was completed 9 years in advance of the ground lease expiration at a 25% cap rate. The improvements were in poor condition upon purchase, and since then, we've been prepping the center for redevelopment. We're working with our tenants, including Safeway, our grocery anchor, and others to extend their leases in anticipation of a renovation. We've held occupancy down intentionally as a result. We're nearing completion of our plans for the center, and expect to fully announce them, first to the community, and then to you in the coming months.

Aikahi and Lau Hala are prime examples of why we love ground leases.

The fourth development I want to talk about is Ho'okele Shopping Center on Maui, which is 64% preleased. We have another 24% of GLA under letter of intent and expect a return on investment for the project of 7.5% to 8.5%. We broke ground in March, and construction is on schedule for a 2020 opening.

To manage all of this development activity and help us identify more opportunities. I'm very pleased to announce that we're hiring a new Senior Vice President of Development. Francisco Gutierrez comes from GGP and has extensive commercial real estate development experience. Most recently, he oversaw GGP's 660,000 square-foot expansion of Ala Moana Shopping Center and has more recently been leading the redevelopment of GGP's Stonestown Galleria in San Francisco.

While redevelopment clearly is an important source of growth for us and we expect more development opportunities to come from our improved properties and our ground lease portfolio, sometimes our evaluation of redevelopment opportunities leads us to conclude that another path is more attractive. One of the sites we had flagged for redevelopment was Lahaina Square on Maui. The property was acquired through borrower default on a distressed note that we had purchased back in 2010. Subsequently, we acquired 3 small adjacent parcels to provide better access to the center. As is our custom, we developed a comprehensive development model and produced a residual land value. An unsolicited bid for the property prompted us to test the market, and we've recently entered into an agreement to sell the property and the adjacent parcels for $11.3 million, which is well above our residual value.

Given some challenges that are unique to this asset, we believe we can create more value and secure a more strategic asset through an exchange of the property than through a lengthy redevelopment process. The deal is now binding, and gives us an extended closing period to allow us time to identify a replacement asset.

The Lahaina Square story represents an opportunity to upgrade our portfolio. It demonstrates that we're continually evaluating the optimal ways to create value from individual assets and it reinforces that one size does not fit all when it comes to doing so. In this case, we've reduced redevelopment risk and we'll capitalize on the opportunity to increase NOI through an exchange years earlier than if we had pursued redevelopment.

One last thing to note before concluding my comments on our retail portfolio is that in July, we purchased the 5 retail units in The Collection from the joint venture for $6.9 million. Leases have been signed for all 5 units, and the ingoing cap rate on the purchase is 6.3%. I should point out that most of the purchase price will come back to us as we have about a 98% economic interest in The Collection joint venture at this stage.

In Industrial, occupancy moved up 180 basis points compared to the first quarter of 2018 despite a large previously disclosed vacancy at Komohana Industrial Park. The increase was largely due to 8 new leases executed at Kaka'ako Commerce Center and 6 new leases executed at the Honokohau Industrial property. We also believe that because of the limited supply of industrial space in Hawaii, we'll be able to release the vacant space at Komohana at a significant positive spread.

To wrap up on Commercial Real Estate, we're continuing our strong run of value creation and income growth in this core segment. I'm pleased that the market remains favorable, but even more pleased by the efforts of our team on the acquisition, leasing, asset management, development and redevelopment fronts.

We're leaving no stones unturned as we seek to create value and increase net operating income. We foresee more of the same from our portfolio and are on track with our full year guidance of 3% to 4% same-store NOI growth, and we may well be able to exceed our guidance on leasing spreads of between 6.5% and 7.5%.

Now beyond our Commercial Real Estate business, we remain focused on improving the performance of and simplifying the other parts of our business. It's hard to see much evidence and progress in the Materials & Construction numbers for the quarter when compared to last year, but let me reiterate what I said earlier in the call. After a rough first 4 months of the year, we hit our plan for May and June and we currently expect performance for the balance of the year to keep pace with our plan. Jim will comment further on our outlook.

We made some management changes earlier in the year, and our new team is settling in and operational improvements are underway. I'm pleased with the direction we're headed and with the host of positive initiatives, ranging from basic scheduling changes and efficiency initiatives to new strategies for increasing quarry sales and bidding paving jobs.

