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Vesta Industrial Real Estate

Fourth Quarter 2020 Earnings Conference Call

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CONFERENCE CALL PARTICIPANTS

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Francisco Suarez, *Scotiabank*

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PRESENTATION

Operator

At this time, I would like to welcome everyone to Vesta's Fourth Quarter 2020 Earnings Conference Call. All participants are currently in a listen-only mode, and as a reminder, today's call is being recorded.

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

Maria Fernanda Bettinger

Thank you Doug, and thanks to everyone for joining our call to discuss Vesta's fourth quarter 2020 financial and operating results.

With us today from Vesta are Lorenzo Dominique Berho, Chief Executive Officer, and Juan Sottil, Chief Financial Officer. Following their prepared remarks, there will be a Q&A session, during which we will answer your questions.

Yesterday we issued our earnings press release after market close. This release is also available via the Investors section of Vesta's website.

Before turning the call over to management, I would like to remind you that this conference call includes forward-looking statements based on currently available information. Forward-looking statements inherently involve risks and uncertainties that could cause actual results to differ materially from those predicted in such forward-looking statements. Risks are included within our reports on file with the Mexican Stock Exchange, in particular significant uncertainty remains about the duration and (inaudible) impact of the COVID-19 pandemic. This means Vesta's results could change at any time and the impact of COVID-19 on the Company in these results and outlook is a best estimate based on information available as of today's date.

Statements made on this conference call should be considered together with cautionary statements and other information contained within the Vesta earnings press release dated July 23, 2020 and within the most recent regulatory filings for a discussion of those risks. All figures included herein were prepared in accordance with IFRS and are stated in nominal U.S. dollars unless otherwise noted.

I will now turn the call over to Mr. Berho.

Lorenzo Dominique Berho

Thanks Fernanda. Good day everyone and thank you for joining us.

Since our last earnings call, there has been a clear positive change in the overall outlook throughout the world as COVID vaccination programs in the U.S., Europe and elsewhere are gradually gaining traction. The prospects for the world economy and the global companies we serve has clearly brightened. An accelerating recovery in the U.S. economy will encourage supply chains to adapt rapidly to satisfy high potential demand. Recent U.S. GDP figures are also encouraging, and companies that have understandably been delaying investment decisions now have resumed with more visibility.

Additionally, U.S.-Mexico trade relations are expected to improve under the new Biden administration which recognizes the strategic importance of a strong and more unified North America as a counterweight to China's rapid ascendancy as an economic superpower. In this regard, Mexico's attractiveness as a strategic and highly competitive manufacturing hub continues to play a key role. Within this context, we are enthusiastic about the greater opportunities that lie ahead for our Company. Now let me tell you why.

The ecommerce sector, which has shown a dramatic increase during the pandemic with consumer spending rapidly shifting online, is a significant growth driver for our Company, on which we have quickly capitalized. In the last few months alone, we have seen a powerful change in requests for proposals from the ecommerce sectors across all regions in Mexico, going from six at the end of 2019 to 25 requests for proposals by year-end 2020, which is more than fourfold in a very short period of time, and we expect this particular trend on new requirements to keep increasing throughout 2021.

Furthermore, we have already demonstrated outstanding execution as part of our Level 3 strategy, attracting, for example, MercadoLibre, Latin America's ecommerce giant which swiftly became our sixth largest tenant in terms of GLA during the fourth quarter. I am particularly proud of Vesta's commercial and development team, which is uniquely able to identify the strongest opportunities in each and every market and has pushed upper Management to act upon them. I would also like to note that we completed MercadoLibre's initial expansion one full year ahead of schedule, driven by high demand in the ecommerce sector. It's one of many reasons that the visibility of the Vesta brand and our reputation for excellence will continue to grow among ecommerce companies, and it's why we're able to quickly lease up our facilities after making strategic investments, more recently in new geographic markets like Guadalajara and Monterrey, where our new Vesta parks offer prized last mile advantages.

