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Vesta Industrial Real Estate

Third Quarter 2022 Earnings Conference Call

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C O R P O R A T E P A R T I C I P A N T S

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C O N F E R E N C E C A L L P A R T I C I P A N T S

Alejandro Chavelas, *Credit Suisse*

Alejandra Obregon, *Morgan Stanley*

Pablo Monsivais, *Barclays*

Francisco Suarez, *Scotiabank*

Juan Ponce, *Bradesco*

Gordon Lee, *BTG*

Durrell Galati, *Goldman Sachs*

Juan Marcello, *GBM*

Andre Mazzini, *Citigroup*

Fatima Benitez, *Compass Group*

P R E S E N T A T I O N

Operator

Greetings, ladies and gentlemen, and welcome to the Vesta Third Quarter 2022 Earnings Conference Call.

As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Fernanda Bettinger, Investor Relations Officer.

Please go ahead.

Fernanda Bettinger

Good morning, everyone, and thank you for joining our Third Quarter Results call. With me today are Lorenzo Dominique Berho, Chief Executive Officer, and Juan Sottil, Chief Financial Officer.

Before we get started, I'd like to remind you that our remarks today will include forward-looking statements, including our long-term objectives and forecast, as well as our expectations regarding our business, assets, products, strategy, demand, and market. These statements are subject to risks and uncertainties that could cause actual results to differ materially. They're also based on assumptions as of today and we undertake no obligation to update them as a result of new information or future events.

Finally, note that all figures included herein were prepared in accordance with IFRS and are stated in nominal U.S. dollars, unless otherwise noted.

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

Lorenzo Dominique Berho

Thank you, Fernanda and everyone on today's call.

Our team continued its strong performance, delivering another outstanding third quarter and first nine months of the year. I'll discuss our successes in more detail shortly, but let me first update you on the overall strengths of Mexico's industrial real estate market.

Global markets have been extremely volatile, as company leaders worry that major economies will be pushed firmly into a recession before inflation is tamed from current multivacant highs. We're seeing major issues facing financial systems, deterioration of economic outlooks for many regions, and persistent geopolitical risks.

From a manufacturing perspective, President Xi Jinping has just made clear that he has bigger worries than his flagging economy. He opened the twice-a-decade Communist Party congress on Sunday with a speech more focused on national security and stability than in the past. That means that companies are now balancing Beijing's objectives with market risks and potential sanctions. Companies are realizing they need a new playbook as a plan to meet increasing demand. As the advantages erode for global manufacturers' operations in Asian countries, interest in reshoring and nearshoring continues to climb, evidenced in investors' results.

Mexico has deepened its role as a key exporter to the United States, marking what could be a major shift as the U.S./China trade war, while the pandemic and Russia sanctions disrupt supply chains. The pandemic highlighted the global risk on the dependency on Asia, as 35% of the manufacturing production is located in the Chinese territory. Mexico has become not only an option in the course to change this trend, but an opportunity. The notably shorter and easier to manage supply chains, improved communication, reduced probability for disruption and improved efficiencies, lowered by operational cost. Site selection will not only be dependent on infrastructure but also on labor pools.

According to Bank of America, U.S. imports of Mexican manufactured goods reached an all-time high in August 2022 with a more than 70% increase over pre-pandemic levels in dollar terms as indirect evidence of today's nearshoring explosion. According to a UBS Evidence Lab survey, 90% of executives of companies with production in China intend to relocate, or have already begun.

In Latin America, the e-commerce industry remains on an upward trend when pandemic shopping frenzy drove an increasing number of shoppers to flock to online sales channels. Consumers who became first-time online buyers during the global pandemic, which is particularly the case in Latin America, are expected to continue their online shopping habits. We're seeing a related push for last mile warehousing by the same companies and e-commerce marketplaces that are closing their U.S. facilities, such as Amazon and Mercado Libre, which have been increasing their investment in the construction and expansion of logistics centers. E-commerce giants are investing billions of dollars in the country to further strengthen their position in the Mexican e-commerce industry.

North America will therefore benefit and Mexico, particularly Vesta, will continue to be at the center. The need for high-quality move-in-ready warehouse space will only grow as manufacturers seek out premium markets with good labor fundamentals and convenient access to major transportation networks.