In Land Operations, the focus is on pursuing monetization efforts. That means monetization of existing retail inventory, condos, townhomes, residential lots and industrial lots and monetization of builder parcels and undeveloped urban-zone lands.

First, we had several sales of residential inventory in the second quarter, including 30 units at Kamalani and joint venture distributions from Keala o Wailea, Ka Milo and The Collection that, together, generated $25.1 million in net cash proceeds. We expect to continue selling through our residential inventory this year, including most of the remaining units at Kamalani Increment 1 and the entire balance of The Collection and Keala o Wailea units.

During the quarter, we began the process of seeking capital and partners for completion of our development for sale projects and identified Wailea, Kukui'ula and future increments of Kamalani as candidates for JVs, recaps or sales.

At Kukui'ula, we, in conjunction with our joint venture partner, DMB, have initiated a process to evaluate a range of alternatives related to the project. We proposed the evaluation in light of our efforts to simplify the company as a REIT by deemphasizing capital investments into development for sale projects. To date, we have developed materials for solicitation of equity investment in the future development of the project with the expectation of a call for bids later this quarter. These bids should inform our strategic direction regarding management of and future investment into the project.

At Wailea, we are engaging in discussions with interested parties for the sale of builder parcels in the development. Similarly, we are in discussions with parties interested in developing future increments at Kamalani. We will provide updates on our progress on all of these efforts in future calls.

Finally, we continue to advance our diversified ag efforts on Maui, including the recent expansion of grass-fed beef operations. The recent East Maui interim instream flow standard decision is an important step forward in the overall water process and provides a solid foundation for further progress in our efforts to establish diversified farming on Maui. We have signed a purchase and sale agreement with the State of Hawaii for the sale of a 313-acre ag parcel on Maui for the expansion of the Kahului airport for $8.6 million or $27,500 per acre. We expect the sale to close in this third quarter.

Discussions are progressing toward the sale of another ag parcel for the expansion of Maui Ag Park.

With that strategic and operational context, let me turn the call over to Jim to discuss second quarter earnings drivers, our outlook and our balance sheet.

James E. Mead *- Alexander & Baldwin, Inc. - Executive VP & CFO*

Thanks, Chris, and good afternoon. Chris has already given a preview of the operating results, and we're on plan in the Commercial Real Estate segment and for debt reduction goals given the status of monetization activities. Chris already mentioned we are tracking below our plan for Materials & Construction, and I'll go over our thoughts on that in a few minutes.

Let me review the financial performance that contributed to our earnings from continuing operations of $0.03 per share.

Starting with Commercial Real Estate, our same-store NOI grew 3.1% for the quarter, bringing the year-to-date growth to 3%, in line with our full year 2018 guidance. We were ahead on volume of leasing activity this quarter, with 132,000 square feet and 66 leases. This quarter's 9.2% comparable leasing spread overall included a really impressive 7.3% spread on our 100% Hawaii retail portfolio. That brings our trailing 4 quarter leasing spread on retail to 6.7%.

Occupancy was down in both the retail and industrial portfolios compared to last year's second quarter, but we are not concerned since key vacancy has either been leased or presents us with some significant rent improvement opportunities. We had a move out of a 45,000-square foot tenant last quarter at Komohana Industrial Park that is going to allow us to retenant to a better use.

Our industrial leasing spread in the second quarter was 16% and our average leasing spread over the past 4 quarters was 15.5%. So you will understand our optimism in having strategic vacancy and our industrial portfolio.

The 19,700 square foot midbox space at Pearl Highlands Center has been released to Guitar Center. This space was vacated by a temporary tenant at the end of last year, and then new rent is about twice the old rent. While our same-store NOI will get a bump next year because the former tenant was temporary, the leasing spread won't be in our metrics for this year.

Guitar Center occupancy is expected in 2019, and including that lease, the center's occupancy is 96%. In addition, the company has completed the Pearl Highlands repositioning, including renovation of the Regal Entertainment movie theater and adding an exciting food experience.