We've therefore been focusing on the long term, but we're also successfully executing our Level 3 strategy tactically, strengthening our commercial efforts to attract other blue chip companies as we successfully achieved during last year with global names such as Coppel, Pepsi, and recently Nestlé Purina to name a few, further diversifying our revenue stream. Also, as you know, early in the pandemic we worked with clients to support them through the apex of last year's economic crisis by granting rent deferrals. We are glad we were able to provide our help through challenging times, and we are pleased to see how quickly they have bounced back to their feet.

This was a unique and invaluable opportunity to demonstrate our reputation as a partner of choice. Now, we have moved past these challenges towards a completely different environment. As an example, we are currently dealing with more than 10 multinational clients looking to expand or grow throughout multiple locations.

As we noted previously, the economic uncertainty generated by the pandemic caused many companies to delay most critical decisions globally. Nevertheless, by year end Vesta had signed important agreements for facilities in both the Bajio and northern regions. That brought our total leasing activity for the year to 5.5 million square feet compared to 4.5 million in 2019. Of this amount, new leases and growth projects represented 48% while we leased 52% of renewals, including early renewals, which were achieved with a positive spread of 0.5% and a weighted average maturity of approximately seven years.

We delivered 1.4 million square feet in 2020, 91% pre-leased, and we completed two build-to-suit buildings well ahead of schedule, including the MercadoLibre facility as I noted earlier. As the year came to an end, we saw activity picking up in certain markets with low vacancies. I'm pleased to note that already at the start of the year, we successfully leased a vacant building in Tijuana which we had repossessed in the third quarter 2020 from a client who previously was forced to file for bankruptcy. This is very positive news given the fact that we were able to lease to an excellent company for a higher rent of 15% above that of the prior tenant. Additionally, as a direct result of leasing the building and the less than 1% overall vacancy in the Tijuana market, Vesta has begun construction of another 320,000 square foot inventory building, anticipating to strong absorption in the market.

We also maintained expense discipline during 2020 which demonstrates our ability to manage for profitability as well as growth. Our cost management enabled us to achieve NOI and EBITDA margins of 94% and just over 84% respectively compared to our revised guidance. We grew our top line just shy of 4%, which was well above the upper end of our revised guidance. I would also like to highlight net asset value per share which increased 4%, and pre-tax FFO per share which increased 16% during fourth quarter 2020 and 8.4% year-over-year, consistent with our Level 3 strategy despite considerable headwinds.

Some final important insights I'd like to share before turning the call over to Juan. Another promising trend we noted is the emphasis that global companies increasingly place on environmental impact and supply chain resiliency as these relate to climate change, one of many criteria that Vesta's growing number of LEED and GRESB certified facilities already meet. Vesta's ESG program is an essential part of our Level 3 strategy and has long been deeply rooted in our corporate culture and of the utmost importance to us as members of the communities where our facilities are located.

Along these lines, I'd like to thank Vesta's Board members for once again directing 25% of the Board's total compensation for 2021 towards the Company's COVID-19 ESG program. More recently, GRESB awarded us three green stars, which is based on the absolute ESG performance of our Company as a whole. The improvement in our ESG scores also placed Vesta third among eight qualifying industrial real estate companies in the Americas. Further, Vesta remains a constituent for the MILA Pacific portion of the Dow Jones Sustainability Index, moving up 10 places since just last year.

Our strong work towards ESG global best practices is yet another advantage when competing for blue chip company clients that require this of their suppliers to maintain and improve their own performance in this regard. Finally, during the year Vesta's consistently solid performance enabled us to be included within the S&P Bolsa Mexicana de Valores IPC Index, which comprises the top 35 largest and more liquid companies in the Mexican stock market.

With that, let me turn it over to Juan. Juan, please go ahead.

Juan Sottil

Thanks Lorenzo, and good day everyone. Beginning with our top line, fourth quarter revenue increased 4.7% to $38 million mainly due to new leases for space that had previously been vacant as well as inflation adjusted to existing leases. These results were partially offset by expired leases not renewed during the quarter, among others. Our dollar-denominated revenue for the fourth quarter reached 85.2%, a quite comfortable level.

