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Vesta Industrial Real Estate

Fourth Quarter 2021 Results 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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Lorenzo Dominique Berho, *Chief Executive Officer*

Laura Ramirez, *ESG Director*

Juan Sottil, *Chief Financial Officer*

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Pablo Monsivais, *Barclays*

Vanessa Quiroga, *Credit Suisse*

Gordon Lee, *BTG*

Juan Ponce, *Bradesco BBI*

Francisco Suarez, *Scotiabank*

Alan Matias, *Bank of America*

Armando Rodriguez, *Signum Research*

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

Operator

Welcome to Vesta's Fourth Quarter 2021 Results Conference Call.

I'll now turn the call over to today's host, Ms. Maria Fernanda Bettinger, Vesta's Investor Relations Officer. Please go ahead.

Maria Fernanda Bettinger

Thank you, Sheri, and good morning. Welcome to Vesta's conference call to review our fourth quarter 2021 results.

We'll begin today's discussion with remarks from Lorenzo Dominique Berho, Chief Executive Officer, Laura Ramirez, Vesta's ESG Director, followed by the financial highlights from the quarter by Juan Sottil, Chief Financial Officer. Following their prepared remarks, there will be a Q&A session.

Yesterday, we issued our earnings press release after market close; also available on the Investors section of Vesta's website.

Before we begin, I'd like to remind you that our call will include projections and other forward-looking statements, and it's important to note that actual results could differ materially from those projected. Vesta undertakes no obligation to update or revise publicly any forward-looking statements whether because of new information, future events or other factors. Investors are urged to carefully review various disclosures made by the Company including the risks and other information and disclosure in the Company's filings with the Mexican Stock Exchange. In particular, uncertainty remains about the duration and impact of COVID-19 pandemic. This means results could change at any time due to the pandemic impact on the Company's business results. Management outlook is therefore our best estimate based on information available as of today's date.

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 will now turn the call over to Lorenzo Berho.

Lorenzo Dominique Berho

Thank you, Fernanda, and thank you all for joining us today.

Our outstanding fourth quarter results capped an excellent year. We broke several historical records for our Company, both financial and operational. We closed with an ever increasing list of blue chip clients in exciting new growth industries. One of our most important milestones for the year was the meaningful strengthening of our balance sheet, as Juan will comment, through multiple channels tied to our Level 3 strategy.

Summarizing our leasing activity, more than 50% of all new leases in 2021 were related to logistics and e-commerce evenly distributed across all regions in which we have presence and leadership, and nearly all dollar-denominated leases, long term and with best-in-class multinational tenants. The quality of our leases today is therefore outstanding and comprise exactly of the characteristics of which Vesta is known. As a result of the historic high 6.4 million square feet in leasing activity, our portfolio also reached a historic high in the fourth quarter at just over 94% occupancy. Vesta's state-of-the-art parks and property management teams continue to drive superior customer satisfaction, metrics and ended the year with our stabilized property portfolio also at over 94% occupancy.

In line with the Company's Level 3 strategy, net asset value per share increased by 6.5% in the fourth quarter to 2.61% from $2.25 in the fourth quarter 2020. This is an indication of the significant opportunities we have had to create shareholder value even considering the dilution we had throughout the year. Our clearly defined strategy has continued to prove visionary and particularly relevant during times of change. In the fourth quarter of 2020, we anticipated shifting market dynamics and prepared our Company to be well-positioned for a dynamic future opportunities. This enabled Vesta to swiftly pivot to capitalize our Company and capture the pandemic's changing tides, leveraging our quality products to expand with the e-commerce sectors precisely at its inflection points; allocating capital and resources to a market opportunity which has since grown significantly and will continue to do so.

We entered 2022 with great momentum and enthusiasm for strong capital deployment and favorable positioning with the right product and right type of land in today's active high growth markets. These opportunities are embedded with our Level 3 strategy, our portfolio and our sizable and highly profitable development pipeline.

In this context, let me update you on the overall strength of the Mexican industrial market.

Per CBRE Econometric Advisors, net absorption of space in Mexico's industrial parks was 26% higher in the first nine months of 2021 than in the same period of 2020, and 62% higher than the same three quarters of 2019. Logistics real estate continue to enjoy very strong demand during the year, representing a wide range of businesses as global companies remain focused on expanding their competitive positions and optimizing supply chains.