The Land Operations segment produced operating profit of $1.6 million in the second quarter, flat with prior year and as expected. Chris described the status of development, monetization and recapitalization efforts, and we are on track with our debt reduction goals for this year. Nevertheless, it is difficult to predict the earnings contribution from these activities because we cannot completely control timing of transactions and also the profit margin depends on both prices achieved and on what we end up selling.

Turning to our Materials & Construction segment. Operating profit and adjusted EBITDA for the quarter were $3.6 million and $6.2 million, respectively. You will recall that the first quarter was impacted by weather and certain operational changes. Results improved back to our budgeted levels in May and June, and we're forecasting that run rate will continue through the end of the year.

Since we are off our budget by $5 million in the first 4 months, we are, therefore, moving our 2018 expectation of adjusted EBITDA contribution from Materials & Construction to $25 million from $30 million. The team is already seeing benefits from the implementation of specific operational changes with the goal of achieving full implementation within the next 12 to 24 months. Our target is to improve our EBITDA margins by about 2% through these efforts.

Early in the quarter, we closed a refinancing of our $62 million Series E Prudential debt to extend the maturity and reduce debt amortization. We currently have a 5.5-year average debt maturity at an interest rate of 4.3%. In addition, starting from today, if we look out for the next 3 years, we have about $25 million in debt amortization and maturities per year. Said another way, only 3% of our debt matures each year over the next 3 years.

Total debt was reduced by $48 million in the quarter from a combination of property sales, joint venture distributions and the release of funds from a 1031 account related to our sales of Mainland properties.

As we look toward the remainder of the year, our plan includes a further reduction of debt by over $50 million, and we are on path to achieve this with the monetization efforts that both Chris and I have referred to.

So just to summarize, our plan for this year is to reduce debt taken on in the first quarter due to the special distribution by over $100 million, with the funding coming 100% from internally-generated cash. Of course, the consequence of this execution would be to lower our leverage, which is currently about 32% of enterprise value and also to repay floating rate debt, which will bring our fixed rate debt to over 80% of our total debt by year-end. We continue to get questions about resumption of the dividend. To reiterate what I said in the last couple of quarters, we are not forecasting the need to make any additional distributions in 2018 and expect to begin ordinary quarterly dividends beginning in 2019.

For 2018, we distributed an amount that we think is close to 100% of our REIT taxable income estimate for the year. That $41 million was part of the special distribution last January and would be about $0.57 per share on the current share count.

We received investor request for the composition of general and administrative expenses by segment, and it's on a schedule in our financial supplement now.

One final note, we are on track for a total company SG&A of $60 million, which is where we guided you at the beginning of the year. Already noted, our expectations for the year in this slide summarizes the guidance points from today's discussions.

And now I'll turn the call back to Chris for closing remarks.

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

Thanks, Jim. In closing, our commercial portfolio continues to perform well, and we're on track to meet our full year financial guidance for the CRE segment. We remain diligent in capitalizing on the embedded opportunities I discussed earlier to continue our track record of NOI growth.

We'll remain focused on executing performance improvement and monetization priorities in our other 2 business segments, Materials & Construction and Land Operations. Executing on these priorities is critical to creating long-term shareholder value, but it won't necessarily be a smooth or predictable path. I do feel strongly that it will be accretive to our share price as we unlock value, strengthen our balance sheet and simplify our story.

Thank you for your patience as we undertake this process, and I look forward to reporting on continued progress over the balance of the year.

With that, we'll take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Sheila McGrath with Evercore.

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

Chris, you mentioned you lost the temporary tenant at Pearl Highlands, and the space has already been leased. Is that the Guitar Center store that you mentioned? And how did the new rent compared to expiring rent?

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

It is in fact where our Guitar Center is going to go. The new rent is about twice the expiring rent. Lance, I don't know if you want to provide any more color?

Lance K. Parker - *A&B Properties, Inc. - President*

No, that's exactly right, Sheila. Although as Jim indicated, it's not going to be in our releasing spread metrics because of the fact that it was a temp deal, but you will see the increase in same-store NOI once that becomes economic.

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

Okay, great. And is Pearl Highlands, is it pretty much stabilized at this point? There's after the...