During the quarter, we continued to effectively manage our costs at both occupied and vacant facilities with related operating costs decreasing 17.3% and income generating investment properties operating cost declined 18.5%. This decrease was primarily due to lower allowances for doubtful accounts, more of which we recovered during the quarter. We note the steady improvement in the overall business environment; however, we continue to carefully monitor our receivables, stay on top of collections, and ensure the prudent approach for which Vesta is known. Both higher rental income and lower operating cost increased operating income to 6.5% to just under $36 million, with the corresponding margin expanding 156 basis points to 94.6%.

Following another series of budget reviews, we took important measures to further reduce administrative expenses, which successfully decreased a little more than 8%. Along with our lower operating costs, these savings contributed to a 10% increase in EBITDA to just under $32 million and to 400 basis point expansion in the margin.

Other income was just under $2 million versus $22.5 million in the fourth quarter 2019. The decrease was mostly due to lower realization gains of $13 million versus $27.7 million, as well as the gain resulting from properties sold during 2019. Another contributing factor was an FX loss of $1.4 million versus a gain of $1.7 million in the last quarter of last year. That leads us to pre-tax income of $34.5 million, which declined 33.4% while pre-tax FFO increased 15% to $22.3 million, raising 15.5% on a per-share basis. Although during 2020 we invested in inventory, pre-leased and build-to-suit buildings under construction in the North Bajio and central regions, this represented over $24 million of CapEx in the quarter and $73 million during the year. The weighted average expected return on cost for the three development projects is 11.3%. In term of GLA, the investment totaled 1.1 million square feet, up from 762,700 square feet last year.

At the end of the year, the total value of our investment property portfolio was $2.1 billion, 5.5% higher at year-end 2019. The GLA of Vesta total portfolio was 31.2 million square feet at the end of 2020, up 3.5% sequentially with occupancy improving sequentially by two basis points to 90.7%. Year-over-year, our stabilized portfolio grew 8% to 31.1 million square feet with occupancy of 91.1%, down from 95.7% in the fourth quarter 2019. It's again important to note that, as discussed, we have successfully leased one of the previously vacant buildings in Tijuana to which we referred last quarter, reflecting the strong dynamic market in Tijuana. We ended 2020 with a land bank of 39.5 million square feet, down 4.4% sequentially due to the sale of land in Queretaro to a data center company.

Our debt balance at year end was roughly $840 million, up from $714 million at the end of 2019. The increase was due to drawing $125 million credit facility during the first quarter of 2020 to ensure that we had sufficient financial liquidity ahead of a worsening health crisis. As expected, Vesta closed the year with

$120 million in cash. For the year, net debt to EBITDA was 5.7 times and our loan to value ratio was 7.3% compared to 5.3 times and 34.1% in 2019 respectively.

That concludes our review of Vesta fourth quarter operating and financial results. We now will open the call for your questions. Doug, please go ahead.

Operator

Thank you.

Our first question comes from the line of Alan Macias with Bank of America. Please proceed with your question.

Alan Macias

Hi, good morning. Thank you for the call. Just one quick question, and thank you for the guidance for the year. How should we be thinking about the adjusted FFO payout ratio? Should it be similar to last year? Just if you can provide some color on that, thank you.

Lorenzo Dominique Berho

Alan, thank you for the question. In terms of payback, for Vesta consistency is what we want to maintain. We will be consistent with what we have done over the last couple of years. As we have mentioned in the past, the payout ratio is going to continue to be somewhere around 70%, around there, 70%. That leaves us around—we will recommend to the shareholders, typically we do a 3%, 5% increase, somewhere around there—per share, of course.

Alan Macias

Thank you.

Operator

Our next question comes from the line of Adrian Huerta with JP Morgan. Please proceed with your questions.

Adrian Huerta

Thank you. Hi Juan, Lorenzo. Thank you for taking the question.

A few quick questions. Number one, did you receive compensation for the property that you repossessed during this quarter? Then the other question is how much new construction do you expect to start this year, and what do you need to see, what needs to happen to accelerate the pace of new construction?

The last question is there was a property in Guadalajara, it really was under construction or I don't know if it was just the infrastructure, that was put on hold in the second quarter. Any chance to put that back to work and to continue construction on that one?