Supply chain volatility heightened the need for additional warehouse space to stockpile groups and mitigate future disruptions. The increased risk to imports they're putting on existing warehouse space is driving the trend toward a shorter, more resilient supply chain which will include adding new points of manufacturing, reshoring or nearshoring in Mexico. Therefore, the trends we're seeing look even better, particularly what we are anticipating in e-commerce.

Today, Vesta's well-positioned in all key markets where we're seeing scarcity of good land and infrastructure reflected in extremely low vacancies and increased rent prices. We have taken advantage of these dynamics, increasing rents for our portfolio where possible and see opportunities in spread investments and cap rate compression, deploying capital at 10% yield on cost, while cap rates are heading down to 6% range, and which is a cap compression driven by institutional investors increasingly focusing on institutional real estate. We're also seeing an increase in valuations and appraisals due to this decrease reflected in our results. Spread investments will remain important in the future, and Vesta will continue to be prudent and efficient in our capital allocation strategy.

There are clear strong long-term drivers supporting the sustained growth of industrial real estate for the near future. Just in time is not going away anytime soon, or potentially ever. One of the keys to companies' post-pandemic resilience is for manufacturers to better diversify their manufacturing in light of recent supply chain challenges. This shift will continue to drive manufacturing back to the U.S. and North America with increased nearshoring to Mexico.

With that, let me now turn our discussion over to Laura Ramirez, our ESG Director, who will briefly review Vesta's achievements related to ESG, another very important pillar of Vesta's Level 3 and long-term strategy. Thank you all. Welcome, Laura.

Laura Ramirez

Thank you, Lorenzo. Good morning, everyone.

You've read in yesterday's press release that Vesta achieved considerable ESG milestones over the past year. Particularly, we were again included within three key indices: Dow Jones Sustainability MILA, MSCI, and the S&P/BMV Total ESG Index for another consecutive year. It's important to also note that our rankings and scores within these indexes and agencies also increased as compared to the prior year.

In the fourth quarter, we were particularly honored to have been selected as one of the Mexican companies included within the 2022 Bloomberg Gender Equality Index, which recognizes Vesta, Vesta's commitment to supporting gender equality through policy development, representation and transparency. The DEI Standardized Reporting Framework enables investors to assess how Vesta is investing in women in the workplace, the supply chain and the communities in which we operate.

Vesta also participates in the United Nations' Target Gender Equality Initiative and Accelerator program for UN's Global Compact. Participating companies were part of the select group of Mexican companies advised by the Tecnológico de Monterrey and the Global Compact to strengthen the gender equality strategy within our Company by establishing clear and specific objectives in terms of gender and inclusion. As a participant in the UN Human Rights Initiative, Vesta is required to establish a human rights strategy and include human rights within our due diligence process with our clients and suppliers.

In both 2020 and 2021, we also audited 42 of best suppliers on key ESG performance metrics, such as environmental consumption and packages, social responsibility, transparency and anti-corruption performance. In 2021, we launched a diagnostic process through Oracle to evaluate the remaining suppliers within our supply chain to ensure they comply with Vesta's specific ESG requirements, such as resource consumption and related practices, and social programs supporting the employee and the surrounding communities. Suppliers are also required to confirm their commitment with Vesta's code of ethics, anti-corruption policy, ESG policy, ESG requirements for suppliers, among others. This process enables Vesta to identify high-quality suppliers.

Regarding our Tenant Commitment Program, in 2021, Vesta's ESG department began to join in tenant meetings with the Vesta asset management team at our park to stress the importance of sharing environmental data and establishing clear environmental targets to reduce our collective carbon footprint. Further, Vesta has included a Green Leaf clause within all leasing contracts since 2020 and adhering all new Vesta tenants are committed to share their ESG-related metrics, including waste management, water and energy consumption with Vesta annually. Sixty four percent of our 2020 contract included a Green clause and Vesta ended 2021 with 91% of new contracts including a Green Leaf clause.

On a final note, Vesta's 2020 annual report began reporting based on TCFD and SASB standards.