Lance K. Parker - *A&B Properties, Inc. - President*

It will be -- once they become physical occupancy as well as economic, we'll be up to 96% occupancy there. And so from a repositioning standpoint, sort of the 3 pillars, we've upgraded sort of the entertainment side with the Regal upgrade to the entertainment experience as well as food with the food court, and now the retail experience with Oahu's first ULTA, which will open next week and then Guitar Center, which will be the state's first.

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

Okay, great. And then just on Land Operations, it's very challenging to predict like either the timing of individual unit closings and land sales quarter-to-quarter. But just this quarter, the operating profit was $1.6 million, but you mentioned in your comments that there was $25 million of proceeds generating from Land Operations to pay down debt. So I'm just wondering was it like high basis land that was negatively impacting? I haven't had a chance to go through the Q and everything, but what kind of drives the big delta between the amount of cash that you received out of Land Operations, but only $1.6 million operating profit?

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

So let me start with that, and then I'll kick it over to Jim. I think one thing to realize is that a large number of the sales were at Kamalani, which is, as we've always said, is a very low-margin project in Phase 1, but we are generating affordable housing credits at that project. So that's one part. Another part of it is that the $25.1 million included distributions from joint ventures that weren't necessarily tied to sales in the quarter. So that can be a little bit misleading as well.

James E. Mead - *Alexander & Baldwin, Inc. - Executive VP & CFO*

And I think, Sheila, there was a slide that broke out the sources of distributions. So you'll see that in the supplement, but you'll see the distributions from the various joint ventures in addition to we had sales activity in Kamalani. So this is, in part, return of capital as well as (inaudible).

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

Okay. And that one run through. Okay. Got it. And then just talking about leverage metrics. Because you guys have a decent amount of assets that don't throw off income, are you targeting to reduce leverage based on enterprise value? Are you looking at net debt-to-EBITDA? And if you can just give us your targets and kind of some vision on how you get there?

James E. Mead - *Alexander & Baldwin, Inc. - Executive VP & CFO*

So, I guess, the vision for the company is, and I don't have a year or date for you, but we want to be a more conventional REIT, with focus on Commercial Real Estate and a large portfolio in the grocery and anchor retail areas. So our target at that end is, we've talked about this before, is to have metrics that are going to be comparable to other high quality REITs in that sector. So in the end, at that process, we'll be looking at debt-to-EBITDA as compared to other peer companies, we'll be looking at G&A spent as compared to other peer companies, we'll be benchmarking conventionally. Between here and there, I think we really have a hybrid. We look at those metrics in terms of credit quality. We're conscious of debt-to-EBITDA and we're conscious of all the other ways to look at it. I think because we have a lot of assets that are nonincome producing, but they are also liquid assets and, for example, the things we're looking at today for selling, I think that leverage is an important metric right now, and then combined with our targets for debt reduction and then as we move forward, focusing on debt-to-EBITDA has a greater -- having greater importance. So I'd just say, we're kind of a hybrid just because we have so many assets that are on our balance sheet that don't necessarily provide conventional support as a REIT would. We're going to be moving toward the more conventional REIT over time. So our goals in the end are to be conventional, but between here and there, we're going to have some, I think, some hybrid metrics. So I think leverage that debt, in other words, debt-to-enterprise value is a good way to look at it right now, but we don't just look at that internally.

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

Okay. And last question, and I know, Chris, you've kind of walked through it, but if you won't mind just giving us a little bit more detail of what the different possibilities are on the third-party capital for development. What that could look like, would A&B stay in? And then also does structuring for tax leakage come into play on those? Because I know you have a low basis in land at Kukui`ula, unless you've already put in the infrastructure. Just how are you going to deal with the low basis land?