Lorenzo Dominique Berho

Hola Adrian and thank you for being on the call - this is Lorenzo. I will probably start by the second part.

Yes, part of our pipeline is to develop a site building in Guadalajara which is an attractive market, and particularly the location where we're at, it's fantastic for last mile distribution facilities. However, last year we focused our efforts for the MercadoLibre, as you have seen. We have expanded that operation, that was the first building, and we kind of put on hold part of the start of the other inventory building. That will resume very quickly, very soon, and it's just a fact of understanding what we were requiring in Guadalajara. We have a good pipeline, so in the—I think that very soon, we will start construction of that project and we will let you know when it will be finished.

Regarding the rest of the pipeline, it's very important to note that we're very—we're watching very closely the trends on each of the markets, and things have changed just in the very recent period. That's a very positive sign, so therefore we believe that we might be starting new projects soon. I think that there will be more build-to-suits coming as well as new inventory buildings coming. It depends also on the balance of leasing activity - we want to be conservative and prudent, and it is also a balance of also being able to adapt or, let's say, to have available space for the strong trends that we are seeing for ecommerce as well as near-shoring, or let's say light manufacturing opportunities.

The markets are very well—have a very good balance between supply and demand. Nevertheless, last year was atypical. Things are starting to recover, things are starting to change, and therefore we're going to be watching very closely in each of the markets to keep on developing and maintain the same pace that we have traditionally had in terms of development pipeline.

Finally regarding the repossessed property, it is a company that went bankrupt in the U.S. We are in legal dispute to collect whatever part of the non-collected items; however, we have a provision reserve already done last year, and therefore it's already—that part is already reflected in the balance sheet or financial statement.

Adrian Huerta

Thank you Loren. Just one final question, if I may, on the pending asset sale that you were planning to do last year. Are you looking to resume that, and you think that could happen in the first half of this year?

Lorenzo Dominique Berho

Yes Adrian, yes, definitely. I think that as you know, part of our Level 3 strategy is to recycle capital through asset sales. Definitely that's still part of the plan and we will have asset sales in the upcoming year. We didn't resume that last year because of, again, the volatility of the atypical year, but that's something that it's part of the plan and we will continue to do so. Remember that we will be selling part of the Level 3 strategy in the next—until 2024 up to $300 million. We believe it's a good number. It doesn't have to be immediately, it could be over time, but it's something that we're going to be resuming this year.

Adrian Huerta

Thank you Loren. Good talking to you.

Lorenzo Dominique Berho

Good talking to you, too.

Operator

Our next question comes from the line of Froylan Mendez with JP Morgan. Please proceed with your question.

Operator

Froylan Mendez

Hi guys, thank you very much for taking my question too. Loren, great to see your increased efforts toward ESG. In our own efforts to understand the ESG theme in depth for the real estate industry, we have found that a key constraint towards measuring the key KPIs in the industry is the fact that you do not control your tenant emissions or your tenant environmental efforts, and even sometimes they do not share their data. What are your plans to deal with this situation, and how will it impact your ESG goals that you plan to present soon?

Lorenzo Dominique Berho

Thank you Froylan, and that's definitely an important issue that we're currently solving. As you know, the ESG plans for the Company or efforts have—we've been working hard for almost 10 years now and definitely one of the challenges is to address part of the information from our tenants, since they are the final users of the buildings. We have a department which is dedicated to communicate with our tenants to provide that information to us. Nevertheless, it's a challenge. We have many tenants, and it's part of the education process for our tenants how to provide that information.

However, as you know, many of our clients are global companies, multi-national companies, and most of them have already established their own plans in terms of ESG efforts, and particularly environmental issues and consumption issues. I think that we—somehow we are pretty much aligned or like-minded to many of our clients and the companies, so even that it's a challenge, I think that it could flow easier than expected, particularly given the fact that these companies already have—also have part of the—in their culture, ESG efforts.

I think that's something that many other REITs, for example globally, have to face, but I believe that Vesta has been doing a good job for the last years in order to be able to communicate better with clients and gather the most information as possible.