This are only a selection of Vesta's important success related to the ESG pillar of our Level 3 strategy. As Lorenzo commented on last quarter's call, Vesta will be hosting our Vesta Day this coming spring where I look forward to providing more details on our important related work.

With that, I'll turn it over to Juan.

Juan Sottil

Thank you, Laura.

Let me briefly recap some key financial results.

We had a very solid end to a strong year, delivering outstanding financial results, which exceeded our upward annual guidance revision, while reaching several historic records in key metrics, such as leasing activity, occupancy rates, as Lorenzo noted. We achieved $160.8 million in revenues, representing a 7.3 increase year-on-year, and 80 basis points above the upper end of our revenue guidance of between 6% to 6.5% for the full year 2021. NOI and EBITDA margins also exceeded our revised guidance by 70 basis points, reaching 94.7% and by 50 basis points, reaching 84.5%, respectively.

Let me now turn to our fourth quarter results.

Starting with our top line, total revenue increased 9.4% to $41.6 million, mainly due to rental revenue coming from new leases in terms of currency mix. Of the fourth quarter revenue, 83.6% was denominated in U.S. dollars, decreasing from 85.2% recorded in last year's comparable period.

Turning to our cost structure. Total operating cost reached $3.8 million in this quarter from $2.5 million in the fourth quarter of 2020. This was mainly due to an increase in real estate taxes, development, insurance and other property-related interest, expenses, as well as higher maintenance expenses due to the increase in the number of parks in the portfolio.

Net operating income increased 8.3% to $38.9 million, driven by higher rental revenues, while the margin contracted 94 basis points to 93.6% mainly due to higher cost from occupied properties. While administrative expenses were up 5.3%, this was mainly explained by non-cash expenses due to an increase in the Company's long-term compensation plan.

In turn, EBITDA reached $34.3 million in the fourth quarter of last year, a 7.4% increase compared to the prior year's quarter, while the margin contracted 156 basis points to 82.5% as compared to 84.1% for the same quarter of last year.

Moving down the P&L, total other income reached $44 million compared to $2 million in the fourth quarter of 2020. This increase was mainly due to a $50.8 million revaluation gain on investment properties as well as the gain on the properties sold. As a result, we closed the quarter with a pre-tax income of $76.6 million compared to $32.6 million in the fourth quarter of 2020, while pre-tax FFO increased 3.9% to $23.2 million and fourth quarter of last year NAV per share increased 6.5% to $2.61 from $2.45 in the same quarter of 2020.

Now turning to our Capex and portfolio composition. We invested $30 million in the quarter, mainly in the construction of new buildings in the Northern and Bajio regions. At the end of the third quarter, the total value of the portfolio was $2.26 billion, comprised of 189 high-quality industrial assets with a total GLA of 31.1 million square feet and with 83.8% of total income denominated in dollars.

Notably, during the 2021, the appraisal value of our properties per square foot increased by 9% to US$66 per square foot at the end of 2021 from $61 per square feet at the end of 2020. This was mainly due to higher in-place rent which increased 6.6% year-over-year and a 70 basis point contraction in cap rates.

Year-over-year, our stabilized portfolio grew 5.6% to 31.3 million square feet, with occupancy at 94.3%, from 91.1% in the fourth quarter of last year. We ended the year 2021 with a land bank of 39 million square feet, down 4.5% sequentially due to the use of land in Ciudad Juarez and Guadalajara, as we began construction of new buildings during the fourth quarter of last year.

Turning to our balance sheet, during the year, we took advantage of favorable market conditions and raised nearly $700 million in capital through our debt and equity offerings, as well as property sales. We successfully strengthened our balance sheet and are now well-positioned to continue making potential and strategic investments during 2022 as we anticipate increasing demand while maintaining an efficient capital structure. Along these lines, we closed the year with total debt of $934 million and our cash position stood at $452 million.

Net debt to EBITDA was 3.6 times and our loan to value ratio was 73.8%. In addition, subsequent to quarter end, on January 14, we paid a cash dividend for the fourth quarter of 2021 equivalent to 0.41 cents, peso cents, per ordinary share.

Finally, I would like to discuss our outlook for the year ahead.

We're expecting to increase revenue between 5% to 6% year-on-year, while we expect to achieve 94% NOI margin and 82.5% EBITDA margin for the full year 2022.