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

Okay. So a couple of questions there. Let me take a shot at it, and then I'll invite Lance or Jim to jump in as well. So the range of possibilities with monetization of the various projects is fairly broad. There may be certain parcels or even projects thinking kind of Kamalani, where there may be a homebuilder or someone that just wants to come along and take down a parcel or in the case of Kamalani, which is a relatively small project, that might be a manageable enough size for someone to come along and actually buy, and that could lead to an exit. But keep in mind that our main objective is to do 2 things: One, realize cash proceeds where we can, but as importantly or maybe more importantly, make sure that the projects can move forward without additional capital from us. Because if -- we certainly have examples, for example, the Keala o Wailea project where we were able to realize the value from the project, but we didn't have to put the vertical capital in, our partner did that, and we got our value from the land contribution. So there's a wide range of possibilities in land contribution with someone else's capital, and we stay in as a JV partner, is certainly one of them. It's really hard to opine beyond that on any specifics, but just to say, it could be anything from in some cases, a sale, other cases a continued JV. And in other cases, just an infusion of outside capital, which I guess probably would look something like a JV. With respect to the land basis, essentially with respect to Kukui`ula, all of our land there is from a book basis is kind of burdened with the infrastructure cost that we've invested in over time. So I don't think we have any like really low basis raw land within Kukui`ula or Wailea or Kamalani, for that matter, because as we build out infrastructure in those projects and even when we start doing planning and entitlement work, those costs are capitalized and they add to the basis of the land. We will, of course, look for tax efficient structures in anything that we do, but I don't -- none of those projects, by the way, would qualify for 1031 exchange. So that's not really a consideration in those projects, only Commercial Real Estate or the ag land that we've used historically for our farming operations would really qualify for 1031 exchange.

Operator

(Operator Instructions) Our next question comes from Steve O'Hara with Sidoti.

Stephen Michael O'Hara - *Sidoti & Company, LLC - Research Analyst*

Just on the -- maybe the run rate for NOI and for growth within the leasing portfolio, I mean, how do you think about maybe the second half and maybe 2019 in terms of maybe not same store, but general growth within the portfolio given the assets you have coming online over the next 12 months, I guess?

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

Well, yes. I'm going to kick it to Lance, but I'll also preface it by saying that we're not at a point yet where we're providing an outlook for 2019. I think, generally, we feel good about the releasing spreads and the stuff we have coming online, but we're not ready to give a range for 2019.

Lance K. Parker - *A&B Properties, Inc. - President*

Yes. So I would just add to that. In terms of 2018, based on what we see and as Chris indicated in his earlier remarks, we think we're going to end up in the range of guidance that we provided on the same-store NOI basis. And then while we're not in a position to start really looking and forecasting for 2019, the only thing that I would add is that we'll start going economic on some of our repositioning assets like Lau Hala. So we will get some of the benefit of those next year.

Stephen Michael O'Hara - *Sidoti & Company, LLC - Research Analyst*

Okay. And, I mean, is there -- is 2018, maybe 2019 more or less favorable in terms of what you have coming up for renewal versus 2018? Or, I mean, is that another way to get around it?

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

I think, it's a little bit of a mix bag. I mean, one of the things that we've talked about in the past as being a source of some of our same-store growth, has been the fact that we've acquired some assets in recent years at what we perceived to be below market rents and we've been able to gradually bring some of those up. And that's helped us have pretty steady same-store growth and stronger leasing spreads. Having said that, we're going to start to lap ourselves in terms of renewal of some of those leases, but that we'll be renewing leases that have already been kind of brought to market. So some of that will tend to diminish. On the other hand, from a same-store standpoint, as we bring some of -- in a total NOI standpoint, as we bring some of these improvements and repositionings online, that should help. So I don't think we're ready to take a position on what the net of those 2 is, but those are a couple of the forces that we're dealing with, I think.

Stephen Michael O'Hara - *Sidoti & Company, LLC - Research Analyst*

Okay. That's helpful. And then just, I mean, looking at the second half, I mean, it seems like you've got a decent number of sales in the pipeline. I mean, is it fair that the second half is going to be significantly stronger on the Land Operations side from a operating profit standpoint?

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

Yes. I think it's fair to say that it will be better, but that's not a real high bar, because we haven't (inaudible) against Land Operations income. We always hesitate on this for a couple of reasons, one is just the timing of closings. We may get things lined up for sale. It may slip into next year, that sort of thing. The other thing is, as Sheila pointed out with her question, the margin on various land sales is very different from asset to asset. And so I think we'll be cautious about providing guidance on margin and operating profit. I do believe that it will be stronger in the second half. And I think, the most important focus for us right now is really the monetization progress and delevering. Because I think that's the primary goal that we have for these sales is trying to improve our balance sheet as the year goes forward. And while obviously, we hope and expect that that will generate some operating profit. Our primary focus is really on the delevering side.