Froylan Mendez

Thank you so much, Loren, and congrats on that.

Lorenzo Dominique Berho

Thank you.

Operator

Our next question comes from the line of Zoe Tan from Columbia Threadneedle. Please proceed with your question.

Zoe Tan

Hey Lorenzo, hey Juan. How are you guys?

Lorenzo Dominique Berho

Hola Zoe.

Zoe Tan

Hola. My first question is, you know, it definitely sounds like a huge change in tone - you guys are much more positive based on the clients—you know, the requests that you're getting. But when I look at the development portfolio compared to the last quarter, it seems to have declined, so would it be fair to say that a lot of these conversations that you have, they're not quite in the development portfolio pipeline yet?

Lorenzo Dominique Berho

That's a very good point, Zoe. Definitely we see that the trends are completely changing. Just to remind you, some quarters ago there were pretty much no transactions. Things stopped in the second quarter of 2020 and from thereon, things have been picking up, and clearly last quarter was a major change in terms of potential pipeline that we have seen.

Very importantly is that last year, we had two large build-to-suit projects at some point, and that's why we had a very important development pipeline, which was great, particularly given the fact that it was a slow year of transactions. We were able to achieve great development projects, expansions for existing clients as well as new build-to-suit projects. This year, I think it's going to be a similar situation; however, you have to see the picture of the pipeline not only one particular quarter. This quarter, since we were able to deliver the buildings ahead of time, as I mentioned, the MercadoLibre, they just required that expansion earlier, we worked together with them to give them that building earlier, and that's why at this—the picture in this quarter seems to be smaller.

However, I think that as long as we move forward throughout the year, we're going to be—we're going to try to anticipate to the market and be able to have buildings in those markets where we see more demand, and therefore we think that the development pipeline will pick up quite good throughout the year. But we're going to be, as always, very prudent and disciplined on how we develop, and I think that's the way to go.

Last year, we were able to get back on track with a lot of build-to-suit projects. As you remember, we were stronger in inventory buildings and now I think we can have a very good balance again of build-to-suit projects, as well as inventory buildings. That's something that we're going to have a very close eye on.

Zoe Tan

Another question I have is, it seems like you have ecommerce clients pretty active, and I noticed that you have brought on a good amount of capacity last quarter but rents seemed to have declined. I'm curious when you look at ecommerce clients, and when I look at across the world, it seems to generate higher rent, so curious the dynamic there in terms of rent with ecommerce clients. Then secondly, you talked about different geographies and different type of clients. Do you have the land bank that you need, and what kind of sectors that you're working with more now versus the past?

Lorenzo Dominique Berho

Absolutely, I think that's a good point regarding rent increase. We have seen rent increase in Mexico in dollar terms for the type of buildings we developed. I think the main driver is still going to be supply and demand—supply and demand, and the reason of why ecommerce might be paying higher rents is because of the locations. I think we have been able to identify great locations for last mile dedicated projects, which is the case of particularly Monterrey and Guadalajara, so we really like we are doing on that regard. We're still going to be seeing rent increases, and interestingly it's not only in ecommerce. You see Tijuana, for example, it's a land constraint and the capacity of other developers to have new buildings in the market which is driving rents up, and that's why we have been able to increase rents in markets like Tijuana, which is not necessarily only dedicated for ecommerce.

So, we have good land reserves and we have been able to actually sell land at above—way above replacement cost, as we did in Queretaro with a small portion of land, so we see rent—we're seeing land value increasing, we're seeing rents increasing, and we believe that Vesta has the capacity to replicate the business model that we had in Guadalajara as well as Monterrey, even in those particular markets and even other markets.

It's an interesting trend. Mexico is going through a great moment in terms of demand for industrial and logistics buildings on the ecommerce, and I'm sure Vesta is going to be able to adapt and capitalize on that opportunity.

Zoe Tan

Okay yes, that sounds good. In Tijuana, good to hear that you guy have leased out the property, but I noticed that the occupancy rate is still at 92.8%. Is that not included in last quarter's numbers, or was there other changes that happened?