We continue to significantly increase rents across our portfolio, with in-place rents reaching over 11% which enable an 11% year-on-year revenue increase to 45 million for the third quarter. Vacancy rates further declined driven by the growing tailwinds of nearshoring and e-commerce. In the third quarter, Vesta's total portfolio reached a record high of 96.1% occupancy, with stabilized occupancy increasing to just under 97% and same-store occupancy to 96.4%.

Today, we're seeing truly unprecedented leasing activity and renewals. We signed 3.8 million square feet in GLA during the third quarter, 1 million from new leases with leading companies such as Oxo, Home Depot, and DSV Logistics. Importantly, with Mexico industrial real estate vacancies at all-time lows, we're signing leases for buildings still under construction, which was the case for Home Depot in Tijuana and DSV in Guadalajara.

Renewals reached a historical high at 2.8 million square feet for the quarter, with weighted average lease terms of seven years, underscoring Vesta's existing tenant commitments to a long-term presence in Mexico. While leasing spreads remained positive at a weighted average of 6.1%, it is important to note that Vesta's contracts are linked to inflation, which means they catch-up to market rent, pricing is normally compressed when renewing the lease.

During the quarter, we renewed with Nestle, our largest tenant, for a five-year term that matures in December 2028, further strengthening our maturity profile with great tenants.

Manufacturers' flight to quality means today's competition for available land will only escalate and developers are now forced to put much more thought behind choosing locations that are attractive to these types of tenants. Site selection factors are also playing a strong role in which regions are most impacted by the overwhelming industrial demand.

I'm pleased to share that, during the quarter, Vesta increased its presence within a key metropolitan area. In August, we acquired eight acres of land in Central Mexico City. This property is a landmark asset for our Company and one of the last remaining parcels of land available inside of the Metropolitan Mexico City. Such a unique inner city location is highly desirable for global e-commerce and logistics companies, with a densely populated metro area with a considerable labor pool and excellent connectivity to highways and major roads. We will continue to build our presence throughout Mexico's urban centers, including Guadalajara and Monterrey, aligned with the Level 3 strategy.

We want to ensure a strong balance sheet to fund our growth plans. As Juan will describe, we closed a 200 million sustainability-linked revolving credit facility on September 1. This was yet another significant milestone for our Company and a step to further integrate ESG into the core of our business aligned with our Level 3 strategic plan, while strengthening our Company's financial position with balance sheet flexibility.

Finally, along similar lines, we're delivering on our green certification targets. Vesta achieved LEED certification for the Vesta Park Guadalajara Mercado Libre building and LEED Silver certification for the Vesta Park Puebla PepsiCo building.

With that, let me turn it over to Juan, and I'll return for some brief closing remarks.

Juan Sottil

Thank you, Lorenzo.

Let me recap our results for the quarter.

We continue to deliver strong financial results, supported by our outstanding operational performance, as Loren has noted. Starting with our top line, total revenue increased 11% to $45.5 million in the third quarter of 2022. This was due to a $4.9 million increase from new revenue generating contracts, and $2.5 million increase related to inflationary adjustments on rented property during the quarter that was partially offset by a $2.1 million decrease to the property sold at the end of 2021. As a reminder, all of our leased contracts are indexed to inflation; therefore, we continue to benefit from the favorable effect of higher-than-expected inflation on our top-line results.

In terms of currency mix, 82% of Vesta's third quarter revenue was denominated in U.S. dollars, decreasing from 83.9% in the last year comparable period, mainly reflected higher other income which is recorded in Mexican pesos.

Turning to our cost structure, total operating costs reached $2.9 million in the third quarter of 2022 from $2.8 million in the third quarter 2021. This was mainly due to an increase in cost from vacant properties, which was partially offset by a decrease in costs from occupied properties.

Net operating income increased 12% to $43.2 million year over year, driven by higher rental revenues, while the margin increased 88 basis points to 94.9%, mainly due to lower costs from occupied properties. Again, this quarter, the increase in administrative expense is mainly explained by higher employee benefits resulting from the creation of a pension fund retirement reserve, as well as increase in the Company's long-term incentive plan.