With that, we conclude our fourth quarter and full year 2022 review.

Operator, please open the floor to questions.

Operator

Thank you. Our first question is from Pablo Monsivais with Barclays. Please proceed.

Pablo Monsivais

Hi, good morning. Thanks for taking my question. I have two quick questions here. The first one is if you can shed some light on to what extent the higher construction costs that are pushing rents up in markets with no land constraints, such as El Bajo, for example? Have you been able to increase rents in such markets? That's the first question. My second question is—you still have a significant portion of your land bank in Aguascalientes. Do you have any plans to start developing that land any time soon? Thank you.

Lorenzo Dominique Berho

Hola, Pablo. Thank you very much for being on today's call. Definitely, we have seen and we have experienced an increase in construction costs and it's something that we dedicate a lot of time in order to be competitive in the markets that we want to develop. As you know it's part of our strategy to deploy a good amount of capital, particularly through development given the high yields, the attractive yields that we can see—that we can get through development.

We still see that there's a high accretiveness in many of the markets, particularly in the ones that have shown tremendous amount of demand. Those markets are particularly, in our case, Tijuana, where we just recently started construction of two inventory buildings. The same for Ciudad Juarez, as well as Monterrey and Guadalajara. Many of these markets had experienced increase in rents, in some cases even at double-digits. So, with double-digits you can easily pencil out some of the investment opportunities and still make double-digit return on cost or yield on cost.

Definitely there are other markets where still it's a bit more challenging. However, in that regard, I think that we're going to keep some discipline. We have seen some decrease in construction costs recently and we think that there will be a time where construction costs decrease will be helpful in order to still get interesting and attractive yield on cost, particularly in the Bajio region where we are also seeing that rents are increasing for good quality buildings like Class A industrial real estate, like the ones that we have developed, and I think that there could be a great opportunity soon.

In that regard, I'll take the opportunity just to let you know that many of the markets that we operate have shown a tremendous amount of demand. In the several sectors not only in e-commerce, as I mentioned, but also in the automotive industry, as well as other industries related to the exports, such as Puebla. In Puebla, we were able to lease up a good amount of space recently.

At Querétaro, we are almost out of available buildings and I think that puts us in a position where we need to consider starting new inventory buildings very soon.

Nevertheless—and that's for Querétaro, which is a larger market, probably the size of Guadalajara.

When it comes to markets like Aguascalientes, we're definitely seeing a bit more of a slowdown. We have not—most of the auto makers in Mexico are adjusting their production plans. As you know, there's still a huge disruption in terms of supply chain that will adjust throughout the year. However, and you're right, we have some excess land, you know, Aguascalientes, but we can easily wait until there could be a new wave of suppliers. It's incredible, the amount of suppliers that we're seeing that are looking throughout Mexico for—in the electric vehicle business. Many of the plants are adjusting their production lands. Interestingly, if you watched the Super Bowl last Sunday, all of the ads related to cars were of the electric vehicle business, which was quite interesting to see. Definitely, we are seeing opportunities for Mexico in that regard, too.

Pablo Monsivais

Perfect. Thank you very much.

Lorenzo Dominique Berho

Pleasure.

Operator

Our next question is from Vanessa Quiroga with Credit Suisse. Please proceed.

Vanessa Quiroga

Hi. How are you, Lorenzo and team? Thanks for taking my question. It's regarding an update of your progress versus your development plans in terms of the land that you want to—have the need for completing your development plan, in which locations you are still missing maybe some land, where you think you're already covered with regards to your needs and basically how you see the outlook for the timing for these additional purchases. Thanks.

Lorenzo Dominique Berho

Hola, Vanessa. Thank you very much for participating. Definitely, we're going to be talking about our development plans throughout the next quarters, because that's exactly what our main focus will be. As you know, part of the plan of our raising capital is to deploy capital in markets where we can find greenfield development opportunities. We will be investing throughout the year somewhere around $200 million. We have already identified the markets we want to develop. As you know, throughout the year, we not only were able to stabilize our projects, particularly Monterrey and Guadalajara, but we were able to acquire more land in both markets.