Lorenzo Dominique Berho

Yes Zoe, thank you for asking, and I have the opportunity now to clarify. That particular building was early this year leased, and it's not included in the fourth quarter numbers. That's why—actually the only two buildings we have vacant in Tijuana are the ones that we repossessed from the bankrupt client, and we are confident—as I mentioned in the third quarter that we were confident that we were going to be able to lease up that building, which I'm glad that we were able to do this early this year. I'm sure that we will recover the other building soon and we are going to be leasing also pretty well, because of how good the market is.

We feel confident on Tijuana. I'm glad that we are starting another building, and that building, I'm pretty sure that it's going to be leased up way before we finalize construction. That's how hot the market is, and not only that, probably it's going to be to a greater rent to what we have seen in the market now because of the quality of the buildings that we are developing. They're modern, they're new, they have LEED certifications, and that's what clients are requesting nowadays, so I'm sure we're going to have another great story to tell in some months from today.

Zoe Tan

Perfect. Thank you so much. I'll let others ask questions.

Lorenzo Dominique Berho

Thank you.

Operator

Our next question comes from the line of Vanessa Quiroga with Credit Suisse. Please proceed with your question.

Vanessa Quiroga

Hi, thank you to the Vesta team. How are you guys? My question is regarding your leasing activity—well, more on the request for proposals, can you tell us a little bit more on what markets, in what markets you are seeing more interest, and also if you could explain your lower in-line margin guidance for 2021 compared to what you had in 2020. Thanks.

Juan Sottil

Vanessa, thank you for the question. Look, what the market is not seeing is our pipeline, and thank you for giving us an opportunity to…

Okay, let me switch to your second part of the question.

Lorenzo Dominique Berho

It's NOI margin.

Juan Sottil

Look, the NOI was well behaved. If you recall, what we did starting on the last quarter of 2019 was to increase our reserves for bad accounts. That had to do with the fact that the Company had grown and I wanted to have a more conservative approach to reserves. We continued with that trend for a couple of the quarters of last year. Now since we—since our collections were great last year, I mean in spite of the pandemic and in spite of COVID, we actually collected well from our clients. I feel that we have enough reserves, and that's why NOI and gross margins, we saw increases. The Company recovered a portion of these bad accounts in the fourth quarter of 2020, that had an important impact on NOI, and if you add those things with the sharp cost control measures that we implemented last year, our EBITDA really had a very good behavior. We believe that this trend in EBITDA will continue for this year as well. We're quite optimistic on the ability of the Company to adapt and the ability of the Company to manage its costs, and we look forward to continue to share with you good results.

Now, you talk about guidance and you asked a couple of questions about guidance, look, we increased—we have guidance to increase revenues from 4.5% to 5.5%, and we feel comfortable that we will achieve the rent and leasing activity that will allow us to achieve those. I was not particularly aggressive on NOI and EBITDA, basically driven by NOI, by the fact that—well, look, we're very optimistic and all the signs of our pipeline, of our areas that Loren is going to mention in a second, gives me confidence that this is going to be a good year. But however, we're still on an environment that calls for prudence, and what I wanted to underline was prudence in the NOI margin and that corresponding prudence in EBITDA.

But if I look at how clients are behaving, how they are paying on time, how my collections have improved, how we are recovering some bad accounts that we still have, I think that it's a very conservative guidance, yes.

Lorenzo Dominique Berho

Hola Vanessa, this is Lorenzo. Regarding your question on requests for proposals, interestingly we're seeing a recovery in pretty much all markets. All markets have different dynamics and I think that's a—and in many of them, most of the sectors might be doing well despite the—let's say the hiccups that we saw last year, particularly because of lack of clarity in the pandemic, but those things have changed. I will use the example—an example in Ciudad Juarez. Ciudad Juarez, for example, where we are pretty much full leased, we have seen a greater number of requests for proposals particularly for the electronic sector. It's logistics, but it's related to electronics for exports, and we have great clients, including Microsoft and Bell and Hewlett Packard. Those are expanding operations in Ciudad Juarez, and I'm sure that at some point we're going to end up needing more space in Ciudad Juarez to try to have enough supply for that particular market.