In turn, EBITDA totaled $38.7 million in the third quarter of this year, a 12.5% increase compared to the prior year's quarter, with a margin expansion of 115 basis points reaching 85%, mainly due to higher gross profit.

Moving down the P&L, total other income reached $52.1 million compared to $15.6 million in the third quarter of 2021. This increase was mainly due to a higher property revaluation gain. As a result, we closed the quarter with a pre-tax income of $88.7 million compared to $47.3 million in the third quarter of 2021, while the pre-tax FFO increased 18.3% to $26.9 million and NAV per share increased 10.6% to $2.79 per share from $2.53 per share in the same quarter of last year.

Now turning to our Capex and portfolio composition, we invested $73.6 million during the quarter, mainly in the construction of new buildings in the Northern and Bajio regions and land acquisitions. At the end of the third quarter, the total value of the portfolio was $2.58 billion, comprised of 194 high-quality industrial assets with a total GLA of 32.3 million square feet.

Year over year, our stabilized portfolio increased 3% to 31.1 million square feet, with occupancy increasing to 96.6% from 93.1% in the third quarter of last year. We ended the quarter with a land bank of

40.8 million square feet, and projects under construction of 3.2 million square feet, equivalent to an investment of approximately $189 million, with an estimated return on cost of 10%

Turning to our balance sheet, we closed the quarter with a total debt of $931 million and our cash position stood at $271 million. Net debt to EBITDA was 4.7 times and our loan to value ratio was 33%. In addition, we paid a cash dividend for the third quarter on October 14, subsequent to the quarter end, equivalent to 0.42 pesos per cent in ordinary shares.

Finally, to further strengthen our balance sheet during the quarter, we closed a 200 million sustainability-linked revolver credit line, as Lorenzo noted, with an interest rate of SOFR plus 160 basis points. This facility contains a sustainability performance target related to the number of green building certifications associated with the Company's gross leasable area. Keeping a strong balance sheet will enable us to continue funding our growth strategy while maintaining a prudent capital structure.

With that, we conclude our third quarter review.

Operator, please open the floor for questions.

Operator

Thank you. Our first question comes from the line of Alejandro Chavelas with Credit Suisse. Please proceed with your question.

Alejandro Chavelas

Hi, Vesta Team. Thanks for taking the question.

I guess the only thing that surprised me a bit about the report, and speaking about the share a little bit I believe because it was giving a great report, it was a slow pace of deliveries. I think you had scheduled to deliver a big building in Monterrey that was delayed to April 2023. I also think Mega Region 1 and 2 were delayed, I think, since the last quarter. So, I know it's not perfectly predictable with the delivery times and it varies, but more generally I think your peers have mentioned that construction permitting times have been taking longer than expected, particularly in the north. So I was wondering if this explains the pushing back some of the projects. That's my first question.

Lorenzo Dominique Berho

Great. Thank you very much, Alejandro, for being on the call.

Yes, we are currently very active in terms of development. As you might know during the year, and in some cases last year, we were able to anticipate for future demand of industrial space and we acquired larger parcels of land to develop Vesta parks. And the two particular cases that you mentioned is Tijuana and Monterrey. Both of them are multi-building projects, where we are incredibly active in terms of being able to develop not only the infrastructure of the park, as well as several buildings at different phases. In some cases, one or two buildings might have some changes in terms of delivery times, mostly coming from either adjustments to the construction phase because of the natural process of it, or because we are negotiating with certain clients.

These are minor adjustments and have absolutely nothing to do with permits and any other measures. These actually have to do mostly with particular negotiations we're leading with certain clients. I will use the example of Tijuana, where it took us—we had some changes to our timing for the first buildings. One of them we were able to lease already to Home Depot, the first building. They're now our anchor tenant.

But we're currently developing four more buildings—I'm sorry, three more buildings and we're soon to start the last two buildings of that project. That's why sometimes we can have some changes. However, that doesn't change our estimation in terms of collecting rents and collecting income. Demand is so high that, even with certain adjustments in construction, we can still be able to collect rent in time and have positive effects to our rental income in the short term.