So, these are markets where we're currently analyzing build-to-suit opportunities, and also inventory or spec building opportunities. Most of the clients come without a lot of time to plan on a build-to-suit, and that's why having inventory buildings available is going to be incredibly important. But I think that has been one of the best advantages of Vesta that we anticipate on acquiring great located land focused for last mile, e-commerce, logistics, manufacturing. We can anticipate through development of inventory buildings at competitive costs, and I think that that's what is giving us the advantage and leadership in many of the markets.

Tijuana, for example, everybody's talking about a scarcity of land. Well, we're going to be developing 1.5 million square feet just in Tijuana, because we anticipated and acquired land at the right time, actually, at a very competitive cost, and with that we're going to keep on being the leaders in Tijuana as we have been for several years. We currently own over 6 million square feet in Tijuana. We're going to keep on developing there and maintain this leadership on attractive double-digit return on cost.

One of the good things about this market is that recently we have seen transactions from institutional investors closer to the 6% cap rate range. So, while we are developing at 10%, I think this is the reason why investors like to be in a fully integrated company like ours, where we can develop and give that particular investment spread to our current investors. 10% compared to 6% stabilized cap rates in certain markets. I think that's a huge spread investment opportunity that investors can capitalize in vehicles like Vesta.

Vanessa Quiroga

All right. Thank you very much, Lorenzo. Just a quick question for Juan on guidance. The slight decline in margin that you're expecting from 95 to 94. What's the reason for that slight decline? Thanks.

Juan Sottil

Vanessa, thank you for the question. Let me just point out that the focus of last year was on strengthening our balance sheet and we were quite successful in doing that by raising equity, cap rates of around—above 8.1, somewhere around there. Very attractive raising of capital. When we saw the opportunity of selling some assets at a cap rate of 7.3, 7.25, which we were working on for some time, I think of as a great opportunity. So we sold that asset. We have a great balance sheet. We also increased some debt, that's fine. Just pointing out on the debt side, at an incredibly low, historically low interest rates for a Mexican company in the real estate sector or anywhere else.

But, the cost of selling properties, of course, is that you forego some revenue. The property that we sold carry a revenue of around $8.5 million. So, if you take into account that revenue that we forego in 2022, our guidance would have been 10% to 11%, which is an extraordinary guidance. Now we sold the property, we have a stronger balance sheet, Lorenzo pointed out that we're going to deploy north of around $200 million per year over the next couple of years. So, we feel confident and happy that we have such a strong balance sheet.

Guidance turned out to be 5% to 6%, which I think is a very good guidance. Now there's some implications on our continued investments in our properties, and that's why we came out with the NOI guidance and our administrative costs has to be there because we are growing. We're going to reach 40 million square feet at some point in time in the near future. So, we have to have a strong administrative body to be able to carry that GLA. And we were very thoughtful about the guidance and I think it's a good guidance to be given to the market.

Vanessa Quiroga

That's great. Thank you very much, Juan. Thank you.

Operator

Our next question is from Gordon Lee with BTG. Please proceed.

Gordon Lee

Hi, good morning. Thank you for the call. Two quick questions. The first is—and you mentioned this in passing on the press release, but I just want to confirm that all your dollar leases are indexed to inflation, and just we've heard some competitors talk about yes, we're indexed to inflation but we have a cap at 3%. I was wondering if you could discuss, just discuss what the structure of the annual markups for your U.S. dollar leases are. The second question—and this somehow linked to the comments on ESG that were made by Laura. I was wondering if you've detected from customers, particularly from potential customers, particularly on the nearshoring side, more concerns around the energy reform and the potential for that to make it more difficult for a lot of these companies to reach their own ESG metrics if they were to shift manufacturing to Mexico? Is that an issue that you're seeing with your customers, or is that something that they're not even focused on? Thank you.

Lorenzo Dominique Berho

Great. Thank you. I will probably—Gordon, Thank you for being on the call. Let me start with the second question. Definitely, we believe that the energy reform as it has been presented definitely could have not only an impact in terms of competitiveness because of certain costs, but also seems, as you well mentioned, many of the companies have a strong—are making strong efforts in order to have an important component of, let's say clean energy, and have different efficiencies in terms of their energy sources. Definitely, this could potentially bring some challenges for many of these companies that are global companies and have global objectives. That's why we are currently working with different organizations in order to provide more light on why we believe that Mexico should make a better effort in order to take these considerations and the risks involved. However, this is still under discussion and there are many items related to this political item where we have been—we're supporting from the private—let's say from the private business councils in whatever we believe is the most competitive thing for us and for potential investments in Mexico.