In central region, for example, and the Bajio, it's incredible the amount of ecommerce requirements as well as logistics requirements we have seen. We recently leased in the Bajio region a building for Purina, which is a great client, and it's a logistics operation, and I think that those particular trends of companies expanding and companies needing more space is going to keep up in those markets. Bajio region, we saw a delay of decisions for automotive sector in the last year, but clearly that has changed and we believe this year is when companies will start making again decisions on expansions. Request for proposals are currently at a very good number in the Bajio region. It might take a couple months to close transactions, but we are confident that there will be—it will all turn positively.

Central region, we are seeing good demand in Puebla as well as State of Mexico, Mexico City and Toluca. I think that even that we know that we had some buildings vacated last year that will turn into an opportunity, probably similar to Tijuana where we're going to be able to lease up to good companies at good rates, and the main driver is still going to be consumer demand and, more importantly, recently the appetite for ecommerce.

Vanessa Quiroga

Excellent. Thank you Loren. Thank you Juan.

Juan Sottil

Thank you Vani.

Lorenzo Dominique Berho

Thank you.

Operator

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

Francisco Suarez

Hi, good morning gents. Congrats on the results. There's two questions that I have, a follow-up on business conditions and new short trends. As you know, you have a lot of exposure to the auto industry and the auto industry has been affected a lot by the semiconductor scarcity that we have seen. Do you see conditions to attract the manufacturing of these semiconductors to Mexico potentially, and hopefully to your buildings, is that an opportunity that you are seeing? Is that something that your tenants might explore with you?

The second question that I have is also a follow-up question on your carbon footprint. The question that I have is that, and correct me if I'm wrong, but I think that the overall—sorry for the noise in the background, the question that I have on the carbon footprint is that I think that the major source of your emissions comes from scope to emissions, so if you can actually give us an idea of what the current policy position that you have, your rules and how you rely, what you can do in order to mitigate the scope to emissions, or are there any solutions that you can explore that might be also generating business opportunities for you in doing that? Thank you.

Lorenzo Dominique Berho

Great, thank you Francisco. I will start by the second question in scope to in emissions. I believe that it relates a little bit to Froylan's question regarding on how—what's the interaction between us and our tenants. Remember that besides the logistics facilities, most of the other clients that we might have are light manufacturing companies, so in the end, in essence they're not big issuers, let's say, they don't have higher emissions of carbon like other heavy industries.

Keeping that in mind, what is important is that we can find alternative solutions, not only for us to operate the parks, which I think there's opportunities to do so by using solar panels, for example, again by reducing consumption with LED lighting, for example, there is some ways that we could use renewable energies. But again, operating a park honestly does not have a high number in terms of emissions. It's more about our tenants, and I think on that regard, as long as they keep being in the light manufacturing sector, I think that that's something that they can work out well. Actually, some of our clients are already considering several alternatives for their production. Of course, they're still using particularly gas as well as gasoline in some of their operations, and the electricity that they're using is backed mostly still by the CFE grid, which has been the more traditional way to get electricity.

But it's incredible, if you go to the Bajio region and you visit some of the parks and some of the plants, it's incredible the amount of new alternatives that they are considering. That's the case, for example, in the large OEMs like BMW in San Luis Potosi, they are very focused on really finding alternative energies for their production. In many of them, it's part of a long-term strategy, it's not immediate, so hopefully this helps also the Mexican administration also and the government to kind of find a good match between what companies want to achieve and what the administration can afford to do.

Regarding your first question was on—what was it, Juan?

Francisco Suarez

Yes, it was mostly on semiconductors and if you see—yes.

Lorenzo Dominique Berho

Yes exactly, semiconductors. Well, it's interesting that Mexico has done an effort to attract semiconductor companies for many years. As you know, there's some in Guadalajara, but definitely that was gone to Asia many years ago, and Taiwan and China and Vietnam, they had better—way better proposals than Mexico back then. However, things are changing.