We're confident on our development pipeline. We are happy to see very strong demand. We're glad to see that we can not only lease before finishing a construction, but that enables us to start construction of new spec buildings in great reserves that we have been able to acquire in advance and gives us a competitive advantage.

Alejandro Chavelas

Great. Thanks so much for the color.

Operator

Our next question comes from the line of Alejandra Obregon with Morgan Stanley. Please proceed with your question.

Alejandra Obregon

Hi, good morning, Vesta Team. Thank you for taking my question, and congratulations on the numbers.

My question is regarding your strategy. I guess, with all the moving parts geopolitical and the manufacturing revival, I guess, we have seen a stronger market a lot—I mean, way ahead of expectations. Right? So my question is whether the current environment has led to changes in your strategy, or do you think that's the $1.1 billion plan that you announced in your investor day is still a good reflection of where you think the market is going? Do you see any additions? Do you see any shifts from a regional perspective? What is it that you're seeing on the ground, and where do you see that you could be adding more value versus what you already have today? Thank you.

Lorenzo Dominique Berho

Thank you, Alejandra. Thanks for being on the call.

As you well noted, we presented our new pipeline and strategy at the Vesta Day, where we are investing $1.1 billion throughout Mexico in the main markets, including several Vesta parks. And actually, it's only a result of the strong demand that we are seeing in the market. We are confident on the strategy. We see very limited supply, strong demand, strong tailwinds. However, we are also cautious on what's happening in terms of geopolitical adjustments. But on the ground, we believe that Vesta has a greater advantage by being able to have great urban land parcels we're currently developing.

Interestingly is that, even with some higher construction costs that we have already discussed in the past, we're seeing rents increasing dramatically in many of the markets and we are able to still achieve double-digit return on cost for our development pipeline: 10%, and sometimes even 11%. This, we believe, is—this is a great signal that we should continue investing heavily in these markets in comparison to the acquisition front, which is highly competitive.

On the positive side, we're seeing that certain investors are acquiring assets today at 5.8%, 5.9% cap rates. That's a huge spread opportunity for Vesta, where if we continue to see investors acquiring at 6% and we develop at 10%, it's all about spread investment. That's why we believe that Vesta's current strategy is not only strong, but it's definitely a big differentiator to the rest of the industrial sector in Mexico.

Alejandra Obregon

Thank you. If I could follow up on that last comment that you said on the spreads. Can you provide some color on where are you seeing these type of spreads? Is that something that you're seeing from a regional perspective, from a sector perspective? Is that something that can be grouped by any type of tenant? Where do you see the greater spreads in the space?

Lorenzo Dominique Berho

Sure. Absolutely. We're seeing those spreads in most of the markets where vacancy rates are at historic lows. Currently, we're seeing pretty much all of the markets have historically low vacancy rates and increasing rents. A good example for that is Guadalajara, which is a strong market where we have—we're developing the second phase of the Vesta Park Guadalajara. We recently leased to DSV Logistics a building that is under construction. We recently started two new buildings, spec buildings that we are already marketing where there's strong demand and there are—that we're aiming at developing deals close to 10%. That's only an example of the good market environment that we're perceiving, and this is a highly demanded market also from an investor perspective.

That's why we believe that being able to anticipate to our acquiring land is giving us a major advantage. But if you just have a look at our supplemental package, we're developing currently in Tijuana, Monterrey, Ciudad Juarez, Guadalajara, Queretaro, where spreads are well above the double digits and where spreads are still in the 300, 400 basis points to stabilized acquisition cap rates.

Alejandra Obregon

Thank you, that was very clear. Congratulations again.

Lorenzo Dominique Berho

Thank you.

Operator

Our next question comes from the line of Pablo Monsivais with Barclays. Please proceed with your question.

Pablo Monsivais

Hi, guys. Thanks for taking my question.

Just a quick and an easy one. In order to better assess the strength of the demand, when was the last time in Vesta's life that you have seen such a strong demand pace? I don't know if you can point to something in time that tells us really how strong demand is. Thank you.

Lorenzo Dominique Berho

Thank you, Pablo.