Coming to the first question regarding adjustments, and you're right, as you know, Vesta has made a strong effort to keep the discipline on having a high number of dollar leases. Interestingly, this year, I could say that almost all new leases, and it was a great year, were in U.S. dollars. We know it's hard to keep this discipline, but we are strong believers in long-term value through dollar leases. These dollar leases also come with CPI adjustments. The vast majority have CPI adjustments. Nevertheless, there's also some that might have some sort of fixed increase or capped increase or they could have some minor adjustments. However, the vast majority is very simple. It's CPI when it comes to dollars, and for the ones that we have in pesos, interestingly, more than half of them are not in pesos, are in UDIs. As you know, the UDI, which is the *Unidad de Inversión*, it's inflation linked every month. So, every month we get the inflation adjustment on those leases, and that's half of the ones that we have in pesos.

So all in all, Gordon, we know that the vast majority has a, let's say a very clear structure where we can get either CPI or a (inaudible) in pesos.

Gordon Lee

Perfect. Thank you. That's very clear. If I could just have a quick follow-up on the first question that you answered, Loren.

Lorenzo Dominique Berho

Yes.

Gordon Lee

I mean, it's very clear, obviously, that you and the industry should be very focused on trying to make sure that some of the more crazy parts of the reform - that's a word that came to my mind - are not approved. But have you detected any concern around that from prospective clients? Is that something that's on their radar screen or is that not really something that they're focused on?

Lorenzo Dominique Berho

Sure. I mean, clearly, I think that we're all on the same boat from different angles. On that regard, these companies are operating in Mexico and are being incredibly competitive. There's several things that they would like to have better, such as this one and many others, and I think that on that regard, I mean, I don't see a risk that potentially they will not be in Mexico operating. However, definitely, I think it's regarding new investment opportunities that if we put more challenges they will—take longer for them to make decisions.

Again, I think, we're all on the same boat and I think that definitely they're also working on that regard. Hopefully, we get a—there's several names to this reform, if it's a (inaudible) reform or if it's an adjusted reform or whatever. So, we're really—all of us are hoping to get something on that regard.

Gordon Lee

Absolutely. Thanks very much.

Lorenzo Dominique Berho

Thank you.

Operator

Our next question is from Juan Ponce with Badesco BBI. Please proceed.

Juan Ponce

Hi, thank you. Good morning everyone. Most of my questions were already answered, but what do you guys expect in terms of lease spreads this year and across all your markets, please?

Juan Sottil

Juan, welcome to the conference. Thank you for the question. Look, this is a landlord market. There is not enough available space to supply the demand that we have from our clients and from new clients. That's the general feeling we have in Vesta. We're really working very hard to be able to price each and every deal very competitively. It is a competitive market but it is clearly a landlord market.

So, on rollovers, we just pushed that equation to that end. We don't give concessions. Last year, on rollovers, we had a 5% lease up spread, which is very attractive. If you look at my in-place rent over the last four quarters on an average basis, it increased from US$5.1 per square feet per year to around US$5.5, which is a 6.6% increase, clearly blended with the peso and the dollar. But it's an impressive spread. It's an impressive increase in in-place rent. So, the focus is to continue to take advantage of a landlord market, to continue to have a very close relationship with the clients, and when there's an opportunity to increase rents we will not be shy.

Lorenzo Dominique Berho

We believe it varies from market to market. We have seen some markets that might be tighter, the increases, and it could be in the, let's say mid single-digits, but there's other markets where we have seen that there could be opportunities to increasing 10%, 20%, sometimes even 30%, depending on the transaction. But it really varies on the type of—on the location, on the market and even sometimes in the stock markets. But it's definitely, as Juan mentioned, it's a landlord market and we've got to capture good opportunities in that regard too.

Juan Ponce

Okay, and just a follow-up on the guidance. Just to clarify here, the 5% to 6% revenue growth includes the selling of—or the asset dispositions that you did last year. The foregone revenue, I heard it's US$8 million to US$5 million?