Stephen Michael O'Hara - *Sidoti & Company, LLC - Research Analyst*

Okay. And then maybe just on cash flow, I mean, it looks like operating cash flow is much stronger this year than last year for the first several, I guess, even for the full year. And I assume that's just the sales, I think, you talked about. Have you put out, maybe I missed it, but kind of your operating cash flow expectations for this year based on kind of what you've talked about so far?

James E. Mead - *Alexander & Baldwin, Inc. - Executive VP & CFO*

So, I guess, what we were saying -- what we've said is that we -- if you think about starting at the end of the first quarter where we made our special distribution in the first quarter, we paid off close to $50 million in this last quarter of our line of credit outstanding and we expect to pay off at least $50 million more further in the remainder of the year to lower our debt by a total of $100 million for the year. I think in the end of the day, if you think about cash flow, that's probably the bottom line of cash flow.

Stephen Michael O'Hara - *Sidoti & Company, LLC - Research Analyst*

Yes. Okay, okay. And then just maybe lastly, on Grace. What's the -- I mean, I know, you're looking to monetize assets where it makes sense and move closer to a pure REIT. I mean, can you talk about maybe where you are within that process on Grace?

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

Yes. Our focus right now with respect to Grace is not on a sale or any sort of monetization. Our focus is on trying to get the business back to where we believe it can perform. It is a really good business, it's a very solid business, it's got a lot of very strong fundamentals. We've had some challenges, as I said before, both external and internal challenges. And I think we're making good progress toward fixing it. My sort of long-term test is whether we can get in the public markets value that is commensurate with what the private market value of that business might be. And if long term, we can conclude that investors just don't appreciate the asset or in our public market valuation, we're not getting full value, well then, I think we'll have to look at monetization options. But I think before we can even think about that, we really need to get the business back to performing the way I know it can, and I think we're on a good path toward doing that, and then we'll cross that next bridge when we get to it.

Operator

(Operator Instructions) We have a follow-up question from Sheila McGrath.

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

I guess, just on Lau Hala, it's 88% preleased? Just wondering how conversations are going on the remaining space?

Lance K. Parker - *A&B Properties, Inc. - President*

We've had good interest, Sheila, and we anticipated that that would be the case that it would take us a little bit longer on our in lines that we had a sort of complete construction. We have stated, some of these smaller tenants could actually see and walk through and that's beginning to bear fruit. So we're hopeful that in the next couple of quarters, we'll have some good news to announce.

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

Okay, great. And then real quick on the center that, Chris, you mentioned that you purchased through a distressed note. I don't want to pronounce it. You're undercontract is $11.3 million for that and the adjacent parcels. Is that -- is your basis lower than the $11.3 million?

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

It is. If you look at our original purchase price of the note and the adjacent parcels, it actually was significantly lower. We did, however, through some interesting accounting rules when we took the asset over through the...

Lance K. Parker - *A&B Properties, Inc. - President*

The end of the process.

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

Yes, the end of the process. Thank you. We actually had to book, I think, about $3.5 million gain on that asset back in 2010. And so while overall, that's going to prove to be a very attractive deal for us, we've already gotten some of the book benefit back in 2010. We do, however, expect additional book gain. We just don't know whether it'll be third, fourth or first quarter, because we have an extended closing window, and we're not going to close on that until we know that we have a replacement asset lined up. So we really can't give insight in terms of when that would be.

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

Okay. And that leads to my last question. While you're like trying to target 1031 acquisitions, would -- are you mostly looking at retail or industrial as well?

Lance K. Parker - *A&B Properties, Inc. - President*

We're looking at both, Sheila. I mean, I think, we've indicated sort of comfort and preference into retail, but also a desire to expand our industrial portfolio. So our investment team did an excellent job in giving us runway to make sure that we can find the appropriate reinvestment opportunity in the marketplace. So we'll look at both.

Operator

At this time, I'm showing no further questions. I'd like to turn the call back over to Suzy for closing remarks.

Suzy Hollinger

Thanks, everyone, for being on the call. If you have further questions, please feel free to call me at area code (808) 525-8422. Aloha.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program. You may now disconnect. Everyone, have a great day.