I think this is a good question, and this is something that we are evaluating internally very often. I think that what is interesting about these times is that these are definitely unprecedented times. Probably, these type of economic cycles and adjustments only happen every couple of decades, probably, and we're leaving one of those moments where this definitely relates to the change in world order, the change in the, let's say, economic and trade relationships from the major market, which is the U.S., and the positioning of certain long-term trends that not only have been harvesting for the last 20 years or so.

I think that we have only seen these type of adjustments probably 30 years ago in terms of what happened when the open economy—when certain economies started to open. Right now we're seeing that Mexico is benefitting from all those adjustments. And clearly what we're seeing inside of Vesta, even with certain complexity, we think that the demand of industrial space, for the two main reasons being nearshoring and e-commerce, will continue to be strong for the foreseeable future.

Pablo Monsivais

Thank you very much.

Operator

Our next question comes from the line of Francisco Suarez with Scotiabank. Please proceed with your question.

Francisco Suarez

Thank you for the call. Good morning, and congrats for the results and for the superb execution on capital deployment. It really makes sense.

The question that I have is actually on the capital deployment and given that you already bought land in Mexico City. The question that I have is that I have no doubt that overall spreads all over the place are what you are aiming for, but given the complexities of Mexico City how the overall cost structure is in Mexico City, the price of land, of course, among other factors. Do you think that you will be able to earn the similar excess spreads that you earned elsewhere in Mexico? Thank you.

Lorenzo Dominique Berho

Thank you, Francisco, for being on the call. I appreciate your question. This is a good moment to elaborate further on our acquisition and our strategy in Mexico City.

As you might be aware, we have a long-term view for Mexico City. It is part of our Level 3 strategy. It has taken us a while to identify good locations of land where we can deploy smartly and attract final global e-commerce players. We're very happy to say that we recently acquired a piece of land next to the Basilica de Guadalupe. For those of you Mexicans, or for those of you that have come to Mexico, you know how important the Basilica de Guadalupe is and how well located it is in Mexico City. This is the heart of Mexico City. We were able to acquire a great piece of land. And not only that: we will develop the best warehouse in Mexico City. No other developer has this type of location, and this would be a premium type asset that currently there's actually no comparison to it.

That's why we believe that we are going to be able to attract premium rents that will definitely have an attractive risk-adjusted return to our investors. I think this clearly opens up our strategy to keep on acquiring good assets in Mexico City, develop great buildings, premium buildings, and attract good companies in this particular sector that we believe will keep on thriving throughout Mexico. I can anticipate that we're going to be acquiring more land parcels and develop in this area and develop premium buildings, state-of-the-art facilities, with LEED certifications and probably properties that nobody has ever developed inside of Mexico City.

Francisco Suarez

A great location indeed. It's wonderful to know. But given that location that—the location that you are entering at, do you expect to earn the typical 200 basis points in excess returns that you can have?

Lorenzo Dominique Berho

No, absolutely, I think that this is in line with the risk-adjusted returns that we have been delivering. As you might know, this is a highly desirable location for investors and spreads are clearly high. Rents are very, very much higher in this area.

Francisco Suarez

Yes.

Lorenzo Dominique Berho

Plus, these buildings are currently being leased at above 12% dollars per square foot. So a premium location could easily be leased higher than that, and therefore we will be able to lease up at really attractive spread opportunities.

We will continue with this strategy. We think long term would be great return for our shareholders and we will continue to have strong leadership in the region where cap rates are, even in an environment where rates, interest rates, have been increasing, there's so much demand that institutional players are paying below 6% cap rates in these regions.

Francisco Suarez

Great. Thank you so much. Congrats again.

Lorenzo Dominique Berho

Gracias.

Operator

Our next question comes from the line of Juan Ponce with Bradesco. Please proceed with your question.

Juan Ponce

Hi, good morning, everyone, and congrats on the results.

I have a question on margins. You mentioned that lower costs in occupied properties explain the expansion, but how should we think about the fourth quarter? And also, do you think that the full year guidance of 94% NOI is conservative? Thank you.

Juan Sottil

Look, let me tell you, thank you for the question.