Juan Sottil

Yes. I mean, by selling the properties, we forego $8.5 million in yearly revenues. Therefore, my guidance is 5% to 6% increase in revenues. That's the actual growth in sales that we expect to have this year. It's growth in rental revenue, to clarify.

Juan Ponce

How should we factor in the contribution of the new development? Does it take—what is it, three months after you finish the project to start generating revenues? How does that work for you guys?

Juan Sottil

Given the peso development, as you know, it takes about six months to develop a building and it's taking us about four to six months to place—to stabilize those buildings. Interestingly enough, a couple of buildings are being converted into build-to-suit while we do specs. That was the case with O'Reilly. Originally, it wasn't a spec building. By the second month of construction they asked us—I mean, we closed the deal with O'Reilly, and of course, they have some changes to the building and instead of taking us six months it took us eight, whatever. But the good news is that as soon as we delivered the building they begin paying rent. So, that's great. I could do that every time.

Juan Ponce

Great. Thank you very much. Really appreciate it.

Operator

Our next question is from Francisco Suarez with Scotiabank. Please proceed.

Francisco Suarez

Thank you so much for the call. Question on capital allocation on your efforts to going more green and more efficient in your buildings. Juan, do you have a budget to certify buildings this year and a target of the percentage of certified GLA for the year? Two, if the answer is yes, can you walk us on the eligibility criteria for doing this? My point is that in certain clusters and in certain markets, economics of building certification might play out but in others won't. Anything that you can share with that would be very, very helpful. Thank you.

Lorenzo Dominique Berho

Hola, Francisco. Thank you for being on the call. Definitely, all new buildings, which we're going to be very active in new development projects. We started some this quarter. We're starting more next quarter and so on. We're going to continue to develop throughout the year. I would say that almost all of them have LEED certification or some other type of certification. That's part of the strategy to include all of new development projects with some sort of certification. So, that's an easy answer.

Regarding the existing portfolio, which is a bit more challenging, it's not—there's not necessarily a particular percentage of the ones that we are going to be increasing from the existing portfolio. But we are currently in the certification process of some buildings in different markets.

This is not as easy and as quickly as new developments. However, this will contribute to the main objective that we have, which is in line to the bond issuance that we have. You will remember that this is a sustainable bond. We were the first company in Latin America to issue a public sustainable bond in real estate. Our goal is by the end of the fifth year to have a 25% of the GLA being certified. That's part of the objective and we know that that's where we want to get. Today, I think, the percentage, Laura, of GLA that we have is, what?

Juan Sottil

When we launched the bond? Eleven. Because we sold some properties...

Lorenzo Dominique Berho

It's 9%. So, we're going to go from 9% to 25% in the next five years.

Laura Ramirez

Twenty percent. Sorry, Lorenzo.

Lorenzo Dominique Berho

Thank you.

Laura Ramirez

It's 20%.

Lorenzo Dominique Berho

Thank you for the clarification.

Francisco Suarez

Yes. Yes, I agree, it is hard to see the economics on retrofits on doing this. But my guess is that you are on assessment mode—for the properties sold, which ones would the economics make sense to doing that, isn't it?

Lorenzo Dominique Berho

Absolutely. Every time that we have some sort of refurbishments in any of the existing buildings or any capital allocation, we try to make it in order to get credits for LEED certifications.

Francisco Suarez

Got you.

Lorenzo Dominique Berho

I think that's a very important objective that the property asset management team and property management team have. And yes, that's what we have been focusing on. I think that Vesta is doing a good job in maintaining and bringing on best practices in terms of certification and standards and this is exactly one of them. So, hopefully, we can have some good cases, Laura, that we can share of some retrofits that we have done, or we are doing, and I think this could set an example of what can be achieved in terms of certification on the portfolio.

Francisco Suarez

Thank you so much. That was very helpful. Thank you so much. Take care.

Lorenzo Dominique Berho

Gracias.

Operator

Our next question is from Alan Matias with Bank of America. Please proceed.

Alan Matias

Hi. Good morning. Thank you for the call. Just one quick question on your EBITDA margin guidance. Do you see any opportunities of upside risk to this? If you can remind us of the cost expense structure percentage in pesos and if a stronger dollar would mean higher margins? Any other sources for higher margins that you could see? Thank you.