We clearly see that this is one of the reasons why the U.S. will definitely decouple from China in terms of being a too big supplier of many items, and semiconductors will be a key. I think there could be opportunities for Mexico. I think the auto sector has to be integrated more, and definitely part of integrating the supply chain for a sector like the auto industry is even considering semiconductor opportunities. I think that it's not only about the OEMs already considering that, but I'm pretty sure that all those companies in Asia or Southeast Asia that are being important players in the semiconductor business, some of them will consider North America, and I think that in North America, Mexico is going to play an important role in that. Hopefully we can see a bit more of a footprint of semiconductors being done at least in—on this side of the Pacific Ocean.

Francisco Suarez

Thank you so much. Congrats again. Take care.

Lorenzo Dominique Berho

Thank you.

Operator

Our next question comes from the line of Gabriella Serrampe with Citibank. Please proceed with your question.

Gabriella Serrampe

Hi, thanks for taking my question. I'd like to know how big are you planning to become in ecommerce and logistics in Real Estate?

Lorenzo Dominique Berho

Can you repeat that? How big we want to become in—?

Gabriella Serrampe

Ecommerce logistics.

Lorenzo Dominique Berho

In ecommerce and logistics?

Gabriella Serrampe

Yes.

Lorenzo Dominique Berho

Ah, okay. Okay, that's a good point. Currently we are—as you know, entering ecommerce sector was part of the strategy, it's part of the Level 3 strategy which was presented two years ago. We have identified well the markets, we have identified well the type of clients. It's incredible the amount of new demand that we are seeing. However, I think that it's important to mention that Vesta will still be diversified among different sectors, different industries, and think that if today the number is—it was below 1% last year, this year I believe this could get closer to, I don't know, 4%, 5%. But in the long run, I think that we could easily be closer or above 10%, and it's 10% because in the end, we are seeing that other industries are also going to be able to increase. That's only for ecommerce - I'm sorry, Gabrielle, but logistics is already part of our plan. It's already part of our portfolio. We are still diversifying more towards logistics, and so in the end, I think what is important in a diversified portfolio is that we do not have too much exposure of one sector.

In the case—for example, Mexico, the most important sector in terms of light manufacturing and exports, export oriented industries has been the auto sector. The auto sector for Vesta will represent 30%, around 30%. I think if we can maintain a very good balance, if we can keep on capitalizing on good opportunities with great clients in the auto sector, and we can diversify to other sectors too. Auto sector will be closer to 30%; logistics, I think it's going to be easily around 30%, and then we can divide the rest of other industries such as renewable energies, for example, where we have been very, very active, medical device industries, which is also increasing rapidly, electronic sector, and many others that I think Mexico can still benefit from and be competitive as an industrial platform.

Gabriella Serrampe

Okay, and about ecommerce, you said that you reached, like, 10%. Do you have any period that you are going to planning to reach 10%, like five years?

Lorenzo Dominique Berho

Sure, we do not have a specific date, I'm just guessing considering the requests for proposals that we are seeing, and just giving some rough numbers on the portfolio that we will have. But if you consider a 40 million square foot portfolio, 4 million square feet of ecommerce, it's a pretty big number but I believe that it's something that could be achievable in this next investment cycle. I think that it's a big number, I think that it will have us well diversified, and more importantly I think that Vesta has the ability to eat a big pie of the market. We have—it's part of our strategy, and I think we can execute very well to do the best ecommerce deals.

Gabriella Serrampe

Okay, great. Thank you so much.

Operator

As a reminder, ladies and gentlemen, it is star, one to ask a question.

There are no further questions. I'd like to hand the call back to Management for closing remarks.

Lorenzo Dominique Berho

Thank you Operator. In the medium to long term, we are more bullish given the opportunities we see ahead and the success of our Level 3 strategy. It's clear that today, we are uniquely strategically well positioned. We remain vigilant regarding the near term threats that the pandemic and its aftershocks still present. While the coming months will be crucial, Vesta's performance has demonstrated that we are an agile and resilient Company and expect to continue striking the right balance between near and long-term objectives

Thank you very much for being on the conference today, and I'm very happy to be able to deliver good results, and we are very excited about upcoming opportunities that we are going to be seeing and hopefully communicating to you all in our next earnings call for the first quarter 2021. Goodbye everybody.

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.