We are always on top of controlling expenses. We're very strict on budgeting for the following year and we're keen on keeping the budget throughout the year. I think that our NOI and EBITDA margin will continue to benefit in the last quarter of this year, as well as in the following years, with this prudent approach. I think that the very high growth in rents allow us to be optimistic on this front and we'll be on top. We also take measures when we need to. In the past you have seen us being very conservative on Varacans research, the Varacans of the Company over the last five or six quarters have been incredibly low. You can see my accounts receivable. We provide very detailed information to our shareholders on accounts receivables, and they are very low. Clients are paying on time. So while that is happening, my margins are going to continue to expand. So I am very optimistic in this.

Juan Ponce

It's safe to say that the guidance is conservative, right?

Juan Sottil

Well, look, we'd rather be conservative on the guidance. Sometimes at the beginning of the year when we provide guidance, please bear in mind that we have large buildings and sometimes we have maturities of large buildings that we couldn't roll over with the policy of rolling over buildings nine months in advance. Sometimes clients take more time to make up their minds. And such large buildings, well, provide issues on guidance calling. If a building is not rolled over, then I have to be prudent. This particular year, for example, we have two buildings that are rather large that we're—the clients did not make up their minds. Two very good stories. One of them rolled over in the nick of time, which is great. The other one asked to leave and we were able to lease that building to another client within a month. And that's in the Toluca market. That gives you a sense of how strong the markets are. But at the outset of the year—at a higher rent, of course. And at the outset of the year, well, we didn't know and I have to be prudent on guidance.

Juan Ponce

Great. Gracias.

Operator

The next question comes from the line of Gordon Lee with BTG. Please proceed with your question.

Gordon Lee

Hi, good morning. Thank you very much for the call.

Two quick questions, both on the development side.

Given what we're seeing in occupancies and given what we're seeing in rents and leasing spreads, etc., I was wondering if you could give us sort of, conceptually, broad brush, when you underwrite a building, let's say, your development Capex is 10%, what assumptions do you make for occupancy and for the trajectory of future rents?

The second question is, given the situation that you're seeing where spec buildings are being leased out while they're still under construction, do you see a potential change in mix more towards build-to-suit or suit-to-spec—or spec-to-suit, rather, as clients sort of are forced to anticipate their decisions and no longer assume that there will be spec space available? Could that shift—would that shift a little bit the development cap rates that you're looking at and what you're underwriting now? Thank you.

Lorenzo Dominique Berho

Thank you, Gordon, for your participation and for the questions.

When we underwrite, we're very conservative on our underwriting approach since many of the buildings are spec buildings and we need to make some quick assumptions or some general assumptions on absorption, which were conservative. We underwrite depending on the market a downtime of six to 12 months, approximately. We estimate market rents at the moment. And if we need to make any assumptions for the future, we'd rather be on the conservative side. We believe that our spec building strategy has been not only very well taken by the market in terms of leaseup, where they will take the buildings as they are and clients will invest very favorably inside of the buildings. But also from us, from an investor perspective, we think that having a generic building, where we don't have to do any major investment in tenant improvements, we believe that it helps to have a better risk-adjusted return, long term.

That has been the strategy for a while and I think that we're keeping the strategy, probably reinforcing it when the markets—when the local markets have very little supply and vacancies are so low and we can have a better competitive advantage. We have not really changed our strategy. We keep on doing build-to-suit project expansions of existing buildings. We recently started one for Safran in the aerospace arena, as well as Oxo. And build-to-suits take a bit longer to negotiate. We have a good pipeline at the moment. So wherever we close any transactions we think that will add up to our current pipeline.

In the future, part of our $1.1 billion investment plan is clearly still going to be a combination of build-to-suit projects and spec buildings mainly inside of Vesta Parks that we have already started developing. We have acquired the land, so we have a good visibility on more than what type of buildings we develop, where we develop, and what type of, let's say, returns we might be achieving in each of the projects.

Gordon Lee

Perfect. Thank you very much.

Lorenzo Dominique Berho

Gracias.

Operator

Our next question comes from the line of Durrell Galati with Goldman Sachs. Please proceed with your question.

Durrell Galati

Thank you for taking my questions.