Juan Sottil

Yes. Alan, thank you for the question. As you know, I am a very conservative guy. I tend to be conservative and think a lot about what's achievable and then stretch as much as possible. I think 82.5 is a very good guidance. I think it clearly places us with the best margins within the industry. It is conservative. There's upside potential. Really, the upside potential comes not only in savings that we can achieve in expenses. Please, let us remind ourselves that we're coming out of a two very difficult years, where we operated from home. Operated from home is really, with a company such as ours, saves money. We want to come back. I think we have too much work. I think that it's up to each of the individual workers of the office. But I am assuming that all of us within the office, and that costs a little bit more money.

That's why the guidance is a little bit conservative. But there is upside potential, yes, and we will be looking—I will be—I mean, my boss asked me to specifically focus on that. I control costs and allow the Company to continue to build the administrative infrastructure to reach 40 million square feet at some point in time in the near future.

Alan Matias

Thank you.

Operator

Our final question is from Armando Rodriguez with Signum Research. Please proceed.

Armando Rodriguez

Thank you all for the call, Fernanda, Juan, Loren, Lauren. I have two questions. The first one - congratulations on the solid results. Considering your NAV levels, you should be trading maybe 30% discount at current prices. What should we expect particularly on your buyback program? This is my first question. The second one's related to Loren's comments on exit cap rates, particularly on the surprising levels for (inaudible). Like Loren said at 6%. Maybe a question for Juan. What should we expect on the asset recycling program? You should be maybe more aggressive considering these numbers. That's my only two questions. Thank you very much.

Lorenzo Dominique Berho

They're very good questions. Thank you. Sure. I mean, regarding net asset value and this comes definitely—I mean, we currently have a buyback program. Throughout 2021, we did not buy back any shares. Actually, we were issuing shares at the beginning of the year just because it was a very—we were closer to net asset value and I think that that's exactly what we should have been—we should be doing. But definitely, we are active. If there is for some reason a window, an opportunity where we believe we can add value on the buyback, we're going to tap on that again. You're right. We follow very closely the discount to net asset value and that's one of the drivers. However, as you know, we raised the capital to deploy it through development and we see good development opportunities still at attractive returns.

So, it's an important investment judgment call where we allocate capital, and if there is an attractive discount at some point, you're going to see Vesta active on the buyback, if necessary. If for some reason that particular discount is reduced, then we will keep on focusing on our strategy which is developing attractive yields on cost, which is the main objective.

Juan Sottil

In regards to the—as Loren said, the spread investment thesis of Vesta is very strong and is there. Yes, we developed at a very attractive yield on cost and the exit cap rates have compressed. That's the spread that we want to capture. Will we sell more portfolios during 2022? Well we have $400 million in cash. So the focus is on deployment, on deployment on accretive transactions. We're going to take our time. We're going to be aggressive and we're going to watch the yields on cost, which is our main driver. If there is an opportunity to sell some properties and we're moving the cash on hand quickly enough, sure, we'll take them. It's always a good idea to develop at 10 and sell at 7. It's always a good idea. So, yes, we're going to be keen on capturing that.

Armando Rodriguez

Perfect. Very clear. Thank you very much, Loren, Juan and congratulations again.

Lorenzo Dominique Berho

Gracias.

Operator

Thank you. As there are no further questions, I would like to turn the call back over to Mr. Berho for concluding remarks. Please go ahead, sir.

Lorenzo Dominique Berho

Thank you, Operator, and thank you, everyone, for being here today. In closing, Vesta had a very successful 2021. We were leveraging on our Level 3 strategy by pivoting to take advantage of opportunities, as mentioned, in new industries, high growth markets, and existing markets where we retain a leadership. The team is excited to execute on the growth opportunities ahead, and we continue to prudently allocate capital to Mexico's most dynamic markets. Our industry fundamentals are exceptionally strong. The continued evolution of e-commerce and the global supply chains are catalysts for incremental industrial real estate demand today and for the foreseeable future. Therefore, we would like to thank you again and hope to see you in our next quarterly call. Goodbye, everybody.

Operator

Thank you. This does conclude today's conference. Thank you for your participation. You may now disconnect your lines.