I just wanted to touch base on the dynamics within the regions. I would say you're sold out in the north and you're sold out in—that you have vacancies in the Bajio. The dynamics was actually sequentially then your rents went up more than the regions. So, I'm wondering here, how are you thinking about the Bajio in terms of general trends? Is it—are we at a point where given that you're sold out in the north, you have any in general in the industry sold out in the north, you're seeing more interest or demand to grow into cities in the Bajio? And if so, do you have a timeframe in which you can see the gaps closing and vacancy rates going down? Thank you very much.

Lorenzo Dominique Berho

Great. Thank you, Durrell, for your question. It kind of broke up a little bit, but I think I got part of—most of your question. I will elaborate a little bit on the Bajio.

One of the good things about the Bajio is that we are seeing over the last quarters an increase in demand and better conditions in the market. We believe that this is a result of the same dynamic that we're seeing overall in Mexico, and now is impacting positively one region that was lagging in the last years and was probably slower. As you can see, we have increased our occupancy of some of the spec buildings that were vacant for a while. And with this, hopefully, we're going to be seeing an increase in rents, probably in the next period, probably next year.

The reason that we see that rents might rise is for two reasons. The first one being higher construction costs. That's one of the main reasons that we developers need to make returns. Secondly—and of course, it's actually a total in cost, which is based on rent—sorry, on construction as well as land prices. Land prices have increased dramatically just because land inside of industrial parks in the Bajio region is scarce. There's a lot of land in the Bajio, but not necessarily a lot of land inside of parks, and that's why good infrastructure is well paid and that's where we're seeing an important increase in land prices. And that's a good reason why we see that rents might increase soon.

The other reason is, of course, inflation. Inflation has been affecting everywhere. And that's another good reason that as long as we can keep on increasing the occupancy in the market with strong demand coming from suppliers in the auto sector, in the logistics sector. It's incredible to see also the amount of investment now coming into the Bajio for data centers. There was recently by one of our peers a new announcement of a billion dollar investment on a data center, which is great news because this will represent further investment in infrastructure in the area, and therefore companies are going to be making stronger bets in this particular region, which has strong competitive advantages.

Durrell Galati

Thank you very much.

Operator

Our next question comes from the line of Juan Marcelo with GBM. Please proceed with your question.

Juan Marcelo

Hi. Thanks for the color. Congrats on the results.

My only question is regarding the Mexico City new land bank. You said it is a premium location, but I was wondering if you have plans for it for it to be a build-to-suit, or a speculative project. Or is there no color on that yet?

Lorenzo Dominique Berho

Great. Thank you for your question.

One of the attributes of acquiring this type of asset is that we can have the flexibility to do a good spec building, and then take advantage of our market conditions, or we could be closing a build-to-suit project if a potential tenant would close this on time. We have currently—we're currently in that process. We hope to be starting soon the construction of that particular building, probably early next year. In the meantime, we're already marketing the transaction. This was recently acquired. And the good thing is that we have good relationships already with strong tenants in the e-commerce sector, very strong clients. And also the broker community in the Mexico City area that can help us to attract potential tenants that are willing to have a premium location and a premium asset.

Additionally, this is a smaller project compared to the larger projection we have in the city. So we are hoping to close soon some other acquisitions. So it's going to be a multi-location marketing strategy towards the Mexico City area, where we're going to be able to do, for sure, spec buildings as well as build-to-suits, and sometimes we could even consider them spec-to-suit projects.

Juan Marcelo

Great. Thanks for the color and congrats on the results.

Lorenzo Dominique Berho

Muchas gracias.

Operator

Our next question comes from the line of Andre Mazzini with Citigroup. Please proceed with your question.

Andre Mazzini

Yes, sure. Hello, Vesta Team. Thanks for taking question. So, two quick ones.

The first one on maybe a solar program. I don't know if you guys already have that rolled out, because comparing to the FIBRAs, of course, I think you guys have more leeway, right, to invest in solar. The FIBRAs, they're sending that solar, would not be real estate so they could not invest directly, they would have to be more creative in how they monetize the roofs of the building. So, do you guys—can you do it directly? Do you think you have an advantage, right, not being constrained by the FIBRA structure to invest in solar and if that's something that the tenants are wanting for energy security reasons and also for ESG concerns? So that's question number one.

And then just question number two, what do you think would be the best demand going forward into 2023, either e-commerce or nearshoring, which are the two main drivers? Of course, e-commerce now some people are having a little bit of a concern that there will be a scale back as please go back to their old ways, brick-and-mortar, and spending on experiences. So, is e-commerce going to be less of a driver, vis-à-vis, nearshoring, for 2023, do you think?

Those are the two questions. Thank you.

Lorenzo Dominique Berho

Great. Thank you, Andre, for your questions.

I don't know exactly the strategies that all the FIBRAs follow. I think that many of them actually they do not develop, so I don't know what their strategy is towards sustainability development projects. We definitely can analyze different alternatives in order to find the best sustainability solutions for our buildings and, of course, for our tenants. In the cases where we have been able to increase solar panels, this has been in line with our tenants. Many of our clients have also very high standards and objectives in terms of sustainability. In some cases, we have seen that having solar panels, either using the roofs of the buildings, as well as using, for example, the parking lots, has been a good solution. This has not been incredibly large in terms of size, but I think it's a good example that things could somehow be done.

We're looking at different alternatives. As you might know, the renewable energies or clean energies alternatives in Mexico are not very accessible for the moment. However, we're always trying to dig deeper into alternatives that we might be able to find. And when the opportunities arise, I'm sure that we're going to be tapping those.

In terms of your demand question, if you look at the absorption numbers just in this quarter, we're seeing record high numbers in the market absorptions, net absorptions, in different regions and different industries. This is coming strongly from the nearshoring trends and also e-commerce, but, more interestingly, is the size of transactions that we are seeing. In the past cycle we have seen many of these companies doing, let's say, medium-size projects in the hundred-thousand square foot range, and right now we're analyzing and we have a strong pipeline of transactions in the 300,000-plus square feet range. This is interesting, because this reflects how bets from global companies is in Mexico. So they're not doing short-term solutions for their business cases. They're making long-term bets within Mexico at a larger scale to provide those alternatives to their productions in either Asia or Eastern Europe.

I think that we're going to keep on seeing more of that, Andre, in the next year and I think that the e-commerce situation is pretty much similar, since demand is still increasing in this market.

Andre Mazzini

Very good. Loren, thank you.

Lorenzo Dominique Berho

Gracias.

Operator

Our next question comes from the line of Fatima Benitez with Compass Group. Please proceed with your question.

Fatima Benitez

Hi, good morning. Congratulations on the results.

I just have one quick question. You said that your lease spread was off. Can you repeat the number for me? What are your lease spreads for the quarter?

Lorenzo Dominique Berho

Sure. So we saw an increase in rents for the year-over-year in the quarter in excess of 11% for the total portfolio. This is—clearly, this is the absolute number on the total portfolio. We have seen in different markets ranges between, I would say, 8% and 20% or above—in excess of 20% in some regions, too. So this is interesting. I think that this is a good—clearly a result from high demand, low supply, and our ability to increase—adjust to inflation our existing portfolio.

Looking forward, we're seeing a similar dynamic where there's still little supply, there's good demand, and inflation—we see that for the next year, we see that inflation is going to keep on kicking in even despite all the support that the different governments are giving to their economies.

Fatima Benitez

Okay, thanks.

Operator

There are no further questions at this time. I'd like to turn the call back over to Mr. Berho for closing remarks.

Lorenzo Dominique Berho

Thank you. We're focused on executing our Level 3 strategy and we demonstrated progress on the updated development strategy we unveiled in June. Mexico's industrial market is strong and Vesta's 3.2 million square foot pipeline reflects what we believe is only the beginning of a long and gradual nearshoring migration trend triggered in 2019.

I'd like to conclude by inviting everyone to our Early Vesta Challenge Cycling Race, which will take place at our Vesta Park in Queretaro on November 5. Many of you have participated in the past. It's a great event. All profits we will use to fund our social programs.

Also, a deep felt thank you to the entire Vesta Team for your hard work and many successes, as together we continue to drive significant long-term shareholder value.

Thank you, and talk to you next quarter.

Operator

Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time and have a wonderful day.